



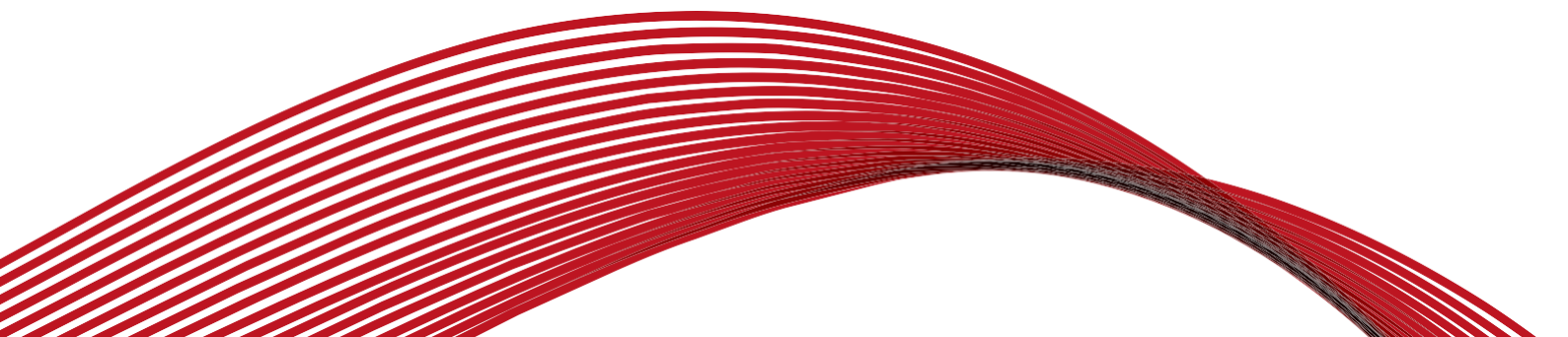
# PUBLIC POLICY EVALUATIONS

STUDY

# FINANCIAL COOPERATION FONPRODE



Independent Authority  
*for* Fiscal Responsibility





Independent Authority  
for Fiscal Responsibility

The mission of the Independent Authority for Fiscal Responsibility, AAI (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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# CONTENTS

- EXECUTIVE SUMMARY ..... 5**
  - Findings and proposals. .... 10**
- 1. INTRODUCTION: CONTEXT, OBJECTIVES, PILLARS AND METHODOLOGIES OF EVALUATION ..... 20**
  - 1.1. Background..... 20**
  - 1.2. Context. .... 21**
    - 1.2.1. Financial cooperation in Spain today..... 23
    - 1.2.2. Historical evolution of financial cooperation in Spain.....26
    - 1.2.3. International framework. .... 31
    - 1.2.4. The financial architecture for development in the EU. .... 32
  - 1.3. Objectives and pillars. .... 35**
  - 1.4. Methodology. .... 36**
  - 1.5. Governance and participating agents. .... 37**
  - 1.6. Budget and timetable ..... 37**
  - 1.7. Overview of the report..... 38**
- 2. THE SITUATION OF FINANCIAL COOPERATION IN SPAIN. .... 39**
  - 2.1. Evaluation of the strategic framework for financial cooperation..... 39**
    - 2.1.1. Strategic planning mechanisms. .... 39
    - 2.1.2. Coordination and coherence between the different instruments. .... 47
  - 2.2. The Development Promotion Fund: FONPRODE..... 54**
    - 2.2.1. Regulatory framework. .... 54
    - 2.2.2. Procedural framework and resources ..... 70
    - 2.2.3. Transparency and evaluation. .... 88
    - 2.2.4. The institutional design of financial cooperation..... 92
- 3. INTERNATIONAL COMPARISON ..... 100**
  - 3.1. Strategic framework. .... 101**
    - 3.1.1. Strategic planning mechanisms. .... 101

3.1.2. Coordination and coherence between the different instruments. ....	104
<b>3.2. Financial cooperation institutions.....</b>	<b>105</b>
3.2.1. Regulatory framework. ....	105
3.2.2. Procedural framework and human resources. ....	111
3.2.3 Transparency and evaluation. ....	114
<b>4. PROPOSALS. ....</b>	<b>123</b>
<b>4.1. Proposals relating to the strategic framework. ....</b>	<b>124</b>
4.1.1. Planning.....	124
4.1.2. Coherence and coordination. ....	125
<b>4.2. Proposals relating to FONPRODE. ....</b>	<b>127</b>
4.2.1. Regulatory framework. ....	127
4.2.2. Procedural framework and resources. ....	130
4.2.3. Transparency and evaluation. ....	132
4.2.4. Institutional design. ....	134
<b>GLOSSARY OF INITIALS AND ACRONYMS.....</b>	<b>137</b>

# EXECUTIVE SUMMARY

This study analyses the situation of financial cooperation in Spain, pays special attention to the Development Promotion Fund (FONPRODE) and makes proposals for moving towards a system that contributes to achieving the commitments made in development cooperation more efficiently and effectively.

This evaluation finds that there are multiple inefficiencies in the strategic planning mechanisms of financial cooperation and in FONPRODE's design and management, which results in the limited operational and implementation capacity shown by this instrument over recent years. FONPRODE is the main instrument for reimbursable financial cooperation available to the Central State Administration. The cumulative volume of operations authorised by the Council of Ministers amounts to €1.48bn since its creation in 2011, which contrasts with the cumulative limit authorised over the period, which amounts to €4.38bn euros, which highlights the difficulties for implementation that this instrument has suffered since its creation.

## EVOLUTION OF THE ALLOCATION OF THE FUND AND OF THE RESOURCES AND OPERATIONS APPROVED BY THE COUNCIL OF MINISTERS

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Annual allocation (GSB)</b>	945	285	245	235	235	235	199	199	199	199
<b>Operations Limit (GSB)</b>	945	420	385	375	375	375	375	375	375	375
<b>Operations approved in the Council of Ministers (€m)</b>	608	158	94	73	33	22	42	125	115	205

Note: The amount of the operations approved by the Council of Ministers includes management expenses.

Source: FONPRODE 2018 Activity Report, COFIDES 2019 and 2020 Performance Reports.

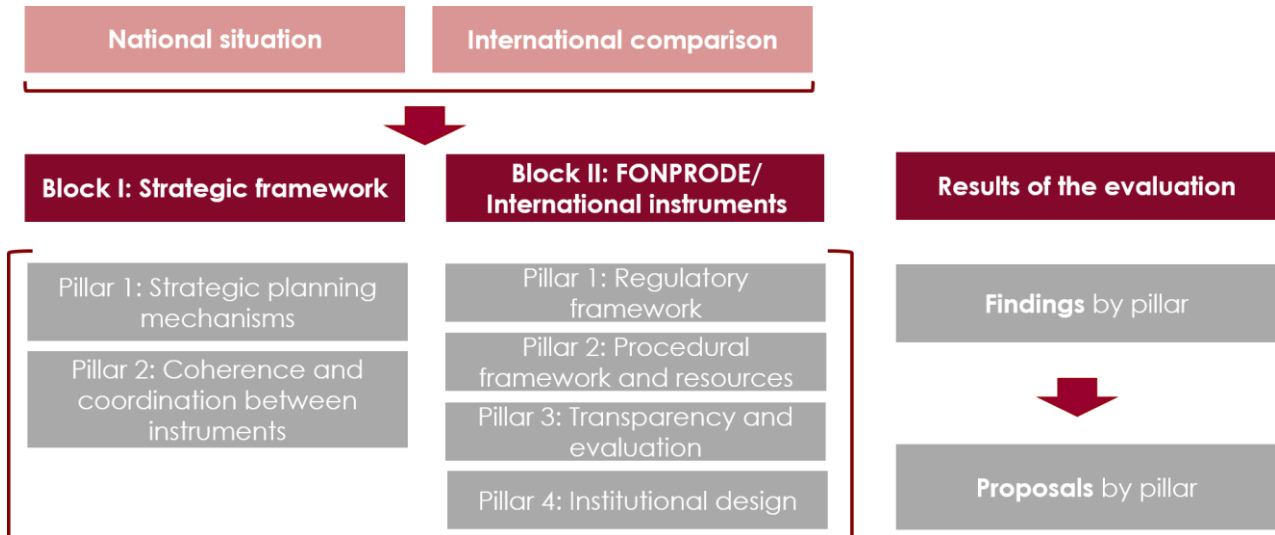
Noteworthy among its limitations is the fact that the main instrument of reimbursable financial cooperation in Spain is a fund that has no legal personality, with restrictions on the type of instruments with which it can operate and management that is fragmented between different actors that do not have suitable coordination mechanisms or sufficient resources. No similar situation has been found in peer countries, in which institutions that operate with similar purposes enjoy, in contrast, legal personality, do not fully depend on the State budget and have specialised teams to manage their operations.

In order to overcome this situation and put it on a par with peer countries, AIReF proposes a broad restructuring of this instrument. This requires the definition of a specific plan for financial cooperation, aligned with development cooperation objectives, and modifications to the fund's regulatory and procedural framework that will provide it with enhanced management autonomy and greater agility.

It will also be necessary to move towards a new institutional design that will contribute more effectively to achieving the commitments acquired in terms of development cooperation and integrate the positive elements and capacities developed so far by the different actors involved in FONPRODE's management. Under the supervision of the Ministry of Foreign Affairs, European Union and Cooperation, the institutional design must integrate the technical knowledge of the Spanish Agency for International Development Cooperation (AECID), the financial capacity of the Official Credit Institute (ICO) and the human capital of the Spanish Development Finance Corporation (COFIDES), in order to achieve lower budgetary dependence, a sufficient scale of operations and clear recognition at an international level.

This study is structured into two blocks that have guided the evaluation of the situation of financial cooperation in Spain and the comparative analysis at an international level. The first block addresses the strategic framework with an analysis that focuses on strategic planning mechanisms and on coordination and coherence between the different instruments. The second block contains a national analysis of the design activity of FONPRODE based on four pillars: the regulatory framework, the procedural framework and the resources allocated, transparency and evaluation, and the institutional design associated with its management. At an international level, financial cooperation institutions that manage instruments with similar aims to those of FONPRODE are analysed. Finally, on the basis of these pillars and according to the findings identified, a series of proposals are made aimed at a more strategic and effective management of financial cooperation.

### OUTLINE OF THE STUDY



One of the main findings of the first block is that, unlike peer countries, financial cooperation in Spain does not have suitable planning that is effectively and coherently integrated into master plans. Such plans do not recognise the intrinsic features of financial cooperation, particularly the reimbursable aspect, and do not establish indicators to allow monitoring and evaluation of the actions performed.

There is a lack of coordination between the different actors associated with financial cooperation between instruments and between central offices and in the field. In addition, there is a lack of coherence in the regulation associated with the different external action instrument that translates into the existence of different regulatory provisions for FONPRODE and for other instruments on issues that should be cross-cutting to all of them. This lack of coherence also extends to the role played by COFIDES in financial cooperation - the only Spanish institution in the Association of European Development Financial Institutions (EDFI). This body integrates the main development finance institutions with the private sector, but does not have a mandate or only very limited resources for development cooperation, which makes it difficult to identify a single agent that structures leadership at an international level.

The analysis of the legislation shows that it is excessively regulatory and rigid when compared with that of similar instruments, which greatly restricts the instrument's adaptation to a dynamic environment such as that of reimbursable financial cooperation. The instruments and areas of action are excessively limited and subject to the verification of exceptional circumstances, which makes the management of FONPRODE uncertain and insecure.

There are no transparent and detailed procedures allowing systematic application of the different tasks associated with FONPRODE's activity. Procedures are excessively fragmented, with a high number of actors involved. Due to the scarcity of technical and human resources, this makes comprehensive knowledge management very difficult. This lack of staff specialised in reimbursable financial cooperation is particularly relevant in the countries where it operates as it prevents the build-up of its own project portfolio, unlike the case in the countries analysed.

There is also a significant lack of transparency and a need to strengthen the evaluation activity in order to supplement the monitoring activity currently being carried out. Performing systematic evaluations and providing greater transparency to FONPRODE's activity are essential elements for enhancing management of the instrument.

This is compounded by a dysfunctional institutional design that is the result of an inefficient vision that links the instrument's management to its political leadership. For this system to be operational, it is important to have an organisational structure that combines centrality in defining strategic approaches with sufficient autonomy in resource management. The structure to be set up should contribute to the commitment made for a significant increase in development cooperation efforts through a greater degree of leverage that will raise the efficiency of the use of public resources. In addition, it should enable the use of a wider range of financial instruments, allow the use of economies of scale resulting from the sharing of fixed costs and knowledge, and ensure the achievement of recognition and visibility at an international level. In addition, this new architecture should efficiently integrate the capabilities of each one of the agents currently involved in the process.



### CAPACITIES OF THE CURRENT AGENTS TO BE INTEGRATED IN THE FUTURE INSTITUTIONAL DESIGN

<b>Criterion</b>	<b>MAEUEC-AECID</b>	<b>ICO</b>	<b>COFIDES</b>
Achievement of national and international objectives	Steering and coherence of actions	Leverage and funding capacity	Experience in financial cooperation for development
Financial instruments	Experience in co-financing with IMF	The full range of products. Possibility of issuing guarantees	Experience in impact investing
Economies of scale	Knowledge in development and integration of technical cooperation and network of TCOs	Synergies with other instruments. Highly developed back-office	Synergies with some instruments
Recognition and visibility	Mutual recognition agreements. Accredited for delegated cooperation	Invest EU	Integration in EDFI. Accredited for delegated cooperation

**Leadership and  
knowledge in  
development**

**Financial capacity**

**Human capital**

The findings and proposals associated with the different blocks and pillars are summarised in the following tables.



## FINDINGS AND PROPOSALS

### BLOCK I. STRATEGIC FRAMEWORK

#### Strategic planning mechanisms

<p><b>FINDINGS</b></p>	<p>The master plans do not take into consideration the differentiated nature of financial cooperation, which plays a secondary role.</p> <p>There is no planning document that recognises the entities and instruments whose activity should be considered as financial cooperation. This makes it difficult to set common objectives and coordination between institutions.</p> <p>To date, financial cooperation has not had its own specific objectives aligned with the general objectives of Spanish cooperation, so that its actions can be fully evaluated.</p> <p>Financial cooperation in Spain has not yet effectively integrated the private sector as a significant agent in meeting the goals of the 2030 Agenda and the indications of the Addis Ababa Action Agenda.</p> <p>Financial cooperation has not been able to gain the necessary strategic capacity to integrate efficiently into the different forms of financial cooperation in the European Union (EU).</p>
<p><b>PROPOSAL</b></p>	<p>Provide financial cooperation with a more significant role in master plans recognising its intrinsic characteristics. For this purpose, it is considered necessary to:</p> <ul style="list-style-type: none"> <li>• Identify the entities and instruments whose activity should be considered as financial cooperation.</li> <li>• Perform a SWOT analysis of financial cooperation.</li> <li>• Adapt geographical and sectoral priorities to the characteristics of financial cooperation.</li> </ul> <p>Provide differentiated objectives for financial cooperation. For this purpose, the following actions are proposed:</p> <ul style="list-style-type: none"> <li>• In addition to the master plans, develop a biennial plan that defines performance indicators that allow ongoing evaluation of financial cooperation activity.</li> <li>• It is proposed that financial cooperation be planned at an inter-ministerial level so that it can be given sufficient centrality and unity of action.</li> </ul> <p>Develop a strategy to effectively and transparently integrate the private sector into the area of financial cooperation.</p> <p>Strategically plan the role that Spain should play in the area of EU financial cooperation, carrying out a prior evaluation of the experience gained in recent years.</p>



Coordination and coherence between instruments

<b>FINDINGS</b>	<p>The different financial cooperation instruments do not have mechanisms for coordination between ministerial departments to ensure the coherence of their actions.</p> <p>There is no specific group engaged in financial cooperation within the framework of the Spanish cooperation working groups.</p> <p>There is a lack of coordination between the different actors associated with financial cooperation. This lack of coordination can be seen in different areas: in coordination between financial cooperation instruments; between financial cooperation and technical cooperation instruments; between headquarters and field offices; between technical cooperation offices and economic and commercial offices.</p>
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<b>PROPOSALS</b>	<p>Align all external action instruments in the achievement of sustainable development goals and coordinate actions with the aim of increasing the impact of external action. For this purpose, the following actions are proposed:</p> <ul style="list-style-type: none"> <li>• Strengthen the Inter-ministerial Commission for Cooperation to coordinate and provide coherence to the different external action instruments.</li> <li>• Establish indicators and reporting obligations related to the development impact.</li> </ul> <p>Strengthen the coordination mechanisms between financial cooperation instruments and between such instruments and technical cooperation instruments.</p> <ul style="list-style-type: none"> <li>• Strengthen the coordination mechanisms between the different financial cooperation instruments in order to align and provide coherence to the different financial cooperation actions.</li> <li>• Strengthen the coordination mechanisms between technical and financial cooperation, with the aim of taking advantage of the synergies existing between the two types of instruments.</li> <li>• Develop coordination mechanisms between the technical cooperation offices (TCOs) and the central offices of the different agents involved in the management of FONPRODE.</li> <li>• Develop coordination mechanisms between the TCOs and the economic and commercial offices with the aim of strengthening synergies between offices and encouraging their collaboration in the use of EU financial cooperation instruments. The following actions are proposed in this area:             <ul style="list-style-type: none"> <li>- Develop pilot coordination projects between the TCOs and the economic and commercial offices to gain experience in the possibilities for enhanced coordination of actions.</li> </ul> </li> <li>• Develop coordination mechanisms that allow the participation of the Autonomous Regions (ARs) in the reimbursable financing instruments of the CSA.</li> </ul>
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<b>PROPOSALS</b>	<p>Provide coherence to the regulations and actions of the different internal action instruments in aspects that are cross-cutting:</p> <ul style="list-style-type: none"><li>• Standardise the criteria associated with operations in tax havens.</li><li>• Establish systems for evaluation on common criteria and methodologies in those instruments that have sustainable development as part of their goals.</li><li>• Provide coherence to the framework of actions of COFIDES in relation to its actions as a development finance institution.</li></ul>
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**BLOCK II. FONPRODE**

Regulatory framework

<b>FINDINGS</b>	<p>FONPRODE's lack of legal personality is a rarity in international terms, where State-owned commercial companies predominate in their different configurations according to the respective legislative frameworks.</p> <p>The analysis of the legislation and the experts consulted indicate that it is excessively regulatory, which greatly restricts the instrument's adaptation to a dynamic environment such as that of reimbursable financial cooperation.</p> <p>The obligation for all operations to be approved by the Council of Ministers means an inefficient allocation of responsibilities.</p> <p>The composition of the Executive Committee does not allow for the presence of independent experts.</p> <p>The financial instruments are excessively limited and subject to numerous exceptions:</p> <ul style="list-style-type: none"> <li>• Instruments are not defined, but rather types of operations that restrict the use of the instruments.</li> <li>• The obligation to count as Official Development Assistance (ODA) also restricts the use of instruments.</li> <li>• The use of guarantees is not regulated.</li> <li>• The sectoral restrictions are not in line with the nature of the fund or the objectives set.</li> </ul> <p>There is no specific authority authorised to finance at lower rates than those of Spanish debt.</p> <p>The regulations do not reflect the need to apply a risk-based approach to operations.</p> <p>The mechanism for allocating financial resources prevents multi-year planning of actions.</p> <p>The fact that FONPRODE is assigned to the Secretariat of State for International Cooperation (SECI) and its management to the Spanish Agency for International Development Cooperation generates dysfunctions in the management of the instrument.</p> <p>The application of public law is not adapted to the instruments of reimbursable financial cooperation.</p>
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## PROPOSALS

Establish a management framework based on an efficient allocation of responsibilities and accountability, which implies:

- Providing the instrument with greater management autonomy and agility on the basis of guidelines and a strong technical team.
- Making the process for approving operations more flexible by including a clause in the regulatory implementation that allows for the approval of particularly significant operations by the Council of Ministers or by the Government Delegate Committee for Economic Affairs (CDGAE) to be adapted to changes in priorities or risk considerations.
- Providing greater flexibility to the possibility of hiring and/or establishing collaboration agreements with other public and private institutions as independent experts.
- Restructuring the composition of the Executive Committee to include independent experts and limiting the number of members.
- Establishing a risk-based approach based on the recommendations of the Financial Action Task Force (FATF) that is consistent with other Spanish and European public financing instruments.

Establish a range of financial products to be used, as broadly as possible, which can be adapted to the current situation and the instrument's capacity for managing them. For this purpose, it is necessary to:

- Explicitly enable the possibility of carrying out operations under market terms and under concessional terms.
- Regulate the possibility for the ICO to issue guarantees on behalf of FONPRODE.
- Prevent legislation from defining specific cases associated with the use of instruments that restrict its operations and limit its flexibility.

Remove restrictions that hinder the achievement of the instrument's objectives:

- Ease the restriction that all operations must be eligible for official development assistance.
- Remove the prohibition on credit financing for basic social services for countries considered as less developed by the UN system, as it is not consistent with the objectives of the Fund.

Streamline the documentation burden and avoid duplication so that reports provide relevant and timely information:

- Eliminate duplications in debt sustainability reports.
- Define the terms and conditions under which the General State Comptroller (IGAE) must issue the report on the overall performance of the portfolio.
- Provide the reports of the General Secretariat of the Treasury and International Financing with information relating to implicit and/or explicit interest subsidies, taking into account grace periods.



<b>PROPOSALS</b>	<p>Make the budgetary and accounting framework coherent, adapting it as far as possible to the characteristics of the instrument.</p> <ul style="list-style-type: none"> <li>• Restructure the budget items in order to make them more coherent.</li> <li>• Assess the possibility of applying private law to the budgetary, economic-financial and accounting system of the fund.</li> <li>• Consider interest subsidies as a relevant element in budgetary planning.</li> </ul>
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**Procedural framework and resources**

<b>FINDINGS</b>	<p>The Executive Committee does not have internal rules of procedure like other similar committees.</p> <p>There is no procedure manual that integrates all the management stages of the instrument.</p> <p>There is no specialised risk management of the portfolio.</p> <p>A procedure for the application of the Code of Responsible Financing has not been defined.</p> <p>There is no evidence that FONPRODE’s Executive Committee has approved the adaptation of the tool developed by the DEG/KfW Group to assess the development effects of its operations, known as GPR, as a methodology for managing results and there has been no adaptation to operations with the public sector.</p> <p>The established documentary burden is excessive compared with that existing in other instruments of a similar nature, such as the Corporate Internationalisation Fund (FIEM) or the Fund for Investments Abroad (FIEX), and does not allow its adaptation to the characteristics, relevance and complexity of the project:</p> <ul style="list-style-type: none"> <li>• There is duplication in debt sustainability reports.</li> <li>• There is no evidence that the IGAE has issued reports relating to the overall profitability of the portfolio.</li> <li>• The reports issued by the General Secretariat of the Treasury and International Financing do not take into account the grace periods or calculate the implicit interest subsidy.</li> </ul> <p>The generation of projects with the public sector has relied almost entirely on co-financing projects with international finance institutions, highlighting the weakness of TCOs in identifying projects.</p> <p>The generation of projects with the private sector is constrained by the regulatory restrictions associated with the fund and the lack of specialised staff in the field.</p> <p>The appointment of COFIDES as an independent expert, almost exclusively, is inefficient.</p>
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<b>FINDINGS</b>	<p>No transparent system of setting interest rates on loans that allows them to be adapted to the circumstances of the risk and characteristics of the beneficiary has been identified.</p> <p>The shortage of technical resources is a structural problem that the FONPRODE Office has been facing since the start of its activity.</p> <p>There is no specialised office automation system for project management.</p> <p>There is a lack of training in key units in the management of the instrument.</p> <p>No repository has been identified where all the procedure manuals in force are stored.</p>
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<b>PROPOSALS</b>	<p>Establish a regulated and transparent procedural framework that defines a clear allocation of responsibilities:</p> <ul style="list-style-type: none"> <li>• Provide the Executive Committee with internal rules of procedure.</li> <li>• Develop an internal rules of procedure manual that integrates all the project stages and all the agents involved.</li> <li>• Approve a manual for the application of the Code of Responsible Financing.</li> <li>• Establish a risk management policy based on the best practices of other similar institutions.</li> <li>• Establish a transparent and regulated loan pricing procedure based on the underlying risk and the type of operation.</li> </ul> <p>Provide the instrument's management with the technical and human resources necessary to perform its responsibilities efficiently. This means:</p> <ul style="list-style-type: none"> <li>• Designing an action plan, with progress indicators, to strengthen the technical and human resources of the FONPRODE office:             <ul style="list-style-type: none"> <li>- Performing a prior analysis of the technical and human resources.</li> <li>- Designing the action plan.</li> <li>- Providing budgetary resources to the action plan and implementing it.</li> </ul> </li> <li>• Creating financial cooperation centres to enhance the technical expertise of the TCOs:             <ul style="list-style-type: none"> <li>- Mapping local capacities.</li> <li>- Defining criteria for the creation of financial cooperation centres.</li> <li>- Ensuring adequate technical and human resources for financial cooperation centres.</li> </ul> </li> <li>• Gradually increasing the presence of Spanish financial cooperation in Brussels.</li> <li>• Establishing training programmes on financial cooperation.</li> </ul>
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Transparency and evaluation

<p><b>FINDINGS</b></p>	<p>Significant shortcomings are detected in the transparency associated with FONPRODE's activity:</p> <ul style="list-style-type: none"> <li>• There has been a repeated failure to draft, submit and present FONPRODE activity reports to Parliament in due time and form.</li> <li>• FONPRODE's operational programming is not made public.</li> <li>• The data on FONPRODE's activity are scattered throughout the different annual activity reports, and there is no website that brings together all the available information in a clear manner.</li> <li>• No standardised classification of operations is provided in the different reports, which makes it difficult to systematise and analyse the portfolio.</li> <li>• Despite the importance of resource leverage, there is no aggregated reporting of leveraged resources, either through third-party investors or through access to the EU's technical assistance facilities.</li> <li>• FONPRODE's activity is not adequately transmitted to other agents, such as the TCOs and the technical and commercial offices, which may have interests or may provide relevant information.</li> </ul> <p>AECID reports information to the International Aid Transparency Initiative (IATI), although it is not a member and there is no record of financial cooperation data being reported.</p> <p>There are shortcomings in the evaluation work:</p> <ul style="list-style-type: none"> <li>• The evaluation obligations established in legislation have not been complied with.</li> <li>• Legislation does not provide for the evaluation of programmes, sectors or overall activity.</li> <li>• The evaluation activity is not coordinated with the Directorate-General for Sustainable Development Policies (DGPOLDES).</li> <li>• When defining objectives and results, methodologies such as the Theory of Change or the Logical Framework Approach are not always followed.</li> </ul>
<p><b>PROPOSALS</b></p>	<p>Make the instrument's management more transparent by providing accessible information platforms that include complete, relevant and timely information. This requires:</p> <ul style="list-style-type: none"> <li>• Reporting on a regular and timely basis to the chambers and coordination and consultation bodies on the actions and plans to be developed in the field of reimbursable financial cooperation.</li> <li>• Creating a web repository that brings together all the information relating to FONPRODE's activity.</li> </ul>

<sup>1</sup> Annual reports of FONPRODE and performance reports of the ICO and COFIDES are considered.

**PROPOSALS**

- Publish and publicise FONPRODE's operational programming.
- Develop an action plan to raise awareness of reimbursable financial cooperation between the private sector and civil society.

Improve the reports relating to the activity to ensure coherence and full and timely information. This includes:

- Unifying, as far as possible, the information on FONPRODE's activity, avoiding duplication.
- Providing consistency to the different reports with regard to the classification of transactions.
- Including forecasts on repayments and information on expected disbursements within the planning horizon in activity reports.
- Providing comprehensive information on the use of blended financing resources.
- Providing information on the companies awarded the projects financed by FONPRODE and on the evaluation exercises conducted.

Establishing a coordinated evaluation system that combines the internal and external evaluation of the activity performed in the framework of financial cooperation. For this purpose, the following actions are proposed:

- Develop a biennial evaluation plan that includes thematic and programmatic evaluations.
- Define the framework for the actions of internal and external evaluations.
- Develop a guide that establishes a framework for the performance of the evaluation process.
- Coordinate the evaluation activities with the DGPOLDES.
- Develop a management and evaluation plan to improve internal and external credibility and transparency, avoid fragmented knowledge in relation to operations and address operational risk.
- Define specific methodologies for development impact management for public sector and private sector activities that allow for systematisation around a results framework.
- Encourage joint evaluation projects with other institutions.
- Establish mechanisms to review the quality of evaluations.
- Publish and publicise the results of the evaluations.

## Institutional design

<b>FINDINGS</b>	<p>FONPRODE's management model is complex, with multiple agents and fragmented processes.</p> <p>The work of the FONPRODE Office is perceived by the experts consulted as focusing on the administrative management of the fund, with limited staff.</p> <p>COFIDES' technical support work is highly rated, but the existence of different institutional priorities and possible competition with FONPRODE itself in attracting resources are noted.</p> <p>The work of the ICO as a financial agent is highly rated by the experts consulted, although the scarcity of resources for managing an increasing number of instruments has been highlighted.</p> <p>The fragmentation and multiplicity of actors generates confusion in the international arena.</p>
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<b>PROPOSALS</b>	<p>Build a new institutional framework on the basis of four core elements.</p> <ul style="list-style-type: none"> <li>• For it to have the capacity to contribute towards achieving national and international objectives.</li> <li>• For it to be equipped with a wide range of financial instruments.</li> <li>• For it to allow the leverage of economies of scale with other instruments and actions.</li> <li>• For it to be easily recognisable and to give visibility to reimbursable financial cooperation activity at an international level.</li> </ul> <p>Move towards a system that, under the steering of the Ministry of Foreign Affairs, European Union and Cooperation, integrates the technical knowledge of AECID, the financial capacity of the ICO and the human capital of COFIDES.</p>
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# 1.

## INTRODUCTION: CONTEXT, OBJECTIVES, PILLARS AND METHODOLOGIES OF EVALUATION

### 1.1. Background

**This report contains the results of the study on financial cooperation in Spain and the analysis of the activity of FONPRODE.** This work is the result of the assignment made by the Council of Ministers to the Independent Authority for Fiscal Responsibility, AAI (AIReF) on May 11<sup>th</sup>, 2021. AIReF, in close collaboration with the State Secretariat for International Cooperation, prepared an action plan. The final version of this plan was submitted on June 30<sup>th</sup>, 2021 and approved by the State Secretariat for International Cooperation on July 5<sup>th</sup>, 2021.

**The action plan of the study set out to determine the extent to which the design of the fund and the procedures and resources established for the management of FONPRODE contribute to achieving the purposes for which it was designed.** In addition, it aimed to present proposals for reform to allow it to adapt to the new context of international financial cooperation. For this purpose, the following main actions were established:

- **An analysis of the framework within which FONPRODE operates, in particular the strategic framework and institutional design of financial cooperation.** An analysis of the strategic framework in which FONPRODE operates was performed, taking into account the different existing external financing instruments and their link with sustainable development.
- **An analysis of FONPRODE's activity.** An in-depth analysis of the regulatory and procedural framework of FONPRODE's activity was performed, paying special attention to the management of the project cycle. This section also analyses the allocation of resources and the transparency and evaluation of FONPRODE's activity.
- **The performance of an international comparative analysis,** carried out through the documentary review of the existing information and through interviews with the managers of similar instruments, with the aim of identifying best practices that may be transferable to the Spanish framework. This analysis includes a general documentary analysis and a detailed analysis of the situation in five countries (France, Germany, Italy, the United Kingdom and Canada).

**AIReF was commissioned to carry out this study partly on the basis of the evaluation work the institution has been performing since 2017, an activity that has become one of its pillars.** This activity arose as a result of specific requests for evaluation by the Autonomous Regions, but was given a major boost by the Government's commission of the Spending Review 2017-2020, a commitment included in the 2017-2020 Stability Programme Update. Furthermore, AIReF's evaluation work is currently being strengthened in the Recovery, Transformation and Resilience Plan presented by the Spanish government to the EU authorities, ensuring its permanence, evaluation capabilities, independence and the relevance of the evaluations<sup>2</sup>. In addition, the Central Government is starting to take new steps to strengthen its commitments to the results of the evaluations by conferring on them the 'comply or explain' principle and structuring mechanisms for their implementation in the management centres.

## 1.2. Context

**Financial cooperation for development is an instrument for development cooperation.** Financial cooperation encompasses everything that, with development objectives, is carried out on the basis of the transfer of financial resources or investments from the donor country to the recipient country of the funds, either directly or through other organisations, whether reimbursable or non-reimbursable (Dubois, A., 2001). Article 11 of Law 23/1998 of July 7<sup>th</sup>, 1998 on International Development Cooperation<sup>3</sup> defines economic and financial cooperation as "contributions to investment projects for the increase of physical capital in the beneficiary countries and to projects to assist the economic sectors".

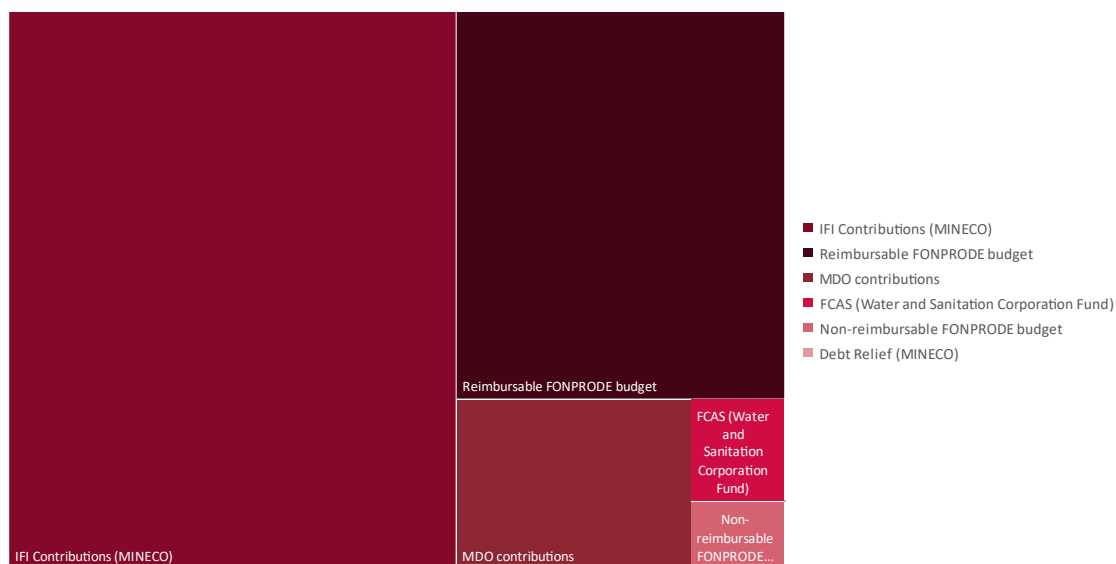
**Financial cooperation, as reported in terms of official development assistance, includes different instruments that are divided between the Ministry of Economic Affairs and Digital Transformation and the Ministry of Foreign Affairs, European Union and Cooperation.** The Ministry of Foreign Affairs manages approximately 40% of the budget associated with financial cooperation, while the Ministry of Economic Affairs manages a larger budget in this area as it is the department responsible for contributions to international finance institutions and the management of external debt (debt conversion programmes and external debt restructuring).

