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EUROPEAN ASSOCIATION OF MUTUAL GUARANTEE SOCIETIES

Growing together

**Background Document
- AECM Seminar on
Microfinance**

**Tallinn
10th June 2011**

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Foreword

AECM has drafted a Background Document for the AECM Microfinance Seminar, which takes place on the 10th of June 2011 in Tallinn, Estonia.

This document provides information on the current framework and tendencies with regard to microfinance, its definition in the European Union and the different trends in the EU-member states.

AECM gathered facts and figures from different sources available on the subject as well as from a survey on microloan guarantees activities it launched among its members. The document is intended to provide a basis for the discussions among the Seminar participants and the speakers.

After the upcoming Seminar, the Background document will be edited into a more complete brochure including the outcomes of the AECM seminar.

I. Definitions of Microfinance

I.1. General

Microfinance is to be defined as “the provision of financial services such as credit, savings and insurance products to poorer individuals or communities which are often un-served or under served by traditional financing institutions.”¹

Microloans are small loans provided by banks, non-profit organizations or governmental institutions to individuals or enterprises (considered as microenterprises) with the goal to create long-term business opportunities and so, support social and financial inclusion.

I.2. EU

At EU level, there is a definition for microcredit that focuses on microbusiness and entrepreneurs which have limited access to conventional banking loans. The Commission Communication “A European initiative for the development of microcredit in support of growth and employment” has stated this definition. The EC did not clearly define their target groups, neither focusing on start-ups and micro enterprises nor on the financial excluded enterprises or individuals. Those two target groups have different requirements and call for different and therefore adapted financial solutions.²

Since November 2007, the Directorate-General for Regional Policy is responsible for the implementation of this initiative. The main goal of the Commission is the development of the non-banking sector active in the field of microcredits.³

I.3. Other definitions: microenterprise, microcredit ...

- **Microenterprise:** The European Commission considers as definition of microenterprises⁴ any enterprise with less than 10 employees and a turnover under € 2 million⁵.
- **Microcredit:** The term “microcredit” is defined in various ways depending mostly on the aim pursued or the beneficiary’s focus. This is due to the fact that no formal definition of the term exists.

¹ Definition of Microfinance: joint definition by the International Monetary Fund, the World Bank and the United Nations.

² Position paper February 2009: ESBG Comments on Microcredit in Europe “A need for clearer definitions”, p. 1

³ European Commission: *Gaining Scale in Microcredit: Can banks make it happen?*, Report of the Directorate General for Enterprise and Industry, p.6

⁴ Adopted by the European Commission on the 1st of January 2005: In EC Recommendation Article 2 of the annex recommendation 2003/361/CE

⁵ Definition of Microenterprise: http://www.european-microfinance.org/definition_en.php

According to **the European initiative for the development of microcredit in support of growth and employment**, microcredit in an European context means a loan not exceeding € 25,000. "It is tailored for microenterprises employing less than 10 people (91% of all European enterprises), and unemployed or inactive people who want to go into self-employment but do not have access to traditional banking services."⁶

II. Historical Background

Microfinance is based "on centuries-old systems of trust-based lending"⁷. In 2006, **The Grameen Bank** of the Bangladeshi economist Muhammad Yunus popularized the microfinance loans as an effective measure to enhance economic growth, reduce poverty and so, foster development.

III. Why Microfinance and Microcredits?

The need to provide financing tools for either social excluded or micro-enterprises this is the main reason why microfinance exists. The issue in developed countries is that the microcredit market segment is riskier due to several factors which are namely:

- In the social point of view:
 - o No regular income,
 - o Unemployment,
 - o Bad private credit history,
 - o Illiteracy,
 - o ...

The people concerned are usually considered by banks to be non-bankable and can only reach social inclusion and reintegration of the labour market thanks to Microfinance Institutions which are mainly considered to be non-profit organization. This point will be outlined in more detail in the next part.

- In the commercial point of view:
 - o Start-ups,
 - o Self-employed,
 - o Micro-enterprises,
 - o ...

⁶Definition of Microcredits : http://www.european-microfinance.org/definition_en.php

⁷ Microfinance in Europe: *the origin of microfinance in Europe* (www.european-microfinance.org/historiquemicrofinance.php)

This microcredit market segment is called the “nearly bankable”. The lack of access to finance is due to no collaterals, no entrepreneurship experience or the small amount of liquidity necessary for their investments. Usually, credit institutions provide them with financial resources. However, it is quite difficult for them to get access to credit. Banks which have developed microloan products are trying to close the financial gap.⁸

Microcredits are recognized to be an important tool for economic growth, jobs creation and for fighting financial exclusion. Therefore, Microfinance can be seen through three different angles: the social component which means fighting social and financial exclusion, reducing unemployment and helping the reintegration into society of excluded citizens; the economic component which defines microfinance as an economic enabler and therefore, as an economic growth tool; the development aid which is an aid tool for developing countries.

We will see in more detail the differences between those groups targeted by microfinance instruments.

IV. Diverse targets of Microfinance

In the field of microfinance different aims and targets exist. Microcredit providers can have a social approach (which aims at achieving social inclusion and reintegration in the labour market)⁹ or be commercial oriented (which means providing microloans to entrepreneurs who are not attractive as customers for banks for different reasons, lack of collaterals, no track record,...)¹⁰ and there are of course the microcredits which are used as development aid for developing countries. Those providers could be banks or other institutions (non-banks) but they all work on a common target increase the level of financial inclusion in Europe.

Additionally, we could say that depending on the target groups and models the definition of microfinance as well as products and services provided differ. In a social perspective the target group represents higher risks because of the higher default rates due to the characteristics of that target group. Usually, the provision of those kinds of microloans is done through non-profit organizations. Concerning the commercial perspective, there are lower risks of default compared to those of the social target group. However, the risk of

⁸ European Commission: *Gaining Scale in Microcredit: Can banks make it happen?*, Report of the Directorate General for Enterprise and Industry, p.17

⁹ European Commission: *Gaining Scale in Microcredit: Can banks make it happen?*, Report of the Directorate General for Enterprise and Industry, p.17

¹⁰ European Commission: *Gaining Scale in Microcredit: Can banks make it happen?*, Report of the Directorate General for Enterprise and Industry, p.17

default is still higher than for an ordinary loan. Moreover, the small amounts issued and the costs related make the lending of microloans expensive and somehow unprofitable. Here, guarantee institutions have a specific role to play of bringing down the risks and costs ubiquitous in microfinance activities.

