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Guarantee Funds in Microfinance: A Comparative Analysis

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Abstract

It is known that micro and small enterprises (often unbankable) have usually difficulties in the access to the financial system; in order to facilitate their credit access in many countries different kind of mutual guarantee schemes and institutions generally grant different typologies of guarantees.

Mutual guarantee schemes and institutions can significantly contribute to facilitate the credit access of micro and small enterprises, by reducing the information asymmetries between the lender and the borrower and, in some cases, by decreasing the cost of funding. In this perspective, this research aims at offering a comprehensive comparative analysis of the most significant models of micro credit sector and guarantee funds adopted in two European country (Italy and Spain) and in two African countries (Morocco and Tunisia).The perspective adopted in the paper is finally addressed to highlight the strength and weaknesses of the different typology of microcredit guarantee system, in order to: point out some regulatory or operative solutions which, once known, may improve the economic sustainability of the microcredit sector/institutions and, ultimately, can contribute to really facilitate the access to credit for microenterprises.

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1 Introduction

There exists a broad convergence in the literature, both academic and that produced by international institutions involved in economics, finance and development, that microfinance today is essentially facing two challenges. On the one hand, it must be more and more sustainable economically and financially. On the other hand, it must increase the outreach to have a more significative effect on the development processes in poorer areas of the world [Cull et al. 2008 and 2009(a); Bogan, 2009; Hulme & Arun, 2008]. Even so, there seems to be a trade-off between greater economic and financial sustainability and the spread of activity, to provide access to the credit for the poorest people, the “unbankables” [Cull et al, 2009; Armendáriz & Szafarz, 2009; Hermes & Lensink, 2007]. To keep these two needs together, greater innovations in processes and products are necessary in order to reduce transaction costs and informational asymmetries, to extend the term structure of contracts and to suitably assess, as well as manage the risks in microfinance sector (von Pischke, 2008). To answer the question of how to make microfinance more sustainable without running the risk of a mission drift, academic research, as well as policy makers, hypothesis a funding and assets structure more open to the market, to financial instruments such as: guarantee funds, microinsurance, microleasing, securitisation. The use of guarantee funds (Lopez & de Angulo, 2005, Szabó, 2005; Columba et al., 2009; Hardy et al.,) ranks among different proposals have been put forward. Normally used in ordinary credit, guarantee funds are being tested in microcredit sector especially in industrialized countries.

It is known that micro and small enterprises have usually difficulties in the access to the financial system for a number of reasons. These enterprises are often too opaque, not adequately capitalized, they lack of collateral and, more generally, they -are often considered too risky by the financial intermediaries. For all these reasons, it may happen that the financial system is not always able or interested to screen such firms adequately, thus determining some market failures. On the other hand, a large set of different stakeholders may have interest to sustain the development of micro, small firms, such as central and local governments, entities in charge to foster local economies, but also large companies which are concerned for the health of firms operating in the same chain.

In order to facilitate the credit access for such typologies of firms, in many countries different kind of credit guarantee schemes and institutions have been developed, which generally grant guarantees to small and medium enterprises (SMEs) that need funds from banks and other financial intermediaries but are generally unbankable. In financial systems in which micro and small enterprises have no substantial alternatives to bank credit, mutual guarantee schemes and institutions can significantly contribute to facilitate the credit access of such firms, by reducing the information asymmetries between the lender and the borrower and, in some cases, by decreasing the cost of funding.

The presence of the guarantee (and, where relevant, the co-guarantee and counterguarantee) that accompanies the request for microloans, on one hand allows improved credit access for microborrowers who, generally speaking, do not have guarantees to offer the financing banking intermediaries and, on the other, allows for lower credit risk and, where relevant, the relative patrimonial protection for the banking intermediary benefiting from the guarantee and supplying the microloan.

As known, in fact, the microcredit programmes activated by the various MFIs are exposed, as is all financing, to the risk that the person taking out the loan is unable to reimburse it (so-called credit risk[4]). Credit risk represents one of the most serious risks that the participants of the microcredit programme run, due to the high levels of risk perceived from the characteristics and the typical conditions of those on the receiving end of the microcredit programmes and the management of this risk, in reality, represents a very delicate aspect. The scarce creditworthiness of microloan beneficiaries has always pushed MFIs to find an alternative way of protecting themselves from said risk; the solutions adopted vary depending on the context in which the microcredit is carried out and from institution to institution; however normally they rely on insurance products, guarantee funds and securitizations suitable for the microcredit department.

Therefore, the presence of the guarantee, as well as often being vital in realizing a microcredit programme, in many cases allows the financing body to implement lower pricing on the microcredit, thanks to the reduction of the risk relating to the operation; secondly, it improves the sustainability of the microcredit programme. Finally, it has a positive impact on the outreach, or rather the ability to offer financial service to those who would normally be excluded from the traditional finance world.

As known, microcredit is one of the tools available to microfinance in helping the so-called “unbankables” to access credit. By “microcredit”, we usually intend to define two types of financial activities: “social microcredit” (aimed mainly at socially including the “excluded” by sustaining current accounts, social services, and ad hoc training courses) and “business microcredit” (aimed at starting up entrepreneurial activities and self-employment) which obviously have different purposes. Microcredit may be granted for any of the technical forms provided for ordinary credit.

2 Methodology and Logic Analysis Scheme

This paper, that is part of a research project (Sapienza University of Rome) related to "*Sustainable microfinance: guarantee funds and securitization*", aims to study the conditions for expanding the future of sustainable micro-finance in the Mediterranean Countries. Specifically, the paper addresses the issue of guarantee funds as a response to the trade-off between the extension of the activity for the access to credit for poor and “non-bankable” subjects and the reductions in the risk profile of the corresponding portfolios.

In the light of above, this research aims at offering a comprehensive comparative analysis of the most significant models of micro credit sector and guarantee funds adopted in two European country (Italy and Spain) and in two African countries (Morocco and Tunisia). Given that the Mediterranean area of North Africa consists of a non-homogeneous set of

[4]The concept of credit risk, as much in the world of microcredit and microfinance as well as in that of traditional finance, refers to the possibility that an unexpected variation in the creditworthiness of one party, against which there is an exposition, may generate a corresponding unexpected variation of the value of the same credit position. This definition includes both the possibility that the counterparty becomes insolvent and, therefore, unable to honour the financial obligations undertaken, as well as the possible variation of his creditworthiness. Compared to what happens in traditional finance, however, in microcredit more weight is given to the probability of insolvency of the counterparty, rather than the deterioration of his creditworthiness.

countries, that choice was made on the basis of some distinctive features such as the economic, structural (trade, investment, banking structure) and institutional profiles. In particular, from a research conducted by Intesa San Paolo (2010)[5,] it appears that, once compared to nearby countries, Tunisia and Morocco together with Egypt are characterized by a more diversified economy with moderate growth in high-labor-intensive manufacturing sectors and lively trade relations with the Europe. In those countries, the micro, small and medium-sized enterprises provide two-third of the total employment, being an important source of investment attraction, employment, economic growth and income redistribution; structural reforms, promoted by recent deep changes in the political systems, have focused the attention on the achievement of specific targets like creation of job opportunities and improvement the local businesses's competitiveness. That has been done by encouraging local initiatives and international micro-credit projects.

As regards Southern Europe, Spain and Italy stand out among those countries, facing the Mediterranean sea, that have devoted particular attention to development of the Euro-Mediterranean Partnership. Both Spain and Italy are industrialized countries, characterized by a small and medium-sized enterprises with significant experience in microcredit, due especially to the severe crisis in production and employment, which has involved both countries as a result of the international financial crises.

The structure and the organisation of the microcredit/microfinance sector in the countries that the paper analys are rather heterogeneous as they are the result of growth paths and development models belonging to different social-economic situations (country-specific guarantee systems).

Given these differences it was decided to make the comparative analysis is carried out between Italy and Spain and separately from Morocco and Tunisia.

The perspective adopted in the research is addressed to give a clear picture of microcredit sector/guarantee funds in the current scenario of the four coountries, focusing of three key investigation areas:

1) The regulatory framework and the supervision authority of microcredit/microfinance sector (*Regulatory Framework and Supervision Authority of microcredit/microfinance sector*);
2) The mapping of microcredit/microfinance institutions and operator (*Mapping microcredit/microfinance institutions/operators*);
3) The main features of microcredit guarantee funds: types, main operational features, guarantees beneficiaries, leverage ratio, etc.… (*Microcredit guarantee funds: main features*).

The analysis performed for each country started with the investigation area dedicated to the *Regulatory Framework and Supervision Authority of Microcredit/Microfinance sector* as the latter undoubtedly influences the legal and institutional layout of microcredit programmes, and defines both the scope of operation and the technical and legal characteristics of the mitigation tools provided. In fact, the microcredit/microfinance system requires a legislative and normative framework, which corresponds to the State powers, within which an interaction and alliance process must take place between the public, financial and business sectors. Thus, the public administration has interests such as promoting microenterprises, entrepreneurs and wealth, creating jobs and so on (logically

[5]*Intesa San Paolo (2010) "*Paesi del Sud Mediterraneo: crescita e opportunità del Business nel contesto delle relazioni con l'Unione Europea", Servizio Studi e Ricerca. *Editing Monica Bosi.*

this does not agree with financial entities, for example); entrepreneurs want to access financing with competitive conditions (cost, terms); financial institutions require a quality, certified guarantees that mitigate credit risk. Within the regulatory framework, a particularly relevant role is played, for banks in EU Countries, by the regulatory framework on capital (Basel 2[6]) which define the qualification requirements which the mitigation tool must comply to reduce the capital appropriation of the funding bank intermediary, against the credit risk, and therefore influence the *modus operandi* of guarantee intermediaries. The influence is stronger where credit guarantee institutions have acquired the legal and institutional status of supervised intermediaries, while it is weaker where they have not acquired said status. The rules of prudential supervision are different in line with the bank intermediary using the Standard, IRB Foundation or IRB Advanced approach; in any case, they change the possibilities/chances for credit guarantee institutions to only follow traditional logics and technical modalities. Yet, far from lowering the request for guarantees, Basel 2 seems to create quite the opposite effect as it offers new and interesting chances to all the guarantors who can adapt to its dictates by putting forward eligible guarantees. Thus, it enhances the operability of credit guarantee institutions; their guarantees, if compliant with the requirements stated, can be used by the funding banks to reduce credit risk, the following capital requirement, and therefore the same cost of funds allocated to the guaranteed parties. In this context, the guarantees, especially those best certified and Basel-compliant, are a scarce resource.

The investigation area called *Mapping microcredit/microfinance institutions/operators* is aimed to map the number, typologies, legal status, property and something structural information about microcredit institutions system in each country analysed.

The investigation area called *Microcredit guarantee funds: main features* is meant to investigate the features of microcredit guarantee funds (of a specific microcredit program) in terms of volume of guarantees granted, type and nature of guarantees offered, average cover percentage of funding, leverage ratio, numbers of beneficiaries/projects, sector involved etc (see table 1).

The individual investigation areas were examined using accessible information sources; these include the documents created by the individual national supervisory authorities, the reports on the investigation areas examined and literature on the subject.

The analysis scheme was arranged on the basis of the last available data. Though the lack of data did not always allow for the achievement of a historical depth, as a consequence, it was possible to highlight the main features and similarities among the microcredit guarantee funds. The following table (Table 1) shows the logic scheme used in our research work and its breakdown.