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<sup>2</sup> See Component 29 of the Recovery Plan.

<sup>3</sup> The Draft Law on Cooperation for Sustainable Development and Global Solidarity refers to reimbursable financial cooperation as that which "will seek the human and economic development of the partner countries, within the framework of the global sustainable development goals, through investments or transfers of reimbursable financial resources. This instrument may come in different forms, such as loans, lines of credit, microcredits, equity, guarantees or blended finance that, together with the above, include technical assistance and other non-reimbursable elements, such as policy dialogue".

**FIGURE 1. DISTRIBUTION OF FINANCIAL COOPERATION IN THE 2022 GENERAL BUDGET**



Source: Prepared by the authors based on data from the General State Budget for 2022.

**The Framework for the Reimbursable Financial Cooperation of Spanish Cooperation identifies FONPRODE and the Cooperation Fund for Water and Sanitation (FCAS) as the only instruments.** Following the absorption by FONPRODE of the Microcredit Fund (FCM) and the removal from the calculation as official development assistance of concessional credit in the area of export credit with official support upon approval of the Law on FONPRODE, the only reimbursable financial cooperation instruments within the Central State Administration are the Cooperation Fund for Water and Sanitation (FCAS) and FONPRODE. In addition, the document cites the ICO and COFIDES as “public and semi-public institutions related to the management of reimbursable financial cooperation”.

**The Cooperation Fund for Water and Sanitation has primarily been used as a non-reimbursable cooperation instrument.** FCAS was created by Law 51/2007, of December 26<sup>th</sup>, on the General State Budget for 2008. Under FCAS, non-reimbursable aid and, where appropriate, loans may be granted to finance projects in the fields of water and sanitation, on the basis of co-financing with the national authorities of the countries concerned and in accordance with the principle of co-responsibility. In addition, under FCAS regulations, multilateral organisations and private entities may participate in the co-financing. However, according to the Court of Auditors' Report No 1,228, all aid audited in the period 2009-2014 was treated as non-reimbursable subsidies, without using loans as defined under Royal Decree 1460/2009.

**FONPRODE may provide reimbursable or non-reimbursable cooperation depending on the conditions of aid delivery.** FONPRODE is Spain's main instrument for reimbursable financial cooperation, and its non-reimbursable activity is very limited.

**The criteria for an operation to be eligible as official development assistance (ODA) are set by the Development Assistance Committee (DAC) of the Organisation for Economic Co-Operation and Development (OECD), and are defined according to the level of development and income of the beneficiary country.** The DAC considers official development assistance as all flows to developing countries and territories on the OECD DAC List of ODA Recipients and to multilateral development institutions that (1) is provided by official agencies, and (2) for each transaction, with the promotion of the economic development and welfare of developing countries as the main objective, and with a concessional nature, and a determined minimum gift portion (grant element).

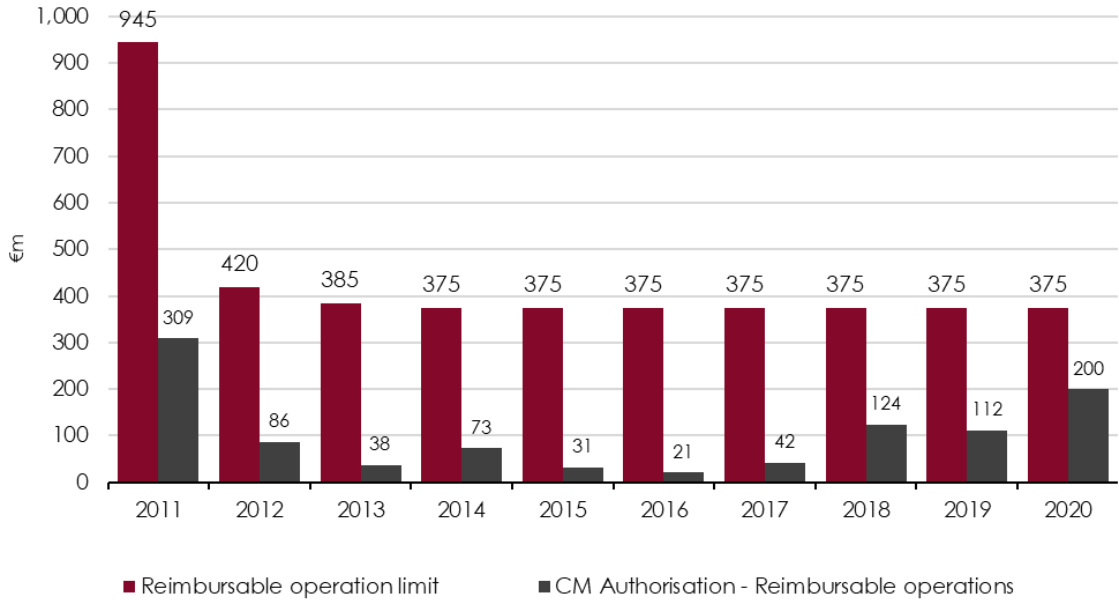
**Complementing the concept of ODA, the DAC created the concept of Total Official Support for Sustainable Development (TOSSD) in 2014.** This concept includes, together with official development assistance flows, referred to as Other Official Flows (OOF), which are those other transactions that take place between a donor country and a partner country included on the DAC list of recipients that do not meet any of the eligibility requirements to be considered as official development assistance. The concept, however, is not yet fully defined and there are disputes over the definition criteria.

### **1.2.1. Financial cooperation in Spain today**

**Reimbursable financial cooperation is currently limited to the activity of FONPRODE, whose average budget execution in the period 2011-2020 is 23%.** The execution of reimbursable funds associated with FONPRODE's activity has, except in its early years, been unequivocally low and has only started to pick up somewhat from 2019 onwards, although in 2020 the execution rates still only stood at 53%.



**FIGURE 2. DEGREE OF EXECUTION OF REIMBURSABLE FINANCING**



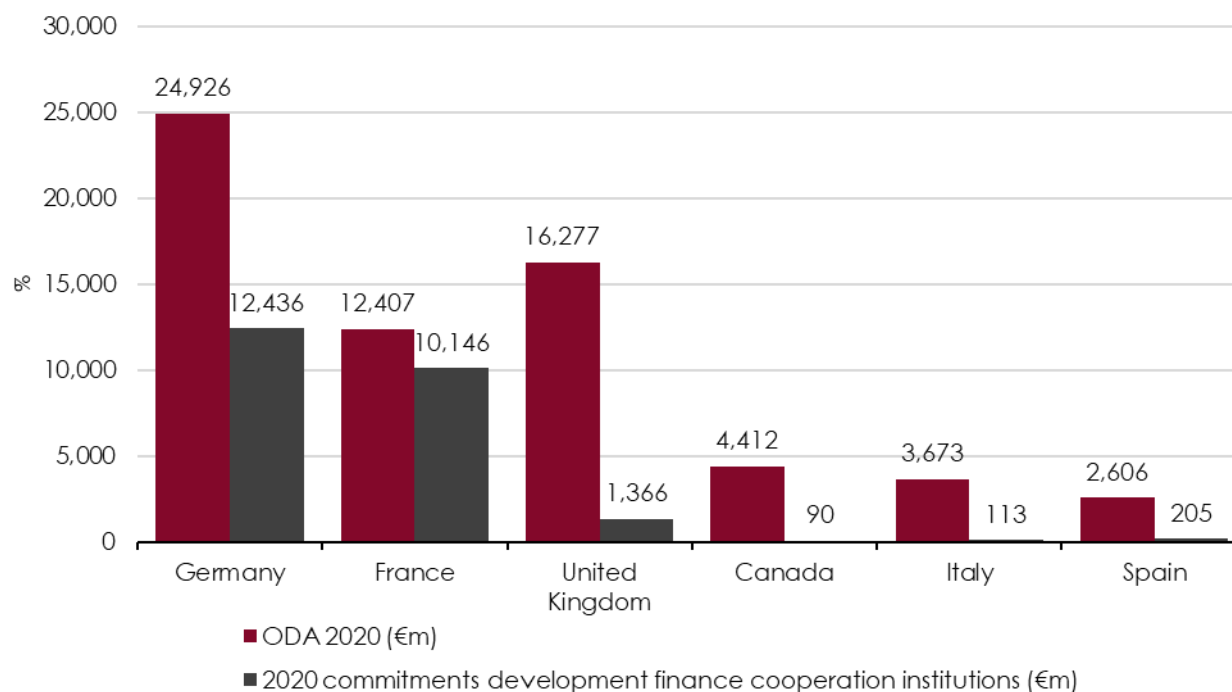
Source: Prepared by the authors based on data from FONPRODE’s annual execution reports.

**Spanish reimbursable financial cooperation is much smaller than that of peer countries and does not correspond to the size of the Spanish economy.** In 2020, Spanish reimbursable financial cooperation was sixty times less than that of France or Germany and 45 times less than that of the Netherlands. These figures show that financial cooperation has not been able to gain access to the necessary resources to play a significant role in reimbursable financial cooperation.

**The weight of reimbursable financial cooperation as a proportion of official development assistance depends to a great extent on the institutional structure and priorities for action of the different countries.** Financial cooperation accounts for a high proportion of official development assistance in those countries with a strong development bank with a high level of financing activity with the public sector. However, in countries such as the United Kingdom, with official development assistance amounting to 0.7% of gross national income in 2020, reimbursable financial cooperation is aimed at the private sector with a very low weight as a proportion of official development assistance.



**FIGURE 3. ODA OF THE COUNTRIES IN THE COMPARISON AND COMMITMENTS OF THEIR FINANCIAL COOPERATION INSTITUTIONS IN 2020\***



\* Official development assistance data have been obtained from the European Commission for EU Member States. For the United Kingdom and Canada, the average exchange rate for 2020 (0.877) from US dollars to euros has been applied to the numbers obtained from OECD DAC data.

Source: Prepared by the author based on data from EDFI, OECD DAC and annual reports.

**In addition, there are other external action instruments whose regulations require that development impact be taken into account. These instruments operate in countries receiving official development assistance without their actions being aligned with development policy.** The actions of COFIDES, which has signed up to the "Operating Principles for Impact Management"<sup>4</sup> initiative, give a clear example of an institution committed to the guiding principles of sustainable development, but whose actions are not coordinated with those of development policy.

**For its part,** Article 8 of Law 11/2010, of June 28<sup>th</sup>, on reform of the financial support system for the internationalisation of Spanish companies, establishes development impact as an assessment criterion of the FIEM Committee when deciding on the Fund's actions. These are examples of other external action instruments that operate in countries that receive official development assistance.

<sup>4</sup> Initiative led by the International Finance Corporation, an entity of the World Bank Group (<https://www.impactprinciples.org/>).

Neither the actions of FIEM nor those of COFIDES in countries receiving official development assistance are aligned with Spain's development policy. The French example of different ministerial departments acting in different ways, but with common guidelines, shows that an organic approach is possible when coordinating the actions of the different instruments.

### **BOX 1. The French Government's 851 programme**

**The 851 programme of “Loans to foreign States with a view to facilitating the sale of goods and services contributing to the development of France’s foreign trade”,** managed by the French Directorate-General of the Treasury, shows that full integration of all external action instruments is not necessary for timely coordination. This programme, with a clear internationalisation objective, is in line with the development priorities of the French Government and its actions are part of the public development assistance programmes.

In the case of France, the leadership of the Directorate-General of the Treasury in the international sphere and its active presence in the AFD make it possible to provide coherence to internationalisation and development actions. In this regard, it should be pointed out that the financing of the AFD to subsidise the interest on concessional loans comes from the budget of the Directorate-General of the Treasury and not from the Ministry of Foreign Affairs.

**Achieving the goals which Spain has committed itself to at a national and international level requires a sustained increase in the resources allocated to financial cooperation.** Both the commitments made by Spain to reach 0.7% of gross national income for official development assistance, and the goal of reaching €1.35bn from 2025 onwards in climate finance will require a sustained but substantial increase in the resources associated with financial cooperation.

#### **1.2.2. Historical evolution of financial cooperation in Spain**

**The origins of financial cooperation date back to the creation of the Development Assistance Fund (FAD), in Royal Decree-Law 16/1976, of August 24<sup>th</sup>, establishing fiscal, export promotion and internal trade measures.** The FAD was set up with the mandate to respond to two different objectives at the same time:

- On the one hand, it serves as an instrument of development assistance.
- On the other hand, it serves as an instrument to support the internationalisation of Spanish companies.

**Over the years and after successive reforms, the FAD increased in complexity and the Ministries of the Economy and of Foreign Affairs took on a greater role.** The FAD grew to the point that since 2007 the fund has had three differentiated budget allocations:

- FAD Internationalisation, which corresponded to credit linked to trade policy abroad, which was administered by the Ministry of Industry, Trade and Tourism;
- FAD Cooperation, which was created *a posteriori* under the management of the Ministry of Foreign Affairs and Cooperation;
- FAD International Finance Institutions (IFIs) and Debt Management: linked to shares and replacements in IFIs, as well as international debt cancellation commitments. The Ministry of Economy and Finance was responsible for its management.

In 2010, during the debate on the reform of the FAD, a new category was established: the Financial FAD (also called the reimbursable cooperation FAD) which included investment instruments as a major new aspect. These were contributions to investment funds created by multilateral or bilateral institutions, or even private funds, which were to have a development mandate. This short-lived category was only in place for one year, managed by the International Cooperation Secretariat, and it is one of the main foundations on which FONPRODE will be built.

**The microcredit fund was created in 1988. This fund grants credit for basic social development projects abroad; usually known as the Microcredit Fund (FCM).** The creation of the FCM, in the same year that the Law on International Development Cooperation was approved, entailed the establishment of the first financial cooperation instrument managed entirely by the Ministry of Foreign Affairs. It aimed to counteract the weight that commercial components had in Spanish cooperation policy. This microcredit was thus intended to be in addition to other similar instruments that had emerged strongly in those years, both in some developing countries and in the donor community itself, aimed at granting microcredit and revolving credit in order to facilitate access to credit for sectors that were usually excluded. In 2002, a specific item dedicated to technical assistance was included in the FCM. This resulted in an improvement in the management of the microcredit and allowed the training of the staff engaged in its management.

**Despite this greater weight of the Ministry of Foreign Affairs in financial cooperation, civil society criticism of both types of instruments grew in the early years of the 21st Century.** The creation of the FCM and the greater weight of the Ministry of Foreign Affairs, European Union and Cooperation in the management of the FAD did not prevent both types of instruments from being harshly criticised by civil society due to their weak connection to development goals and their arbitrary use. These criticisms led to the announcement of the need to reform the FAD as early as 2006 in Law 38/2006 of December 7<sup>th</sup>, 2006, which regulates the management of external debt. Thus, the First Transitory Provision established that “The Government shall submit a Draft Law regulating the Development Assistance Fund (FAD) for its passage through Parliament, and, as the case may be, approval during the current Legislature”.

However, no advantage was taken of the economic boom to carry out this announced reform of the FAD. Instead, the reform of the system took place in October 2010, in an environment of macroeconomic turmoil, since GDP had fallen in 2009 by 3.8% and beset by criticism of its management and lack of transparency after the scandal of FAD's participation in the financing of the domed ceiling painted by the Spanish painter Miquel Barceló for the United Nations Palace in Geneva.

**In a context of severe economic crisis, Law 36/2010, of October 22<sup>nd</sup>, on the Development Promotion Fund, was approved as an instrument for development cooperation, managed by the Ministry of Foreign Affairs and Cooperation, through the State Secretariat for International Cooperation.** Subsequently, on June 17<sup>th</sup>, 2011, Royal Decree 845/2011 approved the implementing regulation of FONPRODE, which created the Office of the Development Promotion Fund, with directorate status, within the Spanish Agency for International Development Cooperation (AECID). In spite of the difficult economic situation and the scant human resources devoted to its management, the initial budget allocations to FONPRODE were large for such a young instrument and were guided by the political will to reach the target of 0.7% of gross national income for official development assistance by 2015. Thus, the allocation to FONPRODE in 2011 amounted to €945.23m.

**The worsening of the economic and financial crisis in 2012 and 2013 led to the introduction of significant restrictions on FONPRODE's operations.** The impact of the financial crisis on public finances led the 2012 General Budget, approved in June 2012, to apply a significant cut to FONPRODE's budget. It set an overall limit of operations to be approved by the Council of Ministers of up to €420m. Within this limit, a ceiling of €135m was set for non-reimbursable operations. Certain dysfunctions and operational difficulties became evident over those years. This led to the creation of a working group to analyse and review the instrument, as agreed in the meeting of the Executive Committee held in Madrid on December 11<sup>th</sup>, 2012.

The 2013 General Budget, approved in December 2012, abolished the non-reimbursable operations and further reduced the ceiling of operations to be authorised by the Council of Ministers to €385m.

**The reform of the regulatory framework that took place in 2014 and 2015 made the management of the instrument more complex, which led to a significant fall in its levels of execution.** The reform of the regulatory framework that took place in 2014, in Law 8/2014, of April 22<sup>nd</sup>, on coverage on behalf of the State of the risks of the internationalisation of the Spanish economy, the content of which was subsequently implemented by means of Royal Decree 597/2015, of July 3<sup>rd</sup>, approving the amendment of the regulation of the Development Promotion Fund, did not solve the problems that had become clear. Although the changes introduced gave COFIDES a role in the management of the instrument, not without some opposition from civil society because of its greater link with internationalisation objectives, it made management of the instrument more complex. In this context, it should be noted that Final Provision 2.2 of Law 8/2014 of April 22<sup>nd</sup> authorised COFIDES to hire all or part of the workforce of the company Sociedad Estatal España, Expansión Exterior. This authorisation made it possible to integrate the staff who had been

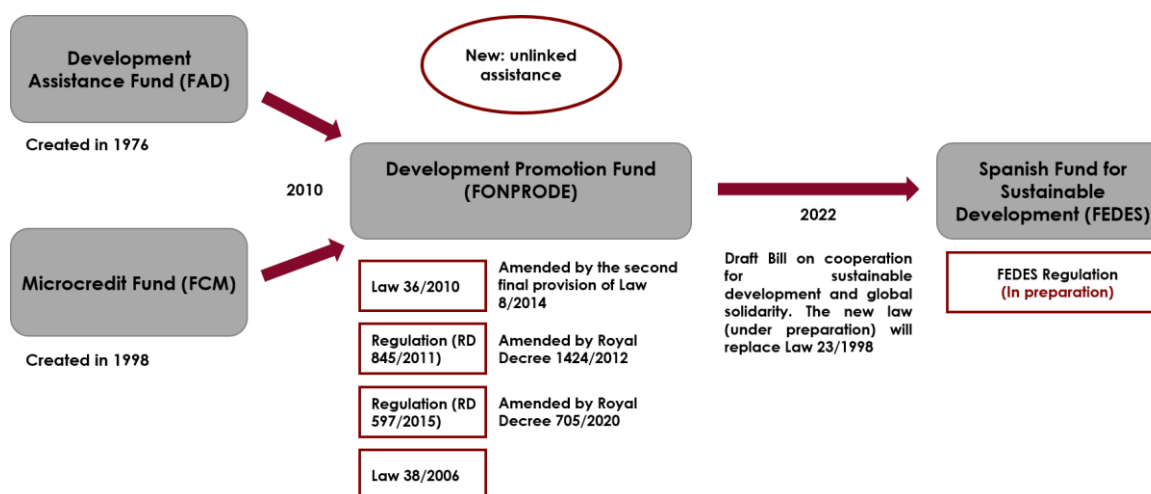
providing advisory work in foreign expansion as a government resource.

**The Court of Auditors' audit reports for 2012 and 2013 and the audit of the 2015 annual financial statements published in 2016 pointed to weaknesses in the management of the instrument and a shortage of human resources to manage it.** The reports identified a number of problems relating to the correct accounting of FONPRODE's holdings in capital funds, as well as the problems associated with the financing of operations in tax havens. The Court of Auditors also established that the staff available to FONPRODE "are clearly insufficient to properly perform the functions assigned to it".

**In 2020, a process of transformation of Spanish cooperation began, which should lead to a reform of financial cooperation.** On December 17<sup>th</sup>, 2020, a Sub-Committee was created within the Committee on International Development Cooperation to study the update of the regulatory framework and the system of International Development Cooperation. The objective of the Sub-Committee was to promote a process of reflection among representatives of the various parliamentary groups, public authorities, the private sector, civil society and experts in cooperation that could lay down the basic lines that should guide the Government in the drafting of the Draft Law on International Cooperation for Sustainable Development updating the current regulatory framework. The final report of the Sub-Committee drew lines of consensus on which the future law should be based and pointed "towards the need to promote financial cooperation at the service of sustainable development and in line with the recent reform of the financial architecture of the European Union".

**On March 11<sup>th</sup>, 2022, the Council of Ministers approved the Draft Law on Cooperation for Sustainable Development and Global Solidarity that introduces major developments in the field of financial cooperation.** Section III of Chapter II of the Draft Law is devoted to financial cooperation for sustainable development and includes the creation of the Spanish Fund for Sustainable Development (FEDES), a fund without legal personality and that replaces FONPRODE.

**TABLE 1. EVOLUTION OF REIMBURSABLE FINANCIAL COOPERATION**



Source: AIReF.

**The Second Additional Provision of the draft law sets out the need to create, within six months of the adoption of the law, a working group tasked with formulating a proposal for the future institutional design of Spanish financial cooperation for sustainable development.** The draft law sets out the need to move towards the creation of a public development bank in the same way as other peer countries such as Germany, France and Italy, among others. The debate, which has been on the table for some years, seems likely to gain momentum with the creation of this working group and following publication of several reports pointing in the same direction over recent years.

- Report of the Capacities and Resources Working Group of the Development Cooperation Council: "A new system of development cooperation to make the 2030 Agenda a reality: proposals for reform".<sup>5</sup>
- Report of the Coordinator of Development Organisations: "A new system of cooperation to transform the world".<sup>6</sup>
- Report of the Capacities and Resources Working Group of the Development Cooperation Council: "The future of financial cooperation in Spain: reform proposals".<sup>7</sup>
- Non-legislative motion submitted by the People's Party relating to the promotion of financial cooperation.<sup>8</sup>
- CEOE Recommendations International Development Cooperation.<sup>9</sup>

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<sup>5</sup> Cooperation Council. (2020). *A new system of development cooperation to make the 2030 Agenda a reality: proposals for reform*. Report of the Capacities and Resources Working Group of the Cooperation Council.

<sup>6</sup> Mayuelas, A. R. *et al.* (2021). *Un nuevo sistema de cooperación para transformar el mundo. Coordinadora de ONG para el Desarrollo-España*.

<sup>7</sup> Cooperation Council. (2022). *El futuro de la cooperación financiera en España: propuestas de reforma*. Report of the Capacities and Resources Working Group of the Cooperation Council.

<sup>8</sup> See the content of the proposal here: [https://www.congreso.es/public\\_oficiales/L14/CONG/BOC-G/D/BOCG-14-D-373.PDF#page=71](https://www.congreso.es/public_oficiales/L14/CONG/BOC-G/D/BOCG-14-D-373.PDF#page=71)

<sup>9</sup> See the report here: [https://www.ceoe.es/sites/ceoe-corporativo/files/content/file/2021/04/21/110/recomendaciones\\_cooperacion\\_internacional\\_desarrollo\\_2021\\_04.pdf](https://www.ceoe.es/sites/ceoe-corporativo/files/content/file/2021/04/21/110/recomendaciones_cooperacion_internacional_desarrollo_2021_04.pdf)

### 1.2.3. International framework

**The 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda for Financing for Development (AAAA) and the Paris Agreement led to a fundamental rethink of development models in 2015, since they require greater effort in mobilising private sector resources and a more efficient allocation of such resources.** The adoption of the 2030 Agenda and the 17 Sustainable Development Goals (SDGs) triggered the first paradigm shift: among other important changes, it replaced the logic of relations between “developed countries” or “donors” and “developing countries” or “recipients”, in favour of international partnerships for sustainable development. Also in 2015, the Addis Ababa Action Agenda on Financing for Development was agreed. This document sets out the instruments to be used by both developing and donor countries to finance development over the next 15 years and in which the European Union (EU) reaffirmed its collective commitment to allocate 0.7% of its gross national income to Official Development Assistance within the deadlines established in the development agenda.

**Climate finance and development finance are increasingly intertwined and some development finance institutions (DFIs)<sup>10</sup> have specialised in climate finance.** Climate finance has become a priority for development banks and DFIs as sustainable development is not possible without sustainable energy. The initial objective of creating a Climate Bank within the European Investment Bank Group (EIB Group) and the final decision to create a specialised development arm, EIB Global, but with a clear focus on climate finance, underlines the clear links between the two policies. In this regard, any transformation of financial cooperation in Spain must integrate climate finance as one of its pillars.

### 1.2.4. The financial architecture for development in the EU

**EU cooperation policy has undergone a major transformation over recent years as a result of international commitments and an increased awareness of the interconnection between development policies and international political realities.** The former Directorate-General for Development and Cooperation has been transformed into the new Directorate-General for International Partnerships, which is responsible for formulating the EU's international partnership and development policy. This transformation means that relations between the EU and the other countries and institutions are addressed in a comprehensive manner, considering not only the cooperation instruments available to the EU, but also incorporating the set of instruments that the EU itself and the Member States have at their disposal to carry out bilateral relations.

**One of the challenges of this architecture is the increasing complexity of the landscape in the sector, as the number of instruments and actors involved rises,** in addition to the EU and the Member States, the development finance agencies, the European Investment Bank and the European Bank for Reconstruction and Development (EBRD). The Commission identifies several relevant collaborative initiatives led by Member States and development finance institutions <sup>11</sup>:

- EDFI Association (European Development Finance Institutions, 1992), now with a company

that manages the association, incorporates development finance institutions, also from non-member countries, with a mandate to support the private sector.

- Practitioners' Network (2007), comprised of European development cooperation organisations, all pillar-assessed and focused on capacity building and technical assistance.
- Enhanced Partnership (2016) comprised of the Commission, three public development banks (the French Development Agency (AFD), the German Development Bank (KfW), and the Italian State Bank (CDP) and a development agency (AECID), which in May 2021 launched a co-financing initiative (Team Europe Finance Platform) with the aim of cooperating more efficiently, harmonising procedures and structuring common projects. As part of this platform, the four entities have agreed to launch a financing framework in 2022.
- Memorandum of Understanding (2012) between the European Investment Bank, the European Bank for Reconstruction and Development and the European Commission.
- Mutual Reliance Initiative signed between the EIB, KfW and AFD to co-finance operations, pool resources for project evaluation and monitoring, share information and deal with enquiries.

**The existence of multiple agents also led the European Union to reflect on how to develop a more coherent, strategic, inclusive, influential and visible financial architecture for development.** In October 2019, a High-Level Group of Wise Persons set up by the Council published a report offering a systemic perspective of the challenges and opportunities for improving and streamlining the European financial architecture for development, paying particular attention to the respective roles of the EIB and the EBRD, together with a series of measures to be taken immediately.

In 2021, after carrying out a feasibility study of the main existing alternatives, it was decided to build on the current configuration with a series of actions aimed at improving the coherence and effectiveness of actions in the area of financing for development.

**The Council conclusions on strengthening the European financial architecture for development (EFAD) highlighted in 2021 the need to integrate EFAD into the EU's external policy in light of growing geo-economic and political competition, including through the financing of sustainable connectivity.** The document also points out the need to create tools to support inclusive partnerships with smaller development institutions, with the aim of leveraging cooperation instruments, co-financing, risk sharing and procedures for delegation and mutual recognition. This simplification of processes is an opportunity for smaller institutions that Spain should be able to seize.

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<sup>10</sup> DFIs are publicly supported institutions that invest in private sector projects in low- and middle-income countries. DFIs are structured as multilateral or bilateral organisations that aim to invest in commercially sustainable projects, although they can also use public resources to make certain types of projects viable.

<sup>11</sup> In addition to the Procurement Procedure Framework between the EIB and the EBRD and other co-financing initiatives, such as the Interact Climate Change Facility, the European Financing Partners and the Friendship Facility.



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**The European Union (EU) is strengthening AFED by focusing on blending and guarantees and integrating all financing instruments under one umbrella.** For this purpose, the Neighbourhood, Development and International Cooperation Instrument (NDICI) was created in 2021. It aggregates most of the EU's multiple existing external cooperation instruments with its partner countries into one single instrument. The geographical pillar of the instrument contains an investment framework comprised of the European Fund for Sustainable Development (EFSD+) and the External Action Guarantee. The purpose of this framework is to achieve a financing multiplier effect in order to obtain financial resources for investment in sustainable development by the public and private sectors.

**With this new European development finance architecture, there are growing calls for such agencies and development finance institutions to work together in a coordinated manner in order to achieve greater mobilisation of resources and enhanced impact and effectiveness of European assistance to its partners.** At a European level, there were already collaborative initiatives between development finance institutions, such as the association of European Development Finance Institutions (EDFI), created in 1992, which brings together DFIs with the aim of enhancing coordination between these institutions, harmonising processes, standards and practices by adopting common principles and procedures and sharing knowledge and best practices between them. Since 2016, its subsidiary - EDFI Management Company (EDFIMC) - manages concessional funds by EDFI members and the European Commission. More recent initiatives, such as Team Europe and the Enhanced Partnership, AECID, AFD, CDP and KfW, among others, advocate improved coherence and coordination of efforts between European development finance agents and the sharing of their resources in an innovative manner to achieve a greater impact.

**The Commission's March 2022 roadmap for improving the European finance architecture seeks to strengthen the EU's global role, improve coordination, design a more inclusive architecture and give greater visibility and influence to the EU in the Team Europe approach.** With regard to coordination, the commitment to Team Europe aims to avoid fragmented actions and improve synergies and efficiencies in multi-agency collaboration. The aim is to build on the accumulated expertise of experienced donors, to aggregate funds to enhance the impact and bring in private investment, and to integrate funds from different sources in addition to official development assistance (investment, reforms and diplomacy). The idea of an inclusive architecture aims to provide space to the agencies and units of Member States that have less experience.

### 1.3. Objectives and pillars

**The study of financial cooperation aims to make a diagnosis of the current situation in Spain, paying special attention to the activity performed by FONPRODE and identify areas for improvement,** with the aim of making a series of recommendations and proposals that will allow progress in the reform of the current system of financial cooperation.

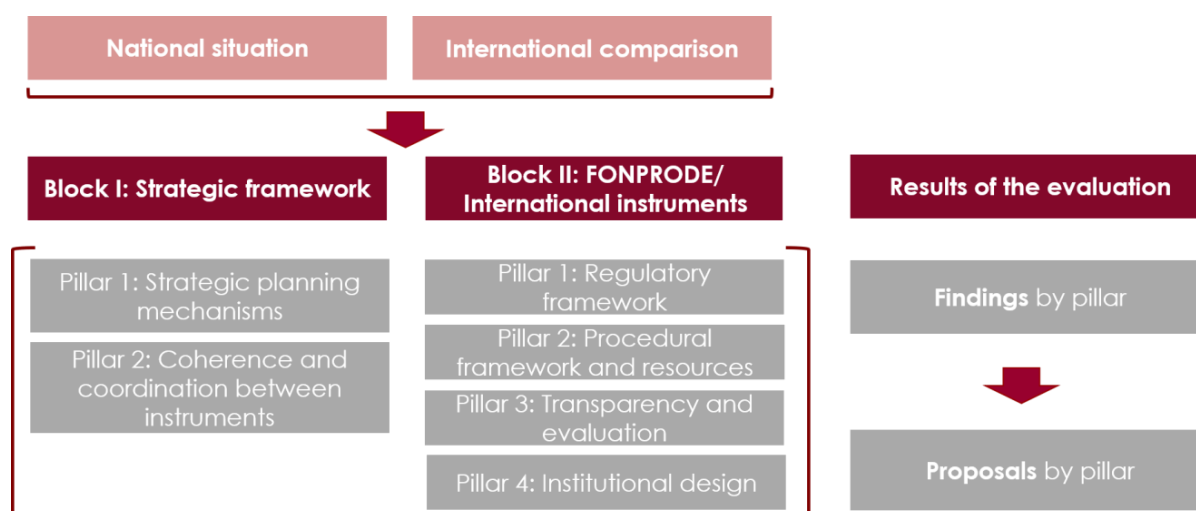
The analysis carried out has been organised around two blocks (see Table 2):

**Block 1: The strategic framework.** This first block analyses the general framework in which financial cooperation activity is carried out and its analysis is based around two pillars:

- a. Strategic planning mechanisms.
- b. Coherence and coordination between the different instruments.

**Block 2: FONPRODE.** This second block focuses on FONPRODE's activity and performs an in-depth analysis of its activity around four pillars:

- a. The regulatory framework and functional design associated with the management of FONPRODE.
- b. The procedural framework and resources.
- c. Transparency and evaluation of its actions.
- d. The institutional design of financial cooperation.