The different perspectives are outlined in detail in the below section.

III.1. Social

Today, Microfinance is ordinarily seen as a social inclusion tool. Before explaining the reasons why and how microfinance can be seen as a tool helping people excluded from the society, we have to explain what social exclusion means.

The **European Anti-Poverty Network** follows the definition set up by the EC of social exclusion "term [social exclusion] used to emphasize the process which push people to the edge of society, which limit their access to resources and opportunities, curtail their participation in normal social and cultural life leaving them feeling marginalized [...]".¹¹ Therefore, the question arises: What can be the role of microfinance to reverse such a situation? Social exclusion is inextricably connected to financial exclusion. The term financial exclusion is defined as "the inability of individuals, households or groups to access financial services in an appropriate form"¹². In the view of the **European Microfinance Network**, microfinance can be an appropriate solution against financial and social exclusion because of the provision of suitable credits, savings and other financial products or services. The EU has set up several policies concerning social inclusion were they highlight the benefits of microloans to reduce poverty, boost economic growth and increase job creations.

It exist different types of financial exclusion:

- Lack of access to transaction services
 - ✓ "unbanked": people without any bank account
 - ✓ "marginally banked": people making little or no use of those services
- Lack of access to credit
 - ✓ "Credit excluded": people who are refused any credits by lenders
 - ✓ Credit exploited: people who only access credit through loan sharks at unaffordable rates
- Lack of access to insurance services
- Lack of access to savings services

¹¹ Definition of social exclusion: http://www.european-microfinance.org/definitionexclusionsociale_en.php

¹² Definition of financial exclusion: http://www.european-microfinance.org/exclusionetmicrofinance_en.php

The **Réseau Financement Alternatif** has undertaken in 25 EU countries a study on the level of financial exclusion, we have summarised for 10 EU member states, in which we have AECM members' microeconomic data on the proportion of financial exclusion, population below the poverty line and proportion of microenterprises in each country. Additionally, the macroeconomic data is compared to the main microfinance activity in those countries, showing the number of microloans disbursed (in 2009), the value of those microloans and the number of active clients.

Country	Macroeconomic data 2009							Principal microfinance activity (Dec 2009)			
	GDP per capita (in €)		Population below poverty line (in %)		Population in financial exclusion (in %)		Proportion of microenterprises (in %)		N° of active clients	N° of loans disbursed	Value of loans disbursed (in € million)
Belgium	24.700	2008	15,0	2009	1	2007			3.491	835	16,7
Bulgaria	4.467	2009	21,0	2009	n.d.		99		3.248	2.637	93,3
France	22.900	2008	13,0	2008	2	2007	92	2007	70.252	28.863	152,6
Germany	29.400	2009	15,0	2008	3	2007				8.208	147,8
Hungary	5.390	2009	12,0	2009	34	2009	95	2009	181.897	10.402	181,9
Italy	26.250 21.800	2008	13,6	2008	16	2009	94,9	2006	2.146	1.909	10,9
Portugal	16.000	est. 2009	18,0	2006	17	2009			829	454	3,8
Romania	10.300	2009	28,9	2009	n.d.		98,2	2009	15.163	3.493	20,3
Spain	22.886	2009	19,9	2009	8	2009	98,7	2009	9.786	5.172	46,6
Netherlands	29.200	2009	10,5	2009	1	2009	38	2009	850	572	11,7

Source: Own conception based on the EMN Working Paper n°6 (2008-2009)

The issue with microloans is that banks require collateral in order to be able to lend. However, among others microenterprises, start-ups or inactive people lack collaterals and, in microcredit, the small amounts issued make the micro-lending activity unprofitable.¹³

The social oriented microcredit schemes target inclusion lending.

¹³ European Commission: *Gaining Scale in Microcredit: Can banks make it happen?*, Report of the Directorate General for Enterprise and Industry, p.6

III.2. Commercial

The reasons for financial exclusion or none access to finance are given in the below paragraph.

No access to finance through ordinary banking structures can be due to:

- lack of entrepreneurial experience
- lack of collateral
- lack of legal frame and national business environment knowledge
- difficult conditions such as high interest rates, short reimbursement periods, ...

The issue of scarcity of microcredit is due to its high risk level and high costs for the lending bank.

Thus, guarantees, counter-guarantees or other support measures can help to insure their viability.

Impeding factors for microloans are among others the lack of collateral or guarantees, insufficiently prepared entrepreneurs or with a perceived high risk level, as well as inadequate or non-existing financial information or business plans.

Other factors depend generally on the segment of the microloan market -, the micro-lender is acting, for instance lending to start-ups is considered to be more risky than to lend to established enterprises due to the fact that the lack of experience, financial data on the company and the unknown success of the business model are leveraging the risks.

In the opinion of the EC these factors limit banks "in their capacity to reach the full group of entrepreneurs that is serviceable in a population of 18 million micro-enterprises"¹⁴.

Micro-enterprise lending activities, the focus groups are start-ups or micro-enterprises and are commercial oriented.

Often, the main reason for microenterprises requesting financial means to re-capitalize or undertake investments is that they do not find suitable credits schemes because either of insufficient collateral, too high interest rates or too low loan amount...

In the perspective of financial institutions, requiring financial profitability, those types of enterprises are often excluded because of the too high administrative work for low

¹⁴ European Commission: *Gaining Scale in Microcredit: Can banks make it happen?*, Report of the Directorate General for Enterprise and Industry, p. 8

returns and high default rates. Somehow microcredits are not profitable enough. Provided that banks may achieve a profitable economy of scale on such small amounts then they could propose more easily that type of product.