[6]These are international agreements relating to the patrimonial suitability of the banking and credit companies against risks undertaken. The agreement is structured on three pillars: the first relates to the patrimonial minimum requisites, which must cover the unexpected losses relating to the credit risk, market risk and operative risk; the second relates to the prudential control aimed at evaluating the patrimonial suitability; finally, the third relates to the discipline of the market and the transparency on the bank's risk profile. BCBS (2006), *Basel II: International Convergence of Capital Measurement and Capital* Standards: a Revised Framework, Comprehensive Version, June 2006, www.bis.org.

Table 1: Logic analysis scheme

Regulatory framework and supervision authorities of microcredit/microfinance sector	Specific microcredit regulation in each countries
	Principal contents of regulation
	Presence/absence of specific supervisor authorities (for microcredit operator)
	Regulation of guarantee funds
Mapping microcredit/microfinance institutions/operator	Genesis/beginning's date
	Numbers of MFI/operators in the last five years
	Typologies (non bank Financial Institutions, Government body, NGO or foundation, saving banks, others)
	What is their mission (social microcredit; microcredit enterprise development, ..
	Legal Status (financial intermediaries)
	Property (public, private, mainly public, mainly private)
	The territorial diffusion (national, regional, provincial) / rate of penetration
	The utility/product sectors involved
	Microcredit's tools/programmes activated
	Beneficiaries of the mitigation tools provided
	Microcredit/Microfinance tools critical
The microcredit guarantee funds: main features	Numbers and Typologies of guarantee funds and their development in the last in the last years
	Type/nature of the mitigation instruments offered and their compliance with Basel II
	Issuers/Funding of microcredit Fund
	Beneficiaries/client targeting
	Type of business supported
	Percentage of coverage
	Leverage rati
	Guarantee granting process (how many subjects involved, timing of lending; costs, etc)
	Creditworthiness analysis and feasibility of business idea: absence/presence of credit scoring model (who done it, how, when)
	Guarantee management: sponsorship; financial education; monitoring; reporting, other complementary and collateral guarantee services (who, when, how realized them? What are the related costs)
	Statistics of the guarantee fund: volume of the guarantee granted; numbers of beneficiaries/project; average amount of lending; average default rate recorded; Fee/interest charged by microborrowers; Guarantee Fee Repayment rate, etc
	Cost and benefits analysis of guarantee funds: sustainability

The perspective adopted in the analysis is finally addressed to highlight the strength and weaknesses of the different typology of microcredit guarantee system, in order to: point out some regulatory or operative solutions which, once known, may improve the economic sustainability of the microcredit sector/institutions and, ultimately, can contribute to really facilitate the access to credit for microenterprises and microborrower.

3 Microcredit Guarantee Fund: Regulatory Framework and Supervision Authorities. A Comparative Analysis

In the two North African Countries under analysis, there seems to be a normative system in the matter of microcredit that dates back to earlier than in the European countries analysed. This can certainly be explained in light of the different socio-economic contests of the Countries under analysis and, therefore to the “youth” of the microcredit sector in those European Counties that have been strongly affected by the economic crisis and, therefore, by a need for “smaller” credit compared to that in recent years. In Spain, the normative system is currently being planned, while in Italy the effective decrees are missing for a recently issued regulatory framework.
An initial comparative analysis between the regulatory framework of Morocco and Tunisia (Table 2) seems to uncover the following:

- in neither Country is there a clear distinction between social microcredit and microcredit aimed at microentrepreneurs (the two purposes, on a normative level but also within the actuation programmes, are often confused and superimposed);
- there is a “pyramid” structure of the microcredit sector, with inspection bodies at the top, followed by federations of category and, finally, microcredit associations/institutions;
- in both Countries, microcredit activity is strictly regulated (even in an analogous way); there are authorities supervising and controlling the sector even if they superimpose each other and are dispersed between various ministries and departments;
- within the regulatory frameworks in reference, a cap has been fixed for the application of interest rates which limits sustainability of MFIs, whose operative costs erode a large part of the profits and therefore the margins attainable with the microcredit business;
- there has been no return of a general regulation in the matter of guarantees but only regulatory prescriptions that define the operative methods of single guarantee funds.

Table 2: Regulatory framework: comparative analysis between Tunisia and Morocco

	Morocco	Tunisia
Specific microcredit regulation	Dahir nr 1-58-376 du 3 joumada 1 1378 (15th November 1958) regulates the associative right Law nr. 19-97 (published in the official gazette of 01st April 1999) regulates microcredit activity Law nr. 58-03 (Dahir nr. 1-04-12 du 21 avril 2004) modifies art. 2 of Law nr. 18-97 (official gazette of 2004-05-06, nr. 5210, pg. 667) Law nr. 04-07 of 30th November 2007	Law nr. 99-67 defines the general conditions for the exercise of microcredit Ministerial Decree of 29th September 2010 abolishes the ceiling of 5% on interest applied to microcredits Leg. Decree 117/2011 introduces a series of reforms for the microcredit department: governance system, control system, control authority and the relative powers, etc.

	(dahir nr. 1-07-166 du 30 november 2007, (official gazette of 2007-12-06, nr. 5584, pg. 1368) modifies art. 2 and 3 of Law nr. 18-97 Project of Law N53-10 approved by the Cabinet of Ministers on 06th December 2011 modifying art. 1 of Law nr. 18-97 Banking law 34/03 of 14th February 2006 (art. 13 title 1 chap. 1) (art. 53, title 4) subjects microcredit associations to control by the central bank	
Principal contents of regulation;	Law nr. 19-97: chap. 1: general provisions: definition of microcredit; chap. 2: conditions for the exercise of microcredits: art. 5 the associations of microcredit must be authorized by the Ministry of Finance, art. 6 the associations of microcredit must become sustainable within 5 years from authorisation, art 8: the maximum interest rate applicable to microcredits is set by Ministry of Finance Decree, having heard the opinion of the microcredit consultation board, chap. 3: the resources of the microcredit associations, chap 4: the control of microcredit associations, art 14 institutes the inspection board of the microcredit associations, art. 16 the ministry of finance having heard the opinion of the microcredit board establishes a minimum relationship between the assets and liabilities of the balances statements of the microcredit associations, chap 5: the tax regime of the microcredit associations, chap 6: the microcredit consultation board, chap. 7 the federation of microcredit associations, chap. 8 sanctions: art. 26 in the event of liquidation of a microcredit association it is given to the State who undertakes to pay it to another body with the same purposes. Law 58-03 extends the application of the regulations to mortgages for council accommodation and the financing of works to connect the water and electricity networks. Law 04-07 introduces microinsurance. The project of Law N53-10: the exercise of microcredit may be carried out directly by a microcredit association as well as indirectly through participation in a credit institution, new provisions for merger operations between microcredit associations.	Law nr. 99-67 defines the general conditions for the exercise of microcredits: art 1 definition of microcredit; art 2 beneficiaries, art 3 distributing bodies (microcredit associations in compliance with Law nr. 59-154). Ministerial Decree of 29th September 2010 abolishes the ceiling of 5% (+ 2.5% flat rate) on interest on microcredits (with the exception of credits distributed starting with BTS financing). Leg. Decree 117/2011 introduces the following reforms: 1) anonymous companies with capital of more than 3 mln TND that may carry out the activity of microcredit; 2) definition of governance standards, etc.; 3) the creation of a specific inspection authority; 4) the increase of the max amount of microcredits from 5,000 TND to 20,000 TND; 5) authorization microcredit associations to operate as insurance company agents

Presence/absence of specific supervisor authorities (for microcredit operator);	Central Bank (with inspection, information and sanctionary powers) The Ministry of Finances (with the power to regulate the sector, give authorization to operate, approve statutes, and the relative modifications, of the Federation of microcredit associations as well as the changes, to suspend managers of the microcredit associations for serious irregularities, nominate liquidating commissioners, etc) • The Federation of Microcredit Associations (guarantees the respect of the regulatory framework on behalf of its associates and should it find any violations it will notify the Ministry of Finance) • The Microcredit Committee has consultation powers; it carries out support activities for the regulation and supervision that the Ministry of Finance carries out in the sector in question	The Ministry of Finances which is entrusted the supervision of the sector Central Bank, that with new "concerted vision" plays control/supervision activities Control Authority (Leg. Decree nr. 117 2011 has instituted an ad hoc control authority, with the power to control, sanction and consult and informative powers over the sector)
Regulation of guarantee funds	There isn't a general regulation but only in relation to specific guarantee funds	There isn't a general regulation but only in relation to specific guarantee funds

In Italy, microfinance has recently been recognized as a privileged institute within the ambit of Italy's development strategy as highlighted by the regulations passed by the Italian Government to counteract the effects of the economic and financial crisis on human capital (decree law nr. 185 of 29th November 2008 and decree law nr. 78 of 01st July 2009). In particular, the regulations in question identify microcredit as a useful tool in starting up autonomous activities, microbusinesses and self-employment (art. 1 of the quoted Decree Law 78/2009). In this way, the vision of Italian policy makers is confirmed, considering microcredit as a welfare tool, finding a place both within the ambit of work and microentrepreneurship development policies and in those for social inclusion.

The regulatory framework in the matter of microcredit has only recently been issued; an initial legislative decree was issued in August 2010 (Leg. Decree 141/2010) putting into effect directive 2008/48/EC; this was followed by Leg. Decree 169/2012 that is still awaiting effective decrees. Said regulatory framework makes a clear distinction between microcredit for social ends and microcredit aimed at microentrepreneurship.

In Spain, the most important institutional supplier of microcredit to small firms is the banking system with banks (savings, commercial banks and microcreditbank) being by far the biggest providers. These banks provide mostly social microloans, but as well microloans to microentrepreneurs. In additon, the institutions cooperate with social and public entities as well as uses its own networks of branches for the distribution of loans, which enable the institutions to gain scale in their micro-lending activities.

From the regulations point of view, the banks that supply, operating under banking law have to fulfil all the requirements of Spanish banking legislation (regulation and supervision): transparency, minimum capital requirements, duties to report to banking authorities and other supervisory regulation, etc. These requirements are justified by two overall objectives: the soundness of the financial market and the protection of banks' clients and investors. This is with an exception to savings banks, as they distribute microcredit via foundations.

In reference to other entities providing microcredit, Spain has not adopted a legal framework for the organisation, operation and development of so-called “microfinance commercial companies. Historically, there has been a lack of lobbying efforts targeted at strengthening the microfinance sector, at creating adequate regulation and including microfinance in the national political agenda, as well as at raising awareness within the public sector. In september 2010, at the initiative of the Spanish Microfinance Forum, a working group was created to define a microfinance regulatory framework[7] in Spain in order to facilitate the emergence of microfinance institutions and the development of the sector.

In the Table 3 the Italian regulatory framework is compared with the draft Spanish one.