**TABLE 2. EVALUATION OUTLINE**

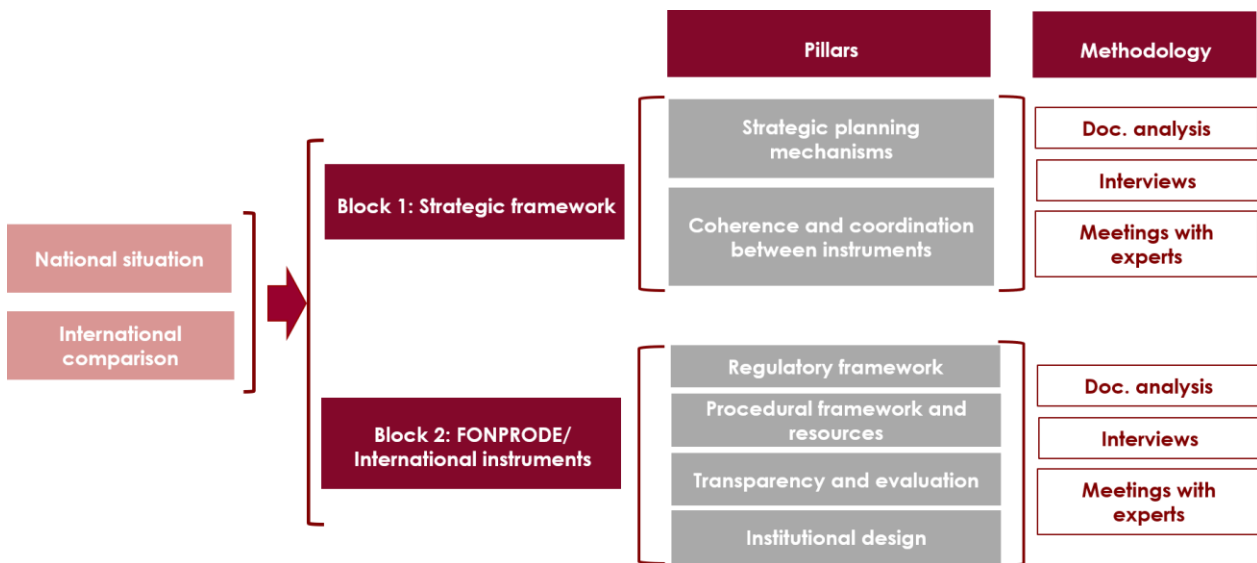
## 1.4. Methodology

The methodologies for performing the fieldwork have been fundamentally qualitative in nature, seeking at all times the best way to extract the information to comply with the required times to develop the study. Table 3 summarises the methodologies used in each pillar:

- **Documentary analysis** mainly referring to existing legislation, cooperation master plans, procedural manuals, project documentation, management reports, project evaluation reports, as well as audit and operational reports of the Court of Auditors. It should be noted that all the documentation stored by the FONPRODE Office has been accessed. Activity reports and documentation on evaluations in other countries have also been analysed.
- **Interviews** around the identified areas of interest with:
  - Managers of the FONPRODE Management Office.
  - Director of the Directorate of Multilateral, Horizontal and Financial Cooperation.
  - COFIDES staff.
  - ICO staff.
  - Staff of the Directorate-General for Trade and Investments of the State Secretariat of Trade.
  - Staff of the General Secretariat of the Treasury and International Financing.
  - Managers of equivalent instruments (France, Germany, the United Kingdom and Canada).
  - Staff of the Association of European Development Finance Institutions (EDFI).
  - Staff of the Directorate-General for International Cooperation and Development of the European Commission.

- Rapporteurs in the Sub-Committee, within the Committee on International Development Cooperation, for the study of the updating of the regulatory framework and the system of International Development Cooperation.
  - Managers of CEOE International.
  - Heads of the Coordinator of Non-Governmental Organisations for Development (NGOD).
- **Working meetings** with experts on financial cooperation.

**TABLE 3. METHODOLOGY**



### 1.5. Governance and participating agents

In order to carry out this study, AIReF has had the technical support of DT Global IDEV Europe S.L., which was awarded the public tender for the contracting of a technical assistance service for AIReF published in the Public Sector Procurement Platform on October 25<sup>th</sup>, 2021 and which was formalised on January 11<sup>th</sup>, 2022.

The evaluation team is grateful for the excellent cooperation provided by the FONPRODE Office, the ICO and COFIDES, as well as by all the people, entities and institutions that have participated in interviews or working meetings. At any event, the final content of the report is the sole responsibility of AIReF.

### 1.6. Budget and timetable

The total cost of this study has been determined in accordance with the provisions of the Resolution of December 18<sup>th</sup>, 2019, of the Independent Authority for Fiscal Responsibility, which updates the public prices for the preparation of studies (Official State Gazette – BOE – of December 23<sup>th</sup>, 2019) and has amounted to a total of €115,292.40 (amount not subject to

VAT, as provided for in Report AUIE/MAEC 81/19 of the State Attorney General's Office, dated March 18<sup>th</sup>, 2019). This work was performed between January and July 2022, although information gathering and some interviews began at the end of 2021.

## 1.7. Overview of the report

After this brief introduction on the pillars, objectives, methodology and administrative aspects of the evaluation, the content of the report is structured around the blocks mentioned in Section 1.2.

**Chapter II** analyses the strategic framework for financial cooperation in Spain (block 1).

**Chapter III** analyses the activity of FONPRODE (block 2).

**Chapter IV** analyses the results of the comparative study at an international level.

**Chapter V** contains the proposals and recommendations for an improvement of the current financial cooperation framework based on the analysis of blocks 1 and 2 and the international comparison, and on the experience and knowledge of the AIREF evaluation team.

# 2.

## THE SITUATION OF FINANCIAL COOPERATION IN SPAIN

### 2.1. Evaluation of the strategic framework for financial cooperation

#### 2.1.1. Strategic planning mechanisms

##### 2.1.1.1. Strategic planning of financial cooperation

**The four-year Master Plan for Spanish Cooperation is the core element of development cooperation planning, but there are no specific planning instruments for financial cooperation.** The Master Plan establishes the sectoral and geographical goals and priorities for Spanish cooperation, as well as the intervention criteria to be followed in the implementation of our development policy. This planning is complemented by annual plans, replaced since 2012 by annual communications, with the initial objective of streamlining planning, and by the geographical and sectoral strategic documents of Spanish cooperation, especially those established in the Country Partnership Frameworks (*Marcos de Asociación País*, MAPs), in the AECID action plans, in Spanish Cooperation's Humanitarian Action Strategy 2019-2026 and in the context humanitarian strategies.

**The Draft Law on Cooperation for Sustainable Development does not provide for a specific planning tool for financial cooperation.** This draft law, approved in May 2022 by the Council of Ministers, establishes that the strategic planning of development cooperation will be structured through the following instruments: the Master Plan for sustainable development cooperation policy; the Partnership Frameworks and Country Alliances for sustainable development; the Multilateral Strategic Partnership Frameworks; the thematic and regional strategies for sustainable development, and annual communications. It also establishes that the Ministry of Foreign Affairs will prepare, together with the Ministry of Economic Affairs and Digital Transformation and with the participation of other ministerial departments, a specific multilateral development policy strategy, within the framework of the Master Plan and the planning of multilateral action of the Ministry of Foreign Affairs.

**There is no planning document that recognises the entities and instruments whose activity should be considered as financial cooperation. This makes it difficult to set objectives and coordinate between institutions.** The Draft Law on Cooperation for Sustainable Development does not resolve this shortcoming either, and only sets out a series of guiding principles and objectives that should

guide financial cooperation actions. **The master plans lack the strategic vision required to give financial cooperation the boost it is intended to be given in the plans themselves.** The 2013-2016 Master Plan established the commitment to undertake as a priority the preparation of a strategic document on reimbursable financial cooperation as an essential element for achieving the full integration of financial cooperation into the priorities of Spanish cooperation policy. The approved document<sup>12</sup>, with no set date or term, does not constitute a strategic or planning document that meets the objective set in the aforementioned Master Plan. The document itself acknowledges that a “more far-reaching Reimbursable Cooperation Strategy will subsequently be needed once FONPRODE is more settled”. None of the elements associated with a strategic approach (diagnosis, identification of needs, definition of objectives, action plan, monitoring and updating mechanisms) are present in the Spanish cooperation master plans or in any other development cooperation policy planning document.

**In accordance with the provisions of FONPRODE’s regulation, funds must be allocated to countries and sectors defined as priorities by the Spanish Cooperation Master Plan, without taking into account the intrinsic characteristics of financial cooperation.** This approach, which aims to maintain a programmatic coherence throughout Spanish cooperation as a whole, in turn requires the definition of the Spanish Cooperation Master Plan to take into account the intrinsic features of financial cooperation, which has thus far not been the case. From a geographical point of view, the concentration contained in successive master plans has been based on the traditional forms of Spanish cooperation work. It does not properly take into account the new development offered by financial cooperation, such as the greater weight of the private sector and the profile of countries able to receive funding in this manner.

**To date, financial cooperation has not had its own specific objectives, in line with the general objectives of Spanish cooperation. Therefore, its actions cannot be fully evaluated.** There is currently no strategic planning document that establishes specific objectives for financial cooperation. The 2018-2021 Master Plan merely points to the need for FONPRODE to increase “its volume of operations and to be reformed so that it becomes one of the main instruments of Spanish cooperation, with an allocation criterion aimed at reducing poverty and improving the welfare of vulnerable population groups”. This lack of specificity is an obstacle to a rigorous evaluation of the actions performed.

**Setting strategic objectives would make it possible for financial cooperation instruments to meet these objectives, rather than the instruments themselves defining policies.** The German model of cooperation in which binding agreements are signed with partner countries implies a greater degree of definition and commitment of cooperation instruments. Official German development cooperation is based on agreements between the governments of the partner countries and the German Government. These agreements set out the volume of financial cooperation and the technical cooperation measures to be performed. Specific objectives for financial cooperation are set in Canada.

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<sup>12</sup> <https://www.aecid.es/Centro-Documentacion/Documentos/Marco%20de%20Actuacion%20Cooperacion%20Financiera%20Rembolsable%20version%20final.pdf>

**However, the new Country Partnership Frameworks (MAPs) developed in recent years have made progress by considering reimbursable financial cooperation as a basic pillar of collaboration.** The new MAPs developed for the period 2019-2022 contain, as a new feature, the inclusion of financial cooperation as an additional dimension to relations between countries. These new frameworks represent a step forward in the integration of financial cooperation into this planning document. The possibility of including other external action instruments in the MAPs would strengthen the unity of action and give substance to the commitment to the policy coherence approach contained in the draft law, which is discussed under the following heading.

**Financial cooperation in Spain still has to effectively integrate the private sector as a significant agent in meeting the goals of the 2030 Agenda and the indicators of the Addis Ababa Action Agenda (AAAA).** Despite the fact that the portfolio of operations with the private sector has grown over recent years, achievement of the goals of the 2030 Agenda and the AAAA indicators require greater involvement from the private sector, both due to its financial resources and its technical knowledge. In this regard, it is important to comply with the commitment of the 2018-2021 Master Plan, in which, following the recommendations of the 2016 DAC peer review, a commitment was made to develop a strategy and design appropriate instruments for the participation of the private sector in international development cooperation.



**BOX 2. Collaboration with the private sector**

**DEG Invest**, a subsidiary of KfW Group focused on financial cooperation with the private sector, has fully integrated the German business sector in its actions while ensuring that every project has a clear development impact. The services that DEG offers include specific cooperation programmes with European and German companies.

- **AfricaConnect:** This provides long-term financing to European companies. It is a risk-sharing instrument in which the beneficiary company contributes the capital to the project.
- **DeveloPPP:** This offers support to implement pilot projects related to the environment. It is directly financed by BMZ.
- **Business Support Services:** This offers services focused on designing cooperation projects. Noteworthy among the services provided are the “German Desks”. These are services provided to SMEs in the countries of destination, jointly by DEG and chambers of commerce, with the aim of facilitating their operations.
- **Feasibility studies:** These offer grants to European SMEs whose aim is to carry out projects in developing countries. This is a BMZ-funded programme.

**The Draft Law on Cooperation for Sustainable Development sets the same objectives and priorities for financial cooperation as for all Spanish cooperation (Article 13).** The setting of clear objectives in response to previously defined priorities will need to be further developed.

**2.1.1.2. Financial cooperation in strategic planning of external action**

**Financial cooperation has not managed to establish itself as a significant part of Spanish foreign action and plays a limited role both in Law 2/2014 on State Action and Foreign Service and in the 2021-2024 Foreign Action Strategy.** While the Law on Action and the State Foreign Service defines development cooperation as one of the new dimensions of external action, the role given by the Law and the Strategy to financial cooperation is very small and is focused on the participation of AECID and COFIDES in the European Union’s External Investment Plan, without including any mention of FONPRODE. The establishment of an integrated strategy of the different external action policies would lay the foundations for enhanced implementation of the different external action instruments.

**The Draft Law on Cooperation for Sustainable Development represents a step forward in the need to provide coherence to sustainable development policy.** The Draft Law refers to the need for the actions of other ministerial departments to be aligned with development cooperation policy. According to the Draft Law, this not only includes resources eligible as official development assistance, but also other forms of financing provided for Total Official Support for Sustainable Development. However, the draft law does not define the means for achieving this coherence, nor does it define the reporting obligations that will allow the progress made to be monitored.

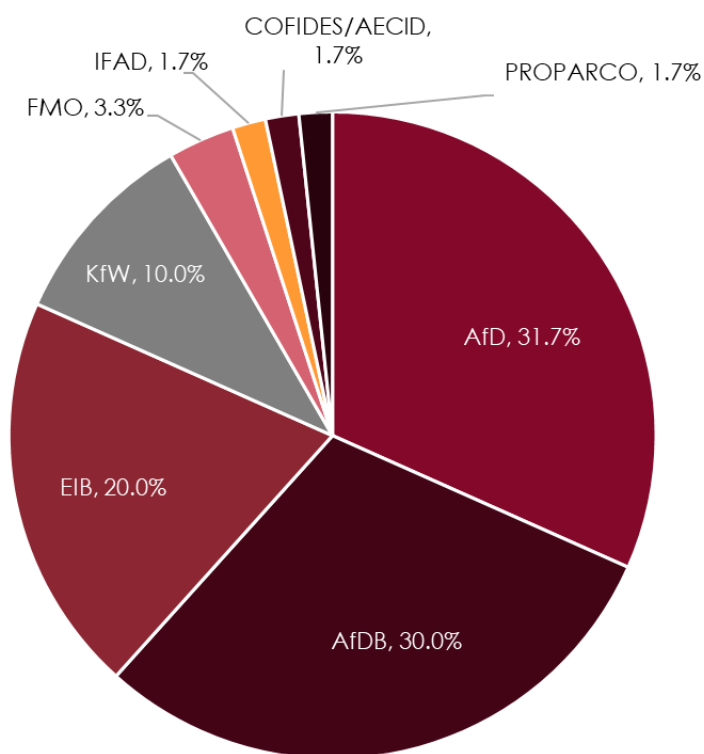
**Greater involvement of Parliament and other ministerial departments is desirable in order to enhance the focus on financial cooperation and external action.** The French case can be considered a good practice insofar as it gives the greatest political weight to its external activity and financial cooperation. The “objectives and means contract” that is established every three years between the State and the French Development Agency (AFD) offers the opportunity for chambers and other ministries to participate in the planning of the Agency’s actions. This also provides it with the necessary representativeness and support to carry out its actions.

### 2.1.1.3. Strategic planning in the context of the European Union

**The absence of a clear Spanish strategy of what European cooperation should look like hampers Spain's effective integration into the various European financial cooperation initiatives.** A comprehensive strategic approach to Spanish cooperation and a strategic analysis of European cooperation are needed in order for Spain to move from actions aimed at harnessing EU resources to an approach based on how Spain believes these resources should be used.

**The small number of projects financed (Figures 4, 5 and 6) shows the lack of adequate planning to address a major coordination challenge between different ministerial departments and between different actors within the Ministry of Foreign Affairs, European Union and Cooperation itself.** EU financial cooperation has been growing in importance and complexity over recent years with the use of guarantees and blending. The Neighbourhood, Development and International Cooperation Instrument, called Global Europe, has a budget of €79.46bn for the period 2021-2027 and in the new EFSD+, the External Action Guarantee will be able to guarantee up to €53.45bn. It is possible that if the 2013-2016 Master Plan commitment to conduct an evaluation of the experience of using these instruments had been implemented, many of the limitations that remain today could have been remedied. The existence of at least three identified agents (FIEM, COFIDES and FONPRODE) competing for co-financing of projects with EU external action resources requires coordination mechanisms that make the use of resources efficient.

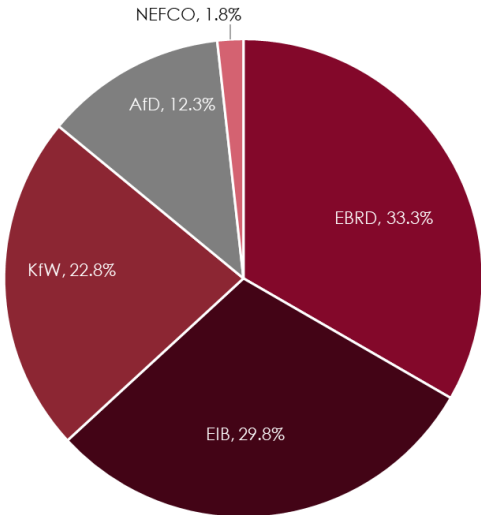
**FIGURE 4. PROJECTS FINANCED BY THE EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT – INVESTMENT PLATFORM IN AFRICA, ACCORDING TO FINANCIAL INSTITUTION**



Note: The part of the Spanish cooperation (COFIEDES/AECID) that appears in the figure corresponds to a single operation that has finally been cancelled (operation "RECIDE").

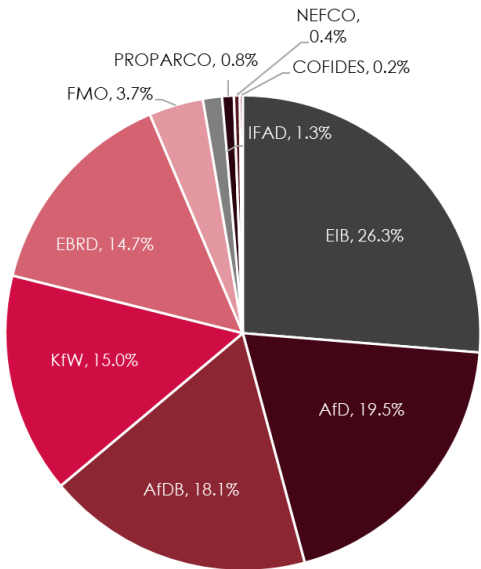
Source: Prepared by the authors based on data from the European Commission.

**FIGURE 5. PROJECTS FINANCED BY THE EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT – NEIGHBOURHOOD INVESTMENT PLATFORM, BY FINANCIAL INSTITUTION**



Source: Prepared by the authors based on data from the European Commission.

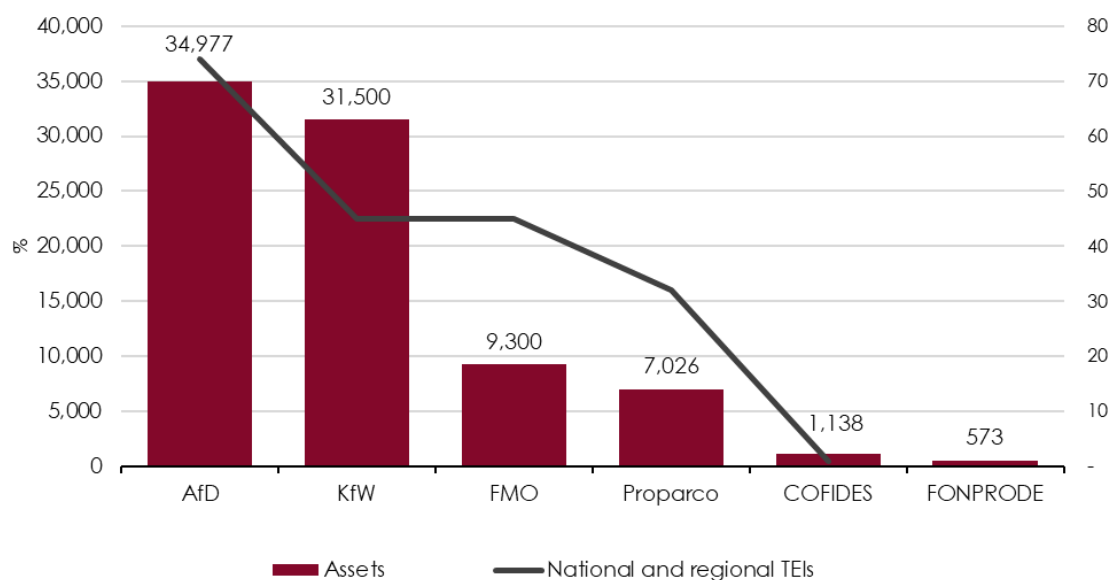
**FIGURE 6. BLENDING OPERATIONS ACCORDING TO FINANCIAL INSTITUTION**



Source: Prepared by the authors based on data from the European Commission.

**This planning is all the more necessary for Spanish participation in the initiatives of the new architecture of European cooperation, such as the Team Europe Initiatives (TEI), with a clear partnership approach.** This approach linked to these initiatives requires a collective effort at a national level in order to coordinate the different external action instruments on the ground, with EU delegations and in Brussels. TEIs are joint efforts coordinated by the EU, both in-country and in Brussels, involving EU Member State capitals, embassies, field offices and their implementing and financing institutions, as well as the European Investment Bank and the European Bank for Reconstruction and Development. These initiatives include non-reimbursable grants (“traditional” development assistance) and more innovative financial instruments managed by mainly European financial institutions (EIB, EBRD and Member States' development banks and institutions). The latter include budgetary guarantees linked to the European Sustainable Development Fund (ESDF) and the combination of a non-reimbursable contribution from the Union with reimbursable financing mobilised by financial institutions (blending). These initiatives aim to promote synergies from this diversity of actors and, at the same time, to give greater international relevance and weight to political dialogues. The aim is to improve the European collective image and visibility in partner countries and at a multilateral level.

**The data published by the European Commission do not identify FONPRODE as an agent participating in the TEIs.** The lack of legal personality means that FONPRODE cannot be identified as an agent participating in the TEIs. However, both peer financial institutions and COFIDES are identifiable and allow us to know the number of financial cooperation projects in which they have shown interest in participating. Overall, Spain has shown its willingness to participate in 56 national and 17 regional TEIs. This figure is higher than that of KfW or Proparco with currently managed portfolios several orders of magnitude higher.

**FIGURE 7. NO. OF EUROPEAN INITIATIVES VS. PORTFOLIO BY FINANCIAL INSTITUTION**

Source: Prepared by the authors based on data from the European Commission.

## 2.1.2. Coordination and coherence between the different instruments

### 2.1.2.1. Coordination:

**The different financial cooperation instruments do not have mechanisms for coordination between ministerial departments to ensure the coherence of their actions.** The financial cooperation instruments of the different ministerial departments are not coordinated. This situation is particularly important in terms of coordination with the Ministry of Economic Affairs and Digital Transformation, given its powers in the management of debt conversion programmes and coordination with multilateral development banks. Although the Ministry of Economic Affairs and Digital Transformation actively participates in the Country Partnership Frameworks and the MAPs reflect the priorities of the Debt Conversion Programmes (DCPs), no analysis has been detected, in the countries where both instruments operate, of the most suitable instrument to finance the different actions. The lack of coordination between the different ministries involved is reflected in the DAC's peer report of December 2021, which states that "what is discussed on multilateral boards is not necessarily relayed to the Ministry of Foreign Affairs, European Union and Cooperation; nor does it trickle down to embassies". Spain's representation on multilateral institutions is held by the Ministry of Economic Affairs and Digital Transformation.

**Coordination mechanisms between financial cooperation and technical cooperation need to be strengthened.** The institutional set-up of financial cooperation and technical cooperation (AECID +FIIAPP) has not been able to provide an efficient mechanism for coordinating their activities. The presence of different AECID departments on FONPRODE's Executive Committee and the presence of the AECID Director on the FIIAPP Standing Committee are the only coordination mechanisms. This coordination is of greater importance in a context in which financial cooperation has not had non-reimbursable instruments.

The combination of technical cooperation and financial cooperation, as demonstrated by the experience associated with participation in the instrument to support the EU's Latin America Investment Facility (LAIF) for sustainable cities, is a key element for the structuring of projects that seek to maximise the impact of the actions.

**The German model of coordination between financial and technical cooperation is an example that combines flexibility and clarity in defining the actions of both types of instruments.** Bilateral financial and technical cooperation in Germany is implemented through mandatory guidelines developed jointly by the ministries responsible (Federal Ministry of Economic Cooperation and Development, Federal Ministry of Foreign Affairs, Federal Ministry of Finance, Federal Ministry of Economic Affairs and Energy), which set the objectives, instruments and procedures in a clear yet flexible manner.

**There is no specific group engaged in financial cooperation within the framework of the Spanish cooperation working groups.** The Development Cooperation Council, the Inter-ministerial Commission for International Cooperation and the Inter-territorial Commission for Development Cooperation are the coordination mechanisms provided for in current legislation, but there are none that specifically address the area of financial cooperation.

**The Draft Law on Cooperation for Sustainable Development does not substantially modify the current configuration.** It establishes the Higher Council for Cooperation for Sustainable Development and Global Solidarity, the Inter-ministerial Commission for Cooperation for Sustainable Development and Global Solidarity and the Sectoral Conference for Cooperation for Sustainable Development and Global Solidarity as coordination and consultation bodies.

**The experts consulted have highlighted the lack of capacity of the Inter-ministerial Commission for International Cooperation to coordinate and provide coherence to the different financial cooperation instruments.** Royal Decree 1412/2005, of November 25<sup>th</sup>, regulating the Inter-ministerial Commission for International Cooperation, establishes the inter-departmental technical coordination of the Central State Administration in the field of development cooperation among its functions.

However, according to the experts consulted, this Commission has not been effective in coordinating the financial cooperation actions of the various ministerial departments.

**In addition, the existence of different strategic documents associated with Spain's relations with Africa highlights the lack of unity of external action in the field of external financing.** In Focus Africa 2023, the Ministry of Foreign Affairs develops the action programme of the 3rd Africa Plan, which defines the main priorities and instruments for external action, while the State Secretary for Trade has developed the Horizon Africa Strategy Guidelines, in which it sets out, in a differentiated manner, the priorities in its relationship with the African continent. While this variety of strategic documents may have a justification in terms of the different responsibilities, it may be a source of confusion and an obstacle for structuring a true unity of external action, without prejudice to the fact that different objectives may be addressed under a common approach of policy coherence for sustainable development.

**In this regard, the Development Assistance Committee (DAC) defends the whole-of-government approach** in relations with fragile States. This approach has been extended by other countries to their relations with low-income countries with the aim of holistically addressing the major challenges faced by low-income countries. In addition, the actions carried out at an international level both by other Member States and by the EU show that acting in a fragmented manner will make it increasingly difficult to retain a certain level of importance on the international stage.

**This lack of coordination can also be seen between central units and field offices.** In the field, Spain has in its external network the Technical Cooperation Offices (TCOs), under AECID, and the Economic and Trade Offices attached to the Ministry of Industry, Trade and Tourism. The existence of various agents in the central units (COFIDES, ICO, FONPRODE Office, Debt Conversion Programmes) and the different organisational hierarchy of the field offices has been identified as an impediment to coordination in terms of financial cooperation.

**However, the presence in the field of TCOs and Economic and Trade Offices offers a competitive edge over other donors, which can be used to lead the identification and structuring of operations.** When the need arises to promote improved coordination and to establish initiatives using the Team Europe (TEI) approach and, in particular, to strengthen coordination at a country and region level, the Commission's interest in giving more attention to the considerations coming from the field opens up a significant opportunity for Spain to leverage the advantage it has on the ground with the network of TCOs and Economic and Trade Offices and generate leadership in the structuring of operations.

**The signing of a cooperation agreement between AECID, AFD, CDP and KfW is a clear step forward in strengthening institutional relations with peer institutions.** On November 20<sup>th</sup>, 2021, AECID, AFD, CDP and KfW signed an agreement to create a European Strategic Cooperation Framework with the aim of moving forward in the creation of an innovative financial platform to allow a more efficient use of resources. The agreement lays the foundations for enhanced cooperation between the signatory institutions with the aim of co-financing projects with common interests. Although it is a very attractive element for raising



FONPRODE's implementation capacity, it should not prevent a more strategic formulation of Spanish financial cooperation.

### 2.1.2.2. Coherence

#### **The EU's experience offers interesting pointers for working on policy coherence.**

The European Commission has acknowledged that fragmentation in the investment of funds abroad did not always allow for the actions to be coherent with the EU's external action and other policies. Difficulties in coordination and consultation between institutions and Member States undermine the EU's ability to achieve its external action objectives in third countries. The TEI proposal has been exported to other countries such as Sweden (to support the export sector) and could be a partnership scheme that contributes towards making the actions more coherent.

**There is a lack of coherence in the regulations associated with the different instruments for external action.** This lack of coherence translates into the existence of different regulatory rules associated with the regulation of issues that should be cross-cutting:

- **There is a lack of coherence in the regulation of tax havens.** While the Spanish Development Cooperation's Code of Responsible Financing prohibits operating in jurisdictions listed as tax havens, the other instruments analysed do not establish a similar regulation. In general, they apply a risk-based approach, as recommended by the Financial Action Task Force (FATF). From a coherence point of view, it would be desirable for all the instruments to apply the same rules in this matter. It should be noted that this lack of coherence extends to the practice applied by the EU Investment Bank.
- **There is no uniform approach to performance evaluation.** The different financial cooperation instruments do not have a standardised approach to evaluating performance and such evaluations are not always carried out. In this regard, the Debt Conversion Programmes have modified the evaluations carried out on the programmes and have reduced the weight of the analysis on the development impact. The evaluation exercises carried out by the DCPs mainly focus on meeting milestones and on the results of the programme, without considering the development impact as would be desirable in an instrument that aims to achieve economic and social development and poverty reduction. There is no evidence that the regulations establish the obligation to evaluate contributions to international finance institutions.
- **There is a lack of coherence around the role of COFIDES in financial cooperation.** The configuration of COFIDES as a development finance institution is a rarity on the international stage, with an assignment of responsibilities in financial cooperation that does not take advantage of its skills and international accreditations. COFIDES is a member of EDFI - the Association of European Development Finance Institutions - that manages the smallest amount of financial cooperation resources. Its accreditation for delegated cooperation and in the Green Climate Fund (GCF), together with its knowledge of the private sector, makes it an institution with valuable capabilities that are untapped. Only the 2019 report on Spain's Total Support to Global Sustainable Development ODA and other official flows (TOSSD) of the Directorate-General for Sustainable Development Policies refers to COFIDES as a Spanish cooperation agent, but successive master plans have not assigned any role to COFIDES in matters of financial cooperation, beyond its FONPRODE advisory work.

**FONPRODE's regulations are the most restrictive of the external action instruments. From the comparison made with other external action instruments (FIEM, FIEX, ICO, PCD), FONPRODE's regulations are the most restrictive.** According to the experts consulted, this reflects the distrust of other ministerial departments. This distrust is reflected in:

- **FONPRODE is the only external action instrument in which all operations, irrespective of their amount, have to be approved by the Council of Ministers.** Other instruments with similar characteristics have either been given greater autonomy and approval of operations, as in the case of the DCPs, FIEX and ICO, or the types of operations that need to be approved by the Council of Ministers have been defined.

**TABLE 4. COMPARISON OF RESPONSIBILITIES IN THE APPROVAL OF PROJECTS**

INSTRUMENT/ENTITY	PROJECT APPROVAL RESPONSIBILITY
FONPRODE	Council of Ministers: Regardless of the amount, the CDGAE must report on transactions in heavily indebted poor countries (HIPCs).
FIEM	Council of Ministers: Concessional credit lines and operations of special importance State Secretariat of Trade: Commercial credit lines and technical assistance Directorate-General for Trade and Investment: Allocation of credit lines previously approved by the Council of Ministers.
DCP	Binational Committee comprised on the Spanish side by the Sub-directorate General for External Debt Management and International Financing (Ministry of Economic Affairs and Digital Transformation) and the Economic and Trade Advisor responsible for the country
ICO	Board of Directors

- **FONPRODE's regulations are the only ones that explicitly establish that the Law on the General State Budget will annually set the volume of operations that might have an impact on the deficit.** Although other external action instruments, such as the FIEM, have a similar operation, the law on FONPRODE is the only one that establishes the obligation for the General State Budget to set the maximum volume of operations each year with an impact on the deficit. However, as discussed elsewhere in this report, this deficit impact assessment is not carried out in full.
- **The bureaucratic burden of FONPRODE is higher than that of other external action instruments.** FONPRODE's legislation requires the greatest documentary burden from among the different external action instruments analysed<sup>13</sup>.

**From the point of view of practical application, the restriction on operations in Heavily Indebted Poor Countries (HIPC) has been more severe in the case of FONPRODE than in the case of other external action instruments.** Article 2 of the Law on FONPRODE establishes, in a similar manner as in other external action instruments, that

financing to HIPC countries will be exceptional and subject to analysis by the CDGAE. Strict application of this rule has meant that at the end of 2020 FONPRODE had no exposure to any of these countries. However, this contrasts with other external action instruments, which have an exposure to these countries of €175.46m in the case of CESCE<sup>14</sup> and €60.87m in the case of FIEM<sup>15</sup>. Despite these figures, it is worth highlighting the greater proportion of HIPC priority countries in the field of cooperation than in the field of internationalisation.

**The Autonomous Regions do not use reimbursable financing instruments and there are no channels for them to participate in the instruments managed by the CSA.**

The cooperation agencies of the Autonomous Regions have not yet developed instruments for reimbursable financial cooperation. Only in the case of Catalonia was a regulatory amendment approved in April 2021 that enables the Catalan Agency for Development Cooperation (ACCD) to use financial cooperation instruments, such as loans and guarantees. However, there is no record that it has used them yet. Furthermore, there are no enabled channels for regional cooperation agencies to participate in the instruments of the Central State Administration. The characteristics of reimbursable financing, due to its complexity and the existence of economies of scale, means that a single platform allowing the participation of all the agents involved should be developed.

**The obligation to calculate official development assistance is not consistent with the constraint that reimbursable financing should not have an impact on the deficit.**

Official Development Assistance involves the transfer of economic resources to recipient countries and it is therefore logical that it may, although not always, have an impact on the deficit. While from a national accounting point of view, the IGAE determines that those loans that are granted at a rate not lower than that of Spanish debt do not generate a deficit, financially, the fact that the financing involves significant grace periods implies a transfer of resources, which would be equivalent to a grant. In this regard, the fact that instruments such as the FIEM are not subject to this constraint reflects the lack of coherence in the application of this rule.