V. Facts & Figures: About Microfinance

According to estimates of the organization PlaNet Finance¹⁵, in 2006 “over two billion people do not have access to financial services”. The organization had set up several key figures in 2006 such as that 150 million people got access to finance through microfinance institutions (MFIs), from whom 84% are women and 44, 4% belong to the poorest of the poor. Moreover, the total outstanding portfolio was estimated at USD 30 billion for the same year, which means that there was an annual growth of microfinance activities of over 30%.¹⁶ In 2009, the State of the Microcredit Summit Campaign Report 2011¹⁷ stated that over 190 million clients got access to finance and from whom 67,44% belong to the poorest when their loan was granted.¹⁸

Focusing now on the EU-25 figures of microfinance and related products. Eurostat, the European Community Statistics Centre, assessed that

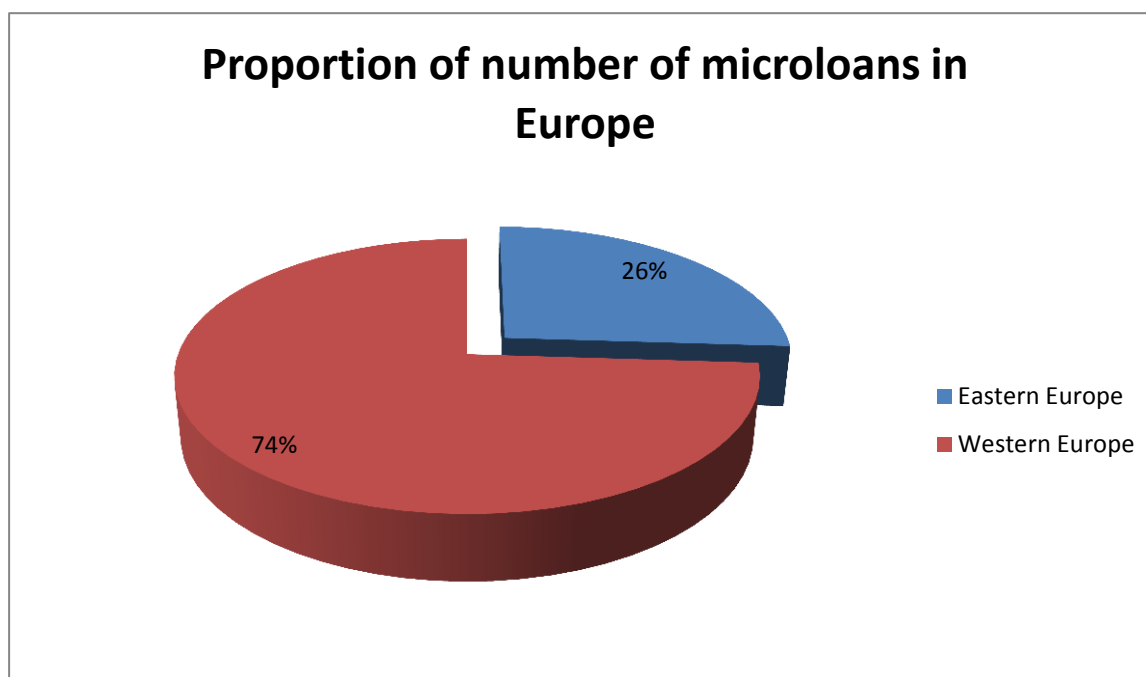
Some key figures of a study carried out by the **EMN research group coordinator** with the cooperation of 170 microfinance players in 21 European Union countries. The microcredit volume granted in 2009 amounted € 828 million and implied 84.523 microloans.

¹⁵ PlaNet Finance is a leading provider of services contributing to promoting financial inclusion and an international network of 19 offices in the world. www.planetfinance.org

¹⁶ PlaNet Finance – the Microfinance Platform : *Microfinance Fact Sheet 2006*, p.1

¹⁷ Microcredit Summit Campaign: *State of the Microcredit Summit Campaign Report 2011*, 92p.

¹⁸ Microcredit Summit Campaign: *State of the Microcredit Summit Campaign Report 2011*, p.3



Source: Own conception based on the EMN Working Paper n°6 (2008-2009)

In volume, 60 % of microloans are issued in Western Europe and 40 % in Eastern Europe.

Microfinance in the EU tackles two main challenges of the European Commission. On the one hand, the economical perspective which means achieves growth, business development and financial inclusion. On the other hand the social aspect which includes eradication of poverty, reduction of unemployment and fostering more equality.

Across the European countries, assessed during the EMN study, the products and services have varying conditions. The loan characteristics differ in "loan terms, interest rates, loan fees, guarantees and loan sizes"¹⁹. Even their purpose is differing from country to country.

Different measures are launched worldwide and so, regional trends appear in order to increase microfinance activities. These measures, depending on the focused region, can vary in their target groups, microloan definition and the way of structuring this activity.

We decided to focus our document on the EU-initiatives launched in this field. But during our Seminar we will have a glance at the other regional developments in microfinance thanks to the insides of the International Finance Corporation (IFC).

¹⁹ EMN Working Paper n°6: *Overview of the Microcredit Sector in the European Union, 2008-2009*, p.40

In the next paragraph the different programs, which were launched in the European Union (EU) in order to support Microcredits and so as to increase the number of Microbusinesses, will be explained.

VI. European initiatives supporting microfinance

At the end of 2007, the EC issued a communication to the European Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, in which it outlined clear evidence that “an emerging gap between supply and demand for micro-credit in Europe” exists.²⁰ Therefore, several EU-initiatives were launched in the following years with an EU-wide, regional or national outreach and, pursue the same goal which is economic growth and social inclusion in Europe. The main programmes are explained below.

European initiatives supporting microcredit activities and microfinance institutions are:

- **EU-PROGRESS: the PROGRESS Microfinance Facility for Employment and Social Inclusion (EPMF)**

“The European Progress Microfinance Facility (EPMF) is the EU’s employment and social solidarity programme implemented by the European Social Fund (ESF). It was established to financially support the implementation of the European Commission objectives, under the supervision of the Directorate for Employment, Social Affairs and Inclusion, set out as to achieve the goals of the Social Agenda.”²¹ The funds for the EPMF come from the well non EU initiative PROGRESS programme. The EU-Decision entered into force on 8 April 2010.

The EPMF is “a microfinance initiative established with € 200 million of funding from the EC and the EIB.”²²

With the EU-Decision a budget of € 100 million²³ is foreseen as financial contribution for the EPMF, for the period from 1 January 2010 to 31 December 2013.²⁴ € 60 million emanate from the PROGRESS programme funds and the remaining € 40 million come

²⁰ European Commission COM (2007) 708 final/2: Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions – *A European initiative for the development of micro-credit in support of growth and employment*, Brussels 20.12.2007, p.4

²¹ EMN Working Paper n°6 : “ Overview of the Microcredit Sector in the European Union 2008-2009” p.11

²² EIF, “European Progress Microfinance Facility”, p.2 (http://www.eif.org/attachments/publications/about/2010_Progress_leaflet.pdf
http://www.eif.org/what_we_do/microfinance/progress/Progress_Microcredit_Guarantees_1.htm

²³ Decision No 283/2010/EU of the European Parliament and of the Council of 25th March 2010: “Establishing a European Progress Microfinance Facility for employment and social inclusion”, p.3 Art.3

²⁴ <http://ec.europa.eu/social/main.jsp?langId=en&catId=836>

from the margins of the budget.²⁵

The EPMF is accessible to public and private bodies providing microfinance products and services at national, regional or local level in the Member States.²⁶

Estimation of the EU is that the € 100 million made available through the EPMF would leverage more than € 500 million microloans over 8 years.²⁷

€ 25 million, out of the total € 100 million, will be made available for the guarantee window, which was launched under a Fiduciary and Management Agreement (FMA) between the Commission and the EIF.