Table 3: Regulatory framework: comparative analysis between Italy and Spain

	Italy	Spain
Specific microcredit regulation	Leg. Decree 385/1993 Leg. Decree 141/2010 Leg. Decree 169/2012	Microfinance draft law
Principal contents of regulation	Leg. Decree 385/1993, art. 3 Leg. Decree 169/2012: people who can exercise microcredit Art. 111 TUB: conditions to be met to register in the roll of microcredit operator Definition of microcredit; Art. 113 of the TUB (art. 3 Leg. Decree 169/2012): Institution of an Supervisory Body for microcredit Art. 111 of the TUB (commas 1 and 3): purposes and amount of social and business microcredits	Main issues of the microfinance draft law: Objective Loans under € 25,000 to individuals excluded from traditional funding channels in Spain, used to set up or strengthen business activities, and/or improve the quality of life of the borrowers Subjective Entities providing microcredit, regardless of their legal form, are required to be non-profit institutions All entities, regardless of their legal form, must meet certain requirements in order to provide microcredit Technical requirements, accounting and administration Incentives Supervisory Body Functions: granting, renewing and revoking microfinance licenses; Organise an annual meeting of its members

[7]Calderon M.L, Rico S. (2011), *Microfinance in Spain: Impact and recommendations for the future,* Foro de Microfinanzas, n. 18, pp. 32-33.

		Composition of MFI: Representatives from different ministries: labour, industry, health, social policy and equality, economy and finance, rural and marine environment and ICO; Microfinance industry experts
Presence/absence of specific supervisor authorities (for microcredit operator)	Ministry of Finance Banca d'Italia Supervisory body (to be constituted)	Banco de España Supervisory Body
Regulation of guarantee funds	Exists in the ambit of regulatory framework on capital (Banca d'Italia, circ. 263/2006) which is obligatory for banks	Circular 5/2008 of the 3n October that established the principle of equivalent supervision for SGR (Sociedades de Garanzia Reciproca)

4 Microcredit Guarantee Fund: Mapping Microcredit Institutions/operators. A Comparative Analysis between Morocco and Tunisia

The mapping of microcredit operators – possible thanks to the information available - highlighted the fact that while in the two North African Countries there is a small (Tunisia) or a relatively small (Morocco) category of MFIs, in the two European countries there are many MFI operators; however they have a different juridical status and social mission; many work in accompanying, tutoring, training and information services in the microcredit department. We seem to be able to find a link between the different MFIs of the various Countries in support by the state or international agencies (Morocco and Tunisia) that also sustain the economicity of the management of said institutions.
Today, Morocco's microcredit market represents over 70% of that of the whole of North Africa (Algeria, Tunisia, Libya and Egypt); in the rest of the MENA area said market is relatively less developed. The success of Microfinance is linked to population density, smallness of a country's geographical size, low literacy rates, extent of industrialization, small geographical size, absence of postal services and its poverty as well as the amount of International donor funds it has received. The availability of oil exports as revenues may lead to a delay in developing microfinance. Establishing a specific legal framework for Microfinance, such as in Morocco, may help foster the growth of Microfinance. Conversely, in countries such as Algeria and Libya, the profit availability from net exports of petroleum may have discouraged the development of microcredit as a weapon against poverty (in alternative to state subsidies). Nevertheless, whereas Morocco and Tunisia have a specific law for microfinance institutions (Reille and Lyman 2005), Egyptian and Algerian NGOs are governed by the law on NGOs in general.
Today Morocco boasts two of the top fifty MFIs in the world even if, overall, there are

eleven microcredit institutions operating in the country for a loan portfolio (in 2011) of approximately 541 million dollars[8] (Table 4); their juridical status is that of association (the main five MFIs are looking to transform themselves into financial institution) or foundations.

Table 4: List of Microcredit Association (USD).

Name	web site	Date	Average loan balance per borrower	Gross Loan Portfolio	Number of active borrowers	Legal status	Established
Al Amana	http://www.alamana.org.ma	2011	792	233,300,281	294,633	ngo	1997
FBPMC	http://www.fbpmc.ma/	30/06/2012	840	181,938,376	216,607	ngo	1991
FONDEP	www.fondep.com	30/06/2012	620	81,991,593	132,347	ngo	1996
ARDI	http://www.ardifondation.org.ma	31/03/2011	241	25,461,490	105,708	ngo	2001
AMSSF/MC	http://www.amssfmc.ma/	2011	386	5,531,818	14,336	ngo	1994
Al Karama	http://fr.alkarama.org/	30/06/2012	256	4,050,300	15,845	ngo	1999
INMAA	http://www.inmaa.ma/	30/06/2012	395	2,375,457	6,014	ngo	1999
AMOS	n/a	2010	255	709,029	2,779	ngo	2000
ATIL	n/a	2009	475	653,485	1,376	ngo	2001
AIMC	n/a	2011	282	374,177	1,329	ngo	1998
Zakoura	http://www.zakourafondation.org/	2010	377	171,458	455	ngo	1995

Source: http://www.mixmarket.org

Among MFIs in Morocco three have a national coverage (Al Amana, Zakoura and FONDEP), three have a regional focus and finally five are officially proximity associations.

The MFIs are predominantly NGO-MFIs or state owned and they are heavily subsidized by policy makers. In all the Maghreb countries, in fact, the State seems to play a major part in the banking and postal systems and so in microcredit sector too. The size of the first five Moroccan MFIs varies from ARDI with 90 employees to Al Amana with 1845 employees[9]. The Moroccan MFIs contribute for 10-15% of the gross internal product.

Microfinance institutions operate principally in the main inhabited centres such as Rabat and Casablanca and are aimed at a mainly urban or semi-urban clientele (compared to the rural population which is more dispersed) and especially in the sectors of commerce and fishing.

Credit access for Moroccan businesses is rather problematic, mainly due to the high value of the guarantees required by the financial institutions that makes it less possible for many small and microentrepreneurs to obtain the necessary financing[10]. To improve credit

[8]Annual report on the control, activity and results of credit institution, 2011.

[9]http://www.mixmarket.org.

[10]According to the Africa Competitiveness Report 2009, the percentage of collateral requested by the banks is equal to 169% of the value of the loan, compared to an average of 103% in Countries of a similar economy to Morocco. Furthermore, the loans granted and guarantee by collateral are equal to 89.7% of the overall loans.

access for businesses, the Moroccan Government has set up, among other measures, a guarantee system supported by a main institution: the Caisse Centrale de Garantie (CCG)[11]. The CCG is a public, non-profit institution supervising Morocco's central Bank. It is a "tool" of the State, aimed at encouraging the creation, development (including social development, in particular via the guarantee of loans for council houses) and the modernization of companies. The main areas strategically covered by the CCG's activities are: loans for guaranteed investments, financial restructuring and risk capital; co-financing with banks of investment and innovation programmes; the guarantee of loans for social construction.

Tunisia was the first North African country to start microfinance; the first microcredit activities started as components of development programmes set up by NGOs in rural regions in the eighties to alleviate youth unemployment, paucity of micro-enterprises and poverty in rural areas. In particular, the first attempt at microcredit activities regards the agricultural sector; between 1962-1969, the first savings banks in Tunisia were introduced, allocating small loans to agricultural cooperatives. The experience did not last long but ended in 1969 with the failure of the cooperative experiment.

In contrast, the emergence of specialized MFIs and activity in urban regions is more recent, starting in the mid-1990s[12]. Microcredit was introduced into operative procedures more consistently from 1995. Just a few years later, as highlighted in paragraph XX, in 1999, the government authorized and regulated the activity of microcredit institutions by establishing a law.

Currently, the microfinance market in Tunisia numbers approximately 270,000 clients for a microloan volume of 220 million TND (approx. 105 million euro)[13].

The microcredit sector in Tunisia is based on two main pillars: public loans allocated by the Banque Tunisienne de Solidarieté (BTS founded in 1997) and distributed throughout the territory by microcredit associations (MCA) and the NGO Enda Inter Arab[14]. These are two institutions that are very complementary in terms of customer served and geographical coverage even if they are extremely different in mission, operative method and organizational structure. The BTS, which works in accordance with a national policy of extreme centralization of the microcredit business, offers extremely subsidized loans, both directly and indirectly, largely charged to the State and Enda operates with more market-based logic and according to international standards.

Most MCAs were created before BTS and carry out other functions (professional training

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World Economic Forum (2009), World Bank and the African Development Bank, Africa Competitiveness Report 2009, pg. 299.

[11]The CCG, created in 1949, is regulated by Law nr. 47 of 1995 and by application decree nr. 2-95-805 of 14th October 1996. Dar Ad-Damane, a private company, until 2009 managed, together with the CCG, guarantee funds, including public ones. Subsequently, with the amendments made by the governative authorities relating to the national guarantee system, only the CCG was entrusted with the task of managing the national guarantee fund, in any case leaving the company Dar Ad-Damane the possibility of continuing its own management of, exclusively private, guarantee funds.

[12]Ziadi, L. (2005), La microfinance en Tunisie: une dynamique du développement durable, Esprit critique, Hiver 2005, vol 07, nr. 1.

[13]Ministère des Finances (2011), *Vision concertée pour le developpement de la micro finance en Tunisie 2011-14*, pg. 32.

[14]http://www.bct.gov.tn/bct/siteprod/francais/politique/structures.jsp.

and other services of assistance and consultancy). They work with the subsidies granted them by BTS itself orwith funds from donors. In Tunisia there are currently 270 MCAs; in 1999 there were only six[15]. MCAs are non-profit associations that benefit from a very "light" regulatory framework; their only obligation is to maintain a minimum refund rate of 80% to benefit from the BTS's refinancing. The territorial penetration of microfinance was realized over almost all of the Tunisian territory thanks to the presence of MCAs themselves, but also for the availability of certain services that the finance system has traditionally considered to be of microfinancing (banks and the postal network). In carrying out their activity, MCAs can also take advantage of a guarantee from the FNG (Fond National de Garantie) which covers between 50% to 90% of the loans granted in exchange for a contribution of 1% on the amount of the loans themselves.
BTS is a bank of deposit by which access to the microcredit is facilitated to projects that generate income and that create employment in the different sectors of the economy in all national territories. It is the first Tunisian bank specializes in financing small projects; it is a government body which provides interest free capital to 227 NGI-MFIs to on lend. The state and other public bodies detain a share in the BTS capital of 54%. BTS has a focus on lending to university graduates and people with professional qualifications or craft and not having sufficient guarantees required by banks[16]. It also finances microenterprises and self-employment in urban, suburban and rural areas and especially in Family Support Network intervention areas. Finally BTS encourage all initiatives and opportunities to create revenue streams. The BTS, in fact, as well as granting microcredit directly, also does so indirectly via the MCA network. In particular, this is the only bank involved in financing micro- and small-business projects through two channels:
• the indirect channel consisting in the refinancing of the MCAs, for loans up to 5,000 TND[17].
• the indirect channel consisting in medium-term loans of amounts equal to 100 000 TND.
In December 2011, BTS boasted approximately 70,000 active clients. The resources of the BTS are state-owned and come mainly from national solidarity funds. From organization point of. From organization point of view, BTS has two agencies and 23 "cellules".
ENDA, an international NGO[18], was created in 1990 focusing on the environment and urban development. It is an international company and so it does not suffer from the limitations established by the law of 1999 and has freedom to apply real interest rates. Since 1995, it has focused on the development of microcredit with loans, partnerships and training in the regions of Etthadhamen, M'nihla, Omrane, Séjoumi, Sidi Hassine and Douar Hicher. This boasts a series of national and international partners (Unione Européenne, BEI, Oikocredit, Agence Française de Développement). Today, it is largely oriented to women[19] in the knowledge that women are the poorest part of the population,

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[15]Ministère des Finances (2011), Vision concertée pour le developpement de la micro finance en Tunisie 2011-14, pg. 35.
[16] Belgaroui, M. H., (2005), Performance et analyse des interventions des institutions de microfinance en Tunisie cas de la banque tunisienne de solidarietè: http://www.lamicrofinance.org/files/24285_file_performance_bts_Tunisie.pdf.
[17]Portail Microfinance: profil Pays Tunisie, April 2012, www.lamicrofinance.org.
[18]It is also a member of Enda third World family (based in Dakar, Senegal).
[19]A specific project was created in 1995, known as CRENDA, destinated especially to women in

despite the fundamental role that they have in satisfying families' vital needs. With this in mind, Enda Inter-Arabe has chosen to work especially with microfinance programmes favouring women, considering this a weapon against poverty.