<sup>13</sup> See section 3.2.

<sup>14</sup> Annual report of the Reserve Fund for the Risks of the Internationalisation of the Spanish Economy for 2020.

<sup>15</sup> 2020 Annual Report of the Corporate Internationalisation Fund (FIEM).

## 2.2. The Development Promotion Fund: FONPRODE

### 2.2.1. Regulatory framework

#### 2.2.1.1. Nature of the instrument

**FONPRODE, like other external action instruments such as FIEM, FIEEX and FONPYME, belongs to a type of funds known as 'funds without legal personality' (FCPJ).** When assessing the potential scope of FONPRODE to perform its functions, the substantive legal nature without legal personality is often overlooked when its implications are crucial. This nature basically makes it an asset pool, which is important for understanding the limitations and the real potential for action. These funds without legal personality should be considered as asset pools for specific purposes<sup>16</sup> and with economic and financial regulations that are defined in the law creating them.

**FONPRODE's lack of legal personality is a rarity on the international stage, where State-owned commercial companies predominate in their different configurations according to the respective legislative frameworks.** Although this is a structure that has been used on various occasions, the lack of legal personality makes contractual relations more complex and makes it necessary to regulate the Fund's activity in a detailed manner. The mixing of public and private law in the management of FONPRODE is also an ongoing source of problems and regulatory doubts. In this regard, European peers have largely opted for private law management solutions. This limitation is particularly important in relation to the fact that funds without legal capacity are required to be subject to the General State Budget, as indicated in the preamble of General Budgetary Law 47/2003, of November 26<sup>th</sup>. This nature also generates confusion on the international stage, especially in the private sector that is not used to working with this type of structure.

#### 2.2.1.2. Evolution of the legal framework

**The regulatory framework applicable to FONPRODE** is provided by Law 36/2010, implemented by Royal Decree 597/2015, which repealed the original regulation set out in Royal Decree 845/2010. This law was subsequently amended by Law 22/2013 and Law 8/2014. In addition, the regulation was amended by Royal Decree 705/2020.

**The analysis of the legislation and the experts consulted indicate that it is excessively regulatory, which greatly restricts the instrument's adaptation to a dynamic environment such as that of international financial cooperation.** The current law defines in excessive detail the operations and instruments available, which, while providing robust regulatory support, prevents FONPRODE from being able to adapt to the complex and dynamic environment of financial cooperation and in particular to operations with the private sector.

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<sup>16</sup> Robledo, Susana Casado (2014). "El régimen jurídico de los fondos carentes de personalidad jurídica cuya dotación se efectúa mayoritariamente desde los Presupuestos Generales del Estado", Revista Española de Control Externo, vol. 16, No. 47, pp. 83-108.

**The amendments introduced in 2013 led to a better organisation of the legal text and introduced some minor changes.** With the reform of Law 22/2013, the regime of parliamentary control was modified (Article 12), obliging the Government Budget Office to send the annual report to Parliament and making the details of the information of the operations available to deputies and senators.

**The reforms introduced in 2014 resulted in a more restrictive legal framework: the type of operations allowed was limited, sectoral and geographical instructions were introduced in the lines of action and the support of own resources was restricted, with this task allocated to COFIDES.** The amendments to the Law, while defining more precisely the type of contributions allowed, abandoning the term contributions and inputs and specifying in which case reimbursable contributions (whether debt or equity) were allowed or not, limited the type of operations permitted.

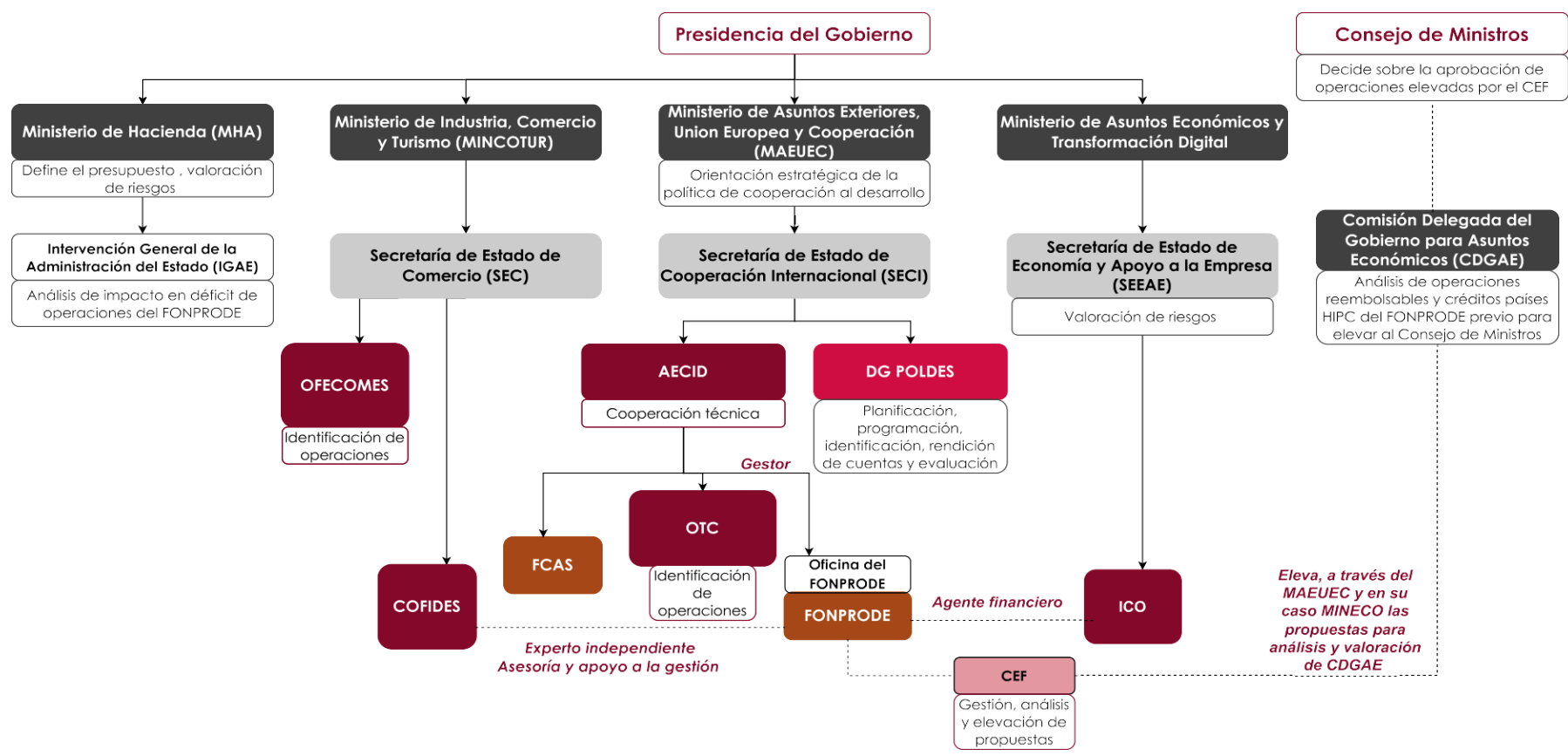
**With regard to the regulation, the new aspects introduced in RD 597/2015 relate to the definition of COFIDES' participation as an independent expert and the creation of the FONPRODE Office.** The article referring to the management assignments for the CSA's own resources was eliminated, while a specific article to detail the functions of COFIDES as an independent expert was added (Article 8). A substantial issue is the creation of the FONPRODE Office in AECID. In the 2010 regulation, it was framed as a Directorate, under the strategic management of the Presidency, but without legal anchorage. This anchorage came with RD 597/2015, in which the Office is part of the structure of AECID as regulated in the AECID Statute (Article 17.5). In addition, the content of some articles was added together to reduce the number of articles.

**The reform of RD 705/2020 is minor in substance and mainly makes changes in form in relation to the application of a gender approach and the updating of the names of some of the units in the organisational framework and ministerial entities.** The changes introduced update the composition of the Executive Committee in order to reflect more precisely, after various changes in names and structure, the representatives of the different ministerial units.

### 2.2.1.3. Structure and decision levels

**FONPRODE is attached to the Ministry of Foreign Affairs, European Union and Cooperation through the State Secretariat of International Cooperation and AECID, to which the FONPRODE Office and the FONPRODE Executive Committee are attached.** The law and regulation establish that management of the fund will be supported by the ICO as financial agent and COFIDES as support agent and also as an independent expert (Articles 4 and 14 of the law and Article 5 of the regulation). They also establish the composition of the Executive Committee and its functions, as well as the involvement of other Government agents with the capacity for assessment and/or control or authorisation, specifying the roles and functions according to the type of operation. Roles and functions are thus established for the Ministry of Finance, the Ministry of Economic Affairs and Digital Transformation, the Ministry of Industry, Trade in Tourism, the IGAE, the CDGAE and the Council of Ministers, which is ultimately responsible for the authorisation of operations.

**TABLE 5. ORGANISATIONAL CHART FOR FINANCIAL DEVELOPMENT COOPERATION (Only available in Spanish)**



Source: AIReF.

**The composition of the Executive Committee does not include technical experts, in contrast to customary international practice, and is made up of 19 members from other ministries.** The Executive Committee is comprised of the State Secretary for International Cooperation as Chair, the Director of AECID and the Director-General for Sustainable Development Policies as Vice-presidents, and the head of the FONPRODE Office as Secretary. It has up to 19 members, including three AECID directors, including the head of the Multilateral, Horizontal and Financial Cooperation Directorate of AECID; four different directors from the Ministry of Foreign Affairs, European Union and Cooperation, eight members from other ministries (Finance, Industry and Trade, Agriculture, Education, Ecological Transition, Economy, Health and Science and Innovation), one member from the Cabinet of the Presidency of the Government, and one member from the ICO. A representative of COFIDES also attends with speaking but not voting rights. In practice, the participation of ministerial representatives is limited to certain units (Foreign Affairs, FONPRODE, Directorate-General for Sustainable Development Policies, AECID, the ICO, the Treasury), while the others maintain a low profile. Representation from other ministerial departments is usually delegated at lower levels than that of sub-director. The composition does not include independent experts, as is the case with most DFIs and development banks, or members of the third sector, as is the case with some institutions. The nature of the instrument, as a fund without legal personality, makes it difficult for independent experts to be present.

**The regulation concentrates the decision-making power in the Council of Ministers which is inefficient for the management of the instrument.** All operations must ultimately be authorised by the Council of Ministers regardless of their nature and risk. Legislation also establishes that all renegotiations and cancellations of FONPRODE assets will be submitted for approval by the ministerial department responsible for external debt to the Council of Ministers regardless of whether a breach occurs, of the amount or of its public or private nature.

This unique feature, in addition to being inefficient for the management of the instrument, results in a considerable increase in the time necessary to approve operations.

**BOX 3. Composition – Decision-making bodies****The Board of Directors of AFD is made up of 17 members:**

- 5 representatives of the State: Two representatives of the Ministry of Economic Affairs, two representatives of the Ministry of Foreign Affairs and one representative of the overseas departments
- 4 members appointed for their knowledge of economic and financial matters. One of the designated members represents the so-called third sector.
- 1 member appointed for their knowledge of ecology and sustainable development
- 1 member designated for their knowledge of migration issues
- 5 members of Congress
- 2 members elected by the AFD's staff
- 1 Government Commissioner. Its equivalent would be a representative of the Office of the President

**2.2.1.4. Source of resources and effective allocation**

**FONPRODE does not have the capacity to borrow, which limits its capacity for growth and its risk management.** The lack of legal personality makes FONPRODE dependent on a budgetary allocation, which is usually limited and subject to the budgetary cycle. This restricts its ability to raise funds in the market, in addition to its ability to structure operations with the private sector and to benefit from double taxation clauses.

**The mechanism for allocating financial resources to FONPRODE through the General State Budget prevents multi-year planning of actions and restricts its operations.** According to the legislation, the General State Budget for each year must include a budget allocation and set a maximum number of actions to be authorised. This mechanism for allocating resources prevents the multi-year planning that is appropriate in financial cooperation instruments.

**The budget allocation and the authorisation limit are stable, and the possibility of approving non-reimbursable financing has recently been recovered.** The situation under the current General State Budget (22GSB) is that FONPRODE has an annual allocation of €199m, and has a limit of reimbursable authorisations by the Council of Ministers (CM) of €375m, including €10m of non-reimbursable technical assistance.

Since its outset, €3.38bn has been allocated to FONPRODE, which completes the contributions from the FAD and FCM since their liquidation in December 2010, which adds up to total assets of €5.69bn in 2020, as can be seen in the following table.



**TABLE 6. CUMULATIVE ALLOCATIONS TO FONPRODE**

Total in euros 2011-2022	
3,376,760,000	Cumulative allocation from the annual budget
5,125,230,000	CM Cumulative authorisation limit
452,000,000	Limit of resource authorisations with an impact on the deficit, technical assistance. Non-reimbursable resources fall within the limits of reimbursable resources

Source: Prepared according to the General State Budget

Between 2013 and 2020, non-reimbursable authorisations (technical assistance and grants) were prohibited. FONPRODE was only able to authorise reimbursable operations, as well as those operations necessary to meet expenses resulting from management of the fund or other expenses associated with the operations formalised by the fund. With the exception of 2011, which is not specified, in every other year the capacity to only authorise management and operational expenditure and ICO expenditure under FONPRODE is thus expressed. In 2021, the possibility of authorising non-reimbursable operations was recovered with a limit of €7m<sup>17</sup>. The 2021 budget explicitly established that such non-reimbursable financing was limited to operations indicated in Articles 2.1.(a), (b), (c) and (d) of the law, while at present the General State Budget does not set a specific destination.

#### 2.2.1.5. Instruments

**While the range of operations permitted is comparable to that offered by its peers, it is too narrowly defined and, in many cases, subject to the verification of exceptional circumstances, which are not restricted. This prevents adaptation to the changing and complex environments of financial cooperation.** The definition that the legislation makes of the permitted financial instruments is subject to excessive detail and sometimes exceptional circumstances. This makes management of the instrument more complex and uncertain.

**Despite the above limitations, successful cases of innovative operations have been identified that reflect the interest of managers in making the best use of the available instruments.** Successive regulatory changes have increasingly placed limits on these initiatives.

<sup>17</sup> Far from the €135m and €300m allowed in 2012 and 2011, respectively.

## **Analysis of the instruments with which FONPRODE can operate**

**FONPRODE's legislation does not list the instruments that can be used, but rather specifies the type of operations that can be performed, identifying beneficiaries and determining the applicable technical and financial conditions.** Both Article 2 of the Law and Article 3 of the Regulation list the type of operations that can be financed from FONPRODE. Although it is used in other external action instruments such as FIEM or FIEX, this legislative technique is confusing and generates rigidity in the management of the instrument. The technique used to regulate the State's coverage of the risks of the internationalisation of the Spanish economy is more flexible. Its legislation offers a general framework for action through two instruments, credit insurance and guarantees, without defining their use in such a regulated manner. Development finance institutions or development banks offer even more flexible frameworks for action and are often not legally bound as to the instruments they can use.

**Legislation does not establish a special authorisation for FONPRODE to grant loans at a lower rate than the debt issued by the State.** The Second Additional Provision of the General Budget of each year establishes the impossibility of granting loans at an interest rate lower than the debt issued by the State in instruments with similar maturity. Although other instruments, such as FIEM<sup>18</sup>, have provisions in their legislation that enable them to grant loans at a lower rate than that of debt, the concessional conditions of the OECD Consensus and the FONPRODE legislation does not explicitly consider this possibility.

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<sup>18</sup> Interest rates and other financial conditions applicable to FIEM financing instruments will be determined in accordance with the Arrangement on Officially Supported Export Credits of the OECD or OECD Consensus.

**BOX 4. FONPRODE-FIEM comparison: available instruments and conditions**

In terms of financing instruments or modalities (as named in the FIEM regulation), the range of options in FONPRODE is broader than in FIEM. However, the legislation limits the activity of FONPRODE when defining the type of operation.

The legislation allows FONPRODE to make grants and perform debt and equity operations. For FIEM (Article 14 of its regulation), operations can be financed through debt and non-reimbursable financing (grants). Equity operations are not permitted. Debt includes loans, credit or lines of credit. By law, it is allowed to finance technical assistance, consultancies and projects and operations through grants "in special circumstances".

Unlike FIEM, FONPRODE can be used to finance grants to States; granting credit to countries with a specific external debt management regime: granting credit to countries with a higher risk profile; and the acquisition of equity or quasi-equity stakes in both public and private entities. None of these operations is provided for in FIEM's regulations.

With regard to financial conditions, FIEM can carry out both commercial and concessional operations. The FONPRODE legislation is more restrictive since it establishes that all operations must be counted as official development assistance.

For FIEM, it is not specified for each operation what type of financing will be available, whether debt or grant. In the wording of the legislation, it is understood that the important nuance is that the financial support is primarily directed to contracts, operations, projects, consultancies, studies, and not to subjects or beneficiaries ("they shall be eligible to obtain financial support"). The only clear reference to subjects is for international bodies.

**FONPRODE has no capacity to issue guarantees and has historically sought alternatives, pioneering structures with special-purpose companies.** The law and its regulations do not consider guarantees as an instrument, but technically the impediment for FONPRODE to issue guarantees is its status as a fund without legal personality, since as it is an asset pool, it does not have adequate instrumentation to issue guarantees. A feasible option is the provision of 100% of the guarantee to be issued. However, this would undermine its leverage goals, since the instrument would be *ad-hoc* for each operation. Furthermore, the issuing of guarantees requires technical knowledge that does not exist for AECID or for the FONPRODE Office. This is due to the fact that it is an instrument that requires a specific methodology and specific techniques in defining its terms and conditions (calculation of the price of the premiums, duration of the guarantee, type of risk covered, proportion and amount). Given the need and interest in promoting guarantees as a catalytic instrument for financial cooperation for development, FONPRODE has sought out alternatives that it has been implementing, but not without difficulties:

**TABLE 7. FONPRODE PROJECTS TO DEVELOP GUARANTEE SCHEMES**

Projects	Type of investment and proposed solution	Difficulties and limitations found
African Guarantee Fund (AGF)	<p>The African Guarantee Fund (AGF) was established in 2011 as a private non-bank financial institution with limited liability, with the specific aim of boosting access to finance for SMEs. Created by AECID, DANIDA (Danish cooperation) and ADB (African Development Bank). It provides financial guarantees to Partner Lending Institutions (PLIs) to enable them to expand their SME lending portfolio in Africa.</p> <p>FONPRODE participates as an investor shareholder. It is the management company that has the capacity to issue the guarantees through the invested vehicle.</p>	<p>The IGAE does not consider it as a financial asset, but as a capital transfer, equivalent to a non-reimbursable contribution. For this reason, equity investments are not included in the FONPRODE balance sheet. These operations were carried out in the first phase of FONPRODE, and due to IGAE policies they have not been replicated.</p> <p>There is a commitment to divest AGF given that it is a fund domiciled in Mauritius, a country considered a tax haven.</p>
RECIDE	<p>Initiative presented in partnership with the World Bank to the EU External Investment Programme (EIP), which seeks to promote private investment projects using the EFSD Guarantee.</p> <p>The programme provides for the co-financing of loans to States by FONPRODE and the World Bank in Africa for infrastructure in cities. The underlying projects will benefit from the guarantees granted by the European Commission of up to €100m and technical assistance of €16.68m.</p> <p>FONPRODE participates as financier and the ICO is the entity that agrees on the issuance of guarantees with the European Commission.</p>	<p>The 2020 ICO report noted the formalisation of the agreement. However, the operation was finally cancelled in 2022.</p> <p>This cancellation highlights the difficulties that exist for structures such as this type of scheme in the current regulatory framework.</p>
INCLUSIFI	<p>Initiative presented to the EU EIP in partnership with the Italian Cassa Depositi e Prestiti (CDP). The initiative seeks to invest in local financial institutions in Africa. The projects will benefit from guarantees of up to €60m and technical assistance of €11m.</p> <p>Different guarantee schemes are proposed that cover the portfolio of the funded institution or to attract investment from a third party.</p>	<p>As of June 30<sup>th</sup>, 2022, the initiative has not yet entered into force.</p>

Source: AIReF.

**Enabling FONPRODE to use guarantees requires the support of an appropriate management and knowledge system.** Guarantees can be considered a relatively sophisticated instrument, especially for small financial institutions. The issuance of guarantees requires prior analysis linked, *inter alia*, to active portfolio risk management, risk rating and setting the financial terms and conditions of the operations. The key issue for using guarantees is having the ability to absorb risks. Financial institutions that have a balance sheet can structure their portfolio to actively manage risk. This ability to absorb risk is also influenced by the size of the entity in that small institutions, with a small balance sheet, have a limited ability to absorb risks and place guarantees. FONPRODE has no balance sheet, and works with budget items, and therefore risk is computed on an operation-by-operation basis, as if there were no portfolio.

**Regulatory constraints virtually prevent investment in structured funds.** The usual approach has been to participate and take up a junior position, as the EU usually does, with a view to mobilising private investors in senior tranches or in intermediate tranches as DFIs usually do. However, none of these tranches is possible for FONPRODE. In the senior part, it cannot participate since this tranche is not eligible as official development assistance, nor can it participate in the first loss tranche as it has an impact on the deficit.

**The structuring of projects through debt vehicles is what has allowed FONPRODE to be catalytic, and in some cases pioneering.** Indirect financing instruments, such as the acquisition of debt securities in special purpose vehicles (SPVs), are FONPRODE's main current blending tool. The acquisition of debt securities in SPVs is a modality that makes it possible to scale up the impact and leverage resources from private investors and mobilise blended resources to the financial sector. These structured investment funds have risk tranches that make it easier to blend resources with different concessionality criteria. Moreover, the vehicles make it possible to finance in local currency without transferring the exchange risk to the underlying entities and to support industry with other financial instruments beyond financing (guarantees and equity). The Huruma project<sup>19</sup> is a success story in the structuring of this type of operation. At the same time, it is a reflection of the complexity and difficulty in carrying out this type of structuring.

### **Blending**

**The biggest challenge of FONPRODE to position itself as a catalytic and blending funder is related to the lack of technical knowledge and more flexible resources.** AECID reflects the importance of positioning in blended finance in the 5th Master Plan, explicitly pointing out the challenge of advancing financial cooperation under blending formulas for support to the private sector and development of SDGs. The experience gained in the projects co-financed with the EU's Latin America Investment Facility (LAIF) should serve as a basis for increasing the leverage capacity of FONPRODE.

**FONPRODE has been a pioneer in financial innovation in blending. However, the high turnover and changes introduced in the 2015 reform have made it increasingly difficult for it to be approved.** The blending mechanism is based on combining loans and grants in the same operation. Since 2007, the EU has implemented several facilities that combine grants from the EU and the Member States with loans from European financial institutions, both multilateral and bilateral. The potential of the instrument is that it allows a

significant volume of resources to be leveraged to make investments in contexts and sectors in which there is very tight financial viability. It is worth mentioning that, of the 17 investment or lending operations to financial intermediation vehicles or facilities approved up to the end of 2020, ten were carried out between 2009 and 2011, i.e. at the genesis of the fund during the transition period of the liquidation of the FAD and the first version of FONPRODE. These ten operations include funds managed by the Inter-American Development Bank (IDB), EIB and IFAD, as well as operations with REGMIFA<sup>20</sup> and AGF, the latter off-balance sheet. With the launch of the fund, five more were approved between 2012 and 2014, all with private managers. After the 2015 reform, it has only been possible to structure and approve the operations with Huruma and Pomona, with long negotiation processes to meet all the requirements of the FONPRODE reform. Furthermore, in the case of Huruma, the structure of purchasing debt securities in SPVs was an innovation in order to implement the blended approach and at the same time comply with FONPRODE legislation. At the geographical level, only three of these operations have a bilateral approach, all the others are targeted at several countries or regional strategies.

#### 2.2.1.6. ODA eligibility restriction

**All operations financed by FONPRODE must be eligible as official development assistance.** Although this was the intention since its creation, this condition was not initially reflected in the Law, but rather in the regulation and only partially. Following the 2014 reform creating the 2015 Law, the existence of this requirement is now explicit in the regulation and, when proposing the financing conditions for each operation to the Executive Committee, the FONPRODE Office must ensure compliance with the criteria to be eligible as official development assistance.

**The requirement that all operations should be eligible as official development assistance is a major constraint in structuring operations with the private sector and can lead to the inefficient use of resources.** The analysis of the activity of other finance institutions supporting the private sector reveals that a high percentage of the operations are carried out on commercial terms and that, therefore, they do not need the necessary concessionality associated with official development assistance operations. The fact that FONPRODE's activity must have a minimum concessionality component in order to be considered official development assistance may lead to distortions in the structuring of operations with a higher degree of economic viability.

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<sup>19</sup> The Huruma Fund was launched in 2018 by COFIDES, AECID, the European Union (EU) and private sector investors. It aims to support rural farmers in partner countries both directly (capital investments in agribusiness) and indirectly (debt investments in rural financial institutions that then lend to farmers) to improve their livelihoods.

<sup>20</sup> REGMIFA Fund: Regional MSME Investment Fund for Sub-Saharan Africa SA, SICAV-SIF.

**In addition, the development assistance metrics themselves are evolving and current financial cooperation requires moving towards the concept of Total Official Support for Sustainable Development.** The changes that have been taking place in the composition and structure of development cooperation, and financial cooperation in particular, require the latter to adopt a holistic approach that integrates the new demands of society and the new morphologies of actors. The concept of Total Official Support for Sustainable Development responds to this need for integration and the development of new forms of cooperation that will be necessary to achieve the ambitious objectives set by the international agenda.

#### 2.2.1.7. Sectoral and geographical restrictions

**The Law does not allow for credit financing of basic social services in countries considered as less developed by the UN system.** This limitation contrasts with the purpose of the fund defined in Article 1: “The purpose of FONPRODE is the eradication of poverty, the reduction of inequalities and social inequities between people and communities, gender equality, the defence of human rights and the promotion of human and sustainable development in impoverished countries”, in which the fight against inequalities and inequities is a core element of its actions. In addition, the possibilities offered by blending allow structuring financially sustainable operations related to basic social services. **This restriction has not been identified in any of the peer countries.**

**Nor is lending allowed to countries at risk of debt unsustainability.** However, no document provides an explicit definition of the risk of debt unsustainability. By way of example, the IMF's debt sustainability framework defines four different levels: “low”, “moderate”, “high” and “in debt distress”.

**With exceptions, projects in which the beneficiary is a country that has reached the culmination point under the Heavily Indebted Poor Countries (HIPC) debt relief initiative cannot be financed.** The operation must be expressly authorised by the Council of Ministers, at the proposal of the Ministry of Foreign Affairs and Cooperation, and after analysis of the Government Delegate Committee for Economic Affairs. From the point of view of policy coherence, it is important to monitor the financing granted under external action instruments by taking into account the level of indebtedness of the beneficiary countries. However, stipulating by law a static list of non-eligible countries that clashes in part with the list of priority countries of the master plans does not seem an efficient alternative to control Spain's exposure to different debtors or the level of indebtedness of the beneficiary countries.

#### 2.2.1.8. Government accounting rules and the impact on the deficit

**The source of the budgetary resources allocated to FONPRODE limits the possibility of having them available for operations that have an impact on the public deficit.** The Law on FONPRODE provides that the Law on the General State Budget shall set for each year the maximum number of operations with an effect on public deficit that may be authorised in each budget year by FONPRODE. To verify that this limit is met, the same article establishes that proposals for financing from FONPRODE must be accompanied by a report on their impact on the public deficit, which will be drawn up by the IGAE. This requirement is explained by the

fact that the available resources come from Chapter 8 of the General State Budget. These resources are "those earmarked for the purchase of financial assets that may be represented by securities, book entries, etc., as well as those earmarked for deposits and guarantees". As such, they are expected to achieve profitability and therefore do not impact or have an effect on the deficit.

**In view of a possible redesign of the institutional framework, it is important to bear in mind that, after the COVID-19 crisis, Eurostat has paid special attention to the classification that the Member States make of financial institutions in terms of the consolidation perimeter associated with the calculation of the deficit.** Eurostat had already alerted different countries (including Italy and France<sup>21</sup>) before the COVID-19 crisis of the need to properly classify financial institutions within the consolidation perimeter associated with the deficit calculation. The crisis and the heightened use of financial instruments have led to an increase in Eurostat's surveillance of these instruments and their managing entities.

Eurostat takes the lack of autonomy in the management and the participation of ministries in decision-making as a core element of the analysis for the classification of an institution. The lack of decision-making autonomy or the possibility of actively participating in day-to-day activities or in specific operations is decisive when analysing the consolidation scope. Consultation with ministerial departments on strategic plans is also an aspect to be assessed.

#### **BOX 5. Italy – Eurostat – EDP**

SIMEST manages various internationalisation support funds in the form of export credits, interest subsidies and equity instruments on behalf of the Italian Government. Eurostat noted that SIMEST, as the manager of all these funds, does not seem to have any autonomy in business decisions, for example on the beneficiaries of financial instruments, and that it was rather the Government, through legislation, that specified a list of countries in which SIMEST should intervene by providing subsidised loans and export credit.

Eurostat has asked the Italian statistical authorities to analyse the proportion and volume of the activities carried out on its own account and on behalf of the Government by SIMEST, since it currently seemed that the latter prevailed. The analysis should include the autonomy of SIMEST decisions as regards the nature of financial support, beneficiaries of financial instruments, possible limitations on operations, etc.

<sup>21</sup> Since 2019, the 853 programme of financing to the AFD, according to the rules of Eurostat, must be calculated in the deficit, which led the French Government to stop granting new loans under this programme.



**The application of public accounting rules is not appropriate to the area of reimbursable financial cooperation for development.** Funds without legal personality are subject to the budgeting, accounting and control regime provided for in Law 47/2003, of November 26<sup>th</sup>, while State-owned commercial companies prepare their accounts and report in accordance with the accounting principles and standards provided for in the Code of Commerce and the General Chart of Accounts, which is a more appropriate framework for financial cooperation activities. Some examples of the problems posed by the public accounting rules in FONPRODE's activities are:

- a. Financing with a high degree of concessionality responds to a similar financial logic to grants as the former involves gift elements that sometimes amount to 80% and the latter involves gift elements of 100%. However, as a result of the potential impact on the deficit, grants were prohibited during the 2013-2019 period, while concessional reimbursable financing, at least theoretically, could have amounted to 99%. Countries such as France make more consistent use of the same source of resources to finance both types of operations.
- b. Certain capital injection operations qualify as non-reimbursable contributions, such as contributions to REGMIFA and the African Guarantee Fund.
- c. The difficulties raised by the National Audit Office in relation to the contributions to multilateral agencies, financial institutions and funds through trust accounts as a consequence of the accounting and fund control problems that it caused. The use of these trust accounts is, however, a widespread practice and the Global Environment Facility (GEF) and the Climate Investment Funds (CIF) are examples of this type of structure.

## 2.2.2. Procedural framework and resources

### 2.2.2.1. Management manuals and procedures

**The Executive Committee does not have internal rules of procedure as other similar committees do.** Internal rules of procedure are configured as a complementary regulation that allows the organisation to be developed in greater detail. Although they are not mandatory, they constitute a good practice within the OECD Guidelines on Corporate Governance of State-Owned Enterprises and are present in other funds without legal personality such as FIEM. The information provided includes a draft operating procedure for the Executive Committee. However, there is no record of it having been approved.

**There is no procedure manual that integrates all the management stages of the instrument.** FONPRODE, COFIDES and the ICO have manuals for certain stages of the operation cycle. The FONPRODE Office has a 2017 operating procedure for the identification of operations. This is shown as a high-level guide for the planning and identification and eligibility processes by instrument, including formats for the project profile. Two forms of project portfolios are provided for, but, in reality, it has not been possible to generate this. In addition, as for the support agents, the ICO, as a financial agent, has an internal manual for the administration of FIEM and FONPRODE. This applies to processes and the use of systems,

distinguishing between two blocks: signing and disbursement, and treasury and portfolio management. This manual is more about IT processing procedures than management processes. There is also a COFIDES project cycle manual, which details internal processes and controls focused on the identification, design and monitoring of operations.

**The Law and the regulation establish the Code of Responsible Financing (CRF) and the management methodology for development outcomes of reimbursable financial cooperation as management documents, although neither of these documents has been properly developed.**

**The CRF has not been updated since 2013 and only provides a general framework for action without defining the actions to be performed in application of these general principles.** According to the First Additional Provision of the regulation, the Code of Responsible Financing must serve as an “*ex ante* guide prior to approval” and “guide the monitoring and evaluation of operations”. The CRF generally follows international standards, according to certain areas of interest: social and environmental impact, human rights, labour rights and gender equality. In addition to these standards, for investments, there is the need to comply with the Principles for Responsible Investment, the Private Equity Principles developed by the ILPA practice and the requirement to promote active participation in investees. However, there has been no adaptation of these general principles to FONPRODE's activity that makes it possible to define actions to be performed in application of these general principles.

**The Corporate Policy Project Rating (GPR) is used as a central tool in the methodology for the development outcome of reimbursable cooperation.** The CRF states that the GPR tool will be used as the core tool of the outcome management methodology by acquiring a licence for its use. The CRF establishes that the FONPRODE Office will adapt the tool to the specific requirements of its actions, which must be approved by the Executive Committee. However, although the activity reports refer to the fact that COFIDES has made changes to the tool to adapt it to the different types of activity, there is no evidence that the tool has been approved by the Executive Committee.

It should also be noted that the GPR tool is geared to activity with the private sector, without any references to the tools to be used in activity with the public sector.

DEG, owner of the GPR tool, replaced this tool in 2017 with a new Development Effectiveness Rating (DERa) that is more aligned with the harmonised indicators used at an international level (“Harmonised Indicators for Private Sector Operations”).

### **BOX 6. Corporate Policy Project Rating (GPR®) and its adaptation to FONPRODE**

GPR® is an analysis tool developed by DEG KfW Bankengruppe that provides a synthetic assessment or rating of each operation using four interrelated subjects. This methodology has been adapted by COFIDES for use in FONPRODE's activity:

- (i) the financial viability of the project, which ensures its long-term sustainability;
- (ii) the development effects of the project;
- (iii) the degree of alignment of the project with the strategic objectives of Spanish Cooperation and, in particular, with those set out by the current Master Plan; and, finally,
- (iv) the financial profitability for FONPRODE, the basis of its own reimbursable nature.