Each year € 25 million will be made available to EPMF, from 2010 until 2013.

The EPMF eligible types of actions are: Guarantees and risk-sharing instruments, equity instruments, debt instruments and support measures (i.e. communication activities, monitoring, etc.).

- **JASMINE initiative: Joint Action to support microfinance intuitions in Europe**

The JASMINE program was set up by the EU so as to support Microcredit providers. The initiative to back microenterprises started in November 2007, with the adoption of the communication "A European initiative for the development of microcredit in support growth and development" by the EC.

"JASMINE is a pilot initiative which has been developed by the DG REGIO²⁸ of the European Commission (EC), the European Investment Bank (EIB) and the European Investment Fund (EIF) to provide effective support for the promotion of microcredit in the European Union."²⁹ The programme was set up to insure the technical assistance of MFIs and so as to enhance the quality of microfinance operations. The objective of the JASMINE is to establish partnerships between banks, financial institutions and existing MFIs. In general, the JASMINE programme was launched to help existing MFIs to expand their outreach, to become financially or operationally sustainable or even become a bank.

²⁵ Report of the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, p.1 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011DC0195:EN:NOT>)

²⁶ Decision No 283/2010/EU of the European Parliament and of the Council of 25th March 2010: "Establishing a European Progress Microfinance Facility for employment and social inclusion", p.3 Art.3

²⁷ Report of the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, p.1 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011DC0195:EN:NOT>)

²⁸ Directorate for regional policy

²⁹ EMN Working Paper n°6 : " Overview of the Microcredit Sector in the European Union 2008-2009" p.11

- **JEREMIE initiative: Joint European Resources for Micro to Medium Enterprises**

JEREMIE reflects the EC new approach concerning regional policy, which is characterized by the desire to stand out from simple grants and so rely on revolving funds (loans). It is an EIF / EIB initiative to improve access to finance for SMEs and microenterprises. An estimated amount of € 2.5 billion will be managed within the JEREMIE Framework, with a potential multiplier effect of 5.

The preparatory stage is now completed. During the period 2006 – 2007 several studies focusing on the assessment of market failure were undertaken. Today, JEREMIE began its operational stage in approximately 15 to 20 EU-member states the initiative will be launched. The member states and the regions (the responsible authorities) have the possibility to invest the received structural funds, allocated by the EU (ERDF / ESF), partly or totally in the holding fund (HF), which acts as a "fund of funds" or "umbrella fund". The HF is governed by a board of investment and can be directly managed by the EIF and / or institutions selected national public procurement. This is formalized by a "funding agreement" between the management authority and HF selected.

Once formalized, the HF is calling for expressions of interest to financial intermediaries (FIs) (including providers of venture capital funds or guarantee loans and microcredit). The HF provides equity, guarantees or loans to financial intermediaries selected and accredited in accordance with operational details to be agreed between the managing authority and the HF. A considerable leverage is expected, which would give banks, the EIF and other financial intermediaries' additional debt capital. Managing Authorities may also decide to make available, in parallel, technical assistance credits to accredited financial intermediaries.

The EC sees the main JEREMIE benefits as: *increased flexibility* for the Managing Authorities to allocate their resources, *the benefits of a portfolio management* because the HF can vary the allocation of resources according to the financial products' needs, receiving repayment of the FIs, the HF will be able to gain financial sustainability and therefore, be of *revolving nature*. The last benefit is the *leverage* obtained.³⁰

³⁰ EIF, JEREMIE – Joint European Resources for Micro to Medium Enterprises, http://www.eif.org/what_we_do/jeremie/index.htm

- **CIP: the Competiveness and Innovation Programme**

The EC established the framework of the Competiveness and Innovation Programme (2007-2013) so as to, among others, enhance guarantee facility for SMEs. The operational part is handled by the European Investment Fund (EIF). The main objective of the CIP programme is “to reduce the particular difficulties SMEs face in accessing finance” and so as to form a single EU Loan Guarantee Window.³¹ The CIP provides through the EIF, counter-guarantees, co-guarantees for guarantee schemes and direct guarantees (“EU Guarantees”) for other financial intermediaries. The purpose of those different types of guarantees is to “cover portfolios of financing, including loans or lease instruments.³² This programme provides also EU Guarantees, Co-guarantees or Counter-guarantees to microfinance institutions or intermediaries offering microfinance products. However, the CIP programme’s guaranteeing microloans activity is relatively small compared to the other EU-initiatives.

VI. How to achieve economies of scale in the field of microfinance?

For organizations proposing microfinance services this is one of the most important issues they have to deal with. To assert this statement, we refer to a report published in 2010 by the FIELD, an American organization; they tried to answer this question by carrying out a survey among several microenterprises development organizations in the US.³³

Therefore, we asked our members to explain: How can an organization offer adequate services to the microcredit borrowers without making losses?

From the recent review of AECM’s members the following answers were given to the question:

“How do you achieve economies of scale?”

The issue of microcredit guarantees activities is that they are often seen as not economically sustainable, because of the high costs and low return.

³¹ European Commission: *CIP SME Guarantee Facility – Guarantee Policy and Operational Guidelines for Loans*, p.1

³² European Commission: *CIP SME Guarantee Facility – Guarantee Policy and Operational Guidelines for Loans*, p.1

³³ Focused on growth – FIELD Report 2010

In the opinion of our members performing microloan guarantees activities:

- *Sowalfin*: *Sowalfin* succeeded to limited high costs of microcredit activity by outsourcing project analysis to the different SCMs, which have direct contact to the clients.

In the case of their newly launched automatic guarantee product, beginning 2011, they rely on their, over the years consolidated, relationship with their banking network. This enables *Sowalfin* jointly with *Socamut* to offer an innovative microloan guarantee products to the banks, they are operating with, and so delegate the decision to secure a micro-project with a *Sowalfin-Socamut* guarantee.