Although Enda it was recently developing other types of programme, at present it has remained specialized in micro finance. Enda tries to strengthen microentrepreneurs capacities by offering a different types of non-financial services: training in simple accounting and management marketing, counselling (health, legal regulations) marketing, networking (discussion groups, excursions, trade fairs, get-togethers), technical supports (most clients are self-taught).

Approximately 80% of the loans granted by Enda were financed by the Tunisian banking system[20]; for the remaining 20% Enda counted on funds raised through a vast network of international partners (government development agencies, foundations, investment funds specialized in microfinance, etc.). From organizational point of view, Enda-ia's network consists of 65 agencies operating in 206 delegations. Each branch covers a radius of some 15 km, thus providing services within reach for customers and helping reduce their transportation costs and time. Enda contribute to the improvement of living conditions for low-income Tunisians, through a leading institution that is socially responsible and committed to the environment.

Our brief analysis shows that Morocco and Tunisia have a high degree of subsidy; Morocco also has a high degree of foreign funding.

In general, MFIs often need exemption of taxes or subsidies in the beginning to stabilize and a sustained source of financing for subsequent growth. The State's presence in MFIs in Tunisia and Morocco seems to be an uneliminable constant for the development of sustainable microfinance in these countries, for the definition of a regulatory framework that ensures healthy competition between the MFIs, for financing of the same. However, it seems that it is not always easy to pursue the balance between the support of the policy makers and the necessary operative independence that these MFIs should have to carry out their mission efficiently.

For both Countries in reference, a certain opaqueness has been found in the information publically available regarding microcredit programmes, operative methods, subjects involved, beneficiaries of the same (all too often undefined in a clear and unequivocal way), the results obtained, the actual impact on the economy, etc. This information gap, in fact, impeded the carrying out of suitably detailed analysis (as set by the logic analysis diagram - Table 5) on the last information area of our research, as clarified below. The exceptional development of microfinance in Morocco, compared to Tunisia, can be ascribed to factors not only socio-cultural in nature, but also to differences of economic, political, and institutional characters (among them governance, the finance system and the regulation of the whole sector).

The analyses carried out seem to have uncovered a lack in government or other programmes for the protection of the unemployed and adults with difficulties. In both the Countries' analyses (Table 5), the operative/organizational structure of the MFIs systems guarantees complete geographical cover of the territory even if, often, problems linked to communication and information methods impede large sections of the population from being aware of the active microcredit programmes. The protected merchandise sectors are

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microbusiness.

[20]www.endarabe.org.

those typical of developing economies even if in Tunisia the two main MFIs seem to have a strong sectorial specialisation.

Table 5: Mapping Microcredit Institutions/Operator: analysis between Morocco and Tunisia[21]

	Morocco	Tunisia
Genesis/beginning's date	1993	Micro-financing has been adopted since independence (March 1956) in priority sectors for economic development. In contrast, the emergence of specialized MFI was in the early 1990s (Enda Inter-Arabe)
Numbers of microcredit institutions/operators in the last five years (2005-2011)	11 MFIs	2 main MFIs: Enda Inter-Arabe and Banque Tunisienne de solidarité (BTS). Many MCA
Typologies (non-bank Financial Institutions, Government body, NGO or foundation, saving banks, others)	NGO	Enda is an international non-profit NGO; BTS is a financial institution. The MCAs are non-profit associations
What is their mission (social microcredit; microcredit enterprise development, ..)	Social microcredit and enterprise microcredit (help people with limited economic resources to set up and develop their own production or service activity, with the aim of ensuring their economic viability)	Social microcredit and microcredit enterprise development. Enda: contribute to the improvement of living conditions for low-income Tunisians, through a leading institution that is socially responsible and committed to the environment. Banque Tunisienne de Solidarité: lending to university graduates and people with professional qualifications or craft and not having sufficient guarantees required by banks. Financing microenterprises and self-employment in urban, suburban and rural areas and especially in FSN (Family Support Network) intervention areas. Encouragement of all initiatives and opportunities to create revenue streams
Legal Status (financial intermediaries)	Associations (the main five MFI are looking to transform in financial institution) and foundation. The CCG is similar to a credit institution	Enda: is an international non-profit NGO. Banque tunisienne de solidarité: is the first Tunisian bank specializes in financing small projects
Property (public, private, mainly public, mainly private)	Mainly public	Enda: private; Banque Tunisienne de Solidarité: public; MCA: private property, public control

[21]In the table, compared to the logic diagram, those items for which insufficient or unreliable information was found for both countries analyzed have been eliminated.

The territorial diffusion (national, regional, provincial) / rate of penetration	3 at nationally, 3 at regional and the others local level as proximity associations	Enda-ia's network consists of 65 agencies operating in 206 delegations. Each branch covers a radius of some 15 km, thus providing services within reach for customers and helping reduce their transportation costs and time BTS: 2 agencies and 23 "cellules" MCA: they operate over almost the entire Tunisian territory
The utility/product sectors involved	Commerce, fishing, entrepreneurial microactivities, craftsmanship and commerce, tourism and in rural sector	Most activities financed by Enda-ia are in the informal sector, especially buying and selling. Enda-ia is currently focusing on developing micro-enterprises in rural sector and is also taking measures to better target sectors such as production/handicrafts and services MCA: in large part, rural sector
Microcredit tools critical	The significant growth of the microcredit sector and so (especially in the last years) of the non-performing loans	• lack of transparency/communication on the detailed information regarding the different microcredit products and the relative technical conditions for allocation, • Centrality of the BTS • Strong dependency on state subsidies

5 Microcredit Guarantee Fund: Mapping Microcredit Institutions/operator. A Comparative Analysis between Italy and Spain

5.1 Microcredit Guarantee Fund: Mapping Microcredit Institutions/operator in Italy

In *Italy*, the credit guarantee system, aimed at easing credit access, is based on several levels and various types of institutions, both private and public, including reciprocity guarantee companies, banks and other finance institutions, private non-finance institutions and public funds established on the local, regional and national level. The State has an active role supporting the system, supplying resources for reciprocal-origin funds and public guarantee programmes.

Up until very recently, the lack in Italy of an ad hoc regulation on microcredit had caused different kinds of institution to become promoters of microcredit initiatives/programmes. All this makes it particularly complex to draw up an unequivocal map of microcredit operators that occasionally include Religious Bodies, Third Sector Organisations and non-banking Foundations and subjects of a public-institutional nature. At first position among the latter are Regions and regional Finance companies, also for the EC addresses and the possibilities for loans offered by European Funds for interventions within the Microcredit field, but Provinces and Councils are not excluded having promoted (in 2011), overall, 11% of all microcredit projects[22]. The panorama of the microcredit sector in Italy appears, therefore, extremely varied. Nonetheless, conforming to a more rigorous definition of microcredit (art. 111 of TUB amended by Leg. Decree nr. 141 of 2010 and subsequent legislative interventions) we are able to restrict the class of subjects that can be effectively ascribed between the MFIs. There is no official map to refer; Italian MFIs are very different for mission, juridical status, core business, etc..It would seem, however, that the Italian MFIs mapped have a rather consolidated operative experience, considering that half of these were established during the 1980s and 1990s and the other half after 2000. Regarding the territorial ambit of operativity of microcredit promoters, a context "of territorial proximity" prevails, coinciding with the provincial and council dimension compared to the regional or national dimension.

MFIs often work together with other public and private partners in the ambit of the microcredit supply chain. The majority of microcredit initiatives are the results of an articulated partnership that sees the co-presence of many subjects both public and private in nature and belonging to third sector organisations, which actively cooperate in realizing a microcredit project/programme. In the partnerships that give life to Microcredit projects there are, in 85% of cases, firstly private companies (including banking institutes), secondly third sector organisations, present in 77% of all cases, and thirdly public entities. present in 60% of all cases[23]. Those initiatives of a purely public nature are the more demanding minority, together with those of an exclusively private nature.

The reference territorial ambit for microcredit, in general, is provincial (sometimes regional) as proof of the fact that microcredit is an operative configuration typical of banking localism, which is carried out in a relatively limited economic space in the ambit of which it would be opportune, in order to optimize the entire microcredit supply chain, to strengthen the network of relations with local associations, policy makers, microcredit initiative promoters and other entities who, in various roles, interface with the financial needs of microborrowers.

There are numerous microcredit programmes active in Italy (Table 6). In the ambit of these, the weight of the Convergence Regions (Campania, Calabria, Puglia and Sicily) is not at all irrelevant but rather superior or equal to the other geographical areas. Overall, more than a third of the initiatives started up in the entire country were active throughout all of Southern Italy by 2012[24.]

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[22]Ente Nazionale per il Microcredito (2012), Monitoring of the integration of work policies with local development policies of productive systems regarding microcredit and microfinance, Annual report.

[23]Ente Nazionale per il Microcredito (2012), Monitoring of the integration of work policies with local development policies of productive systems regarding microcredit and microfinance, Annual report.

[24]Ente Nazionale per il Microcredito (2012), Monitoring of the integration of work policies with local development policies of productive systems regarding microcredit and microfinance, Annual report.

Table 6: Geographical distribution of Microcredit initiatives

Geographical areas	Microcredit initiatives	Distribution %
North West	15	19.2
North East	17	21.8
Centre	19	24.4
South convergence	18	23.1
South no convergence	9	11.5
Total	78	100.0

Most of these microcredit programmes have been promoted by the Regions, by regional finance companies and, especially in the convergence Regions, by religious organisations, which have a vital role in the microcredit supply chain thanks to their profound knowledge of the territory.
In 38% of cases, the aim of the Microcredit programme implemented is of an exclusively social or socio-charitable nature, while those interventions specifically aimed at favouring self-employment and self-entrepreneurship amount to 32%. There are a further 29% of interventions with mixed aims, while a negligible 1% represents those interventions defined as being "for knowledge" and aimed at sustaining costs relating to training courses or study courses. The situation changes if we only refer to the Convergence Regions, where those initiatives that declare themselves to be aimed at favouring self-employment and self-entrepreneurship are the majority[25]. Many of these programmes require the institution of guarantee funds.

5.2 Microcredit Guarantee Fund: Mapping Microcredit Institutions/operator in Spain

In *Spain*, a true mapping of microcredit operators is rather difficult, given the lack of a specific regulation for the sector in question. We can, however, identify the following main categories[26]:

1. *Financial Institutions*
   - Commercial banks;
   - Saving banks (CAI, Caixa de Catalunya, BBK, Caja Granada);
   - Specialized MC banks
2. *Social Microcredit Support Organizations* (*SMSos*, Public and private organization non profit);
3. *Foundations* (Fundación BBVA para las Microfinanzas, Fundaciòn CajaSol, Fundaciòn CPAC, Fundaciòn Mujeres…);
4. *Associations* (Federación Española de Entidades de Empresas de Inserción);

[25]Ente Nazionale per il Microcredito (2012), Monitoring of the integration of work policies with local development policies of productive systems regarding microcredit and microfinance, Annual report.
[26]Rico Garrido S., Lacalle-Calderòn M, Màrquez J. and Duràn J. (2005), Microcredit in Spain, Foro Nantik Lum de MicroFinanzas.