In addition, for each operation a specific rating is obtained for the block of effects in development.

**The established documentary burden is excessive compared with that existing in other instruments of a similar nature (FIEM or FIEX) and does not allow its adaptation to the characteristics, relevance and complexity of the project:**

- There is duplication in debt sustainability reports. Both the Ministry of Economic Affairs and Digital Transformation and COFIDES, as independent experts, issue their opinion on debt sustainability at various stages of the approval process.
- There is no evidence that the IGAE has issued reports relating to the overall profitability of the portfolio. Article 13 of the Regulation provides that the IGAE may include an assessment of the overall profitability of the portfolio in its reports on the impact of the operations on the deficit. However, there is no record of such an assessment having been made in any report.
- The reports issued by the General Secretariat of the Treasury and International Financing do not take into account the grace periods or calculate the implicit interest subsidy. These reports are part of the Second Additional Provision of the General State Budget, which lays down that "unless expressly authorised by the Ministry of Finance and Civil Service, loans and advances may not be granted at an interest rate lower than the debt issued by the State and instruments with a similar maturity".

### **Project generation**

**The generation of projects with the public sector has relied almost entirely on co-financing projects with international finance institutions, highlighting the weakness of TCOs in identifying projects.** The TCOs are responsible for identifying and

monitoring the development cooperation projects and programmes financed by AECID. However, according to the experts consulted, these units are specialised in the management of technical cooperation projects with little training in financial matters. Moreover, their points of contact with the public sector are often linked to ministerial departments that do not normally use reimbursable credit for project funding, making the identification task almost impossible to fulfil. It should be noted that, from the revised information, the TCOs that have participated in projects in Latin America have shown an adequate willingness to work on financial cooperation projects.

**While the strategy followed in recent years of complementing the financing of international finance institutions helps the learning process, it can become counterproductive to the establishment of a true Spanish financial cooperation strategy.** The strategy followed by FONPRODE in recent years to complement the financing of institutions such as the IDB and the World Bank has made it possible to substantially increase execution levels and strengthen partnerships with these institutions. However, establishing this type of action as a benchmark strategy cuts off the development of a national financial cooperation strategy and restricts the visibility of Spanish cooperation actions.

**It is often the ministries of finance of the recipient countries that set the financing priorities and, in the case of Spain, their conduct is usually conducted through the Ministry of Economic Affairs and Digital Transformation.** Therefore, inter-ministerial coordination is essential for an adequate flow of information.

**The generation of projects with the private sector is constrained by the regulatory restrictions associated with the fund and the lack of specialised staff in the field.** The restrictions established in the legislation and the exceptional nature of this type of operation are a source of uncertainty that prevents proper management of the resources associated with this type of project. In addition, according to the experts interviewed, the lack of specific training of TCO staff to collaborate with the private sector is an additional limitation for the identification of this type of operation. In this regard, there is only one general course on reimbursable financing, taught in December 2017.

**The existing shortcomings in coordination between the staff of the TCOs and the Economic and Trade Offices is a growing obstacle to the generation of projects in the target countries.** The hermetic competences associated with technical cooperation and internationalisation operations act as a barrier to Spain's effective participation in EU-funded financial cooperation programmes. This barrier is also transferred to Spanish companies, which, as a consequence of this dysfunction, are less aware than their peers of the potential projects being considered.

The strengthening of cooperation between the TCOs and Economic and Trade Offices is one of the main demands of CEOE International in its Recommendations – International Development Cooperation of April 2021.

**Spain currently has 27 Debt Conversion Programmes (DCP) in force in official development assistance countries that have allowed the cancellation of over €1.3bn. They are managed by the Ministry of Economic Affairs and Digital**

**Transformation, whose actions are not being used as a complementary mechanism for the generation of projects.** DCPs consist of the transformation of a country's payment obligations towards Spain into investment financing that will favour its economic and social development and the reduction of poverty. These programmes are managed by the Ministry of Economic Affairs and Digital Transformation through the Sub-Directorate General of External Debt Management and international financing in collaboration with the Economic and Trade Offices. These are actions that are counted as official development assistance and whose management is not being used effectively to generate financial cooperation projects.

**Experience shows that it is possible to take advantage of the synergies of FONPRODE and DCP funds to mobilise EU funds<sup>22</sup>.** However, these cases are excessively isolated.

#### 2.2.2.2. Risk management and internal control

**Beyond the application of accounting standards for impairment, the financial statements show that FONPRODE does not have an active risk management policy that allows for planning and monitoring of the evolution of the portfolio.** The annual report focuses on addressing the issue of social and environmental risks, following the CRF's guidance, as a comprehensive issue of portfolio analysis. In this regard, it addresses an analysis per operation and their aggregation by type of instrument.

However, the annual report or financial statements do not address an analysis of financial and non-financial risks at the fund management level, namely credit risk, liquidity risk, interest-rate risk, operational risks, etc. The financial statements only address exchange rate risk and the issue of impaired assets, but no indicators have been set to monitor the evolution of portfolio risk and on which to analyse its evolution.

**The exchange rate risk is significant, with a high impact of the depreciation of the US dollar (USD) in 2020, but no hedging actions are noted.** The review of the financial statements did not reveal any foreign exchange risk hedging or other active risk management operations. However, as of 2020, 29% of the portfolio is denominated in USD or other currencies (ordinary credit of the microfinance programme in Dominican pesos and CFA franc. Total exchange differences at the end of 2020 amounted to a negative figure of €12.8m.

**The informal traffic light system set up between the Ministry of Economic Affairs and Digital Transformation and the FONPRODE Office has provided greater certainty to FONPRODE operations, but it should not replace a comprehensive risk management system.** The Ministry of Economic Affairs and Digital Transformation regularly provides an analysis of the capacity to take on new sovereign risks, a system known as *traffic lights*. This system has provided certainty to FONPRODE's activity and facilitates management of the instrument. However, this system should not replace a management system for the sovereign risk faced by Spain, which should include other instruments with similar operations.

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<sup>22</sup> Project financed with the LAIF programme in Bolivia.

### 2.2.2.3. Analysis of activity

**The budget execution data show the execution difficulties that the instrument has had since its creation.** The cumulative volume of operations authorised by the Council of Ministers totalled €1.48bn. This volume of approvals contrasts with the cumulative ceiling authorised over the period of €4.38bn. This highlights the budget execution difficulties that it has had since its creation.

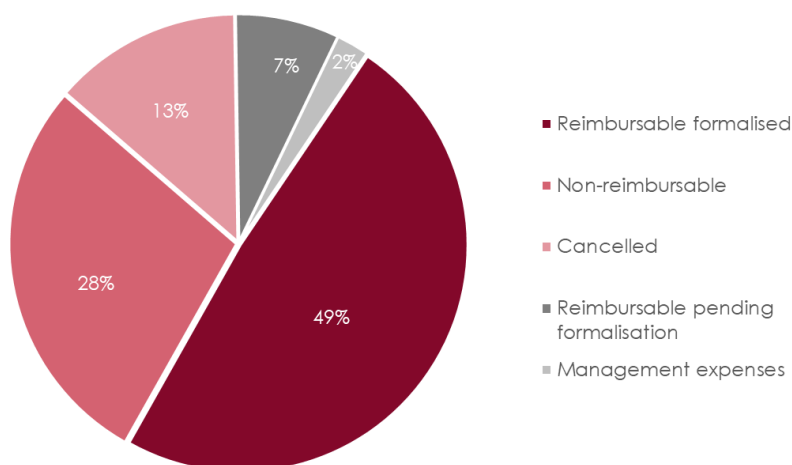
**TABLE 8. EVOLUTION OF THE ALLOCATION OF THE FUND AND OF THE RESOURCES AND OPERATIONS APPROVED BY THE COUNCIL OF MINISTERS**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Annual allocation (GSB)</b>	945	285	245	235	235	235	199	199	199	199
<b>Operations Limit (GSB)</b>	945	420	385	375	375	375	375	375	375	375
<b>Operations approved in the Council of Ministers (€m)</b>	608	158	94	73	33	22	42	125	115	205

Source: FONPRODE 2018 activity report, performance reports prepared by COFIDES for 2019 and 2020.

**The total operations approved by the Council of Ministers amount to €1.48bn euros between 2011 and 2020, although a large number of operations have not been formalised.** Of the €1.48bn of operations approved by the Council of Ministers, only 51.2% correspond to formalised reimbursable credit, while 29% correspond to non-reimbursable credit. Up to 20% of the operations approved by the Council of Ministers have either been cancelled or are yet to be formalised. The revised documentation shows that sometimes operations are *de facto* cancelled, even if no formal procedure is carried out.

**FIGURE 8. DISTRIBUTION OF APPROVALS IN MILLIONS OF EUROS, ACCUMULATED BETWEEN 2011 AND 2020**



Source: Prepared by the authors based on data provided by FONPRODE and its 2020 annual report.

**Sovereign loans involve longer procedures than other operations, taking on average more than three years from approval by the Council of Ministers to the first disbursement.** Analysing the fund's operations since its creation makes it possible to calculate the processing times by type of operation. Sovereign loans are substantially delayed in time and long periods are required to complete the different actions that must be carried out from the approval by the Council of Ministers to the first disbursement.

**TABLE 9. COMPARISON OF AVERAGE TIME TO FORMALISATION, ENTRY INTO FORCE AND FIRST DISBURSEMENT FOR OPERATIONS IN THE PORTFOLIO FROM 2011 TO 2020, BY TYPE OF INSTRUMENT**

Instrument	Average days between processes		
	CM approval to formalisation	Formalisation to enter into force	Entry into force to 1st disbursement
Capital contributions	59	0	158
State loan	371	434	300
Microfinance loans	192	98	84
<b>Average operations</b>	<b>177</b>	<b>98</b>	<b>104</b>

Source: Prepared by the authors based on Excel portfolio data from the end of 2020.

**The CDGAE process is another significant bottleneck in the approval process.** The analysis of operations approved between 2018 and 2021, which includes the most recent trends of the fund, reflects that the average number of days between the approval of the Executive Committee and that of the Council of Ministers is 151 days. Most of the time is spent obtaining authorisations from the CDGAE, which on average takes 116 days, i.e. 76% of the time.

**TABLE 10. COMPARISON OF AVERAGE TIMES FROM APPROVAL OF THE EXECUTIVE COMMITTEE TO APPROVAL BY CM, CONSIDERING THE VALIDATION PROCESS OF THE CDGAE, FOR OPERATIONS APPROVED BY THE EXECUTIVE COMMITTEE BETWEEN 2018 AND 2021**

No. of days between procedures	Approval Executive Committee-CDGAE validation	CDGAE validation to CM authorisation	Total
<b>Average</b>	116	56	151
<b>Maximum</b>	350	208	313 <sub>23</sub>
<b>Minimum</b>	28	8	78

Source: Prepared by authors using Excel portfolio data on Executive Committee approvals between 2018 and 2021.

**Differences can be seen in the portfolio information provided in the different activity reports.** The figure for the outstanding portfolio is different if we consider the information from the ICO, which reports €572m in the outstanding portfolio at the end of 2020, and the information provided in the FONPRODE activity report (prepared by COFIDES), which

reports €517m. These differences are transferred to other items in the portfolio.

**TABLE 11. PORTFOLIO INFORMATION DIVERGENCES AT THE END OF 2020 ACCORDING TO EACH SOURCE (€M AT 31/12/2020)**

	ICO Report	COFIDES Report
FIDA	254	221.2
EIB	62.5	39.6
OEI	9	9
Financial inclusion (direct loans to microfinance institutions)	86	70.6
Investment	135.5	151.4
Sovereign loans	25.3	25.3
Portfolio in force*	572	517.1
Formalised portfolio	n/a	916.8
Committed portfolio	n/a	1244.8
No. of operations committed portfolio	n/a	72

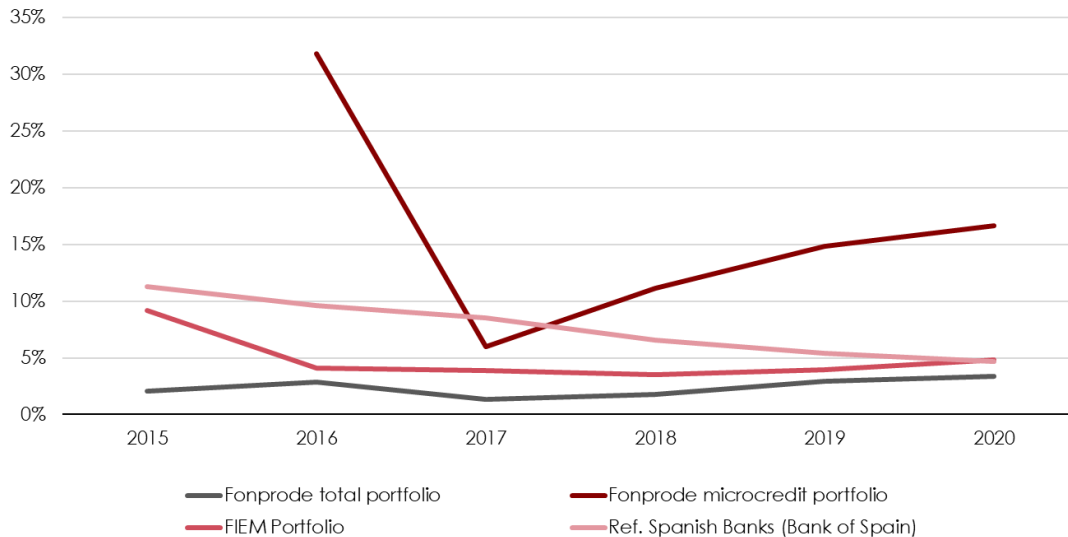
Source: Prepared according to information from COFIDES, ICO, Source Excel and the FONPRODE annual report.

**The quality of the FONPRODE portfolio is good in terms of the NPL ratio (with the exception of microcredit) and as a whole performs better than the FIEM portfolio or the average of Spanish banks, even though the characteristics of the beneficiaries could (or should) be a higher risk profile.** Portfolio NPLs are below 3.5% over the period 2015-2020, ranging from 1.33% to 3.39% of the total portfolio. Its NPLs correspond to specific operations of the Microcredit Fund, whose portfolio was inherited by FONPRODE. The portfolio of the microcredit programme had a peak NPL ratio of 31% in 2016, but its average over the period has been 16%. In total terms, FONPRODE's portfolio quality is arguably better than FIEM's, which had an average NPL ratio of 4.9% between 2015 and 2020 and better than Spanish banks, which report an average of 7.6%, according to the Bank of Spain, for the same period.

<sup>23</sup> The operation that took 350 days from its approval in the Executive Committee to its approval in the Government Delegate Committee for Economic Affairs was not finally approved by the Council of Ministers and therefore it is not possible to make the full calculation.



**FIGURE 9. EVOLUTION OF THE NPL RATIO OF FONPRODE, TOTAL AND MICROCREDIT PORTFOLIO AND ITS COMPARISON WITH FIEM AND THE AVERAGE OF SPANISH BANKS AS A REFERENCE**

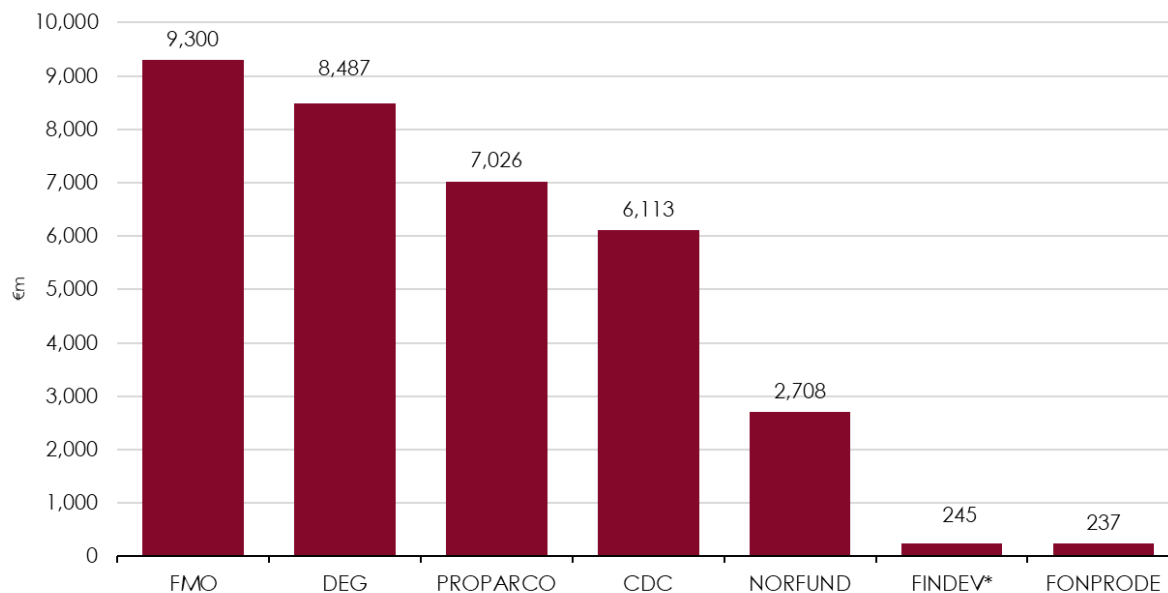


Source: AIR<sup>e</sup>F.

**There are two investment holdings in tax havens that remain in the portfolio pending their sale.** The African Agriculture Fund and African Guarantee Fund operations continue to be reported in the portfolio and are noted in the annual report as of 2020. Even though in 2012 the Executive Committee decided to take action to cancel the operations involving holdings in equity funds in tax havens and these two are registered in Mauritius. ICO's 2020 performance report notes that the sale of the holdings has not yet taken place, and that in November 2020 the Tax Agency confirmed that Mauritius continues to be considered a tax haven.

### Activity with the private sector

**The analysis of financial cooperation activity with the private sector highlights the limitations of this instrument to mobilise resources and play a significant role in this area of financial cooperation.** FONPRODE's portfolio associated with the private sector at December 31<sup>st</sup>, 2020 amounted to €237m. This figure contrasts with the portfolio values of other institutions that have a longer track record and are much more active in this type of activity.

**FIGURE 10. PRIVATE ACTIVITY**

\* The FinDev portfolio has been built in the last three years.

\* Source: Prepared by the authors based on EDFI data.

**The incorporation of COFIDES in 2014, with a strong specialisation in equity and quasi-equity instruments, has not generated a significant boost in the use of this type of instrument.** The investment portfolio data at the end of 2020 showed total disbursements of €151.5m, of which 37.5% correspond to a single operation approved in 2011, and the last approval of this type of operation had occurred in 2014<sup>24</sup>.

#### **Participation in investment funds is subject to major management challenges:**

- The prohibition of working with funds domiciled in tax havens, which is a common practice by similar institutions and multilateral banks, is particularly important in the structuring of this type of operation in Africa.
- The representation in the governance of the funds, which must be operational to ensure that the investment is fully aligned with the objectives of Spanish cooperation.
- Proper measurement of the fund's development results through appropriate indicators.

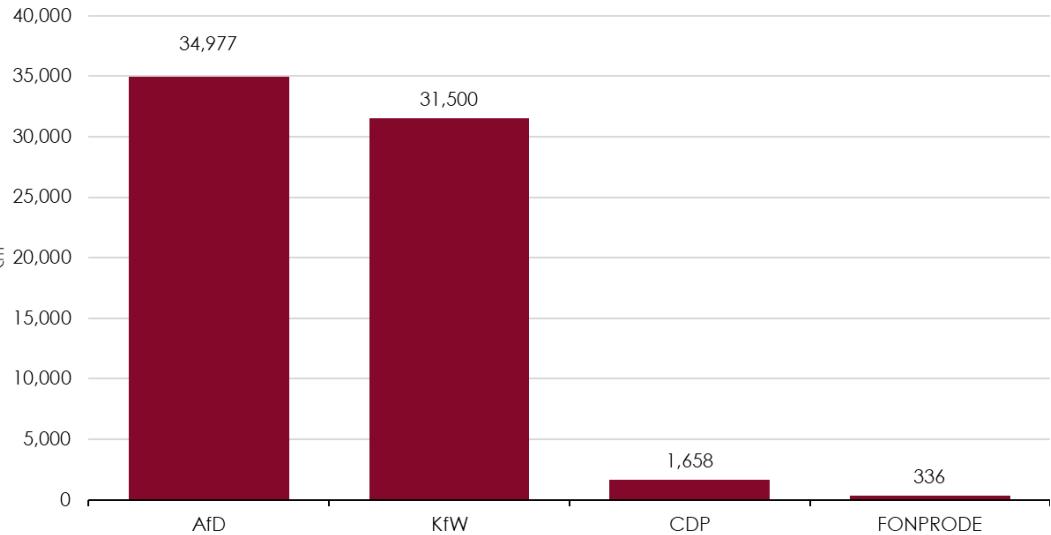
<sup>24</sup> Two caveats should be noted: 1. In addition to these investments, there are amounts invested in two other investment funds, REGMIFA for an amount of \$52m to date and the African Guarantee Fund, for \$12m. These were approved with effect on the deficit and were therefore classified as non-reimbursable contributions. 2. Subsequently, an operation of \$5m was approved in 2021.



Activity with the public sector

**FONPRODE’s activity in relation to the public sector is extremely low compared with that of its main peer countries.** There are not many countries that have developed reimbursable financial cooperation for development and many countries limit cooperation with the public sector to grants, as is the case of the United Kingdom, the Netherlands, Norway and Finland. However, other countries, such as Germany or France, have committed enormous resources to financial cooperation. while others, such as Italy, have carried out institutional reforms and have created specific programmes to develop this activity. FONPRODE, for its part, has a very small portfolio - €336m at the end of 2020 - which is closely focused on operations with international finance institutions.

**FIGURE 11. ACTIVITY WITH THE PUBLIC SECTOR**



Source: Prepared by the authors based on the activity reports.

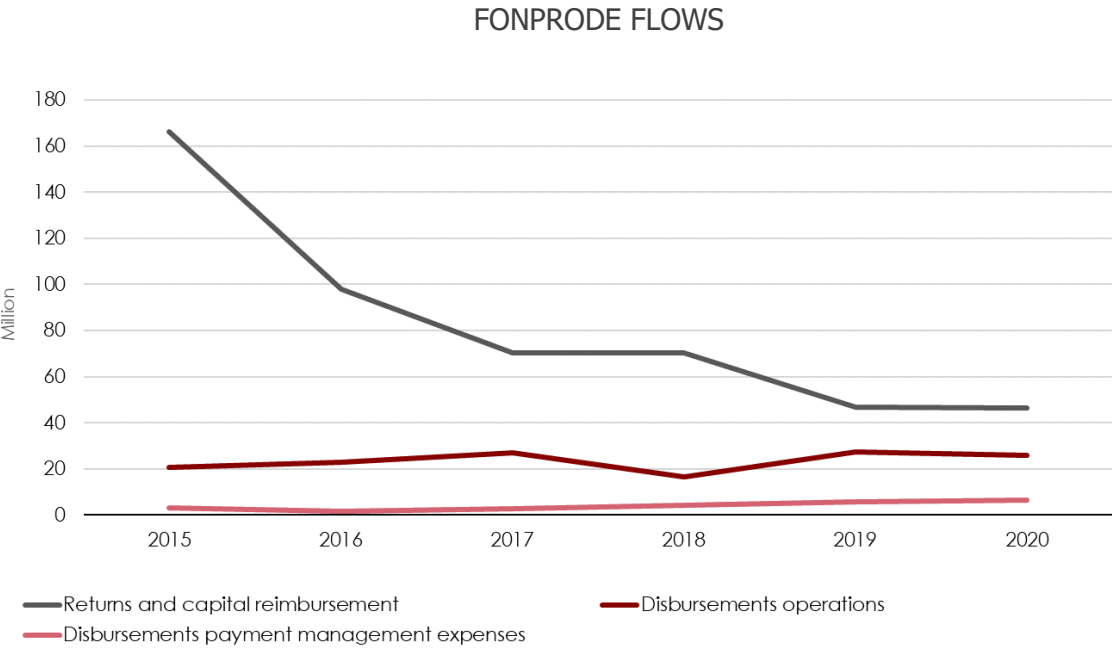
**The analysis of FONPRODE's activity with the public sector reveals a lack of capacity to establish bilateral relations with partners in priority countries.** FONPRODE's bilateral portfolio was limited at the end of 2020 to €25.3m spread over operations in Ecuador, El Salvador and Paraguay. These figures reveal the difficulty that FONPRODE has in building its own portfolio of operations.



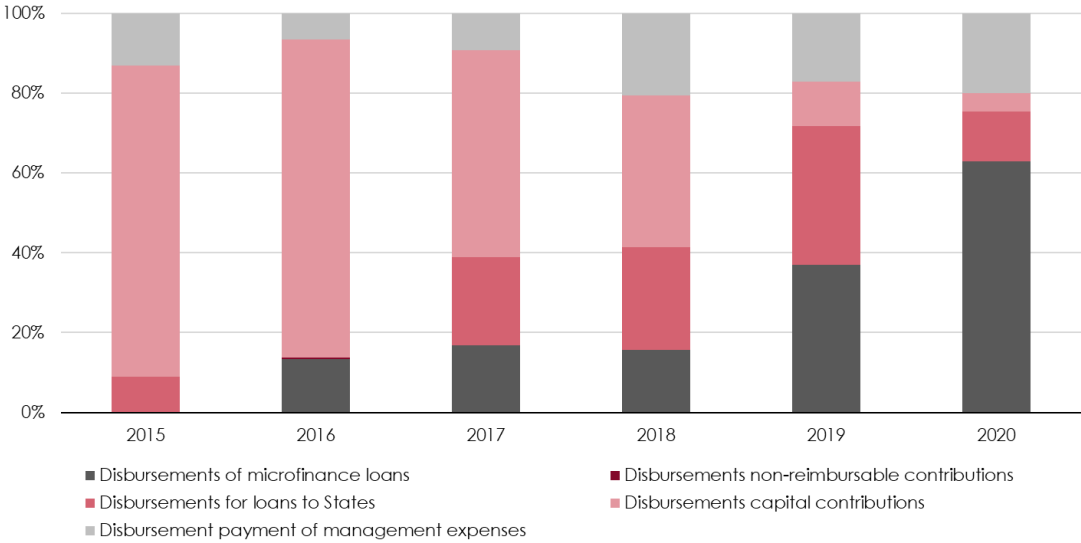
2.2.2.4. Disbursement and revenue management

**FONPRODE's annual net disbursement in recent years has been negative, i.e. less is disbursed than is received in repayments and income.** As indicated in the annual financial statements at year-end 2020, net disbursement was negative, since repayments mainly from loans formalised in previous years, reimbursable contributions and capital contributions exceed the resources disbursed from FONPRODE. According to the audit report, "this result must be interpreted as a consequence of the good management of operations". Indeed, despite the fact that there is no focus on the collection management of the portfolio in the internal processes and controls, it can be seen that the quality of the portfolio translates into a percentage of repayment of the principal of the loans of almost 100%. This fact, together with the high volume of debt inherited from the extinct Microcredit Fund, explains the history of returns.

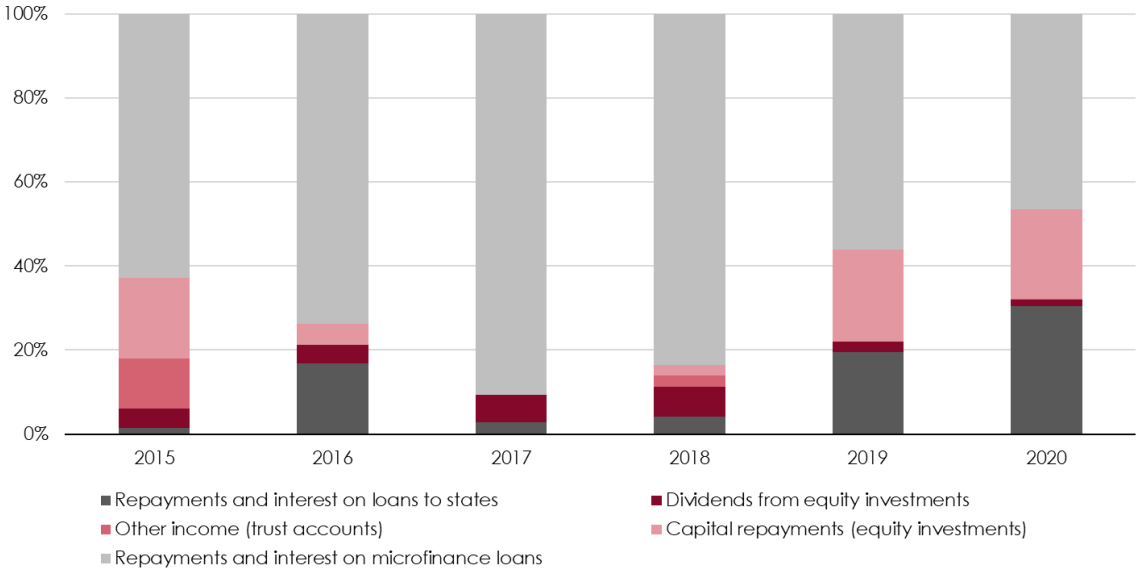
**FIGURE 12. EVOLUTION OF DISBURSEMENT FLOWS FOR OPERATIONS FOR PAYMENT OF MANAGEMENT FEES AND FONPRODE INCOME. BREAKDOWN OF PERCENTAGE DISTRIBUTION BY TYPE OF FLOW**



DISTRIBUTION OF CASH FLOW OF DISBURSEMENTS (OPERATIONS AND ORDINARY EXPENSES)



DISTRIBUTION OF INCOME FLOW (RETURNS AND REIMBURSEMENTS)

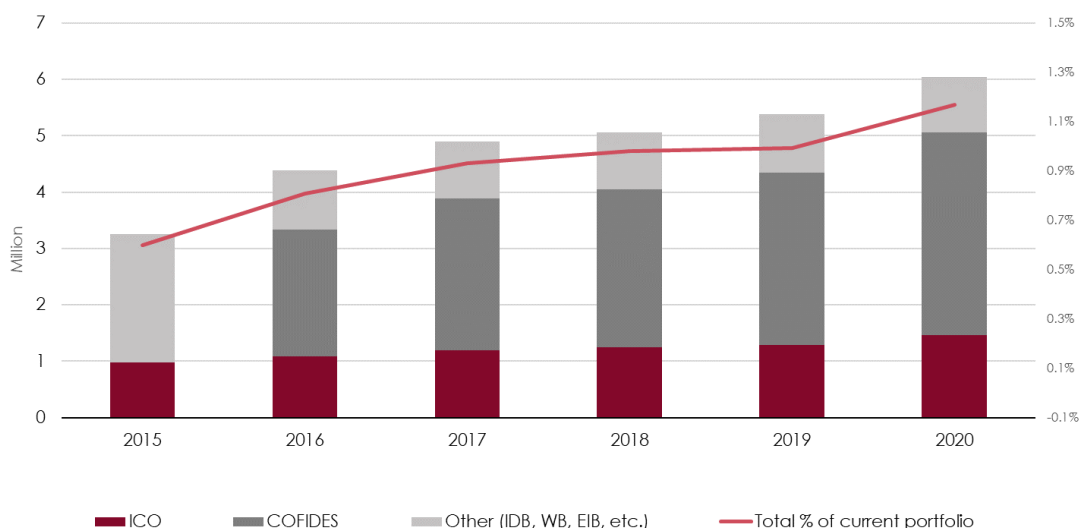


Source: Prepared by authors based on cash flows from FONPRODE’s annual accounts.

2.2.2.5. Disbursement and revenue management

**Given the prohibition on approval of non-reimbursable resources from 2013 to 2020, ordinary expenses constitute the FONPRODE item with an impact on the deficit.** These expenses include: (i) the expenses of offsetting the costs of the ICO, as well as the expenses corresponding to the remuneration of COFIDES for its support to the management of the fund; (ii) the expenses for the services provided by the EIB and the World Bank or the IDB in the management and/or monitoring of operations on behalf of the fund; and (iii) other contributions to multilateral organisations, approved by the Council of Ministers at the end of the year.

**FIGURE 13. EVOLUTION OF ORDINARY EXPENSES ARISING FROM THE MANAGEMENT OF ICO, COFIDES AND OTHERS, IN ABSOLUTE TERMS AND RATIO OF THE CURRENT PORTFOLIO**



Source: Prepared by authors using the expenditure data provided by the ICO and current portfolio data according to COFIDES criteria.

**Expenditure on the current portfolio has increased due to the annual increase in COFIDES expenditure, which rose by 18% in 2020, slightly higher than the increase in the committed portfolio in 2019 and 2020 of 12% per year.** The proportion of management expenses has almost doubled since 2015, mainly as a result of the increase in remuneration to COFIDES for its work supporting the management of FONPRODE.

#### 2.2.2.6. Resources

**The appointment of COFIDES as an almost exclusive independent expert has limitations.** While the FIEM regulations allow its heads to enter into collaboration agreements with other national entities such as CESCE or COFIDES (Article 8), the FONPRODE legislation is more restrictive and establishes that in order for CESCE or the ICO, institutions with extensive experience in international financing, to act as independent experts, COFIDES must expressly state that it is unable to carry out the task entrusted to it. This limitation is an impediment to the hiring of the agent that can provide a certain service in better conditions and generates inappropriate incentives in the performance of COFIDES' activity.

**In terms of human resources, 30 people are involved in the management of FONPRODE full-time.** The 2020 FONPRODE report notes that staff turnover and a shortage of human resources has been one of the factors that has led to a slowdown in the total amount of approved operations. The information that it has been possible to access does not allow an assessment of the level of turnover, but staffing levels can be assessed.



Between the FONPRODE Office, COFIDES and the ICO, there are a total of approximately 27 people working full-time for FONPRODE.