By issuing automatic guarantees or counter-guarantees to their network *Sowalfin* manages to maintain economies of scale.

- *Aws*: the answer of *aws* to obtain economies of scale in their microloan guarantees activities is to ensure streamlined processing, no collaterals and specific developed rating model for retail clients. Additionally, they highlight that settlements without direct customer contact, only through banks is cost reducing as well. Therefore, a long cooperation with trustworthy banks ensures economies of scale.
- *Bürgschaftsbank Baden-Württemberg*: For the Guarantee Bank Baden-Württemberg, economies of scale are possible by applying following measures:
 - ✓ Highly standardized processes
 - ✓ Cooperation with the promotional institutions
 - ✓ Shaping a microloan product composed by low rate loans and guarantees in own
 - ✓ Negotiating fixed fees for transaction costs with the house banks
 - ✓ Centralised loan application centre
 - ✓ Develop electronic loan applications
- *CESGAR*: For *CESGAR* the key elements guaranteeing economies of scale is to have:
 - ✓ Specialised personnel
 - ✓ Standardised processes
 - ✓ Reduced application documents

- *KGF*: In the view of *KGF* the main factor enabling economies of scale is to adopt the portfolio approach rather than the individual approach.
- *CMZRB Bank*: *CMZRB Bank* sees the possibility to achieve economies of scale only by processing through the portfolio guarantees approach.
- *SGFA*: In both cases, guarantee and counter-guarantee activities, *SGFA* perceives as only solution to attain economies of scale, when guaranteeing microloans, in an increased guarantee portfolio management.

VII. AECM – Members’ microcredit guarantee schemes

The importance of Credit Guarantee Schemes for microcredit lending increased due to the fact the capital adequacy accord of Basel II and its strengthening with Basel III. Therefore, banks should have a sufficient risk-sensitive minimum capital, which means that the riskiness of their portfolios has to be reflected in their capital charges.³⁴

The role of Credit Guarantee Schemes in the microfinance field is a “facilitator” role. They can provide the microcredit borrower with a guarantee in order to substitute for/cover the lack of collateral, if required.

In order to reflect the point of view of our members and their type of microloan guarantees schemes, we carried out a survey.

From 36 AECM members 9 responded to the microfinance questionnaire. We can therefore, say that 25% of AECM members have dedicated microfinance products according to the EU-definition.

Many more members issue micro-guarantees under their regular guarantee programmes.

Belgium:



SOWALFIN & SOCAMUT

Sowalfin has been set up by the Department of Economy of the region of Wallonia as a Public Interest Joint Company with own funds amounting € 50 million. It started its operations in 2002, continuing newly structured the activities of the Walloon Fonds de Garantie launched in 1978. Among the programmes managed by Sowalfin there are the direct guarantees to SME, the indirect guarantees (50% coverage of direct guarantees issued by the Walloon Sociétés de Cautionnement Mutuel (SCM)) and the microcredit guarantees, which is an activity delegated the SCM. Currently, they provide three different types of microcredit guarantees with different target groups and purposes. They are explained below.

³⁴ Dr. Szabó A., *Microfinance and credit guarantee schemes – experiences in the economies in transition*, 2005, p.11

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU - definition			
Scope	Commercial: Principal microcredit activity focuses on guaranteeing microloans issued by commercial banks, for entrepreneurship projects set up by micro-enterprises and independents		Social: Additional activity concerns guaranteeing microloans issued by CREDAL, pluralist credit organization, set up for enhancing social cohesion and sustainable entrepreneurship through social financings	
Started in	2005			
Target groups	Independent/ Self-employed/ Liberal profession	Micro-businesses: - less than 10 employees - Maximum annual turnover € 2 million	Social or financial excluded / unemployed	
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investments - Company acquisition 			
Duration of loan	<ul style="list-style-type: none"> - 1 to 5 years - Exceptionally: more than 5 years for machines or company acquisition 			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	No	See table on specific conditions	No	See table on specific conditions
Coverage rate	Maximum 80%			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest</u>: No - <u>Other</u>: No 			
Distribution channels	<ul style="list-style-type: none"> - Banks - Direct distribution to clients - SME supporting organizations 			
Risk assessment method	<ul style="list-style-type: none"> - Automatic deliverance - No internal risk assessment 			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies: Structural funds</u> <ul style="list-style-type: none"> ▪ FEDER - <u>National subsidies</u>: No 			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	<ul style="list-style-type: none"> - Automatic Counter-guarantees of SCM guarantees: € 454.368 - Automatic guarantee of CREDAL microloans: € 33.681 - Total microloan guarantees volume: € 1.286.716
Proportion of microcredit activities upon total guarantee activities (31.12.2010)	1,2%

Specific conditions of the Guarantee products for microcredits:

SOWALFIN offers three different guarantee products for microloans. They have different purposes and characteristics therefore, we outlined them below:

Different microloan products	Automatic Counter-guarantee of SCM guarantees	Automatic guarantee – of CREDAL microloans	Automatic mixed guarantee - SOCAMUT
Started in	2005	2008	2011
Coverage rate	75%	50%	75%
Maximum loan value	€ 25.000	€ 25.000	€ 25.000
Guarantee fees	- 30% of SCM's commission - SCM's fee: 1% to 1,5% of the notional annual of the guarantee granted	1% of annual guarantee fee	1% of annual guarantee fee
Maximum guarantee amount (by SOWALFIN)	€ 15.000	€ 12.500	€ 18.750
	SOWALFIN gives the counter-guarantee to guarantees issued by the "Sociétés coopératives de cautionnement mutual (SCM)". SCM guarantee up to 80% of maximum € 25.000		Possible subordinated loan issued by SOCAMUT of maximum 50% of principle loan value. So, possible maximum amount guaranteed € 37.500.