Public entities (Instituto de Crédito Oficial-"ICO"-, Direcciò General d'Economia Social i Cooperativa i Treball Autònom, Istitut Balear de Joventut, Madrid Emprende);
Saving banks, that have traditionally provided microcredit, are involved in microcredit operations with business foundations (*off balance sheet-based model*). According to this approach, profits and losses resulting from microcredit operations are not consolidated in the bank's financial statements but in separate foundations. *Commercial banks*, on the other hand, operate with a business model of the regular lending activities type (*balance sheet-based model*), as they are specialized in small lending. Finally, there is a small number of *specialized MC banks* that operate in microcredit, as in the case of the MicroBank. These are banking intermediaries that interface with segments of customers who have limited resources to whom they offer microloans, training and support in managing and sustaining their business through a network of branches and in collaboration with SMSOs. The choice of inspected intermediary has drawn a lot of attention to the sustainability of entrepreneurial activity, particularly regarding the costs relating to internal organization and the risks undertaken by the activity of microlending. The support of European institutions has certainly contributed to the pursuing of balanced conditions, all the while favouring the increase in business volume using credit lines from the Council of Europe Development Bank.
The *business models*[27] of saving banks and commercial banks are mainly developed through two patterns:

- in the first, two different entities operate: (a) an entity which is in charge of selecting projects and following up on them (e.g. Chamber of Commerce); and (b) an entity which is responsible for the loan and any financial issues arising from it;
- in the second, only one entity is in charge of both selecting the project (usually through a feasibility committee) and the financing (usually through a financing committee).

Referring to the first pattern, which prevails in the ambit of the business model applied both to the savings bank as well as to commercial banks, a partnership is set up with social work institutions (SMSOs), which serve as a liaison between the bankers and the micro entrepreneur.
SMSOs may be private or public institutions geared towards bolstering the creation of micro-businesses, fomenting self-employment and providing incentives for entrepreneurial activities. More specifically, they are public organisations run by regional or local councils (employment agencies, local development agencies, employment enterprise centres, etc.), or private organisations that are generally non-profit (chambers of commerce, unions, NGOs, administrative agencies and consultants, among others).
The increasing predominance of SMSOs in the microcredit-granting model is highly valued. Nonetheless, following the financial crisis many of the programmes have been closed, meaning that SMSOs are left facing two main problems: 1) to offer financing alternatives to those beneficiaries that want to start up or consolidate a small business; and 2) to survive themselves, as they were used to receiving financial support from the programmes. In fact, some relevant SMSOs, such as the Banco Mundial de la Mujer, have recently closed their activities.
Among the *Public Entities* particular importance is given to the *Fondation Instituto de*

[27] Rico Garrido S., Lacalle-Calderòn M, Màrquez J. and Duràn J. (2005), Microcredit in Spain, Foro Nantik Lum de MicroFinanzas, pp. 61-73.

Crédito Oficial (the "ICO"). The Fundación ICO is a nationally oriented non-profit public foundation created in 1993 dependent on Instituto de Crédito Oficial, running on a permanent basis. Its mission through the Social Finances Area is to foster and promote the development of Microfinance and Alternative Finances in Spain.

Regarding the programmes, financial institutions have traditionally provided microcredit via two types of programmes:

1. *in house programmes*. These programmes have been implemented by savings banks with their own resources. Currently, only very few of them are active, with the main provider Microbank la Caixa;

2. *programmes linked to public sector initiatives*. These are programmes that savings banks run jointly with public bodies. The latter also provide guarantees to the microcredit loans disbursed. The three main programmes are: ICO Microcredit Line (*Instituto de Crédito Oficial*)' Microcredit Programme for Entrepreneurs and Business Women of the *Instituto de la Mujer* (Women's Institute), and the Microcredit Programme for Youth of INJUVE (Ministry of Health, Social Services and Equality).

Financial institutions provide the money and assume the credit risk, whereas SMSOs are responsible for selecting the beneficiaries and remaining close to them during the business launch and throughout the term of the microloan. The products and services offered by institution cover a broad range of loan products, additional financial services and support services for consumer finance and entrepreneurial activities. The standard product of the banks is a microloan that is provided for entrepreneurial purpose. All financial institutions offer such a product and do not offer any other product, with the exception of the MicroBank.

As illustrated by Table 7, microloans are currently offered by banks, in particular Saving Banks and Specialized Banks and are aimed at both the social sector as well as microbusiness.

From the technical point of view (Table 7), the average amount of microloans is between 6,000 and 25,000, the average duration varies from 2.2 to 6 years and the average rate varies between 3.25% and 6%.

Table 7: Main features of microcredit in Spain

Financial Institutional		Requirement	Customer segments	Targets	Terms	
Bank	Savings Banks (e.g.: Fundació Un Sol Món)	• To form part of disadvantaged social group with of the target segment particular difficulties in finding employment • No access to a formal financial system due to lack of collateral • To possess entrepreneurial skills and feasible business initiative	Social micro-credits	Self - employment projects	Loan size	From 6,000 to 25,000
					Grace period	from 0 to 6 months
	Specialized MC banks (e.g.:MicroBank)		Financial micro-credits	Business ventures that create wealth	Repayment term	From 2,2 to 6 years
					Current rate of interest	Between 3,25% and 6%
			Family micro-credits	Temporary difficulties and facilitating personal development	Guarantee	No guarantees
					Fee	No fees

Source: Rico, Lacalle, Ballesteros and Durán (2005)

Generally, other costs are not expected, such as preliminary investigation expenses, nor is collateral required to access credit. Order to have a dimension of the microcredit market, the Table 8 shows, for the period 2001-2009, the total volume of microcredit granted by the Savings Banks and by ICO line.

Table 8: Microcredit granted in Spain

		Number of operation	Value in €/ millions
Saving banks and ICO line	2001	5,178	1.1
	2002		26.0
	2003		17.4
	2004		25.2
	2005		20.0
	2006	1,319	13.7
	2007	3,348	381
	2008	7,132	68.7
	2009	5,172	46.6
	Subtotal	22,149	233.4

Source: CECA (2005); Rico, Jayo y Lacalle (2008); Jayo, et al. (2010)

The number of stakeholders operating in Spain's microcredit sector, saving banks, social entities and microentrepreneurs, is decreasing for the period 2011-2012 , while the number of loans issued is increasing, which would imply a market concentration on a few players. The data in the following Table 9 confirms the relevance of big players such as MicroBank, that in 2011 granted the 96,80% of the total number of microloans issued and the 93,72% of the total value.

Table 9: Microcredit granted from MicroBank

Microbank		
	Number of operation	Value in € Millions
2010		212.1
2011	34,307	217.9
Total	34,307	430

Source: MicroBank de "la Caixa", S.A. Annual Financial Statements - 2011

The current situation of microcredit system in Spain is complicated[28]:

- the current restructuring of the savings bank sector and their transformation into commercial banks brings up a lot of questions about the future of their charitable and social activities in general and microcredit in particular;
- social entities have also suffered public resource cuts due to the crisis;
- self-employment is turning out, like never before, to be the response to the extremely high rates of unemployment that reign in our country. The current profile of a microcredit applicant is now quite different. No longer is it a low-income entrepreneur, but a person suddenly unemployed and with debt (mortgage) or a businessperson who needs credit to keep her business alive. These situations are generally not easy resolved through microcredit, which cannot serve as a substitute for traditional banking;
- the market penetration of big players such as MicroBank has changed and given a boost to the sector due to its large-scale market share; this could distort the objective of depth of outreach, with a quasi-total concentration on the objective of scale[29].

To sum, organizational structures of microcredit in Italy and Spain analyzed (Table 10) are the result of growth paths and development models, that vary in practice due to different historical backgrounds and legal contexts.

[28]Marcelo Abbad, Ana Gorostegui (2011) in Navarro J. et al" Conclusion from the first national meeting on Microfinance and reflections on the principal issues addressed". Foro the Microfinanzas, n. 16, pp-40.

[29]Susanna Garcia Jeménez, Teresa Botella Gòmez (2011) in Navarro J et al p. 38.

Table 10: Mapping Microcredit Institutions/Operator: analysis between Italy and Spain[30]

	Italy	Spain
Genesis/beginning's date	A large part of the MFIs were built up in the 80s and 90s and the other half after 2000	The first MFIs were built in the 90s and worked mainly with ethical finance; after 2000 MFIs grew a lot
Numbers of microcredit institutions/operators in the last five years (2005-2011)	There is no official/unequivocal map	There is no official/unequivocal map
Typologies (non-bank Financial Institutions, Government body, NGO or foundation, saving banks, others);	NGOs, financial intermediaries, Religious Organisations, Third Sector Organisations and non-banking Foundations, subjects of public-institutional nature	*Financial Institution:* Commercial banks; Saving banks (CAI, Caixa de Catalunya, BBK, Caja Granada); Specialized MC banks *Social Microcredit Support Organizations* (*SMSos):* Foundations (Fundación BBVA para las Microfinanzas) Associations (Federación Española de Entidades de Empresas de Inserción....) *Public entities* (Instituto de Crédito Oficial (the "ICO")
What is their mission (social microcredit; microcredit enterprise development, ..)	Social microcredit and microcredit enterprise	Social microcredit and microcredit enterprise
Legal Status (financial intermediaries)	Financial intermediaries	Commercial banking and Specialized MC Banks are financial intermediaries and are under the Spanish banking legislation
Property (public, private, mainly public, mainly private)	Public, private, mainly public, mainly private	Public, private, mainly public, mainly private
The territorial diffusion (national, regional, provincial) / rate of penetration;	Provincial, rarely regional or national	Regional or national
The utility/product sectors involved;	Generally all merchandise sectors	Retail sectors
Microcredit tools critical	Scarce use of EC funds; Sscarce transparency Absent evaluation of the impact of microcredit programmes Absent centralised monitoring Confusion between purpose and beneficiaries of the activated programmes	-Absence of a regulatory framework that regulates microfinance and promotes the development of microbusiness -Lack of sustainability of SMSOs -Lack of coordination between public initiatives in the public and private spheres and between the subjects that operate in the sector (banks, public sector, SMSOs, microbusiness) -Lack of information on the sector -Scarce development of products and services specifically for microfinances

[30]In the table, compared to the logic diagram presented in paragraph 1.1, those items for which insufficient or unreliable information for both countries analysed could be found have been cancelled.

6 The Microcredit Guarantee Funds: Main Features. A Comparative Analysis between Morocco and Tunisia

The present area under investigation aimed at exploring the main technical-operative features of the guarantee funds of the chosen Countries could not be analysed with the level of detail set in the logic diagram presented in paragraph 1.1 due to a lack of necessary information. Therefore, it was decided to present data and information regarding only some of the guarantee funds for which sufficient detailed and reliable data were obtained, also omitting the comparative evaluation between the Countries that, for obvious reasons, would not make sense.