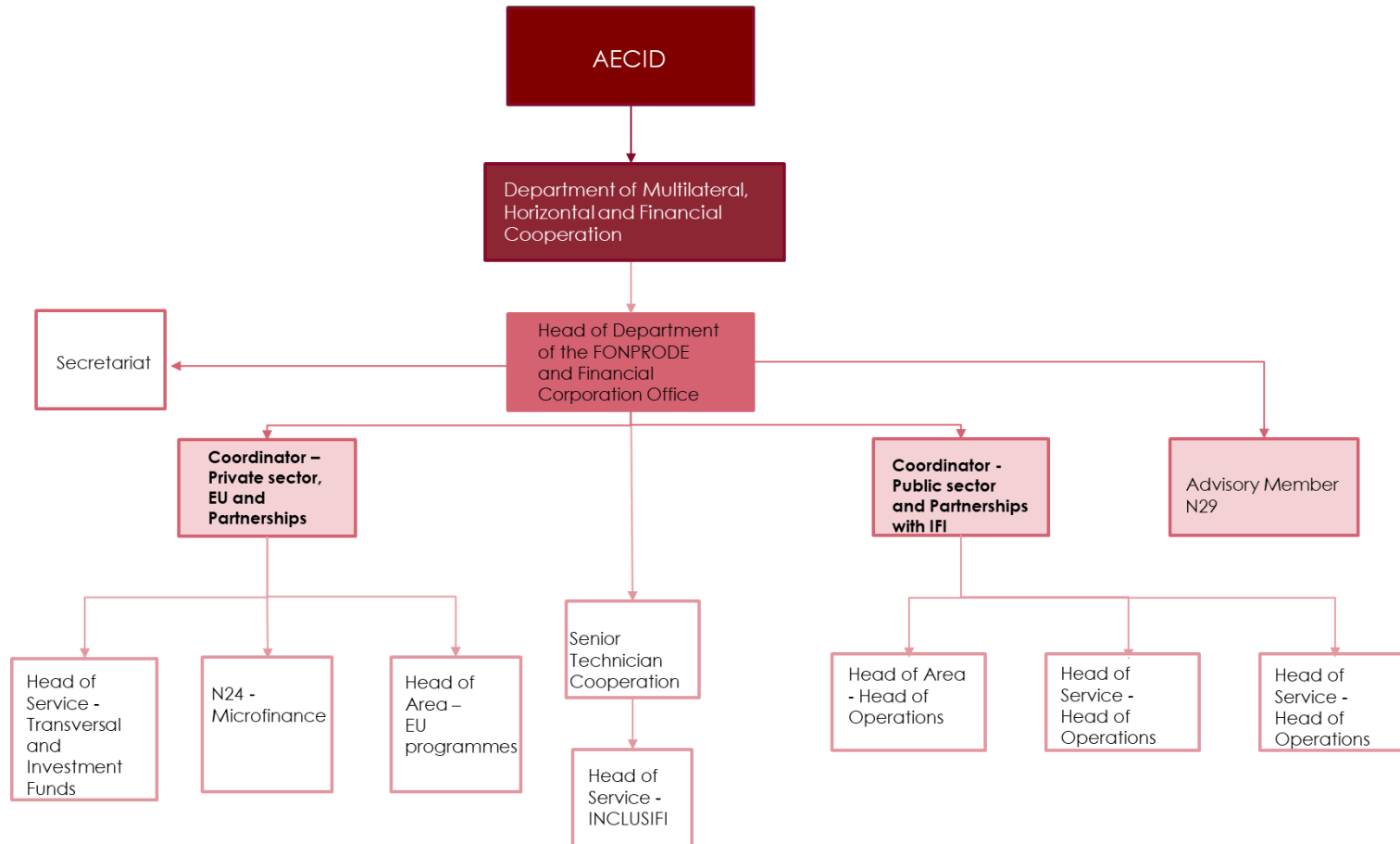
**TABLE 12. HUMAN RESOURCES – FONPRODE MANAGEMENT**

	ICO Report	ICO Report	COFIDES Report
Actual staff	9 <sup>a</sup>	11	7 <sup>b</sup>

a: The FONPRODE Office currently has 8 civil servants and 1 hired employee.  
 b: According to the information provided, the ICO has 17 people involved in management, with varying degrees of time dedicated, which amounts to effective full-time employment of 7 people.  
 Source: Prepared by the author based on documents shared by ICO, COFIDES and AECID.

**The low number of staff assigned to the FONPRODE Office prevents comprehensive management of the fund and underpins an inefficient management model.** The list of AECID positions assigns a total of ten posts to the FONPRODE Office, two of which are vacant as of the report date. In addition, three jobs are assigned to hired employees, mainly administrative staff, of which two are vacant. This shortage of resources prevents the Office's staff from absorbing the knowledge of other institutions and underpins an inefficient management model. This shortage of resources is compounded by levels of remuneration that are generally lower than those offered by other administrative units or by COFIDES or ICO.

**TABLE 13. ORGANISATIONAL CHART OF FONPRODE OFFICE**



Source: Prepared by authors



**The shortage of human resources is a structural aspect that the FONPRODE Office has been dealing with since it began operating.** The Court of Auditors' report No 1.159, "*Audit report on the Development Promotion Fund for financial years 2012 and 2013*", already highlighted the shortage of resources, noting that "the human resources allocated have been clearly insufficient to adequately perform the functions assigned to an organisation which has changed from being a cooperation manager to a quasi-financial institution, despite the fact that its objectives are not to obtain an economic interest, but to promote development in certain countries. This fact was already highlighted by the Court of Auditors in its report on the Microcredit Fund for 2006, which already found a lack of staff and recommended an extension of the workforce for the Microfinance Unit, which was integrated into FONPRODE in 2011".

**The technical resources are very limited and scattered across various institutions. They do not allow for the centralised management of FONPRODE's operations.** The documentation is spread across different units and agencies and there is no IT application that allows comprehensive management of the project cycle. However, the ICO is implementing a new system for management and accounting operations which would allow access through an online gateway to the FONPRODE Office. This would allow remote access at any time to the portfolio information. However, this progress, should it occur, would still not meet the needs of comprehensive management of each project cycle.

**No repository has been identified where all current procedure manuals are stored, which is necessary in institutions with a high level of staff turnover.** The existence of this type of storage is particularly important in an institution with high staff turnover.

**In the international field, the presence of workers with experience in the private sector in DFIs predominates.** In the profile of employees of institutions engaged in financial cooperation with the private sector, the presence of former private sector employees with extensive experience in structuring complex financial operations is very common. The implementation of such operations requires technical capacities to conceptualise and develop, often in cooperation with experts from other institutions, financial structures that allow risks to be shared appropriately between the different parties involved and ensure the additionality of the financing provided.

**The 5th Master Plan proposes consolidating knowledge management and systematised learning.** The plan includes systematisation activities to improve the effectiveness and usefulness of knowledge management. According to the Master Plan, the Directorate-General for Sustainable Development Policies and AECID will review their knowledge management policy in a coordinated manner. This review will cover the information and lessons learned from their different instruments in stages, and more specifically the programmes and projects with the greatest knowledge generation capacity.

The integration of financial cooperation into this knowledge management is a key element for improving the management of knowledge associated with financial cooperation.

**Finally, it should be pointed out that there is no training plan for the agents involved that would strengthen the knowledge of such agents in the management**

**of the instrument.** A lack of training in financial matters is one of the main weaknesses of TCOs. Specific training programmes have been identified to raise awareness of the instrument, but no training programmes have been identified to address the lack of a robust and acceptable financial literacy base. There has been no access to specific training programmes for FONPRODE Office staff.

### 2.2.3. Transparency and evaluation

#### 2.2.3.1. Transparency

**Significant shortcomings are detected in the transparency associated with FONPRODE's activity:**

- **There has been a repeated failure to draft, submit and present FONPRODE activity reports to Parliament in due time and form.** The Law establishes the obligation to report annually to the Congress of Deputies and the Senate on the operations charged to FONPRODE. Legislation establishes that presentation of this report will be accompanied by an appearance of the State Secretary for International Development Cooperation and both the Congress and the Senate will issue an opinion with recommendations from the parliamentary groups. The report will also be extended to the Development Cooperation Council.

As indicated in the different appearances associated with the presentation of the activity reports in Parliament, there have been significant delays in compliance with the obligation provided for in Article 12 of Law 36/2010 on the need to present an annual report on FONPRODE's activity.

This failure to comply also extends to the sending of information to the Cooperation Council, as indicated in the *Opinion on FONPRODE's activity reports for 2016, 2017 and 2018*. It should be noted that the opinion of the Cooperation Council is mandatory<sup>25</sup>, in order to be able to transfer the report to the International Development Cooperation Committee of the Congress of Deputies, and delays may be generated in compliance with the obligation to report. The FONPRODE Office states that this is one of the reasons why it has not been possible to comply with the legally established procedure.

- **FONPRODE's operational programming is not made public.** In accordance with Article 6.2(c) of the FONPRODE Regulation, the FONPRODE Office is responsible for coordinating and preparing the annual operational programming of the fund, while FONPRODE's Executive Committee is responsible for studying and assessing it. This document, while approved, albeit not every year, by the Executive Committee, is not made public. This prevents the geographical and sectoral priorities of FONPRODE from being made known, as well as the strategic aspects that may affect its activity.

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<sup>25</sup> Article 17 of Law 36/2010, of October 22<sup>nd</sup>, on the Development Promotion Fund.

- **The data on FONPRODE's activity are scattered throughout the different annual activity reports, and there is no website that brings together all the available information in a clear manner.** The FONPRODE website within AECID is the main source of information related to FONPRODE's activity. Although it contains varied information, it is not a simple and up-to-date access point for publicising the different projects financed by FONPRODE. The approach of the French Development Agency, with the construction of an interactive map<sup>26</sup> as a means of accessing project information, is a good practice as a means of accessing this type of information.
- **No standardised classification of operations is provided in the different reports<sup>27</sup>, which makes it difficult to systematise and analyse the portfolio.** The classification of operations made in different FONPRODE activity reports does not offer a standardised framework for their analysis and different criteria are used, none of which considers the type of manager of the operation. This lack of standardisation makes it difficult to analyse the activity.
- **Despite the importance of resource leverage, there is no aggregated reporting of leveraged resources, either through third-party investors or through access to the EU's technical assistance facilities.** The 2020 report does mention and detail the signing of agreements with the EFSD to access guarantees through the European External Investment Programme. However, the report does not explicitly mention this strategic role or the achievement of resource mobilisation. Other instruments, such as the FIEM, do provide this information in their reports.

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<sup>26</sup> <https://www.afd.fr/fr/carte-des-projet>

<sup>27</sup> FONPRODE annual reports and the ICO and COFIDES performance reports are considered.

**TABLE 14. CLASSIFICATION OF OPERATIONS BY SOURCE**

Classification	ICO	COFIDES	FONPRODE Office
Type of instrument	n/a	Capital Contribution, Loan (distinguishes whether it is to Microfinance or to States)	The annual report mixes the ICO and COFIDES classifications and does not fully use either of the two.
Type of debtor	Government, Private Sector, Multinational Agency, Multilateral Organisation.	IFI/Multilateral Organisation, Microfinance Investment Vehicles (MIV), Non-Bank Financial Institution (NBFI), Non-Microfinance Investment Vehicles (NMI), Microfinance Institutions (MFI), State	
Type of Manager	n/a	n/a	
Type of transaction	Capital contributions, microcredits, co-financing with multilateral institutions, loans to the State	Financial inclusion operations, Operations through Non-microfinance Investment Vehicles, Other operations, loans to States	

Source: AIReF.

- **FONPRODE's activity is not adequately conveyed to other agents that may have interests and/or may provide relevant information.** The dissemination of information on FONPRODE's activity among the different agents directly or indirectly involved in the management of FONPRODE and among other Government units with similar interests is identified as an area for improvement in which progress needs to be made. The other external action instruments, such as the TCOs and Economic and Trade Offices and other units of the AECID and the Ministry of Foreign Affairs are natural recipients of the information of the activity carried out. In this regard, a procedure should be adopted for defining the terms and manner in which this transfer of information should take place.

**AECID reports information to the International Aid Transparency Initiative (IATI) even though it is not a member and there is no record of financial cooperation data being reported.** The IATI is an international initiative that aims to give visibility to donor cooperation data at an international level, centralise information and standardise presentation of the published contents. There is no record of financial cooperation data being reported.

### 2.2.3.2. Evaluation

**The evaluation systems are not properly developed and the amount of evaluation activity has increasingly fallen and is now virtually non-existent.** According to Article 11 of the Law on FONPRODE, all operations that it finances will be evaluated both prior to financing and following execution. There is no methodological development of this obligation that makes it possible to describe the elements that need to be analysed according to the project stage and characteristics and that ensures the homogeneity and comparability of the studies carried out. In addition, the evaluation activity has been significantly reduced over time and the latest evaluation study published is the *Evaluation Study of the Microcredit Programme Spain – Central American Bank for Economic Integration (CABEI) in Central America*, of 2013.

**The range of evaluation actions included in the Law only refers to the need to evaluate specific projects and does not include the possibility of evaluating programmes.** The international comparison has shown the importance of evaluating not only specific projects, but also programmes of a strategic, thematic or geographical nature. This type of evaluation will become increasingly appropriate if FONPRODE's activity grows.

**The legal obligation to develop an evaluation plan on a biennial basis has not been fulfilled.** The legal obligation to conduct biennial evaluations has been included in the FONPRODE regulation since its initial approval in 2011. However, due to the systematic non-compliance therewith, it has recently been modified in 2020 to set a new date for publication. This time, the first half of 2022 was set as the deadline, which it has once again failed to fulfil.

**The evaluation reports of the Directorate-General for Sustainable Development Policies do not include financial cooperation within their areas of action.** The reports published annually by the Directorate-General for Sustainable Development Policies centralise the evaluation activity of Spanish cooperation and aim to lay the foundations for identifying issues that can support activity planning. However, these publications have not been found to include financial cooperation within their analyses.

**When defining objectives and results, methodologies such as the theory of change or the logical framework approach are not always followed.** These methodologies make it possible to analyse the effects associated with an intervention from its planning up to the moment in which it concludes and, subsequently, the development impact. The analysis of the operation reveals that it is almost exclusively applied in operations led by multilateral financial institutions, which are used to its application, while no application in operations with the private sector has been identified.

**COFIDES is the only public institution that has signed up to the “Operating Principles for Impact Management” initiative led by the International Finance Corporation.** The principles are a reference point for evaluating the impact management systems of the funds and the institutions. DEG, Proparco, BII, CDP and FinDev Canada, as well as many other public and private institutions such as the EIB and the Andean Development Corporation, have signed up to this initiative.

## 2.2.4. The institutional design of financial cooperation

**FONPRODE's management model is complex, with multiple agents and fragmented processes.** The legislation assigns ownership of FONPRODE to the State Secretariat of International Cooperation, with **AECID** taking on its management through **the FONPRODE Office**. However, the management of the fund involves:

- **COFIDES**, as an external support agent and with the status of an independent expert, since the 2014 reform.
- The **ICO**, as a financial agent, which formalises credit agreements with the beneficiaries of the operations for and on behalf of the Government, not of FONPRODE, because it lacks legal personality. The ICO is also responsible for the accounting and financial management of operations.
- The **State Secretariat of International Cooperation**, as the body responsible for arranging grants for multilateral non-financial development agencies.
- The **Ministry of Economic Affairs and Digital Transformation**, as the body responsible for relations with international finance institutions and responsible for external debt management.
- **Technical Cooperation Offices**, which provide support in the identification and monitoring of projects.
- **Legal service**: three different legal departments participate directly or indirectly in the management: the Legal Service of AECID, the Legal Service of the State Secretariat of International Cooperation and the Legal Service of the ICO. None of these legal services specialises in financial development cooperation.

**The FONPRODE office is responsible for administration of the fund, but delegates a significant portion of the technical and financial management to third parties.** The FONPRODE Office has a secondary role in the technical and financial evaluation of projects with the private sector and adopts a much more leading role in projects with the public sector.

**The work of the FONPRODE Office is perceived by the experts consulted as focusing on the administrative management of the fund, with limited staff.** The experts consulted stressed the proactive attitude of the FONPRODE Office, but noted that it focuses on management tasks. The experts consulted have highlighted that the management model and the lack of human resources consolidate a system in which the Office does not have the means to benefit from the knowledge of the other institutions that collaborate in the management of the instrument.

**COFIDES plays a predominant role in project management, focusing mainly on private sector activity.** According to Article 8.2 of the regulation, the work of COFIDES extends throughout the entire management cycle of the instrument:




- **Programming stage**: COFIDES will support the FONPRODE Office in the preparation of the four-year strategic programming of the fund and in the annual list of actions referred to in Article 6 of Law 36/2010 on FONPRODE.
- **Identification of operations**: COFIDES will provide support both in identifying projects

in accordance with the criteria established in the annual programming of the fund and in the identification work performed by the FONPRODE Office, providing support in the analysis tasks and accompanying identification missions.

- **Proposal stage:** COFIDES will prepare the reports on operation proposals (Article 16 of the regulation), analysis of impact on the public deficit (Article 8 of the regulation) and report on risk analysis, exit strategies and impact on debt sustainability (Article 15 of the regulation). The preparation of these reports shall include due diligence in financial, development and legal matters.
- **Operation formalisation stage:** According to Article 6 of the Regulation, the formalisation of the operations to be financed by FONPRODE involves establishing a negotiation process prior to signing the final documents. COFIDES must ensure the legal guarantee of the documents it submits for formalisation by the Administration.
- **Operations monitoring stage:** The legislation entrusts COFIDES with the monitoring of reimbursable financing operations, specifying the reports that need to be drawn up both on the operations and in relation to managing and evaluating the fund as a whole.

**The activity of COFIDES has traditionally been linked to the management of funds for internationalisation.** However, its activity has diversified as a result of its entry into providing advisory services to FONPRODE and, more recently, the management of the Recapitalisation Fund for Medium-sized Enterprises.

**TABLE 15. COFIDES ACTIVITY**

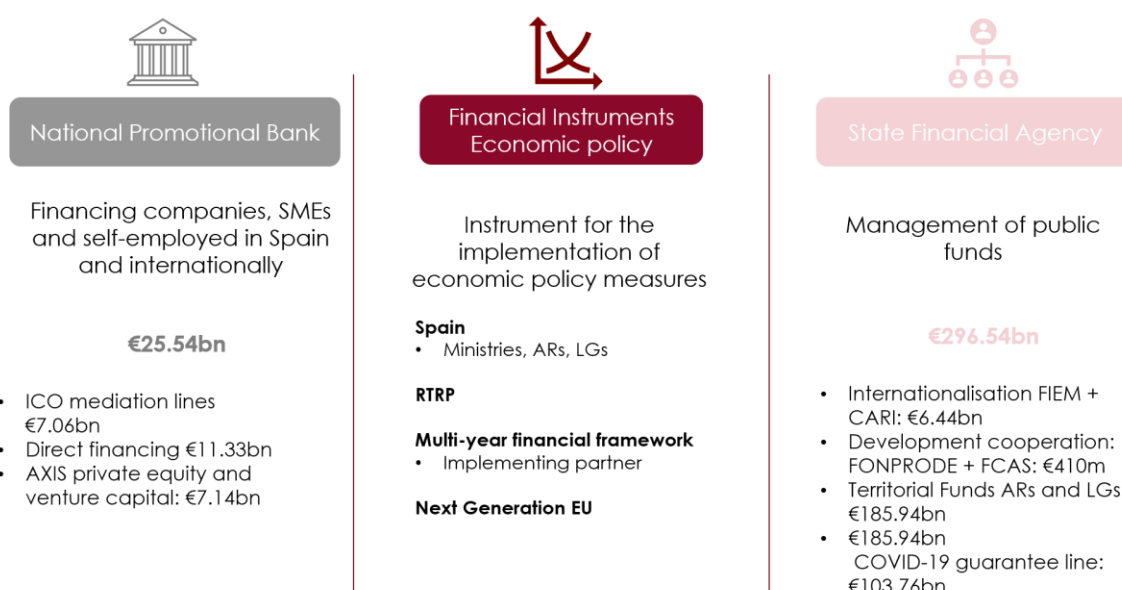
 Internationalisation.	 Development	 Solvency/Recapitalisation
Assets under management <b>€1.23bn</b>  <b>Funds</b> <ul style="list-style-type: none"> <li>• FIEX – Fund for Investments Abroad</li> <li>• FONPYME – Fund for Investments of Small and Medium-Sized Enterprises</li> <li>• COFIDES equity</li> </ul> <b>Types of asset</b> <b>Private sector</b> <ul style="list-style-type: none"> <li>• Equity</li> <li>• Hybrid</li> <li>• Debt</li> </ul>	Management and advisory services <b>€1.06bn</b>  <b>Funds</b> <ul style="list-style-type: none"> <li>• Advice: <b>FONPRODE</b></li> </ul> <b>Management:</b> <ul style="list-style-type: none"> <li>• Green Climate Fund</li> <li>• EU Budget</li> </ul> <b>Types of asset</b> <b>Private sector</b> <ul style="list-style-type: none"> <li>• Sovereign loans</li> </ul> <b>Types of asset</b> <b>Private sector</b> <ul style="list-style-type: none"> <li>• Loans to microfinance institutions</li> <li>• Capital in funds</li> <li>• Guarantees</li> </ul>	Assets under management <b>€1bn</b>  <b>Funds</b> <ul style="list-style-type: none"> <li>• <b>FONREC</b> – Recapitalisation Fund for medium-sized Enterprises</li> </ul> <b>Types of asset</b> <b>Private sector</b> <ul style="list-style-type: none"> <li>• Equity</li> <li>• Equity hybrid</li> <li>• Debt</li> </ul>

**The role of expert assigned to COFIDES sometimes conflicts with the support functions it provides to the FONPRODE Office.** For operations with investment funds, the Code of Responsible Financing requires the FONPRODE Office to actively participate on the governing bodies, exercising its right to propose resolutions to be voted on. However, due to

its technical nature, representation is normally delegated to COFIDES. This situation contradicts Article 8.f of the regulations, which establishes that COFIDES will participate in this type of bodies “without representative status”.

**COFIDES' technical support work is highly rated, but the existence of different institutional priorities and possible competition with FONPRODE itself in attracting resources are noted.** The technical capacity of COFIDES is highly rated by the experts consulted, although some have indicated that in development issues it is still necessary to further develop training and experience. On the critical side, the existence of different institutional priorities as a consequence of managing different financing instruments and possible competition with FONPRODE itself in attracting EU resources, for example, associated with blended finance, have been highlighted. **The Official Credit Institute (ICO) is a public bank with the legal form of a public business entity attached to the Ministry of Economic Affairs and Digital Transformation through the State Secretariat for Economy and Business Support.** It acts as a market-oriented National Promotional Bank and collaborates as an instrument of economic policy with various ministerial departments and public administrations with the aim of mobilising programmes for loans, guarantees or subsidies, and EU funds and resources and manages various funds with a variety of economic policy objectives on behalf of the State.

**TABLE 16. ACTIVITY OF THE ICO**



**The ICO, as the State's financial agent, is responsible for formalising, in representation of the Spanish Government and on behalf of the State, the corresponding agreements to be signed with the beneficiaries, with the exception of agreements with multilateral organisations, as established in Article 24 of the regulation.** The ICO monitors and controls the payments received and any related incident and, as the case may be, claims for unpaid amounts. It is also responsible for signing, where necessary, bilateral agreements for the renegotiation and cancellation of the assets of FONPRODE, following the instructions of the ministerial department responsible for external



debt, in application of the resolutions of the Council of Ministers in this regard.

**The work of the ICO as a financial agent is highly rated by the experts consulted, although the scarcity of resources for managing an increasing number of instruments has been highlighted.** The work of the ICO is recognised for its work as a financial agent, although some experts have also pointed out its role as an expert in structuring operations as a complement to COFIDES.

It does not receive any remuneration for this work. The shortage of resources suffered by the international financing unit, which is responsible for providing financial agent support to FIEM, CARI, FONPRODE and FCAS, but also for managing the direct financing of the ICO's international activity, was also highlighted. Finally, the experts consulted stress the importance of the ICO acquiring greater knowledge of development policies and impact metrics.

**The fragmentation and multiplicity of agents generates confusion in the international arena and prevents the identification of the appropriate instrument for collaborating on EU initiatives.** Spain does not have a reference institution in relations with the EU in the area of cooperation, such as AFD in the case of France or KfW in the case of Germany. Instead, there are multiple agents, such as FONPRODE, COFIDES, AECID or other instruments such as FIEM or the DCPs, that generates confusion within the EU institutions and can be an impediment to participation in EU-led programmes. This was shown in the interviews conducted, both from the point of view of those responsible for the different instruments in Spain and from that of the representatives of institutions from other countries.

**The current institutional structure in other European countries is a result of different historical circumstances and their experience cannot be directly extrapolated to Spain.** International evidence shows that there are different organisational structures that can help build a robust, coherent and integrated system of financial cooperation and that there is no one-size-fits-all solution applicable to all cases and circumstances. The choice depends on the starting point and the features of each administration. However, the organisational structure of the evaluation pivots, to varying degrees depending on the country, around three fundamental pillars: the co-responsibility and co-governance of different ministerial departments; the existence of specialised bodies for financial cooperation, and the leverage of synergies between different types of financial instruments.

**However, in light of current international practice and the views of the experts consulted, it is possible to identify a number of common elements:**

- a. **Political leadership:** The political leadership of financial cooperation is commonly carried out by the Ministry of Foreign Affairs<sup>28</sup>. Financial cooperation, as an instrument of development cooperation, must be aligned with the objectives and priorities set out in Spanish cooperation planning documents and the criteria and requirements laid down in legislation, as well as with the priorities determined in the dialogue with the partner countries of Spanish cooperation. DFIs<sup>29</sup> tend to have greater problems in adequately incorporating national objectives and priorities into their development projects, and the rigour in compliance with economic and social standards varies between different institutions.

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<sup>28</sup> There are exceptions, such as Germany, which has a ministerial department dedicated exclusively to development cooperation (Ministry of Economic Cooperation and Development, or BMZ for its acronym in German).

- b. **Predominance of co-governance between the Ministry of Foreign Affairs and the various economy ministerial departments** This co-governance can usually be manifested in different ways. Firstly, it can be substantiated by the presence of other ministerial departments in the supervisory bodies of the cooperation agency, as happens in Germany, where the Federal Minister of Finance and the Federal Minister of Economy and Climate Protection alternate annually as president and vice-president of the supervisory board of KfW. Secondly, co-governance is manifested by the involvement of other ministerial departments in the appointment of the cooperation agency's governing body, as in the case of France, where the chairman of the AFD's board of directors is appointed by decree, following a report by the Minister of Economy, the Minister of Cooperation, the Minister of the Overseas and the Minister of Immigration. Lastly, it should also be noted that the members of the board of directors also reflect the balance between the Ministry of Foreign Affairs and the various economy ministerial departments with a growing weight of the ministry responsible for climate finance.
- c. **Scale of operations:** The possibility of borrowing on the markets to fund financial cooperation activity is configured as a fundamental piece in the machinery of an institution that wishes to play a relevant role on the international stage. The international comparison shows that only those institutions that have the capacity to anchor themselves in the markets are those that play a catalytic role. If Spanish financial cooperation is to play a role similar to that of the major players on the international stage, it needs to have this tool.
- d. **Financial Instruments: The possibility of issuing guarantees plays a critical role in increasing financial cooperation activity and as a catalyst for higher impact operations.** The strong commitment of EU financial cooperation to guarantees is a reflection of the critical role that guarantees play as a catalyst for operations with a high development impact. However, it is a complex instrument that requires significant financial knowledge and professional risk management.
- e. **The type of financial instruments that can be used is not limited by law.** The rules and guidelines defining the scope of action of reimbursable cooperation agencies recognise a general non-limiting framework of instruments that can be used. While different instruments are sometimes listed, they provide a closed list of instruments.
- f. **The predominant legal status is that of a State-owned company, with or without a banking licence, and the application of private law in management.** FONPRODE's status as a fund without legal personality is an anomaly with no equivalents in the main international reimbursable financial cooperation agencies and constitutes a significant limitation on the performance of its activity. International evidence shows a predominance of State-owned commercial companies. By way of example, KfW DB is a public law banking institution under a banking licence and its subsidiary, DEG, has the form of a public limited company. For its part, AFD is an industrial and commercial public financial institution and State-financed company and its subsidiary, Proparco, is a public limited company that also has a banking licence.

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<sup>29</sup> [https://www.ohchr.org/sites/default/files/Documents/Issues/Development/DFI/OHCHR\\_Benchmarking\\_Study\\_HRDD.pdf](https://www.ohchr.org/sites/default/files/Documents/Issues/Development/DFI/OHCHR_Benchmarking_Study_HRDD.pdf)

- g. **Project generation capacity. Without an adequate capacity to originate projects, broadening the range of financial instruments will not serve to create enhanced cooperation in line with the objectives set.** Although financial instruments (loans, guarantees, equity, etc.) are necessary to provide financial cooperation with the appropriate means to finance projects, the capacity to originate projects is essential for performing an activity that meets the objectives that define Spanish cooperation.
- h. **Specialisation in development actions with the private sector.** All countries represented in EDFI have an institution specialising in private sector development finance cooperation<sup>30</sup>. Some of these institutions usually have medium- and long-term profitability objectives<sup>31</sup> as a mechanism to ensure some financial sustainability. According to the *OECD report entitled Private Sector Engagement for Sustainable Development: Lessons from the DAC*, actions aimed at mobilising the private sector require time, capacity and incentives for the adoption and effective evolution of appropriate strategies and tools. Although these actions can be performed within the same institution that carries out the activity with the public sector, the usual practice at an international level shows that, due to the need to establish differentiated strategies and have specialised staff, the two types of activity should be separated. Coordination and combination lead to the institutions belonging to the same group or even to a shareholding dependency between them.

**In contrast, and also at an international level, some multilateral development institutions do integrate cooperation with the public and private sectors within the same institution.** Multilateral regional development banks, such as the African Development Bank and the European Bank for Reconstruction and Development (EBRD), are part of the same institution. However, the World Bank Group does have a specialised entity in the private sector.

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<sup>30</sup> Italy is carrying out a restructuring process of the different instruments affecting CDP and SIMEST.

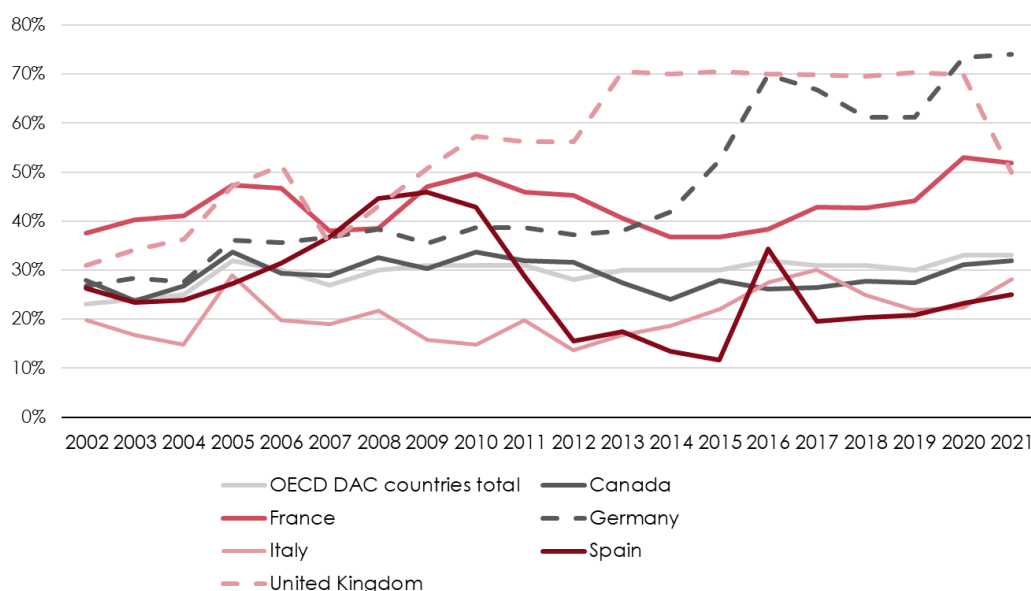
<sup>31</sup> FinDev has return targets for 2026 and BII, in its 2022-2026 investment strategy, has a cumulative return target of the total portfolio of 2%.

# 3.

## INTERNATIONAL COMPARISON

**The countries that have been analysed for international comparison are Germany, France, Italy, the United Kingdom and Canada.** Germany, France and the UK were chosen because they have long-established development cooperation systems and because they are the European OECD/DAC countries with the largest absolute official development assistance contribution. In addition, France and Germany have long-standing institutions that are highly important in the execution of funds, while the United Kingdom stands out for its financial cooperation with the private sector. Italy shows its similarities with the Spanish development cooperation system and has carried out a recent reform to adapt to the current context. Canada was chosen because it has a young DFI, under a financial cooperation system still under construction, and because of the specific feature that said institution is part of the agency that promotes the internationalisation of its national companies.

**The countries subject to this international comparison have generally been donors that have contributed a greater percentage of the gross national income of their respective countries to official development assistance than Spain.** This has been the case in Germany, France and the United Kingdom, which, with the exception of the years 2008-2010, have been above the average of OECD DAC countries in the last 20 years. Canada, Italy and Spain, meanwhile, show a trend below the average for OECD DAC countries in terms of official development assistance as a percentage of their gross national income over the last 20 years.

**FIGURE 14. ODA SPAIN AND COUNTRIES IN THE COMPARISON 2002-2021**

Source: Prepared by the authors based on OECD DAC data.

**The objective of this analysis is to identify good practices in the management and instruments of financial development assistance that may be of interest for the case of Spain.** Strategic, institutional, policy and management aspects have been analysed in the financial cooperation systems of the countries selected. This chapter presents the main conclusions.

### 3.1. Strategic framework

#### 3.1.1. Strategic planning mechanisms

**In most countries, the political leadership of financial cooperation lies with the Ministry of Foreign Affairs.** Germany is the only country analysed that has a ministerial department exclusively dedicated to development cooperation. The Ministry of Economic Cooperation and Development (BMZ) cooperates with other ministerial departments and agents involved in international development cooperation and sets guidelines for technical and financial cooperation, including specific targets for each category. In the other countries, the cooperation agenda is included in the external action agenda: in France, through the Ministry of Europe and Foreign Affairs (MEAE); in the United Kingdom, through the Foreign, Commonwealth and Development Office (FCDO); in Italy, through the Ministry of Foreign Affairs and International Cooperation (MAECI); and in Canada, through Global Affairs Canada (GAC), which includes the Department of International Development under its mandate.