France:

Fédération nationale des SOCAMA



Created by and for entrepreneurs, the SOCAMAs provide guarantees for equipment investments, company development and business transfers. They are working in partnership with the French "Banques Populaires" and they see as their mission the facilitation of access to finance for SMEs and the development of entrepreneurship in France. They launched about 40 years their guarantee for microloans scheme, which is explained below.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU - definition			
Scope	Commercial			
Started in	More than 40 years			
Target groups	Independent/ Self-employed/ Liberal profession	Craftsmen, shopkeepers, business with less than 10 employees, annual turnover less than € 1.5 million		
Specific sectors	No			
Microloan type	- Investments			
Duration of loan	- 3 to 5 years			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	0,5% of the outstanding guaranteed capital	1,5% of the guaranteed amount payable at the end	No	€ 30.000
Coverage rate	100% of the loan			
Capped interest rate	- <u>Capped interest</u> : No - <u>Other</u> : No			
Distribution channels	- <u>Banks</u> : through Banques Populaires network (France)			
Risk assessment method	- <u>Individual risk assessment</u> for each loan issued			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies</u>: <li style="padding-left: 20px;"><u>CIP</u>: <li style="padding-left: 40px;">▪ In 2010: 11.800 loans guaranteed for an amount of € 185 million. <li style="padding-left: 40px;">▪ Average value of loans guaranteed: <u>€ 16.000</u> <li style="padding-left: 40px;">▪ Loans without personal liabilities - <u>National subsidies</u>: No 			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	- Microloans / CIP = 15% of volume of guarantees in portfolio
Proportion of microcredit activities upon total guarantee activities(31;12.2010)	- Microloans / CIP = 22% of total activity 2010

Germany:

Association of German Guarantee Banks - Verband Deutscher Bürgschaftsbanken (VDB)



Guarantee Bank of Baden-Württemberg GmbH



In Germany, the Bürgschaftsbanken (Guarantee Banks) have been a proven financial partner for SMEs by issuing guarantees for both loans and mezzanine financing for over 50 years. One of the German Guarantee Banks is the Guarantee Bank of Baden-Württemberg, which example of microloan guarantees scheme is explained here. The credit guarantee activities of the Guarantee Bank represent 30% of total credit guarantees' activities of the VDB.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU – definition with following specificities: <ul style="list-style-type: none"> - German definition of microloan size: € 15.000 - Number of employees: not defined - Loan duration: short term 			
Scope	Commercial: <ul style="list-style-type: none"> - Economic viable project - Debt service capacity - Industrial projects - In the first 3 years possible as subsidiary occupation 			
Started in	More intensively since 2004			
Target groups	Independent/ Self-employed/ Liberal profession	Start-ups and business/enterprise transfers		
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investments - Microcredit and rental guarantees are possible 			
Duration of loan	<ul style="list-style-type: none"> - For Working capital: more than 5 years - For Investments: more than 5 years - For Microcredit and rental guarantees are possible: more than 5 years 			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	<ul style="list-style-type: none"> - 1,0% of processing fee - As security min. € 200 	In %: 0,8% of the microloan	No	Not defined
Coverage rate	Maximum 80%			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest</u>: Depending on capital market evolution. Currently: 5% (commission on guarantee included) - <u>Other</u>: House bank receives processing fees: <ul style="list-style-type: none"> ▪ <u>For microloans up to € 10.000</u>: € 1.000 ▪ <u>For microloans up to € 20.000</u>: € 750 ▪ <u>For microloans up to € 100.000</u>: € 500 			
Distribution channels	<ul style="list-style-type: none"> - Banks: 95% are Credit Unions ("Sparkassen") and Cooperative banks 			

	<ul style="list-style-type: none"> - Microfinance Institutions (MFIs) - SME supporting organisations
Risk assessment method	- Individual simplified risk assessment approach
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies</u>: No - <u>National subsidies</u>: <ul style="list-style-type: none"> ▪ Counter-guarantees from region ("Land") and federal state ("Bund")

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (30.04.2011)	<ul style="list-style-type: none"> - In volume: <ul style="list-style-type: none"> ▪ Volume of microloans € 15.555.040,66 ▪ Volume guaranteed € 10.924.160,46 - In number: 614
Proportion of microcredit activities upon total guarantee activities	<ul style="list-style-type: none"> - <u>In 2009</u>: <ul style="list-style-type: none"> ▪ 14,3% of total guarantees issues ▪ 2,0% of total activity (volume) - <u>In 2010</u>: <ul style="list-style-type: none"> ▪ 15,4% of total guarantees issues ▪ 2,2% of total activity (volume)

Austria:

Austria Wirtschaftsservice Ges.m.b.H. (aws)

Austria Wirtschaftsservice (aws) is a promotional institution that is publically owned and, among other instruments, provides a guarantee instrument for microloans. Aws started in 1954, providing guarantees for microloans. However, this type of activity was stopped in 1996. In 2007, the activity was re-launched. Their microloan guarantees product is explained beneath.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	<u>EU definition with following specificities:</u> - Maximum microloan size: € 30.000 - Maximum annual turnover: € million			
Scope	<u>Social:</u> According to de-minimis ³⁵ guarantees are considered as to be supporting instruments			
Started in	2007			
Target groups	Independent/ Self-employed/ Liberal profession	<u>Small businesses:</u> According EU - definition		
Specific sectors	No			
Microloan type	- Working capital - Investments			
Duration of loan	- For working capital: between 1 and 5 years - For investments: up to 7 years			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	No	0,6% p.a. of the guarantee amount	No	€ 24.000
Coverage rate	Maximum 80%			
Capped interest rate	- <u>Capped interest:</u> 3 months EURIBOR + 120 BP - <u>Other:</u> No			
Distribution channels	- Banks: all Austrian Banks - Chamber of commerce			
Risk assessment method	- Individual risk assessment			
Subsidies	- <u>EU subsidies:</u> ▪ <u>CIP (since 2009)</u> - <u>National subsidies:</u> ▪ <u>State counter-guarantees and coverage of administrative costs</u>			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (10.05.2011)	- In volume: € 6 million
Proportion of microcredit activities upon total guarantee activities	1%

³⁵ Aws: *KMU – Innovationsförderung "Unternehmensdynamik"*, 2011, p.1
(<http://www.awsg.at/Content.Node/media/files/Unternehmensdynamik.pdf>)

Spain:



CESGAR

CESGAR is the national umbrella of 23 Mutual Guarantee Societies (MGS), the first of which had been created in 1979 following political changes in Spain which prompted economic reforms focussed on competitiveness and internationalisation. The Spanish MGS also provide a microcredit guarantees product, it is outlined below.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU - definition			
Scope	Commercial			
Started in	2003			
Target groups	Independent/ Self-employed/ Liberal profession	<u>Micro-businesses:</u> According EU - definition		
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investments 			
Duration of loan	<ul style="list-style-type: none"> - For working capital: between 1 to 5 years - For investments: more than 5 years 			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	0,5%	1%	Social contributions vary depending the SGR	€ 25.000
Coverage rate	100%			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest:</u> a fixed below market rate usually revisable. - <u>Other:</u> No 			
Distribution channels	<ul style="list-style-type: none"> - Banks: all banks and main saving banks in the implemented area - Chambers of commerce - Associations 			
Risk assessment method	<ul style="list-style-type: none"> - Individual risk assessment 			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies:</u> <i>CIP</i> - <u>National subsidies:</u> <i>In some cases regional governments' subventions</i> 			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	- In volume: € 26.146.844
Proportion of microcredit activities upon total guarantee activities	<ul style="list-style-type: none"> - Microcredit operations (in number): 4.071 - Total operations (in number): 58.796 - Proportion: 7%

Portugal:



Sociedade de Investimento, S.A. - SPGM

The Portuguese Mutual Guarantee system is composed of three instruments:

- Four Mutual Guarantee Societies (Lisgarante, Norgarante, and Garval being the "regional" guarantee issuers and Agrogarante the national issuer within the agricultural industries)
- SPGM, the holding company and shared services centre for the network
- FCGM, the counter-guarantee mechanism, funded by State and EU Structural Funds, that benefits of EIF support as a third coverage level

Local Societies are said "mutual" because their share capital must be held in majority by private entrepreneurs who subscribe a guarantee.

The largest private banks and National SME Agencies (IAPMEI, TP) are shareholders as well. They provide since 1994, guarantees for microloans, commercial as well as social oriented. Their product is exemplified here beneath.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU - definition			
Scope	<u>Commercial:</u> ▪ Microenterprises alongside the whole life cycle		<u>Social:</u> ▪ Unemployed or inactive people	
Started in	1994			
Target groups	Independent/ Self-employed/ Liberal profession	<u>Small businesses:</u> According EU - definition	<u>Micro businesses:</u> According EU - definition	University and post graduate students
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investment - Other loans: Academic graduation loans 			
Duration of loan	- 1 to 5 years			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	Between 0 and € 100	Between 0,5% and 4,5%	Between € 10 and € 500	€ 25.000
Coverage rate	Between 10% and 100%			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest:</u> EURIBOR + 4,375% - <u>Other:</u> Spread bonification: between 0% and 100% 			
Distribution channels	<ul style="list-style-type: none"> - Banks - SME supporting organizations - Portuguese Agency for Employment and Qualification – IEFP 			
Risk assessment method	<ul style="list-style-type: none"> - Depending on the credit line type: <ul style="list-style-type: none"> ▪ Guarantee portfolio approach ▪ Specific cases: Individual risk assessment 			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies:</u> - <u>Structural funds:</u> <ul style="list-style-type: none"> ▪ FEDER ▪ FEOGA 			

	<ul style="list-style-type: none"> ▪ FEI - <u>National subsidies:</u> <ul style="list-style-type: none"> ▪ All guarantees issued by the private Mutual Guarantee Societies (MGS) are counter-guaranteed by a public national Counter-Guarantee Fund (FCGM)
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Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	- In volume: Approx. € 572 million
Proportion of microcredit activities upon total guarantee activities	15%

Hungary:

Garantiqa Hitelgarancia Zrt.



With the objective of strengthening the market economy and improving the conditions for the development and operation of small and medium-sized enterprises in Hungary, the government and various key participants of the financial sector established Garantiqa Hitelgarancia, in 1992. The purpose was to provide surety guarantees for loans disbursed by the financial institutions, thus mitigating and partially assuming their lending risks. Garantiqa has three different microcredit guarantees programmes, which have different cap rates and risk assessment methodologies. The general product is explained below.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU - definition			
Scope	<u>Commercial</u>			
Started in	1999			
Target groups	<u>Micro-businesses:</u> - 0-9 employees - Maximum annual turnover € 2 million			
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investment 			
Duration of loan	<ul style="list-style-type: none"> - Working capital: less than 1 year - Investment: between 1 and 5 years 			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Guaranteed amount
	Amount: € 38	0,5% up to 2%	No	<ul style="list-style-type: none"> - Maximum: € <u>25.000</u> - Minimum: € <u>4.000</u>
Coverage rate	70% - 80%			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest:</u> EURIBOR + 2% - There are different microcredit programmes in Hungary. So, the Hungarian National Bank prime rate is used in some cases (Hungarian National Bank prime rate +3%) - <u>Other:</u> No 			
Distribution channels	<ul style="list-style-type: none"> - Microfinance Institutions (MFIs) - Local enterprise agencies - Co-operative credit institutions 			
Risk assessment method	<ul style="list-style-type: none"> - Individual simplified and standardized risk assessment (based on pre-set criterion agreed with the lenders) 			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies:</u> No - <u>National subsidies:</u> 70% counter-guarantee from central budget 			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.03.2011)	<ul style="list-style-type: none"> - In volume: € 16.9 million - In number: 760 guarantees
Proportion of microcredit activities upon total guarantee activities	<ul style="list-style-type: none"> - In volume: 0,92% - In number: 2,4%

Turkey:

Kredi Garanti Fonu A.S. (KGF)

After the company creation in 1991, the main milestones of KGF's history were the granting of the first transaction in 1994, successive contributions of KOSGEB (Small and Medium Industry Development Organisation), the allotment of a grant on behalf of GTZ (De) in 1998, the 2001 crisis and the signature of two counter-guarantee contracts with EIF in 2004 and 2006. The equity was increased by 20 million TRY in 2006.

Today, KGF provides guarantee for microcredits on a regular basis. Internally, a distinction is made between loans below € 25.000 and loans above € 25.000. The loans up to € 25.000, guaranteed by KGF, fall under the EIF counter-guarantee programme and so have lower commission fees.