6.1 The Microcredit Guarantee Funds in Morocco: Main Features

At the end of 2010, the commitments taken by the international community (government agencies, donors, private investors, etc.) for microfinance in the world amounted to approximately 24 thousand billion dollars[31]; from the geographical point of view, investments were concentrated in Asia, Central Europe and Latin America. At the end of 2010, investments to the MENA area were approximately $ 600 million and represent just 2.5% of the total funding. Debt is the most used funding tool (68%) while guarantees are still little used but increased by 5% in 2008 to 10% in 2010 (CGAP, 2011).

In Morocco, the CCG represents the main public institute that allocates guarantees. Over the past few years, it increased partnership relations with the banking intermediaries in order to optimise the overall finance-guarantee process. The CCG's partner banks are generally delegated with the task of screening potential clients of the guarantee and funding itself. The allocation of the guarantee by the CCG is, therefore, subject to the result of the creditworthiness evaluation carried out by banks. The technical-operative methods of allocation and collection of the guarantee vary depending on each guarantee fund (and their respective purposes) managed by the CCG and the respective conditions established with the partner banks. The CCG manages guarantee funds (Table 11), some of which aimed at businesses (for financial restructuring, investment projects, increase of risk capital),and others which on the other hand follow purposes of inclusion and social cohesion such as those supporting the credit aimed at purchasing housing and land Damane Assakane, Fogalef) and those aimed at financing study expenses (Enseignment Plus).

[31]CGAP, 2011.

Table 11: Guarantee funds managed by the CCG

Business		Other	
Guarantee funds	Co-financing products	Housing Microfinance	Student loans
Damane Express	FOMAN	Damane Assakane (FOGARIM, FOGALOGE)	Enseignement Plus
Damane Crea	FODEP	FOGALEF	
Damane Exploitation	Innovation TIC		
Damane Dev	FOPEP		
Damane Istmrar	MOUKAWALATI		
Damane Capital Risque	Enseigne Textile		
Intégra Textile	RENOVOTEL		

Source: http://www.ccg.ma/fr/index.php?option=com_content&view=article&id=45&Itemid=4

Among the various guarantee products managed by the CCG some, though not specifically and exclusively aimed at microcredit, are in any case strongly aimed at this department, such as the “Damane Express”, “Damane Crea” and “Damane Dev” guarantee funds aimed at guaranteeing medium- and long-term loans for investment projects, the “Moukawalati” self-employment support fund and the “FOGARIM” guarantee fund, subsection of the “Damane Assakane” fund, which has purposes of social inclusion as it guarantees loans for residential construction for those characterised by modest receipts not regulated for purchasing houses.

The “Moukawalati” self-employment support fund is a particular product offered by the CCG that combines the offer of co-financing, through advances supplied by the State, with a guarantee granted by the CCG on the credit supplied by the bank. This is a business creation project aimed at young Moroccans between 20 and 45 years of age to help them enter the world of employment. It therefore has contemporary purposes of social cohesion, development of the work market and creation of microbusiness.

The “Damane Express” and “FOGARIM” guarantee funds, while they present different purposes and beneficiaries, have a similar operative mechanism: the guarantee covers a maximum of 70% of the credit, lasts 18 months but can be renewed up to five consecutive times and the procedures for answering the guarantee request are quick and easy, within two days from the CCG receiving the request[32]. Regarding the guarantee payment to the bank should the beneficiary be insolvent, the CCG pays 50% of the guaranteed amount within a month from the bank request, while the remainder is allocated once the legal collection procedures for the guarantee supplied by the beneficiary have been terminated.

[32]http://www.ccg.ma.

However, the refund must be carried out within three years[33]. In this way, the bank is given a guarantee regarding the recuperation times of the credit granted, decreasing the uncertainty of the phenomenon.

6.2 The Microcredit Guarantee Funds in Tunisia

The main public guarantee fund in Tunisia is the National Guarantee Fund created in 1981 and originally aimed at ensuring some categories of credit allocated by the banks to small and medium businesses or farmers. In July, Law nr. 2000-72 extended the Fund's guarantee to covering microcredits granted by the MCAs; in 2003, its mission was aimed prevalently towards the sectors of agriculture, fishing and handicrafts.
The National Guarantee Fund covers the loan at a percentage that varies between 50% and 90% depending on the type and nature of the loan (see the following Table).

Table 12: Cover percentages of outstanding credits

Type of loan	Percentage of cover of the National Guarantee Fund
Short-term credits granted to companies associated to the Société de Caution Mutuelle;	70%
Short-, medium- and long-term credit loans granted to small and medium farmers, fishermen, cooperative or welfare companies which benefit from State help;	90%
Medium-term credits granted to microbusinesses and higher education graduates who benefit from FONAPRAM assistance;	90%
Short-, medium- and long-term credits granted to small and medium companies operating in the manufacturing sector and in the other activities admissible to FOPRODI service contributions;	2/3 from the Fund and 1/3 from the bank should the guarantee regard projects which benefit from loans taking from the FOPRODI resources
Short-term credit granted for financing projects which benefit from FITI aid;	90%
Exportation credit;	50% for pre-financing; 70% for discount of bills

Source: http://www.alphatunisie.com/ac/ac.aspx?id=129

The National Guarantee Fund is recompensed by the microborrower with a fee of:

- 3% of the amount of the credit to small and medium companies operating in the manufacturing sector;
- 1.5% of the amount of the loan which also received endorsement by the Société de Caution Mutuelle;
- 2% of the amount of the loan for all types guaranteeable loan.

BTS has established a mechanism of funding that includes the grant of small credit direct to the client and microcredits with the mediation of a non profit entity as the second level. In this second case BTS remains associated with the MCA by an agreement and by an annual programme. The BTS general grants a fund at 0% interest and each one offer a

[33]Saadani Y., Arvai Z., Rocha R. (2011), "A Review of Credit Guarantee Schemes in the Middle East and North Africa Region", World Bank, page 18.

disbursement of the quantity given in four payments of 25%. To receive the consecutive payments, the entity must certify a rate of return of at least 80%. The entities must also go to the more disadvantages groups of the population, usually excluded from the conventional system of credits[34]. The BTS mainly turn to the guarantees of the Fond National de Garantie to mitigate credit risk of the loans granted; nevertheless, if the National Guarantee Fund covers 90% of the loan granted by the BTS, it ends up discouraging the same from adopting efficient credit risk management processes. The high rate of insolvency of the BTS credit portfolio of these recent times, however, should push the BTS to improve this function, both to optimise the available resources as well as to favour the concrete economic development of the Country and economic emancipation of Tunisian citizens.

It has already been said that to carry out their activities MCAs can also make use of, from July 2000, a guarantee given by the FNG (Fond National de Garantie) which covers from 50% to 90% of loans allocated in exchange for a contribution of 1% on the loans allocated. Currently, it seems that MCAs have still not yet made use of the National Guarantee Fund[35] but that they have not even made provisions of funds in the balance to cover guarantees against non-performing microloans (despite a level of 27% of loans unpaid after three months in 2011[36]). All of this highlights how MFIs in Tunisia are lacking a strategy for mitigating/insuring the credit risk linked to the activity carried out which represents, in fact, an important operative moment in optimising the credit-guarantee supply chain.

6.3 The Microcredit Guarantee Funds in Italy: Main Features

As support of the programmes so far set up in Italy, guarantee funds have often been activated to mitigate, more or less incisively, the microborrowers' credit risk.

In Italy, in particular, research carried out in 2011[37] showed that the presence of the guarantee seemed to be a prevailing element in defining the loan concession; even more so than the economic-financial evaluation of the original idea. Access to microcredit seems also to be governed in Italy from a purely insurance logic. The guarantee funds are made up in general with resources made available by public organisations, banks and banking foundations, chambers of commerce or other private institutions. Extremely slight, as has already been highlighted, is the use of European ESF funds to this end. Very often, guarantee funds are also of a public-private nature but the managers are, generally, private: they often coincide with the same intermediaries who then allocate the loan, to whom the funds themselves are then deposited in binding current accounts.

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[34]Jose R. Pin, Gallifa A., Susaeta L. (2008), Microcredit in Tunisia: Enda Inter-Arabe, Iese Occasional Paper Op. nr. 8(11), January.

[35]Ministère des Finances (2011), Vision concertée pour le developpement de la micro finance en Tunisie 2011-14, pg. 42.

[36]Ministère des Finances (2011), Vision concertée pour le developpement de la micro finance en Tunisie 2011-14, pg. 34.

[37]"A.MI.C.I. Access to microcredit for immigrant citizens. The Italian model" edited by the FEI (European Integration Fund), of the Ministry of Interior and the Ministry of Social Policies, in collaboration with ENM (National Microcredit Organisation), (2011), page 89, http://www.microcreditoitalia.org/images/amici/download/libro_amici.pdf.

Many banking intermediaries participating in the microcredit programme, when determining creditworthiness of the microcredit petitioner, only use subjective evaluations; very few intermediaries make use of these, and scoring techniques. The latter, however, do not treat microcredit operations distinctly; this means these are examined by the same as those of scoring systems used for ordinary smaller credit. This seems to be a further distortion of the evaluation process; the segment in question has some peculiarities that out of necessity require a structuring of methodology of dedicated evaluation.

The information on the guaranteed subjects, collected in the preliminary investigation phase, in the majority of cases is not structured in a computerised database. There seem to be no systems/methods for the exchange of information on the financed subject with the owner/manager of the guarantee fund and the microcredit initiative promoters.

The creditworthiness of microentrepreneurs borrowers and the information sources used are revised and updated infrequently. The resolution of the credit allocation seems to be, in general, subsequent to that of the microcredit initiative promoter, while in some cases it is parallel/concomitant or preventative to that of the promoter. Often the guarantee funds carried out so far in Italy are set up as monetary funds based on which is granted a funded collateral that covers a very high percentage of the collateralized loan (even by 100%). This means that, in general, no leverage is applied on the initial dimension of the fund or, when applied, this is very low (2-5).

All this limits the ineffectiveness of the fund and the optimisation of the benefits for the operators participating in the microcredit supply chain. Until now, no one has worried about the compliance of the guarantee compared to the prudential inspection regulations of the bank; this will certainly be an “ambit” of reflection of future policies in the matter of microcredit.

Most banking intermediaries that participate today in microcredit programmes with guarantee funds do not seem to have an internal organisational structure - an organisational role/function dedicated to microcredit. Often, the tutorage activity is carried out in collaboration with the MFIs in the territory. Nonetheless, the presence of organisational roles dedicated to microcredit may be the turnkey for activating a more stable and cooperative relationship with immigrants and promoters, favouring the growth of microbusinesses, reducing the risks for banks and ensuring - at least in theory - that important cost economies would be attained (in particular, in the case in point of information and purpose economies, in virtue of the development of cross-selling). These could allow, furthermore, the purchasing of important soft information in evaluating the risk of the microcredit beneficiary and his entrepreneurial project, deriving from the fact that the management costs, especially the monitoring ones, of the operations in question are too high and, furthermore, we go up against the scarce knowledge of the types of business to finance and the sectors, and with a reduced presence of local networks supporting the immigrant entrepreneur.

The most important public guarantee fund in Italy is the Central Guarantee Fund (FCG), established in 1996 with Law nr. 663 and managed by MedioCredito Centrale. They supply guarantees for credit access through direct guarantees, granted to financial intermediaries, co-guarantees with other funds/guarantee intermediaries favouring lending companies and, finally, counterguarantees based on other funds, mainly those of welfare companies.