**All institutions align their investment strategy and policies with their country's development cooperation policy.** However, the participation of the ministerial departments responsible for development cooperation in approving operations varies by institution. In addition, the representation of ministerial departments on the respective councils or committees of the institutions varies.

**In the German case, according to the BMZ guidelines, the legal relations between the German Government and its implementing agencies are governed by statutory regulations and other agreements.** Since 1966, KfW's bilateral development cooperation activity has been established in a general agreement between the Federal Republic of Germany and KfW. The BMZ provides a strategic framework and the KfW DB carries out its work and proposes projects and programmes to the BMZ. The BMZ supervises the model contracts that KfW DB enters into with its client and has to approve the financing carried out by KfW DB. In the case of DEG, the direct connection with the federal ministries is through its supervisory board. Ministerial departments can influence the activity of the DEG through KfW or the DEG Supervisory Board.

**In the case of France, the State exercises the political and long-range management of the AFD Group, on the basis of a framework agreement that determines the relations between the two<sup>32</sup>.** The State and the AFD sign a contract of objectives and means, which is prepared and coordinated by the Strategic Orientation Council and which binds the agency *vis-à-vis* the State and controls execution. AFD has on its Board of Directors members appointed by the Ministry of Economy and Finance, the Ministry of Europe and Foreign Affairs and to a lesser extent by other ministerial departments. Proparco, for its part, has representation from the Ministry of Europe and Foreign Affairs and the Ministry of Economy and Finance on its Investment Advisory Committee.

**In the case of Italy, CDP signs agreements to regulate its relations with the other institutions involved in development cooperation, such as the Ministry of Foreign Affairs and International Cooperation, the Italian Agency for International Cooperation and the Ministry of Economy and Finance.** CDP may allocate its own resources to development cooperation operations provided that they are consistent with national foreign policy priorities and within the annual limit of €1bn established by the Ministry of Economy and Finance<sup>33</sup> and subject to the favourable opinion of the Joint Development Cooperation Committee. This committee also approves bilateral and multilateral cooperation operations with a value of more than €2m and is informed of initiatives below that amount and of initiatives financed by its revolving fund through concessional loans.

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<sup>32</sup> The latest framework agreement between the French State and the AFD covers the period 2020-2022.

<sup>33</sup> This limit was established in the Agreement on Own Resources Limits signed between the Ministry of Economy and Finance and the CDP in December 2016.

**Almost all the countries analysed have different institutions to manage financial cooperation with the public sector and with the private sector. In addition, in every country analysed, there are development finance institutions that carry out operations with the private sector.** In Germany, financial cooperation institutions are the German development bank KfW Entwicklungsbank (KfW DB) for the public sector and its subsidiary Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) for the private sector. In the case of France, the financial cooperation entities are integrated under the AFD group. The group's parent company organises financial cooperation with the public sector<sup>34</sup> independently and in a complementary manner to its subsidiary Proparco, which is exclusively engaged in the private sector<sup>35</sup>. This is different in Italy and the United Kingdom. In Italy, CDP manages financial cooperation through its business line CDP International Cooperation and Development Finance, which integrates both public and private sector activities<sup>36</sup>. The United Kingdom has the oldest development finance institution, recently transformed into British International Investment (BII)<sup>37</sup> in order to highlight the role of the United Kingdom in international financing, under high standards and with a greater focus on the fight against climate change. In Canada, FinDev works with the private sector and GAC mainly with the public sector<sup>38</sup>.

**Some of the DFIs supporting the private sector in developing countries have explicit financial profitability targets in their strategy.** BII, in its 2022-2026 investment strategy, sets cumulative return targets of 2% of the total of its portfolio, measured over a rolling seven-year period. FinDev has profitability targets for 2026, but does not give details. The other institutions do not set specific profitability targets, although, to a greater or lesser extent, they highlight the need to be profitable. For example, DEG set a target for 2021 to “try to return to profit”.

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<sup>34</sup> Although it performs operations with the private sector, Proparco is the financial institution that is almost exclusively responsible for private sector financing.

<sup>35</sup> Following approval of the Draft Law on Solidarity Development and the Fight against Inequality in the World by Parliament on August 4<sup>th</sup>, 2021, the inter-ministerial agency for international technical cooperation, Expertise France, also joined the AFD group on January 1<sup>st</sup>, 2022.

<sup>36</sup> CDP's Development Finance division shares EDFI membership with SIMEST, a group entity that promotes the internationalisation of Italian companies.

<sup>37</sup> Until April 2022, BII was the CDC Group (Commonwealth Development Cooperation).

<sup>38</sup> It has relatively recent financial innovation programmes and they currently do not report significantly.

### 3.1.2. Coordination and coherence between the different instruments

**The various economy ministries play a significant role in the governance of financial cooperation.** In France, the Ministry of Economy and Finance jointly manages development cooperation policy with the Ministry of Europe and Foreign Affairs. In Italy, the Ministry of Economy and Finance is co-responsible, with the Ministry of Foreign Affairs and International Cooperation, for relations with banks and multilateral development funds and for debt relief operations. It also collaborates with the Ministry of Finance on the official development assistance budget, is the main shareholder of the development finance institution Cassa Depositi e Prestiti (CDP) and oversees the Revolving Fund for Development Cooperation (FCRS). In Canada, the Department of Finance manages Canada's contributions and relations with the World Bank, the International Monetary Fund and the European Bank for Reconstruction and Development. For its part, the Ministry of International Trade has Export Development Canada (EDC) under its mandate, whose subsidiary, FinDev Canada, is the development finance institution. In addition, the Minister for International Trade works with the Ministers for Finance and International Development on issues of financing for development.

**In France and Italy, there are inter-ministerial committees that coordinate the development cooperation agenda.** In France, it is the Inter-ministerial Committee for International Cooperation and Development and in Italy it is the Inter-ministerial Committee for Development Cooperation which is responsible for coordinating development cooperation activities. In addition, Italy has a Joint Committee for Development Cooperation, chaired by the Minister for Foreign Affairs and International Cooperation, in which members of the Ministry of Economy and Finance and the Italian Agency for Development Cooperation participate and decide on operational matters.

**Strategic and advisory councils for development cooperation integrate State and non-State actors in defining policies and guidelines for development cooperation.** In France, these are the Presidential Council for Development, the National Council for Development and International Solidarity, and the Strategic Orientation Council. In Italy, the National Council for Development Cooperation is an advisory body that brings together 50 members from different sectors. In Germany, the German Council for Sustainable Development (RNE) is an independent body that advises the federal government on sustainability policy issues.

**While none of the DFIs have a national interest linked to their operations, they may belong to groups that incorporate other lines of business to support their national companies.** The financing offered by DFIs is not conditional on interest from domestic companies in the country concerned. However, they can obtain funding to carry out development projects under the same conditions as companies of other nationalities. In addition, in the cases of Germany, Italy and Canada, the finance institutions belong to a group that incorporates other lines of business to support their national companies, for example to promote internationalisation or innovation.



## 3.2. Financial cooperation institutions

**The legal nature of FONPRODE prevents a comparison under homogeneous criteria with the other institutions operating for similar purposes.** The entities included in the comparison have legal personality, do not depend entirely on the State budget to finance their operations, have specialised teams to manage their operations and have a longer track record than Spain, which is the result of a different history and different circumstances.

### 3.2.1. Regulatory framework

**The legal status of development finance institutions is based on different modalities, but all of them are majority-owned by the State.** In Germany, KfW DB is a public-law banking institution and its subsidiary, DEG, is a public limited company. In France, AFD is an industrial and commercial public financial institution (EPIC) and publicly funded company. Its subsidiary, Proparco, is a public limited company with a banking licence. In Italy, CDP is a public limited company that acts as an investment bank. In the United Kingdom, BII also has the form of a public limited company. FinDev Canada is a Crown corporation or State enterprise, but also the department itself (GAC) can carry out financial cooperation. As shown in Table 17, the main shareholder can be the State (in Germany and France), the ministry responsible for development cooperation (United Kingdom) or the ministry responsible for economic or trade matters (Italy and Canada). In those institutions in which the responsible ministerial department or cooperation agency is not a sole shareholder, it shares ownership with financial institutions, foundations or private investors.

**TABLE 17. CHARACTERISATION OF FINANCIAL COOPERATION INSTITUTIONS IN THE COUNTRIES INCLUDED IN THE INTERNATIONAL COMPARISON**

Country	Entity	Legal status	Shareholders	Recipient of funding (public/private)
Germany	KfW DB	Public-law banking institution	Federal Government (80%) German Länder (20%)	Public
	DEG	Public limited company (GmbH)	KfW (100%)	Private
France	AFD	Industrial and commercial public financial institution (EPIC) and Public Financing Company (with banking licence – REGAFI)	French State (100%)	Both
	Proparco	Public limited company (with banking licence – REGAFI)	AFD (78.19%), French banks (9.81%), private investors (1.37%), international finance institutions (10.03%), ethical foundations and funds (0.6%)	Private
Italy	CDP International Cooperation	Public limited company (investment bank)	MEF (82.77%), bank foundations (15.93%), Treasury (1.3%)	Both
United Kingdom	BII	Public limited company	FCDO (100%)	Private
Canada	GAC	Ministry	Government of Canada	Both
	FinDev Canada	Crown Corporation (State-owned enterprise)	EDC (100%)	Private

Source: AIR<sup>e</sup>F.

**All the institutions have different sources of financing and do not depend exclusively on the State budget.** While it is true that all of them have an initial share capital that comes from the State budget, there are institutions such as the KfW Development Bank, AFD and CDP that are able to obtain financing in the market by issuing bonds. In the case of BII, 100% of its funds come from the Government, through shareholders and approval of the annual budget. Profits derived from its investments are reinvested in other operations. The contribution of funds from the ministerial departments to subsidise the concessional part of loans and the management of delegated funds by the institutions is also common.

**In addition, in Germany, France and Italy there are funds with development cooperation objectives and financed from the State budget that are partly or wholly managed by the respective financial cooperation institution.** In Germany, DEG is responsible for one of the three programmes of the BMZ Development Investment Fund, which aims to facilitate investment in Africa. In Italy, CDP manages the Revolving Fund for Development Cooperation, which is the main financial instrument used by the Ministry of Foreign Affairs and International Cooperation, under the supervision of the Ministry of Economy and Finance, for development cooperation purposes. This fund is mainly used for long-term concessional loans aimed almost exclusively at sovereign counterparties and intended for supporting initiatives in strategic sectors for developing countries. In France, the French Facility for Global Environment is set up as an inter-ministerial public fund managed by the AFD and FISEA+, a fund in the form of a public limited company, created by the AFD Group in 2021<sup>39</sup> under the initiative of Choose Africa Resilience and managed by Proparco.

**TABLE 18. NUMERICAL DATA OF FINANCIAL COOPERATION ENTITIES IN THE COUNTRIES IN INTERNATIONAL COMPARISON**

Country	Institution	Sources of financing for operations at the end of 2020 <sup>40</sup>	Portfolio at the end of 2020 (€m) <sup>41</sup>	Committed Investments 2020 (vol. €m and no. of investments) <sup>42</sup>
Germany	KfW DB	Funds obtained in the market (61%), State budget (35%), delegated funds (4%). Possibility of issuing bonds	No comparable data found	10,983 404
	DEG	Capital (36%), Other sources (64%)	8,487	1,453 81

<sup>39</sup> In 2009, FISEA was created by the AFD Group with the aim of promoting economic growth and the creation of SMEs on the African continent. All its resources had been exhausted in 2019. Hence the creation of FISEA+.

<sup>40</sup> European DFI data have been obtained from *EDFI Comparative Analysis 2020*. In the case of FinDev Canada, data have been obtained from the sources interviewed. In the case of AFD, data were only obtained from the group's annual report, and in the case of KfW DB, data were obtained from its annual report.

<sup>41</sup> European DFI data have been obtained from *EDFI Comparative Analysis 2020*. In the case of FinDev Canada, the data were obtained from its 2020 annual report.

<sup>42</sup> European DFI data have been obtained from *EDFI Comparative Analysis 2020*. In the case of FinDev Canada, the data were obtained from its 2020 annual report. For Afd and KfW DB, their annual reports have been used.

Country	Institution	Sources of financing for operations at the end of 2020 <sup>40</sup>	Portfolio at the end of 2020 (€m) <sup>41</sup>	Committed Investments 2020 (vol. €m and no. of investments) <sup>42</sup>
France	AFD	AFD Group: Funds obtained in the market (87%), State budget (6%), delegated funds (5%), State loans (2%). AFD has the possibility to issue bonds	No comparable data found	8,851  No investment number data found
	Proparco	Capital (18%), other sources, including AFD, FISEA and other DFIs (82%)	7,026	1,295  67
United Kingdom	BII	Capital (100%)	7,916	1,366  53
Italy	CDP International Cooperation	Own funds, funds from the State budget (Revolving Fund of Development Co-operation), delegated funds. No data found for the sources of operations approved in 2020	113	113  4
Canada	FinDev Canada	EDC and State budget for technical assistance and concessional contributions. No data found for the sources of operations approved in 2020	201 (USD)	107 (USD)  7

Source: AIR<sup>e</sup>F.

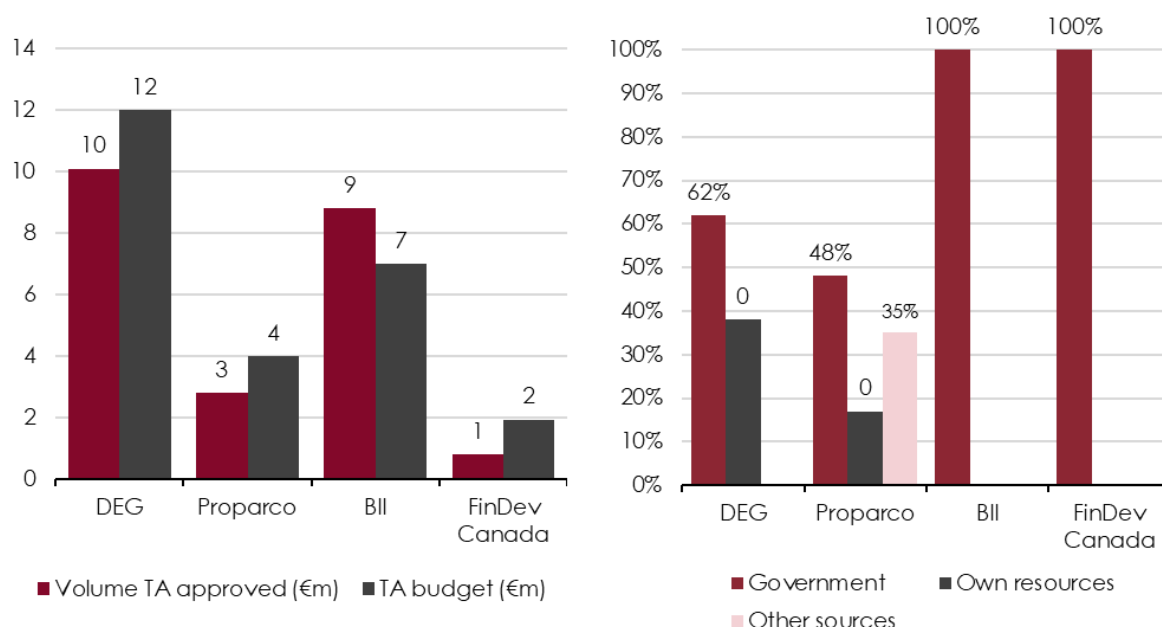
**Most development finance institutions have budgets for technical assistance, often from the relevant ministerial departments.** In 2020<sup>43</sup>, BII was the institution that approved the highest number of technical assistance projects (110), followed by DEG (100), Proparco (19) and FinDev Canada (10<sup>44</sup>). BII approved a greater volume of technical assistance than it had budgeted for that year. DEG and Proparco stand out for financing technical assistance operations with their own resources, in addition to those of the Government<sup>45</sup>.

<sup>43</sup> For European DFIs, the information from the *EDFI Comparative Analysis 2020* study was used. FinDev Canada reports with the current data on its website (and not until 2020) and in USD. The exchange rate at 31 December 2020 has been applied. Data from FinDev Canada's TA budget are reported in CAD.

<sup>44</sup> No data found for CDP.

<sup>45</sup> The EDFI study refers to "Government sources" as a source of technical assistance funding. The same terminology has been used.

**FIGURE 15. BUDGETED AND APPROVED DFI TECHNICAL ASSISTANCE (2020 PORTFOLIO)**



Source: Prepared by the authors based on data obtained from the annual reports and the EDFI study.

**Most finance institutions have no limits imposed by law on the type of financial instruments they can use.** KfW DB operates with grants and loans, which include soft loans, granted with funds from the federal budget to countries with higher poverty rates; development loans, structured with a combination of federal funds and funds raised on the capital market, with favourable market terms; and promotional loans, which are financed by KfW on the capital market, guaranteed by the federal government and targeted at developing countries. It also manages delegated funds from the EU and other countries or foundations. DEG operates through equity investment, mezzanine financing, long-term loans and guarantees. In France, the regulations of the French Monetary and Financial Code stipulate that AFD assistance may be granted in the form of loans, advances, the acquisition of shares, guarantees, grants or any other form of financial assistance. Proparco can operate with loans, equity and quasi-equity investments and guarantees. The BII's investment policy states that it may use any financial instrument for its operations<sup>46</sup>; although it lists a number of instruments, it makes it clear that the list is not restrictive. FinDev Canada and CDP International Cooperation and Development Finance can operate with loans, direct or indirect capital investments, through funds, with the possibility of co-financing and guarantees. CDP International Cooperation and Development Finance can award grants and their instruments and restrictions depend on whether the support provided is to the public or private sector.

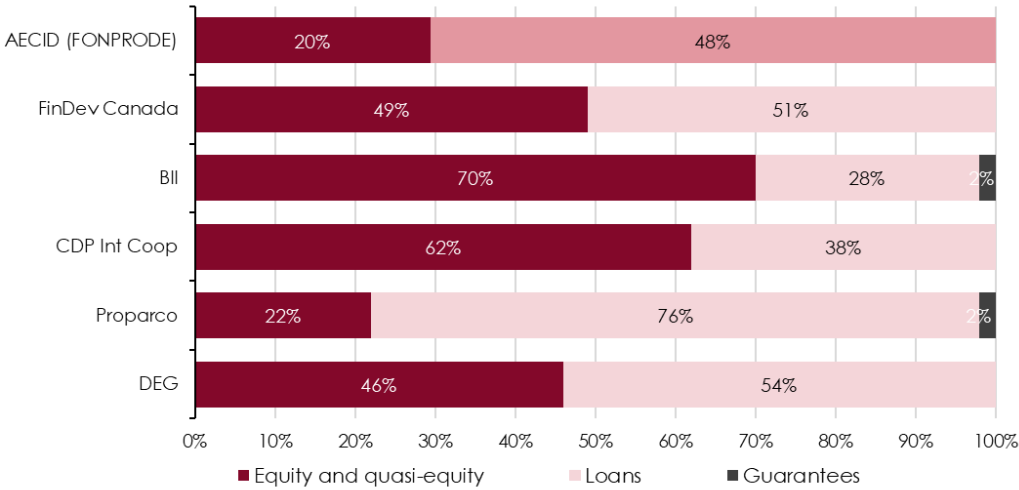
<sup>46</sup> From 2004 to 2012, its mandate was limited to indirect investment, through funds.



**Even though most DFIs have the possibility of using guarantees as a financial instrument, many make little or no use of them.** From the 2020 aggregate analysis<sup>47</sup>, the EDFI portfolio is made up of 2% guarantees. There are institutions, such as FinDev Canada, that, despite being able to operate with guarantees, do not yet do so because they do not have the necessary maturity.

**Most development finance institutions use more debt instruments than equity instruments.** There are exceptions, such as BII, which mostly carries out operations through equity or quasi-equity for reasons of market demand and due to its specialisation and greater risk tolerance.

**FIGURE 16. DISTRIBUTION OF DFI INSTRUMENTS (% PORTFOLIO 2020)**



Source: Prepared by the authors based on data obtained from the annual reports and the EDFI study.

**Most of the institutions analysed allow financing in local currency.** Both public sector and private sector support institutions are able to finance projects in local currencies, for which they actively manage exchange rate risk. BII is the DFI with the largest local currency portfolio (€1.08bn and €66m investments in 2020).

<sup>47</sup> EDFI Comparative Analysis 2020.

### 3.2.2. Procedural framework and human resources

**Most institutions have experts in finance, investment or development cooperation in their decision-making, advisory or consultative bodies.** The BII investment committee is responsible for approving operations for financing and is made up of senior BII staff as well as external experts with knowledge and experience in the BII's priority sectors and regions. For its part, the Board of Directors of the AFD has experts in economic and financial issues, ecological and sustainable development issues and migration issues, among other members. Proparco's investment advisory committee has AFD members for their sectoral or geographical knowledge and external members for their investment and financial knowledge in the countries in which it operates. In the case of FinDev, the Advisory Board, which strategically advises and guides its activity, has members assigned in consultation with the Minister for International Trade and the Minister for International Development, according to their knowledge and experience in international development cooperation or with the private sector.

The table below details the ministerial representation of each institution on their respective councils or committees.

**TABLE 19. MINISTERIAL REPRESENTATION ON THE BOARDS OR COMMITTEES OF FINANCE INSTITUTIONS**

Country	Institution	Sources of financing for operations at the end of 2020 <sup>40</sup>	Portfolio at the end of 2020 (€m) <sup>41</sup>
Germany	KfW	Board of Supervisory Directors	Minister for Finance, Minister for Economy and Energy, Minister for Foreign Affairs, Minister for Agriculture, Minister for Transport and Digital Infrastructure, Minister for Economic Cooperation and Development, Minister for the Environment, Nature Conservation and Nuclear Safety
	DEG	Supervisory Board	Four members representing Ministry of Finance, Ministry of Foreign Affairs, Ministry of Cooperation and Ministry of Economic Affairs and Energy
France	AFD	Board of Directors	17 members appointed by Ministry of Economy and Finance and the Ministry of Europe and Foreign Affairs
	Proparco	Investment Advisory Committee	Members representing the Ministry of Europe and Foreign Affairs and Ministry of Economy and Finance
United Kingdom	BII	None. Three of the nine members of the Board of Directors can be assigned by the Government, but they are independent	
Italy	No information available		
Canada	FinDev Canada	None. Its Board of Directors has EDC members and independent directors.	

Source: AIReF.

**In the United Kingdom, ministerial departments are not involved in the approval of BII operations.** BII has an arms-length based governance model. While this means that its operations and investment decisions are independent of the Government, the FCDO determines BII's investment policy, including its policy on responsible investing, appoints the Chairman of the Board and certain directors, and receives regular reports from BII. The Government and BII establish strategies every five years. These strategies and its investment policy authorise BII to invest the funds provided by the Government.

**In Canada, ministerial departments only approve operations funded by the State budget.** Like BII in the UK, FinDev Canada also has an arms-length based governance model. However, there is the exception of those operations that are financed through the Government budget managed by FinDev, with regard to which the relevant ministerial department is involved in their approval. For the activities it carries out through the technical assistance fund that it manages with GAC funds, FinDev reports to GAC twice a year.

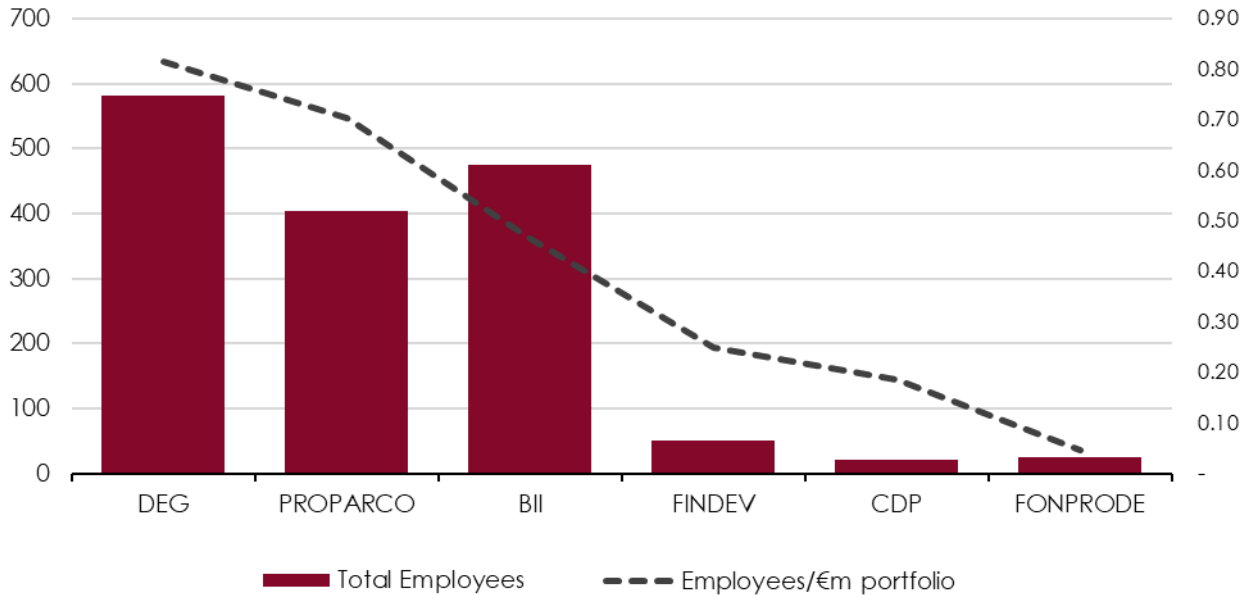
**The finance institutions with the longest track record have a higher number of employees than those created more recently, and there has been a notable increase in resources over the last decade.** AFD has 2,650 employees in 85 offices worldwide, including regional and local offices. At the end of 2020, Proparco had around 404 employees, 78 of whom worked in the field. KfW DB has a total of 1,328 employees at its headquarters in Germany, of which around 500 are engaged in central human resources, compliance and communication services. In addition, it has 329 employees in 72 of its partner country offices. DEG had a total of 565 employees at its headquarters in Germany and 16 employees in its partner country offices at the end of 2020. BII at the end of 2020 had 415 employees at headquarters, and 60 employees in regional offices. FinDev has a total of 50 employees, with the intention of hiring at least 12 more employees by the end of 2022<sup>48</sup>. Finally, CDP at the end of 2020 had 21 employees working in the development finance business line. The difference in numbers between FinDev and CDP with the other institutions is due to the fact that they are much younger institutions.

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<sup>48</sup> Taken from interview with FinDev.



**FIGURE 17. EMPLOYEES AND PORTFOLIO**



Source: AIReF.

**FinDev Canada and CDP are the only institutions that do not yet have a presence in the field.** This is the case of BII, which has six regional offices (in India they have two, in addition to South Africa, Kenya, Pakistan and Bangladesh) and a seventh will soon be opened in Singapore, in line with its new strategy of providing climate finance in South Asia. Proparco has 13 regional offices spread across the world and 11 branches. DEG, for its part, is represented in 20 offices in Africa, Asia, Latin America and Eastern Europe and shares 80 international offices of the KfW Group. KfW DB has 72 offices in partner countries.

It should also be noted that the strategic plan of FMO, a Dutch financial institution, which has traditionally focused on managing its business without a presence in the field, includes the opening of offices in Nairobi and Singapore.

**The management models of DFIs depend less on the presence in the field.** In the case of BII, although the initial purpose of the regional offices was not to generate projects, an internal analysis carried out by BII revealed that one third of the investments were defined in the destination countries<sup>49</sup>. Project identification may also arise from a sponsor, a third party or from the BII team at the head office. In the case of KfW DB, local offices are consulted during the negotiation process of projects or programmes of the federal government

<sup>49</sup> Taken from an interview with BII.

with its partner countries. However, projects are not only defined in the countries of destination, but also project managers from the head office travel to the destination for project identification. For the DEG<sup>51</sup>, the role of local offices is important in terms of networking with the companies it works with and also for portfolio management issues. Although some of the projects are defined at the head office, many are identified in destination countries. CDP does not have a local presence in developing countries. Neither does FinDev have regional offices for the time being and its strategy of identifying projects, due to the lack of presence in the countries where it operates, is through other DFIs that do have that a presence<sup>52</sup>.

### 3.2.3 Transparency and evaluation

**The countries analysed are members of the International Aid Transparency Initiative (IATI), mostly through ministerial departments responsible for international development cooperation.** This is the case in Germany (through BMZ), Canada (through GAC) and the UK (through FCDO). In the case of France and Italy, AFD and the Italian technical cooperation agency (AICS), respectively, are members of IATI. Although not a member, BII publishes IATI data on its website<sup>53</sup>.

**In addition to using the IATI standard, the governments and institutions of the countries analysed publish data on other platforms.** Germany reports on private finance mobilised by BMZ, BMF and KfW through the OECD Credit Reporting System (CRS). The Italian Government regularly publishes development assistance data on the publicly accessible Open Aid Italia platform. The FCDO shares information about its official development assistance programming through the DevTracker platform.

**Most development finance institutions have a transparency policy and they all publish their institutional information, annual reports and articles of association.** Most institutions publish information about the operations they carry out, with different levels of detail. The type of information that institutions publish can be found in the following table.

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<sup>50</sup> Taken from the interview with KfW DB.

<sup>51</sup> Taken from the interview with DEG.

<sup>52</sup> Taken from the interview with FinDev. 80% or more of FinDev's operations originate through other DFIs with which they have signed a MoU. Another of their risk mitigation strategies is that they need the involvement of another DFI or IFI for their operations, thus sharing the risk.

<sup>53</sup> IATI distinguishes between institutions that are members and those that, without the need to be members, can register and publish their data.

**TABLE 20. TRANSPARENCY FINANCIAL COOPERATION INSTITUTIONS OF COUNTRIES IN THE COMPARISON**

Country	Entity	Level of transparency: public information	Transparency initiatives with participation
Germany	KfW DB	Results obtained from evaluations Source of funds, how they are used and results obtained Projects contracted since 2013	IATI Transparency Portal Project Database
	DEG	Company information and financial position Corporate news Corporate Governance Report Projects and companies funded Annual Impact Report Internal Interactive Report (for departments)	AOTDS IATI
France	AFD Group	Institutional, strategic and operational information Governance information and composition of bodies Information on its strategy at a regional, national and sectoral level Information on AFD Group's projects (provided there is client consent) Semi-annual registration document and financial report Quarterly updated financial information	OECD DAC Guidelines IATI Principles of the Aarhus Convention Open data database International Financial Reporting Standards Global Reporting Initiative (GRI)
Italy	CDP SPA	Institutional information Annual reports Article of Association Strategic planning	
United Kingdom	BII	Operations (type of investments, countries, sectors, eligibility), due diligence, impact approach, organisational structure, financial reporting, policies) Governance (articles of association, annual accounts, board of directors and committee membership and functions, board meetings and committees) Investments (quarterly), aggregated portfolio data	Impact Research Challenge Fund IATI

Country	Entity	Level of transparency: public information	Transparency initiatives with participation
Canada	FinDev Canada	Business results, plans, services, products, main information on operations related to financial services: date, country, counterparties, financial product, description of activity, amount, domicile of operations Information on all operations: turnover, country, region, type of financial support Summary of social and environmental assessment and expected development impacts Assessment of social and environmental impacts of all projects Categories A and B	

Note: Except in the case of CDP, for which no transparency policy has been found, the information made public by each institution comes from its transparency policies. This does not mean that they do not publish additional documents. For CDP, documents found on its website have been included.

Source: AIR<sup>e</sup>F.

**All the ministerial departments responsible for international development cooperation in the countries analysed have evaluation units and committees or commissions that schedule evaluation activity and ensure its quality.** In France alone, a Commission for the Evaluation of Official Development Assistance, under the Court of Auditors and made up of deputies, senators and independent experts, was recently set up in 2021. In the other countries, the evaluation units are attached to the corresponding ministerial department, including the Ministry of Economy when evaluating the contributions of the Treasury to multilateral institutions, as in France and Canada. They all have advisory committees, commissions or councils and in the United Kingdom, they use the independent Evaluation Quality Assurance and Learning Service (EQuALS) to ensure the quality of the evaluations.

**TABLE 21. EVALUATION UNITS AND TYPE OF EVALUATIONS CARRIED OUT BY MINISTERIAL DEPARTMENTS RESPONSIBLE FOR INTERNATIONAL DEVELOPMENT COOPERATION IN THE COUNTRIES UNDER COMPARISON**

Country	Entity	Specialised Units	Type of monitoring and evaluation
Germany	BMZ	German Institute for Development Evaluation (DEVAL)	Selected evaluations after internal consultation process, with advisory council and ministerial department.
France	Government	Evaluation Committee on Public Development Aid Evaluation Unit of the Ministry of Foreign Affairs, under the Directorate-General of Globalisation, Culture, Education and Development Cooperation (DGM) Unit of Evaluation of Development Activities (UEAD) of the Directorate-General of the Treasury AFD Evaluation Unit	Evaluations of the efficiency, effectiveness and impact of official development assistance strategies, projects and programmes financed by France. Strategic evaluations of assistance carried out by DGM, methodological support to other departments Evaluations of cooperation activities carried out by the MEF. Thematic, strategic and programme evaluations of AFD
Italy	MAECI	Independent Evaluation Unit of the DGCS Advisory Board	Thematic reviews Organisational performance evaluations Sector, country, programme and project evaluations
United Kingdom	FCDO	Evaluation Unit Independent Evaluation Quality Service (EQUALS)	Thematic and strategic evaluations at central and decentralised level
Canada	GAC	Evaluation and Results Bureau (PRD) International Assistance Evaluation Division (PARA)  Performance Measurement and Evaluation Committee (PMEC)	Mandatory evaluations: (a) grant and contribution programmes with funding of \$5 million or more; and (b) commitments made to the Canadian Treasury Committee Discretionary evaluations: (a) GAC inventory programmes that must be evaluated regularly (b) grant and contribution programmes with funding of less than US \$5 million; and (c) other priorities and initiatives of the ministerial department Decentralised evaluations: (a) programmatic evaluations of projects funded through the international assistance fund, (b) evaluations commissioned, managed and used by Canada's programmes and cooperation partners.

Source: AIR<sup>e</sup>F.