Access to FCG guarantees is essentially limited to financially stable SMEs. The guarantee covers a percentage of the loan between 50% and 80% and commission is required for its allocation that is higher for larger companies than smaller ones (further discounts are expected for women's microbusinesses). Over recent years, FCG has had a determining role in allocating public guarantees for small loans (in many ways similar to microcredit). Within the vast activity of guarantee carried out by the Central Fund, the government authorities have decided to reserve a specific role for reduced amount operations[38] (nonetheless not completely similar to the concept of microcredit as provided by the new regulatory framework) establishing, for the same, different, simplified criteria compared to normal operations. Reduced amount operations are, above all, given priority in preliminary credit procedures, a simplification in evaluating creditworthiness. The limited amount operations carried out by the FCG, on the other hand, are exclusively aimed at entrepreneurial realities that have been active for at least two years and which are judged as financially and economically sound. The commissions for allocating the guarantee are very low and vary between 0% for microbusinesses that have mainly female participation[39] and 0.25% of the amount guaranteed by the fund for microbusinesses that are not found in the protected regions[40]. These commissions are lower than those provided for small and medium businesses, due to a policy to protect this delicate category of businesses, which are distributed throughout the Italian territory and generally undercapitalised and lacking adequate financial resources.

In particular, since 2009 the fund management Committee has adopted more flexible criteria and introduced some simplifications aimed at making the Central Fund work more closely with the needs of the economic context that is slumping[41].

The statistics available highlight that, in 2011 and 2012, the Fund granted guarantees above all in favour of microbusinesses (60.5% of total operations). Regarding the different economic sectors, industry is the sector with the highest level of requests admitted (26,720 operations) followed by commerce (20,350 operations)[42].

In 2012, even though from the second half a higher use of the tool by businesses characterised by financial levels that were on average higher was recorded, average value of guarantees granted and collateralized loan continued to decrease (respectively to 65,700 euro and 133,400 euro at the end of 2012 against values of 79,900 euro and 151,000 euro relating to 2011). In addition, there was an increase in the requests received

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[38]The sum of the reduced amount operations must not be more than 20,000 euros but, if certain conditions are met, it can also be increased up to a maximum of 100,000 euro. This sum varies depending on certain conditions certified by the bank being met: age of the company, number of company employees, turnover growth, property of the real estate. The microcredit regulations however establish a maximum amount of 25,000 euro for financing microbusinesses.

[39]The "one-off" commission is not owed for all operations relating to businesses operating in the areas admitted to the derogation as provided in article 87.3.a of the EC Treaty for aid to regional purposes, businesses undersigning area contracts or territorial pacts, companies operating in the sector as provided for in ISTAT class 1991 60.25 (relating to some categories of transport companies) and companies taking advantage of the PON and POI Reserves.

[40]For microbusinesses in protected regions, such as Campania, Calabria, Puglia and Sicily, commission is reduced and equal to 0.125% of the sum guaranteed by the fund.

[41]Before the amendments of 2009, the company should not present losses in the last two years of activity but, in the light of the recent economic crisis, MCC modified the requirement in order to ease the possibility to access the guarantee fund.

FCG operative provisions, updated July 2012, part VI, section C-bis.

[42]Central Guarantee Fund Management Committee, 2012, "The Guarantee Fund for SMEs. The effectiveness of the Guarantee Fund in 2011", Ministry of Economic Development.

regarding loans of minor amounts (amounts up to 100,000 euro: 43,326 requests received, 70.6 % of the total).

Table 13: Number of requests received by size of business - (01st January – 31st December 2011/01st January – 31st December 2012)

Sectors	Micro Businesses	Small Businesses	Medium Businesses	Other
2011	35,061	15,980	4,140	25
2012	37,142	18,859	5,370	37

Source: Central Guarantee Fund Management Committee (2012)

Table 14- Loans granted in thousand million euros - (01st January – 31st December 2011/01st January – 31st December 2012)

Sectors	Micro Businesses	Small Businesses	Medium Businesses
2011	2.5	3.5	2.3
2012	2.3	3.5	2.3

Source: Central Guarantee Fund Management Committee (2012)

Furthermore, on the territorial level, the majority of the requests accepted regarded mainly enterprises found in North Italy (48.5% of accepted requests) and in the South (31.2%)[43].
Compared to the overall accepted requests, the counterguarantee interventions represent the prevailing amount (67.3% of the total, with 41,309 operations), followed by the requests for direct guarantee (32.5% of the total, with 19,984 operations) and co-guarantee (115 operations). From the comparison with the data relating to the same period of the previous year we can see a higher increase for direct guarantee (12.8%) compared to counter-guarantee (10.2%). Counter-guarantee operations have the highest level of loans granted, equal to € 4.8 billion while those of direct guarantee are at € 3.3 billion.
Against the 41,309 requests for counterguarantee, the majority of the operations, equal to 36,099 units (87.4% of the total) are upon first request, while the additional ones are 5,210 (12.6% of the total).
Female businesses guaranteed stood at 25% of the overall operations. The economic activities mainly referred to retail, excluding that of cars and motorcycles and personal goods repairs and home goods. 49% of the guarantees granted were aimed at these activities, while 13% went to hotels and restaurants. The commercial sector had the highest number of requests for intervention from the fund, with 78% of fund-guaranteed operations. The type of guarantee adopted was mainly counterguarantee, used in 64% of cases, while direct guarantee was used in 35.8% of cases. There were hardly any requests for co-guarantee[44].
These limited amount guarantee operations carried out by the Central Fund, though similar to microcredit operations, present some elements that are different from the

[43]Central Guarantee Fund Management Committee, 2012, "The Guarantee Fund for SMEs. The effectiveness of the Guarantee Fund in 2011", Ministry of Economic Development.
[44]Data from 2009.

definition of microcredit as supplied by the Italian legislation contained in article 111 of the TUB. Nonetheless, some alignments and important innovations are expected in the near future for the State's guarantee activity for microcredit departments.
In fact, the "Save-Italy decree" of December 2011 introduced, among a number of interventions, innovations regarding guarantees for the microcredit department. These mainly include a share of the available funds of the Central Fund reserved for guarantee interventions in favour of microcredit, defined in article 111 of the Consolidated Banking Law (TUB – *Testo Unico Bancario*) destined to microentrepreneurship. For the creation of the above-mentioned reserve and the definition of resources destined to it, a non-regulatory decree will be made by the Italian Ministry of Economic Development that is still being defined.

6.4 Guarantee Funds for Microcredit in Spain

The guarantee system can consider itself relatively established in Spain in order to improve the financial management of microbusinesses. Nevertheless, there are many weak points, mainly down to the type of offer and the inability of indicating credit risk for the banking intermediary. The guarantees supplied are funded with a limited multiplication effect and the entities that issue them present scarce ability in correctly monitoring financing operations and not least in evaluating atypical entrepreneurial realities. The approach followed is an insurance one for banking intermediaries.
The guarantee funds are used in the ambit of programmes linked to public sector initiatives. These are programmes that savings banks run jointly with public bodies. The latter also provide guarantees to the microcredit loans disbursed. The three main programmes are: ICO Microcredit Line (Instituto de Crédito Oficial)[7], Microcredit Programme for Entrepreneurs and Business Women of the Instituto de la Mujer (Women's Institute), and the Microcredit Programme for Youth of INJUVE (Ministry of Health, Social Services and Equality.
The link between types of public guarantee support and access to credit for microbusinesses required, within the ambit of the ICO Microcredit Line, the involvement of four types of player: the European Investment Fund, public institutions, local financial intermediaries and three Instituciones de Asistencia Social. More specifically, the ICO issues direct guarantees to the banking system (mainly commercial banks and saving banks) against credit granted to microbusinesses, at the same time activating a counter-guarantee issued by the FEI that carries out the role of a second level counter-guarantor that contributes to the payment of the obligation in the event of default by the microentrepreneur. The intent to improve credit ability of microbusinesses through the institution of public guarantee initially produced beneficial effects through the involvement of large commercial banks, in particular BBVA, Santander Groupand Banco Popular, which allocated 60% of the collateralized loans (on a total of 15.1 million in 2002)[45]. Nonetheless, the modifications made in the same year on the measure first and second level public protection, from 80% to 50%, induced the financing bodies to abandon the programme, as it was considered excessively risky[46]. On one hand, it can be

[45]Lacalle-Calderon, M., Rico Garrido, S. et al. (2007), Microcredit in Spain, Foro Nantik Lum de Microfinanzas, European Microfinance Network, pg. 64.
[46]The application of strict criteria for awarding loans (as for example the absence of a grace period

seen that the reduction of the credit risk mitigation has affected the funding support measure and, therefore, the success of the initiative, on the other, how these retail segments present scarce appeal for the banks in terms of costs, risks and return. In particular, the minimum dimensions of loans means a high unitary transaction cost for banks determining negative profitability of the operation; on the other hand, financing institutions do not have experience in this sector and the Microcredito Linea ICO does not supply adequate support. The onerous conditions of the microcredit loan, owing to the limited capacity for profit of the borrowers, may affect negatively the solvency of the same that, according to Martínez Estevez (2005), varies around 35%.
Considering the diagram regarding the guarantees applied in the other two programmes, we deduce the role of support aimed by the European institutions in the microcredit supply chain, support that certainly contributed to the pursuing of Microbank's balance conditions, both favouring its increase in business volume through the use of credit lines from the Council of Europe Development Bank, as well as using the benefits coming from the agreement previously entered into between "la Caixa" and the EIF (*European Investment Fund*) whereby, under the MAP (*Multiannual Programme for Enterprise and Entrepreneurship*), the EIF covers 75% of defaults in social and financial micro-credits satisfying the admission criteria of the programme and granted between 01st July 2006 and 31st December 2007, up to a maximum of 11.25% of the portfolio covered by the said agreement, with a ceiling of € 1,668,000. In the project to support the microenterprise Catalan (CPAC) has activated a model inspired by the Indian micro-credit system with the necessary adaptations wanted to involve a network of local operators receptors of demanding young entrepreneurs(between the ages of 18 and 35), which are excluded from the traditional banking system. Within this project the Spanish Government Ministerio de Empleo y Seguridad Social and European Social Fund establish a Spanish microcredit fund, to facilitate micro-enterprises credit. Intense is collaboration between public and private partnership involving the whole community of the territory.
To gain access to bank loans micro-enterprises are turning to Spanish institution specializing in microfinance and operating at the local level which select projects to submit banks that provide the loan without performing preliminary investigation. The risk of non-payment, for the principal due, interest, late payment also, and charges, of the Institute of Credit's loans is granted at 100%, either by a deposit made by the intermediary fully cover the first loss up to a% maximum loan, either through the microcredit Fund, which covers the remaining losses. Fees are relegated by the bank to the Fund to repay the costs of screening, monitoring and the risks assumed by the latter.
SGRs' mission consists in providing guarantees and consultancy services to member firms. Within this activity, SGRs manage guarantee funds to provide credit access to micro-enterprises at below market rates.
Before discussing the guarantees' technical features, it is worth spending a few words on the SGR. Currently, the system is made of 23 intermediaries with a mix capital, the professional association (CESGAR) and a government owned counter-guarantee company (CERSA - *Compañía Española de Reafianzamiento*).

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and flexible payment terms) has had a negative impat on late payments and defaults, that Estevez M. (2005) estimates at 35%.

Based on SGRs' bylaw, we can find two types of institutions:

- SGRs working on locale scale;
- SGRs working on a national scale.

Presently, 20 SGRs belong to the first group[47]. These SGRs work exclusively within the boundaries of the Autonomous Communities where they are legally established; while the remaining 3 SGRs belong to the second group and are active in specific economic sectors, which are well defined in their bylaw. From a territorial perspective, with the exception of "La Rioja", SGRs provide full coverage of the Autonomous Communities.

Microcredit guarantees are financial in nature. These guarantees are granted to banks providing microloans up to €25,000 for investments and working capital needs. The beneficiaries of these guarantee schemes are self employed workers and micro businesses. The maturity of the guarantee is between 1 and 5 years for microloans granted for working capital needs and up to 5 years for investments. Their costs include administrative fees and the SGR membership fee.

Regarding the preliminary investigation, the SGR is in charge of analysing the business plan submitted by applying entrepreneurs. In the aftermath, the board of directors, or, according to the circumstances, the risk committee, approves o rejects the requests. An entrepreneur wishing to access a guarantee issued from an SGR needs to provide all the documents required to establish the firm's credit worthiness. Notably, the SGR analyses the firm from an economic and financial perspective, in order to understand if the financing is adequate to the firm's needs. From a general perspective, the SGR provides a consultancy service as well in order to gauge the opportunity for other financing opportunities in the future.

It is worth mentioning that SGRs' valuations are not limited to evaluate borrowers' solvability, but are mainly focused to establish the underlying potentiality of the projects. As a consequence, in order to survive over time, an SGR needs to rely on a professional staff and adequate tools to measure the credit worthiness of borrowers.

[47]Pérez López, Carmen (2010), Las Sociedades de Garantía Recíproca en España. Actividad avalista desarrollada, Revista del Centro de Investigación. Universidad La Salle, Vol. 9, Núm. 33, enero-junio.

Product type	Guarantee for microloans			
Scope	Commercial			
Started in	2003			
Target groups	Indipendent/self-employed/Liberal profession		Micro-business	
Specific sectors	No			
Micro type	Working capital			
	Investment			
Duration of loan	For working capital: between 1 to 5 years			
	For investment:more than 5 years			
Guarantee conditions	Administreative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	0,50%	1%	Social contributions vary depending the SGR	€ 25.000
Coverage rate	100%			
Capped interest rate	Capped interest: a fixed below market rate usually revisable			
	other: no			
Distribution channel	Banks: all banks and main savings banks in the implemented area			
	Chambers of commerce			
	Associations			
Risk assessment method	Individual risk assessment			
Subsidies	EU subsidies			
	CIP			
	National subsidies			
	In some cases regional governments' subventions			

Figure 2: SGRs’ guarantee features
Source: AECM (2011) - Background Document AECM Seminar on Microfinance

From the guarantee-output perspective, SGRs have honed over time their knowledge of this sector as well as their capabilities to judge borrowers’ financial soundness. In this way, SGRs can facilitate member firms in raising fresh capital fresh capital.
However, guaranteed micro-enterprises tend to be far more risky than other businesses. An element of weakness is the SGR system is the limited number of micro-enterprises that can access such guarantee schemes, on average, not more that 2% of all member firms because of limited resources provided from the MGS.
Local communities play a relevant role, since they participate in more than 23 SGRs, but their presence tend to influence both the risk assumption and transactions volumes. Another worrying element is represented by the fact that some SGRs lack of professionalism and do not monitor the funded programs.
Within the credit-guarantee chain, a relevant role is played by the counter-guarantee system, which is made of three instruments:
1. Counter-guarantees granted on regional level from the Autonomous Communities and on a national level from the State;
2. Counter-guarantees issued from the Compañía Española de Reafianzamiento (CERSA);
3. Counter-guarantees issued from the European Investment Fund for the benefit of CERSA.
Regarding the first point, some SGRs manage to access these counter-guarantee schemes and by this way they can transfer the risk to the public sector. These counter-guarantee schemes show common features. First of all, they can counter-guarantee risks related to specific sectors o regions. Furthermore, they are complementary to other public counter guarantee schemes and they have the peculiarity of being automatic o semi automatic. But most important is that these guarantees are free.

7 Conclusion

After having analysed the peculiarity of the microcredit sector and the guarantee activity of MFIs in the four countries, we conclude our work on some conclusive thoughts. Our research (that is a working progress) shows that there are different microcredit models, which are country specific and influenced by the legal contexts and historical backgrounds.The main differences between guarantee schemes are related to: specific legislation for the guarantee system, the degree of government intervention, guarantee programs, target market (multisectoral, mono sectoral), guarantee products, the guarantee beneficiary, the sector involved, the leverage ratio, coverage of the loan, the term of the guarantee, the guarantee commission, and so on. Beside these differences, which can be ascribed to the different social and economic environments, it is possible to highlight some common features, which are mainly related to the critical elements of the microcredit sector and the credit guarantee schemes. Our research work shows that there are several factors that can compromise the efficiency of such credit guarantee schemes. Starting from an analysis of such weaknesses, it is possible to build a more efficient microcredit sector:

- *The planning stage of microcredit programs:* the goals of the programs are not well defined, as well as the actions required, the players involved (role and responsibilities), and the expected results. This is a common trait to both North African countries and European ones. Regarding the operational planning, the agreed objectives should be defined in terms of expected results based on scheduled actions. In other words, “what” is expected in terms of quality of life and improvements for businesses “where” and “for who”. To set on preliminary basis the expected results is a critical condition to spend efficiently public funds.
- *The screening of the potential beneficiaries and the risk analysis.* An erroneous valuation of the borrower’s risk profile can undermine MFI’s economic and financial sustainability. Commissions, premiums and provisions paid to the guarantee fund might not be consistent with clients’ risk profile; an underestimation of the risk can produce unexpected losses and exhaust the provisioned resources. On the other side, an overestimation of the risk can conduce to under utilize the fund, and this in turn might cause the fund manager to miss the expected sustainability and outreach goals. That said, credit excess or weak guarantees in a portfolio can undermine MFIs’ sustainability, as it happened for many MFIs in the surveyed countries (ie. Morroco). It has to be said that in it is not always easy to determine the risk of microcredit borrowers because of the lack of a credit history and transparent bookkeeping procedures. Microborrowers’ risk analysis tends to be more difficult because of the absence of database, as well as the project idea and credit scoring systems. Hence, it would be beneficial to have a centralised database where all relevant information can be stored. This is what is happening in Morocco, where a new microcredit risk central has been recently established. Anyway, the relative small size of microloans and, consequentially, the limited profitability of microloans is not an incentive to build efficient credit scoring models. And this in turn explains why banks and fund guarantee manager tend to be very conservative towards microborrowers (especially in Tunisia and Morocco).
- *The duplication of activities within the credit-guarantee chain.* It is not uncommon to see that the same task is assigned to different actors in the credit guarantee chain. This overlap of duties and responsibilities between different institutions ends up in an

unnecessary administrative burden, which tends to slow down the overall granting process and generates higher costs. Hence, these guarantee schemes become less attractive to borrowers, since, they cannot satisfy their needs in a timely manner. However, in Morocco, as we said, financing banks are responsible for the valuation process.

- *Guarantee contracts need to be clearly defined in order to avoid litigation* between guarantee fund managers and financial intermediaries which might disrupt their relationship.
- *Microcredit activities are strongly subsidized*. Public subsidies and credit guarantee schemes can undermine MFIs financial sustainability. This is the case for a majority of institutions in Tunisia, but it is not uncommon to see heavily subsidized MFIs in Morocco, Tunisia, or Spain. Subsidised MFIs tend to be poorly managed and unsustainable. Furthermore, the presence of public schemes in the microcredit sectors discourages the implementation of modern and efficient risk management tools, not to mention the waste of public resources.

In Morocco and Tunisia, the public sector is the principal actor behind such guarantee schemes and plays a crucial role since private financial institutions are less developed and cannot provide the needed resources. In Italy or Spain, private guarantee funds are more common although their adoption is limited for a number of reasons: limited amounts available, limited territorial reach, targets poorly designed, absence of monitoring tools and few consultancy services. In this perspective, policy makers should provide or attract resources in order to fund such schemes and start microcredit programs. They should monitor their performance and ensure that the results achieved are consistent with the expected goals. Furthermore, policy makers should promote capacity building [48] mechanisms in order to strengthen the microcredit sector and build long lasting relationships between the different institutions involved in this activity. A more efficient use of the resources provided by national or international institutions looks desirable. This is particularly the case for Italian and Spanish MFIs who should take advantage of the funding initiatives (European Agricultural Fund, EIF, etc) available within new European policy framework 2020 (as far as they are compatible with the limits set for State Aid)[49].

- *Guarantee schemes funded with private and public resources should be further developed.* Microcredit programs should be funded with both private commercial capital and public resources. Within the public sector potential funders could include local governments, chamber of commerce, European programs, etc.

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[48]This term refer to the obstacles faced by National and International institutions in setting up microcredit programs and the solutions to overcome them in order to achieve measurable results.

[49]State aids in the form of guarantees, governed by the Communication of the European Union, 20.6.2008 entitle a reduction in minimum commissions (safe-harbor premiums) under which aid is assumed, that this, a reduction of 25% for SMEs and 15% for other companies; similar percentage reductions are granted on fair awards calculated in accordance with methods approved by the Commission. The maximum loan amount allowed under such guarantees may not exceed the cost of labor in 2008, including the fees to the staff of subcontractors working at the farm, the guarantees must be provided by 2010, for a portion of the loan not exceeding to 90% and on loans that finance much investment as working capital; these fee reductions minimum fair apply for two years from the granting of the guarantee.

- *Consultancy and coaching services should be strengthened*. Microcredit programs funded with public resources do not provide – with a few exceptions – adequate coaching services. This area should be developed in Morocco and Tunisia. Furthermore, microcredit programs should be better advertised in order to reach a wider audience of potential beneficiaries, who often lack the necessary financial culture to understand and appreciate them.
- *Lack of communication between the different actors involved in a microcredit programs.* Communication and coordination between the different subjects involved in a microcredit program, at various levels, promoters, funders, guarantors, etc. should be improved.
- *Microcredit programs are not adequately monitored and their social and economic performance is questionable.* Public subsidies and guarantee schemes lessen the need to monitor the programs and their performance. If public support and guarantee schemes are often required to start a microcredit program, their presence alone might not be enough to achieve the expected goals. To end it is necessary to build a monitoring system in order to measure the program's efficiency and the use of public resources. From a methodological perspective, this means an integrated approach – from information to coaching – and coordinate the efforts of all participants. This should happen accordingly with the objectives affirmed within the Europe 2020 policy framework and reaffirmed within the European policy guidelines 2014-20 which encourage member States to devote public resources to development and cohesion in a timely and efficient manner. Hence, the expected results in the surveyed countries need to be clearly defined and noticeable, to both policy makers and end users, in order to lead to a true open public debate.

These recommendations hold for emerging countries as well, since our research show that the effectiveness and outreach of microcredit programs in these countries is even more questionable. In any case, this is a delicate topic, which need further investigation in order to improve in a substantial manner policy makers' programming efforts.

The present research is a working in progress therefore will be subject to changes and additions in the near future in line with the stage of progress of the work.

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