**Public financial cooperation institutions, such as AFD and KfW DB, have evaluation policies, conduct different types of evaluations and report on their evaluation activity to their supervising ministerial departments.** AFD conducts ex-post project evaluations, in-depth evaluations, strategic evaluations, syntheses of evaluations conducted, and meta-evaluations. The evaluation department sometimes carries out analytical reviews, which may consist of mappings, analysis of operations, portfolio reviews, and other types of analysis. It also conducts joint evaluations with other donors and actively contributes to efforts to bring together the evaluation practices of EIB and KfW under the Mutual Reliance Initiative. KfW DB carries out final inspections of the projects within one year of their completion in order to assess the results and whether the partner needs additional support. The independent evaluation department of the KfW DB (FZ-E) randomly selects projects completed in the previous three or five years to determine whether the intended long-term effects have been achieved. It also conducts ex-post project evaluations on behalf of the BMU and the BMZ and produces biannual reports with results statistics and analyses by sector, region or theme.

**With regard to impact management, most DFIs subscribe to the operating principles for impact management and the EDFI principles for responsible investment and development financing.** There are other principles, frameworks, standards and metrics that are adopted by each institution. Table 22 illustrates the different principles, frameworks, methodologies, standards and metrics that each DFI<sup>54</sup> adopts in managing the impact of its operations.

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<sup>54</sup> CDP International Cooperation and Development Finance is excluded from this list as it was not included in the OECD study from which the data have been extracted.

**TABLE 22. PRINCIPLES, FRAMEWORKS, METHODOLOGIES, STANDARDS AND METRICS FOR IMPACT MANAGEMENT**

Principles and guidelines; frameworks and methodologies; standards, certifications and ratings; metrics and indicators	Proparco	BII	DEG	FinDev Canada
Operating Principles for Impact Management (OPIM)	X	X	X	X
UN Principles for Responsible Investment (PRI)		X	X	
EDFI Principles for Responsible Financing of Sustainable Development	X	X	X	X
Equator principles			X	
EDFI Harmonisation Initiative			X	
Joint impact model (JIM)	X	X		X
CERISE-IDIA	X			
Impact Management Project (IMP) Guide to Classify the Impact of an Investment	X			
Universal Standards for Social Performance Management (USSPM), created by the Social Performance Task Force (SPTF)	X	X		

Principles and guidelines	
Frameworks and methodologies	
Standards, certifications and ex ante	

Source: OECD: *Towards harmonized management and measurement of impact: the experience of development finance institutions.*

**Although a number of principles have emerged over the years, DFIs have mostly adopted the operational principles for impact management (OPIM) and the EDFI Principles for Responsible Financing of Sustainable Development.** While these are important steps towards harmonising impact management and measurement, they are high-level principles that do not always allow third parties to discern the depth and quality of evidence that investors use to link their investment strategy and impact objectives<sup>55</sup>. However, the sector criticises the OPIMs as they do not provide a standardised framework for reporting by institutions, either for organisations carrying out external verification of information or for evaluating the quality of the verifications.

<sup>55</sup> OECD (2021): *Towards harmonized management and measurement of impact: The experience of DFIs.*

**Most DFIs incorporate development impact as a major element in their investment process and conduct ex-ante impact assessments. However, there is no homogeneity in the impact measurement methodologies, which are normally designed by the institutions themselves.** DEG, for its part, assesses the efficiency of its investments through its Development Effectiveness Rating (DERa) tool. Information on baseline values and forecasts of expected effects is allocated over a five-year period, and the information is updated and compared on an annual basis. Proparco, for its part, uses the GPR Corporate-Policy Project Rating tool. BII carries out the ex-ante evaluation of the investments through a Development Impact Grid. However, BII and FCDO say they are committed to tracking results over time and using post-investment impact data to refine that grid. CDP's ex-ante assessment is based on a quantitative and qualitative methodology called the Sustainable Development Assessment (SDA). FinDev Canada also incorporates development impact as a major element in its investment process, setting three development impact objectives (market development, women's economic empowerment, and climate change adaptation and mitigation) and establishes a development impact management cycle that is incorporated into its investment process.

**There is a growing use of harmonised metrics and indicators by development finance institutions. The most common are those of HIPSO and GIIN IRIS+.** All the DFIs subject to comparison in this study are aligned with HIPSO, except FinDev Canada, which will soon do so, in accordance with its 2018-2022 corporate plan.



**TABLE 23. FRAMEWORKS, METHODOLOGIES, STANDARDS AND METRICS FOR IMPACT MEASUREMENT**

Frameworks and methodologies; standards, certifications and ratings; metrics and indicators	Proparco	BII	DEG	FinDev Canada
GPR Corporate-Policy Project Rating <sup>56</sup>	X			
Development Effectiveness Rating System (DERa) <sup>57</sup>			X	
CDC Group Developmental Impact Chart <sup>58</sup>		X		
Five dimensions of impact of the IMP <sup>59</sup>				
Taskforce on Climate-related financial disclosure (TCFD) <sup>60</sup>		X	X	
Performance Standards on Environmental and Social Sustainability of the International Finance Corporation <sup>61</sup>	X		X	X
Harmonized Indicators for Private Sector Operations (HIPSO) <sup>62</sup>	X	X	X	
GIIN IRIS+ <sup>63</sup>	X	X		Yes

Frameworks and methodologies	
Standards, certifications and ratings	
Metrics and indicators	

Source: OECD: *Towards harmonized management and measurement of impact: The experience of development finance institutions*.

<sup>56</sup> This impact measurement tool was not included in the OECD study and has been added. It is a tool created by DEG that measures the corporate and development quality of each investment in a transparent manner over the entire project cycle. It identifies a series of indicators that it classifies into four categories that are measured by a scoring system.

<sup>57</sup> This is a tool created by DEG, guided by the SDGs, which establishes the basis for impact reporting and scores the contribution to the development of each client, enabling it to monitor changes in performance.

<sup>58</sup> This is a tool that BII (formerly the CDC Group) has created to estimate the potential development impact of an investment.

<sup>59</sup> IMP has reached a consensus on five dimensions through which the impact can be measured.

<sup>60</sup> This working group was formed to develop a series of recommendations for reporting on financial risks related to the environment and climate.

<sup>61</sup> These are eight standards developed by IFC to guide the identification of risks and impacts of an investment.

<sup>62</sup> This is a set of development outcome indicators that were initially designed to mitigate the various requirements for the investee to report to the DFIs. Through these aligned metrics, entities receiving an investment can provide data based on a single, common set of indicators.

<sup>63</sup> This is an accounting system created by the Global Impact Investment Network (GIIN) that helps investors translate impact metrics into practice.

**The DFIs analysed are committed to disclosing not only the direct impact of their investments, but also the indirect impact.** The Joint Impact Model (JIM), launched by BII and Proparco, among other DFIs, and to which KfW DB and FinDev Canada also subscribe, is an input-output model that uses the financial flows of projects and social accounting matrices, alongside GHG and ILO data, to measure the indirect impact produced by an investment. Proparco uses this tool to estimate job and value added by country project level, as well as for ex-ante assessment during the due diligence stage of an investment. BII uses the tool to estimate the number of jobs supported by BII within its investment portfolio.

# 4.

## PROPOSALS

**Financial cooperation requires strong leadership and a predictable strategic orientation that, on the basis of planned growth in activity, will provide the system with the necessary capacities to carry out its mandate.** A lack of strong leadership and integrated strategic planning have prevented the development of a system that responds to the objectives to which Spain has committed at a national and international level.

**For the system to be operational, it is important to have an organisational structure that, in addition to leveraging the knowledge and experience already existing in the agents involved in the current cooperation system, has adequate planning.** The reform of the current system must be based on existing knowledge and the efficient use of scarce resources. However, the reform of the institutional framework should not be considered as an ultimate goal, but as a means to achieve certain objectives, on which a thorough reflection should be carried out.

**The Draft Law on Cooperation for Sustainable Development and Global Solidarity is an opportunity for an ambitious but gradual reform of the current financial cooperation system that will evolve in a sustained way over time towards a development bank based on the positive elements of all the agents involved in the process to date.** The Draft Law should be flexible enough to allow for an ambitious but gradual reform of the current system. The system must be able to evolve steadily over time towards a development bank, preparing the actors for this change to take place. However, the planned increase in the volume of resources to be managed will condition the degree of ambition that is necessary for its management.

**There are different configurations within the international panorama, as a result of the historical and idiosyncratic circumstances of the different countries.** There is no magic formula for designing a development bank. Undoubtedly, the political consensus and the historical moment are decisive when it comes to adopting one configuration or another, with a relatively wide range of alternatives.

The analysis of Blocks 1 and 2, supported by the international comparison, makes it possible to put forward a set of proposals to gradually make progress in the implementation of an ambitious system of financial cooperation. The strengthening of political will, the introduction of certain reforms in the regulatory and organisational frameworks, in training, in the management of instruments and in the area of strategic and budgetary planning will enable a

financial cooperation system to operate in a way that meets the ambitious objectives set. In this regard, a set of proposals is presented on the basis of the different pillars that the evaluation raises to make financial cooperation a more effective instrument within the current Spanish development cooperation system, while moving towards a more complete institutional context that will bring together the relative advantages of all the agents involved.

AIReF's proposals are structured on the basis of the defined blocks and pillars. These pillars are complementary and dependent on each other and both must be addressed in a coordinated and orderly manner.

## 4.1. Proposals relating to the strategic framework

### 4.1.1. Planning

**Provide financial cooperation with a more significant role in master plans and recognise its intrinsic characteristics. For this purpose, it is considered necessary to:**

- **Clearly define the entities and instruments whose activity should be considered as financial cooperation**, with the aim of facilitating the setting of objectives and the coordination of actions.
- **Perform a SWOT analysis of financial cooperation** as a preliminary step towards designing the actions associated with financial cooperation.
- **Adapt geographical and sectoral priorities to the features of financial cooperation**, although geographical concentration makes sense from the point of view of non-reimbursable cooperation, subject to budgetary reductions arising from a scenario dominated by austerity. The greater weight of the private sector, where sectoral rather than geographical issues weigh more heavily, calls for reflection on the need to impose severe geographical restrictions on financial cooperation.

**Provide differentiated objectives for financial cooperation.** The very nature of financial cooperation calls for its own objectives, in line with the general objectives of development cooperation. For this purpose, the following actions are proposed:

- **In addition to the master plans, development of biennial planning that defines performance indicators that allow ongoing evaluation of financial cooperation activity. These indicators should be based on impact models for ex-ante assessment and sector-specific indicators that can be measured ex-post. Biennial planning should set business objectives for the different financial products.**
- **It is proposed that financial cooperation should be planned at an inter-ministerial level so that it can be given sufficient centrality and unity of action.** Financial cooperation has a multifaceted nature that affects several ministerial departments, in particular the economy and foreign affairs ministries. The existence of complementary visions highlights the need for financial cooperation to be planned at an inter-ministerial level with the aim of providing it with the necessary centrality within the

planning process and as a necessary means to help coordinate actions.

**Develop a strategy to effectively and transparently integrate the private sector into the area of financial cooperation.** The very goals of the development agenda recognise the indispensable role that the private sector must play. Its role is recognised through the mobilisation of resources, technological capacities and management models useful for the achievement of the sustainable development goals. Financial cooperation is an especially appropriate instrument for promoting this private sector involvement in development investment. The existence of transparent and open dialogue between financing instruments and private agents and the provision of clear and accessible information on priorities and actions constitute the foundations on which this collaborative strategy must be based.

**Strategically plan the role that Spain should play in the area of EU financial cooperation and carry out a prior evaluation of the experience gained in recent years.** The use of EU resources must not be an objective in itself, but must be aligned with the priorities that Spain sets in its external relations. Rethink and analyse the role that Spain believes EU financial cooperation should play ought to be the basis on which Spain guides its priorities for action and the use of EU resources.

#### 4.1.2. Coherence and coordination

**Align all external action instruments in the achievement of the sustainable development goals and coordinate actions with the aim of increasing the impact of external action. For this purpose, the following actions are proposed:**

- **Strengthen the Inter-ministerial Cooperation Commission to coordinate and provide coherence to the different instruments of external action.** The Inter-ministerial Cooperation Commission should serve as a coordination tool to ensure coherence in terms of sustainable development between the different external action instruments.
- **Establish indicators and reporting obligations related to the development impact.**

**Strengthen the coordination mechanisms between financial cooperation instruments and between such instruments and technical cooperation instruments.**

- **Strengthen the coordination mechanisms between the different financial cooperation instruments** in order to align and provide coherence to the different actions.
- **Strengthen the coordination mechanisms between technical and financial cooperation** with the aim of taking advantage of the synergies existing between the two types of instruments.
- **Develop coordination mechanisms between the TCOs and the central offices.** The strengthening and specialisation of the TCOs in financial cooperation should be accompanied by greater coordination between their actions and those performed by the different agents participating in the management of FONPRODE from the central offices.
- **Improve coordination mechanisms between the TCOs and the Economic and Trade Offices,** with the aim of strengthening synergies between both types of office and

encouraging their collaboration in the use of EU financial cooperation instruments. The following actions are proposed in this area:

- **Develop pilot coordination projects between the TCOs and the Economic and Trade Offices.** The development of pilot projects will allow experience to be gained and will act as a demonstration of the possibilities for enhanced coordination of actions. This requires the different units to be aligned and to share objectives and certain capacities.
- **Develop coordination mechanisms that allow the participation of the Autonomous Regions in the reimbursable financing instruments of the CSA.**

**Provide coherence to the regulations and actions of the different instruments for external action in cross-cutting elements;** as regards financial cooperation, it is proposed to:

- Standardise the criteria associated with operations in tax havens.
- Establish systems for evaluation on common criteria and methodologies in those instruments that have sustainable development as part of their goals.
- Provide coherence to the framework of actions of COFIDES in relation to its actions as a development finance institution.

## 4.2. Proposals relating to FONPRODE

**The content and approval by the Council of Ministers on May 31<sup>st</sup>, 2022 of the Draft Law on Cooperation for Sustainable Development and Global Solidarity represents a significant milestone in the reform of the development cooperation system with important reforms associated with financial cooperation.** The Draft Law includes the creation of the Spanish Fund for Sustainable Development, a fund without legal personality (FEDES FCPJ), as an instrument of cooperation that replaces FONPRODE. The Draft Law, while offering an opportunity for the reform of the procedures associated with the management of the fund, consolidates some of the elements that AIReF considers need to be modified. The Draft Law should develop a sufficiently flexible regulatory framework to enable efficient and transparent management of financial cooperation. The current regulations are excessively regulatory and are more focused on the control of the activity than on promoting an efficient use of resources.

### 4.2.1. Regulatory framework

**A management framework based on an efficient allocation of responsibilities and accountability must be established, which implies:**

- **Providing the instrument with greater management autonomy and agility on the basis of guidelines and a strong technical team.** As with other external action instruments, decision-making should be based on the importance, qualitative or quantitative, of the operation, so that responsibility is efficiently assigned to the body best placed to make decisions. In this regard, a system of allocation of responsibilities is proposed, similar to that of FIEM, in which the manager of the instrument is empowered

to approve certain types of operations, which would reduce the long approval periods that currently exist.

- **Making the process for approving operations more flexible by including a clause in the regulatory implementation that allows for the approval of particularly significant operations by the Council of Ministers or by the Government Delegate Committee for Economic Affairs to be adapted to changes in priorities or risk considerations.** The incorporation of “operations of particular importance” in the regulation is a viable alternative to provide rationality and flexibility to the operation approval process. In this case, as in the legislation on risk coverage by the State, it is deemed appropriate that the State Secretariat of International Cooperation should also periodically inform the Government Delegate Committee for Economic Affairs of those operations that meet certain criteria.
- **Providing greater hiring flexibility and/or allowing collaboration agreements with other public and private institutions as independent experts.** The needs that may arise from a given project may be very varied and complex without there being a single institution that can possibly respond to all of them. The efficient use of resources requires flexibility and transparency in hiring procedures.
- **Reconfiguring the composition of the FONPRODE Executive Committee to include independent experts and limiting the number of members.** The composition of the committee must respond to the different aspects that are relevant when analysing an operation: technical, financial, legal, environmental, development impact, political and risk. Including independent experts is a good practice in the international environment. These independent experts may belong to other public business entities and/or members of civil society.
- **Establishing a risk-based approach based on the recommendations of the Financial Action Task Force that is consistent with other Spanish and European public financing instruments.** The aim should be to implement a risk-based approach that allows the implementation of a robust system that limits the risk of money laundering and terrorist financing.

**Establishing a range of financial products to be used, as broadly as possible, which allows for them to be adapted to the current situation and the instrument’s capacity for managing them. This must include:**

- **Explicitly enabling the possibility of carrying out operations under market terms and under concessional terms.** Financial conditions must be adaptable to the circumstances of the project and allow the possibility of establishing different types of loans.
- **Regulating the possibility for the ICO to issue guarantees on behalf of FONPRODE.** The ICO has extensive experience in issuing guarantees and is a necessary institution for effective participation in EU guarantee programmes. For this option to be viable, the possibility must be provided for the fund's budget to cover the amounts corresponding to the defaults arising from the execution of the guarantee, as well as the ICO's management and administration costs for the implementation of the guarantee.
- **Avoiding defining specific categories associated with the use of instruments that restrict its operations and limit its flexibility.** The detailed definition of

permitted categories has meant a significant restriction in the use of instruments and generates rigidities in the management of the instrument.

### **Removing restrictions that hinder the achievement of the instrument's objectives:**

- **Easing the restriction that all operations must be eligible for official development assistance.** This is a statistical indicator that measures the flow of funds from a donor outwards under certain assumptions. As such a statistical indicator, its characteristics include “simplicity”, i.e. the simplification of the phenomenon to be measured, the transfer of funds, for greater efficiency in data collection and to ensure comparability between different donors. However, the formulation of the official development assistance indicator is unable to include all the cases of actions that States can perform to cooperate with the development of partner countries. Its use can help to form a picture of part of the effort that a donor country is making. However, this vision will always be incomplete, leaving aside a major part of the actions that a country can carry out. There is also the additional aggregating factor that the official development assistance indicator does not consider the results obtained, but only the flows.
- **Removing the prohibition on credit financing for basic social services for countries considered as less developed by the UN system as this is not consistent with the objectives of the Fund.** Article 1 of the Law establishes that “the purpose of FONPRODE is the eradication of poverty, the reduction of inequalities and social inequities between people and communities, gender equality, the defence of human rights and the promotion of human and sustainable development in impoverished countries”. This is not consistent with the prohibition on the financing of basic social services to those countries considered as less developed by the United Nations system. In addition, the possibilities offered by blending allow structuring financially sustainable operations related to basic social services. This restriction has not been identified in any of our peer countries.

**Streamlining the documentation burden and avoiding duplication so that reports provide relevant and timely information.** The reports that are established as mandatory in the legislation must have a clear objective, avoid duplication, provide clear added value to the operation and take into account the experience and knowledge of the manager of the instrument. In particular, it is recommended to:

- Eliminate existing duplications related to debt sustainability reports.
- Define the terms and conditions under which the IGAE must issue the report on the overall profitability of the portfolio.
- Provide the reports of the General Secretariat of the Treasury and International Financing with information relating to the implicit and/or explicit subsidy of interest, taking into account grace periods.

**Make the budgetary and accounting framework coherent, adapting it as far as possible to the characteristics of the instrument.**

- **Restructure the budget items in order to make them more coherent.** The allocation of the budget of the fund to the State Secretariat of International Cooperation instead of to AECID is not optimal from an operational point of view, since it involves two



departments with differentiated budget management in the budgetary management of FONPRODE.

- **Assess the possibility of applying private law to the budgetary, economic-financial and accounting system of the fund.** In a similar way to FIEX or FONPYME, the application of the General Chart of Accounts and its corresponding implementing regulations is more appropriate to the activity carried out.
- **Consider interest subsidies as a relevant element in budgetary planning.** The interest rate subsidy should be planned as a reference variable when considering the limits for action.

#### 4.2.2. Procedural framework and resources

**Establish a regulated and transparent procedural framework that establishes a clear allocation of responsibilities:**

- **Provide the Executive Committee with internal rules of procedure.** The Executive Committee should be provided with internal rules of procedure that lay down elements relating to its activity and which, for reasons of efficiency in legislative technique, it is not advisable to include in the implementing regulation.
- **Develop a manual on the internal rules of procedure that integrates all the project stages and all the agents involved.** The management of the fund includes various agents with different responsibilities and a manual integrating all the stages of the project cycle needs to be developed for it to operate properly.
- **Approve a manual for the application of the code of responsible financing.** The provisions included in the code of responsible financing should be implemented by means of a procedure that will allow them to be used in a transparent and regulated manner.
- **Establish a risk management policy that follows the best practices of other similar institutions.** This management should take into account the different financial and non-financial risks faced by financial cooperation. Sovereign credit risk management should take into account the exposure of other external action instruments.
- **Establish a loan pricing procedure that considers the underlying risk and the type of operation.** No transparent and regulated procedure has been identified that allows the financial conditions associated with the loans to be established in an objective manner and adapted to the beneficiary's conditions.

**Provide the instrument's management with the technical and human resources necessary to perform its responsibilities efficiently. This means:**

- **Designing an action plan, with progress indicators, to strengthen the technical and human resources of the FONPRODE Office.** The strengthening of technical and human resources is a necessary condition for properly managing FONPRODE, which includes:
  - Performing a prior analysis of the technical and human resources.
  - Designing an action plan.
  - Providing budgetary resources to the action plan and implementing it.

- **Creating financial cooperation centres to enhance the technical expertise of the TCOs.** The knowledge and experience of the TCOs in financial cooperation need to be strengthened, for which the following action should be carried out:
  - Mapping local capacities
  - Defining criteria for the creation of financial cooperation centres.
  - Establishing financial cooperation centres with adequate technical and human resources.
- **Gradually increasing the presence of financial cooperation in Brussels to achieve greater influence in EU institutions.** It is necessary to improve capacities and strategic positioning to strengthen Spain's role, not only in coordinating actions with own funds, but also in defending Spanish interests within the framework of the EU. Programmes for exchanging knowledge and experiences between agencies (such as TAEIX, Twinning) can also be a way to strengthen Spain's visibility. The limited presence of financial cooperation in Brussels limits its ability to influence EU institutions and hinders its ability to generate partnerships and identify operations and thus position Spanish financial cooperation as an instrument for external action.
- **Establishing training programmes on financial cooperation.** These training programmes should include both the FONPRODE Office and the TCOs and other departments associated with technical cooperation.

#### 4.2.3. Transparency and evaluation

**Make the instrument's management more transparent by providing accessible information platforms that include complete, relevant and timely information. This requires:**

- **Reporting on a regular and timely basis to the chambers and coordination and consultation bodies on the actions and plans to be developed in the field of financial cooperation.** The information provided to the chambers must not only be complete, but also timely, and excessive time delays must not be acceptable. Delays in reporting are a source of mistrust and do not favour the development and support of financial cooperation activity.
- **Create a web repository that brings together all the information relating to FONPRODE's activity.** The web repository should include comprehensive and easily accessible information on FONPRODE's activity. This information should not only cover the operational activity, but also the financial and evaluation activity.
- **Publish and publicise FONPRODE's operational programming.** The operational programming of FONPRODE's activity is a planning element that should be published in due time and form. It is therefore considered appropriate that the legislation should limit the time period in which its publication must take place. In addition to its publication, its content should also be publicised in order to make the activity more transparent.
- **Develop an action plan to raise awareness of financial cooperation between the private sector and civil society.** The performance of communication work relating to financial cooperation planning and objectives is necessary in order to integrate civil society and the private sector in achieving the objectives set.

**Improving the reports relating to the activity to ensure coherence and full and timely information. This includes:**

- Unifying, as far as possible, the information on FONPRODE's activity, to avoid duplication.
- Providing consistency to the different reports with regard to the classification of operations and adopting a classification based on best practices. It would be advisable for the different instruments of external action to work on standardising the classification criteria.
- Including forecasts on repayments and information on expected disbursements within the planning horizon in activity reports. The information associated with reimbursements and disbursements, together with the forecasts of budgetary allocations, makes it possible to provide greater transparency in the management of the instrument and has been identified as a good practice in the international comparison.
- Providing complete information on the use of blending resources.
- Providing information on the companies awarded the projects financed by FONPRODE.

**Establishing a coordinated evaluation system that combines the internal and external evaluation of the activity performed in the framework of financial cooperation. For this purpose, the following actions are proposed:**

- **Defining the framework for the actions of internal and external evaluations.**
- **Developing a guide that establishes a framework for the performance of the evaluation process.**
- **Coordinating the evaluation activities with the DGPOLDES.** Coordinating FONPRODE evaluation activities with the DGPOLDES will improve coordination with other development cooperation activities.
- **Developing a management and evaluation plan to improve internal and external credibility and transparency, avoid fragmented knowledge in relation to operations and address operational risk.** The operations cycle should not end at the formalisation of operations, which should be monitored once they are approved. Feedback regarding the performance of the operations must be integrated into the management. Monitoring and evaluation should become essential functions of the operations management system. A monitoring system is needed for reporting and relating the results to which each action contributes. In the Draft Law on Development Cooperation, the need to strengthen the monitoring and evaluation function to assess the impact of Spanish cooperation on development results and knowledge generation is maintained.
- **Defining specific methodologies for development impact management for public and private sector activities that allow for systematisation around a results framework.** The use of such tools would facilitate the evaluation of individual projects and the activity of the fund as a whole.
- **Encouraging joint evaluation projects with other institutions.**
- **Establishing mechanisms to review the quality of evaluations** by setting up expert groups or specialised reviewers.
- **Publishing and publicising the results of the evaluations** as a means to provide transparency and to ensure that the information reaches the interested parties.

#### 4.2.4. Institutional design

**The existence of specialised bodies is critical for performing an increasingly complex activity** that requires technical profiles that are not usually present in ministerial departments. Exploiting synergies with other financial instruments makes it possible to leverage economies of scale associated with back-office management of the different instruments and provide a critical mass for participating in a globalised economy where size is increasingly important.

**In order for the proposals made in this report to be fully and effectively developed, it is necessary to move towards a reform of the current institutional framework that will allow the different challenges raised to be met.** These elements of the institutional architecture aim to respond to the challenges of a technical nature and, as far as possible, to those of an administrative-jurisdictional nature.

The need to build the new institutional framework on the basis of four core elements is evident:

##### 1. Achievement of national and international objectives

Achieving national and international objectives requires a significant increase in the resources committed for development cooperation. This means that financial cooperation should be strengthened because of its capacity to leverage resources. Planning and coordinating actions to achieve these objectives requires strong political leadership and technical knowledge of development cooperation.

The Ministry of Foreign Affairs, European Union and Cooperation, together with AECID, must lead the political steering of financial cooperation, providing the necessary guidelines to define and achieve the objectives associated with financial cooperation and providing coherence and coordination to the actions of the different instruments. Furthermore, the ambitious objectives set by the national and international agenda require the support of a financial institution, such as the ICO, which is able to significantly increase financial cooperation activity. Finally, the experience gained by the COFIDES team in the structuring of financial operations in the field of development is also relevant for providing the institution with the necessary technical knowledge.

##### 2. Financial instruments

The financial cooperation instrument should have at its disposal the broadest possible range of financial instruments. The mobilisation of financial resources from the private sector emerges as a key objective on the current development policy agenda. This requires institutions that are able to adapt to the requirements and ways of working of the private sector.

The Ministry of Foreign Affairs, European Union and Cooperation and AECID can contribute their experience in co-financing operations with international financial institutions. However, it would also be desirable to have an institution such as the ICO which is able to anchor itself in

the markets, issue guarantees, develop a complete due diligence process of operations, etc. as these elements are essential for future institutional design. It is equally important to integrate COFIDES' expertise in impact investment as a necessary means to strengthen the development component in the management of the instrument.

### **3. Economies of scale**

Financial cooperation entails significant fixed costs associated with the financial activity itself that can be shared with other activities with similar needs. The existence of scarce resources in financial cooperation and the growing complexity of the activity make it necessary to avoid the fragmentation of knowledge.

In this area, the integration and coordination of financial and technical cooperation, which the Ministry of Foreign Affairs, European Union and Coordination can seek by strengthening the role of TCOs, is particularly important. A better use of economies of scale can also be achieved by integrating the management of reimbursable financial cooperation with that of other financial instruments of a similar nature, while the business and financial management associated with their management makes it possible to reduce average costs.

### **4. Recognition and visibility**

The instrument must be given the required accreditations to enable it to carry on its activities on various fronts (delegated cooperation, climate finance, etc.) and to give it international visibility and recognition among its partners.

The new framework should be built on the basis of AECID and COFIDES' accreditations for delegated cooperation, COFIDES' presence in the EDFI network and the ICO's accreditation for the management of Invest EU funds, while taking into account the need for an easily recognisable institutional framework.

Based on these elements, the capacities that the different agents involved in the current design can provide are analysed and summarised in Table 24 below:

**TABLE 24. CAPACITIES OF THE CURRENT AGENTS TO BE INTEGRATED IN THE FUTURE INSTITUTIONAL DESIGN**

<b>Criterion</b>	<b>MAEUEC-AECID</b>	<b>ICO</b>	<b>COFIDES</b>
Achievement of national and international objectives	Steering and coherence of actions	Leverage and funding capacity	Experience in financial cooperation for development
Financial instruments	Experience in co-financing with IMF	The full range of products. Possibility of issuing guarantees	Experience in impact investing
Economies of scale	Knowledge in development and integration of technical cooperation and network of TCOs	Synergies with other instruments. Highly developed back-office	Synergies with some instruments
Recognition and visibility	Mutual recognition agreements. Accredited for delegated cooperation	Invest EU	Integration in EDFI. Accredited for delegated cooperation
	<b>Leadership and knowledge in development</b>	<b>Financial capacity</b>	<b>Human capital</b>

**With these premises, under the direction of the Ministry of Foreign Affairs, European Union and Cooperation, the institutional design of financial cooperation must move towards a system that integrates the technical knowledge of AECID, the financial capacity of the ICO and the human capital of COFIDES,** in order to achieve lower budgetary dependence, a sufficient scale of operations and clear recognition at an international level.

The President of AIReF



Cristina Herrero Sánchez

## GLOSSARY OF INITIALS AND ACRONYMS

AAAA	Addis Ababa Action Agenda for Financing for Development
ACCD	Catalan Agency for Development Cooperation
AECID	Agencia Española de Cooperación Internacional para el Desarrollo [Spanish Agency for International Development Cooperation]
AFD	French Development Agency
AfDB	African Development Bank
AGF	African Guarantee Fund
AIReF	Independent Authority for Fiscal Responsibility, AAI
BII	British International Investment
BMZ	Ministry for Cooperation and Development of the Federal Republic of Germany
CARI	Convenio de Ajuste Recíproco de Intereses [Reciprocal Interest Adjustment Contract]
CDC	Commonwealth Development Cooperation (extinct, now BII)
CDGAE	Government Delegate Committee for Economic Affairs
CDP	Cassa Depositi e Prestiti
CEF	FONPRODE Executive Committee
CESCE	Compañía Española de Seguro de Crédito a la Exportación [Spanish Export Credit Agency]
CIF	Climate Investment Funds
COFIDES	Compañía Española de Financiación del Desarrollo [Spanish Development Finance Corporation]
CRF	Code of Responsible Financing
CRS	Credit Reporting System
CSA	Central State Administration
DAC	Development Assistance Committee
DANIDA	Danish Cooperation Agency
DCP	Debt Conversion Programmes
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DERa	Development Effectiveness Rating
DEVCO	Directorate-General for Cooperation and Development of the European Commission
DFI	Development Finance Institutions
DGPOLDES	Directorate-General for Sustainable Development Policies
DOP	Dominican Peso

EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
EDFI	Association of European Development Finance Institutions
EFAD	European Financial Architecture for Development
EFSD+	European Fund for Sustainable Development
EIP	European External Investment Plan
EU	European Union
EUR	Euro
FAD	Fondo de Ayuda al Desarrollo [Development Assistance Fund]
FCAS	Fondo de Cooperación para Agua y Saneamiento [Cooperation Fund for Water and Sanitation]
FCM	Fondo para la Concesión de Microcréditos [Microcredit Fund]
FCPJ	Fund Without Legal Personality
FIEM	Fondo para la Internacionalización de la Empresa [Corporate Internationalisation Fund]
FIEX	Fondo para Inversiones en el Exterior [Fund for Investments Abroad]
FIIAPP	Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas [The international and Ibero-American Foundation for Administration and Public Policies]
FinDev	Canadian Development Finance Institution
FMO	Netherlands Financial Institution
FONPRODE	Fondo para la Promoción del Desarrollo [Development Promotion Fund]
FONPYME	Fondo para Operaciones de Inversión en el Exterior de la Pequeña y Mediana Empresa [Fund for Investment Operations Abroad of Small- and Medium-sized Enterprises]
GAC	Global Affairs Canada
GCF	Green Climate Fund
GEF	Global Environment Facility
GNI	Gross National Income
GPR	Corporate Policy Project Rating
GSB	General State Budget
HIPC	Heavily Indebted Poor Countries
IATI	International Transparency Initiative
ICO	Instituto de Crédito Oficial [Official Credit Institute]
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFI	International Finance Institutions
IGAE	Intervención General de la Administración del Estado [General State



	Comptroller]
JIM	Joint Impact Model
KfW	State Development Bank of the Federal Republic of Germany
LAEESE	Law 2/2014 on Action and Foreign Service of the State
MAEUEC	Ministry of Foreign Affairs, European Union and Cooperation
MAP	Marcos de Asociación País [Country Partnership Frameworks]
MFI	Multilateral Finance Institutions
MHA	Ministry of Finance
MINCOTUR	Ministry of Industry, Trade and Tourism
MINECO	Ministry of Economic Affairs and Digital Transformation
NDICI	Neighbourhood, Development and International Cooperation Instrument
NGDOs	Non-Governmental Development Organisations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OEI	Organisation of Ibero-American States for Education, Science and Culture
OFECOMES	Economic and Trade Offices
ONA	Oficina Nacional de Auditoría [National Audit Office]
OPIM	Operating Principles for Impact Management
Proparco	AFD subsidiary engaged in the private sector
SEC	State Secretary for Trade
SECI	State Secretariat of International Cooperation
SPV	Special Purpose Vehicle
TCO	Technical Cooperation Offices
TEI	Team Europe Initiatives
TOSSD	Total Official Support for Sustainable Development
USD	US Dollars
XOF	CFA franc (Central and West African Franc)



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