The product has the following characteristics:

Product type	Guarantee for microloans			
Definition applicable	EU - definition			
Scope	<u>Commercial:</u> Guarantee provision to micro-enterprises			
Started in	1991			
Target groups	Independent / Self-employed / Liberal profession	<u>Micro-businesses:</u> - Maximum: 9 employees - Maximum annual turnover: € 2 million for EIF projects - Maximum annual turnover: TRY 1 million for none EIF projects		
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investment - Non-cash loan 			
Duration of loan	<ul style="list-style-type: none"> - Working capital: Up to 8 years - Investment: Up to 8 years - Non-cash loan: Up to 8 years 			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	<u>Amount:</u> TRY 200 (approx. € 110)	0,5%-2%	<u>Amount:</u> TRY 300 (approx. € 130)	€ 25.000
Coverage rate	Maximum 80%			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest:</u> No - <u>Other:</u> Interest rate varies depending Intermediary Banks 			
Distribution channels	<ul style="list-style-type: none"> - <u>Banks:</u> Public, private, development and investment banks which have agreed to sign a protocol with KGF 			
Risk assessment method	<ul style="list-style-type: none"> - <u>Individual risk assessment:</u> following specific set up criterion 			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies:</u> <ul style="list-style-type: none"> ▪ <u>CIP</u> ▪ <u>Instrument for pre-accession assistance (IPA)</u> - <u>National subsidies:</u> <ul style="list-style-type: none"> ▪ <u>From Turkish Treasury, as a crisis</u> 			

	<i>measure, has obtained TRY 1 billion (approx. € 446,8 million)</i>
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Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	- In volume: 530,3 million TRY (approx.. € 230,3 million)
Proportion of microcredit activities upon total guarantee activities	26,36%

Italy:

Society for the management of funds for the agricultural and food sector – SGFA (ISMEA)



SGFA has the legal status of a Limited Company. It has an autonomous management within the guidelines of support policies to farmers made by the Italian Ministry of Agriculture.

Ismea, the Agency for Studies, Research and Information on Agri-markets has two operational arms: ISMEA Invest for capital risk operations (access to rural property and natural disasters) and SGFA (loans guarantees).

SGFA offers a microloan guarantees activity in which they made a distinction between their guarantee activity and counter-guarantee activity. Therefore, we explained both products.

The product has the following characteristics: Guarantee activity

Product type	Guarantee for microloans			
Definition applicable	EU – definition			
Scope	Commercial			
Started in	2008			
Target groups	Small businesses: According EU - definition	Micro-businesses: According EU - definition		
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investments - Other loans: debt/liabilities restructuring 			
Duration of loan	- n.a.			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	0,10% (included in guarantee fees)	- <u>Minimum:</u> 0,45% - <u>Maximum:</u> 1,92%	No	€ 25.000
Coverage rate	Maximum 80% (in case of young entrepreneurs under 40)			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest:</u> No - <u>Other:</u> No 			
Distribution channels	- Banks: any Italian or foreign bank operating in Italy			
Risk assessment method	- Individual risk assessment approach (using internal rating model)			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies:</u> No - <u>National subsidies:</u> No 			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	- None at the moment
Proportion of microcredit activities upon total guarantee activities	n.a.

The product has the following characteristics: *Counter-guarantee activity*

Product type	Guarantee for microloans			
Definition applicable	EU – definition			
Scope	<u>Commercial</u>			
Started in	1961			
Target groups	Small businesses: According EU - definition	Micro-businesses: According EU - definition		
Specific sectors	No			
Microloan type	<ul style="list-style-type: none"> - Working capital - Investments - Other loans: debt restructuring 			
Duration of loan	<ul style="list-style-type: none"> - For working capital: more than 5 years - For investments: more than 5 years - Other loans: more than 5 years 			
Guarantee conditions	Administrative costs	Guarantee fees	Other costs	Maximum guaranteed amount
	0,05%	0,30%	No	n.a.
Coverage rate	n.a.			
Capped interest rate	<ul style="list-style-type: none"> - <u>Capped interest</u>: n.a. - <u>Other</u>: n.a. 			
Distribution channels	- Banks: all national banks			
Risk assessment method	- Portfolio approach			
Subsidies	<ul style="list-style-type: none"> - <u>EU subsidies</u>: No - <u>National subsidies</u>: No 			

Proportion of microloan guarantees in portfolio	
Volume of microcredit guarantees in portfolio (31.12.2010)	- In volume: € 1.761.669.636
Proportion of microcredit activities upon total guarantee activities	35,13%

During the survey undertaken among our members we asked them the following question:

"Where do you identify problems related to microcredits and guarantees for microcredits?"

AECM - Member	Identified problems						
	Costs	Marketing	Distribution channels	Risk profile of client	Reaching critical mass	Tarification	Others
Sowalfin	x	x	x	x	x	x	
aws	x		x		x		
Bürgschafts-bank Baden-Württemberg	x		x				House banks must bear 20% of the risk, with limited the profit potential
CESGAR	x				x		
Garantiqa Hítelgarancia Zrt.				x			
KGF	x			x		x	
SGFA	x	x			x		

- Sowalfin: In their opinion the lack of interest of the banks to support microloans is because of the low profitability due to high transaction costs. Therefore, microloan guarantee products have a low visibility in banking product information brochures. The dependence of the SCMs on the banking network to distribute their products and the low motivation of the banks are seen as the major reasons for the low level of microloans guarantee activity in Belgium. Additionally, the high risk profile of microloan clients diminishes the microloan activity and therefore, it is problematic to achieve the critical mass and so, attain economies of scale and operational sustainability of the organisation.
- Bürgschafts-bank Baden-Württemberg: In the opinion of the Guarantee Bank Baden-Württemberg, a main issue they are focusing today is that a growing number of banks are not interested in granting microloans. This is due to the limited yield potential and the high costs. Therefore, besides a streamlined decision-making process, a streamlined work-

out-process (until the credit is granted) is required to ensure economies of scale.

- CESGAR: In their point of view the management of a too large number of operations and the therefore, imposed processing regulations.
- KGF: the issue KGF met when handling microloan guarantees is the lack of transparency of the financial statements in Turkey. Moreover, they often see difficulties in identifying the purpose of the microcredit.

General Trends and comments:

- The microloan size given by the EU namely, maximum € 25.000, is in the reality often higher.
- The microfinance sector is quite differs and therefore, the products offered by our members vary from country to country and form organisation to organisation depending mainly on their mission and values, as well as the country's specificities.

AECM - Member	Commercial	Social
Sowalfin	X	X
SOCAMA	X	
aws		X
Bürgschafts- bank Baden- Württemberg	X	
CESGAR	X	
SPGM	X	X
Garantiqa Hitelgarancia Zrt.	X	
KGF	X	
SGFA	X	

89% of our members undertaking microfinance activities consider their orientation as commercial rather than social.

- A tendency observed is that AECM members mainly rely on EU-initiatives or subsidies in order to finance their microloan guarantees activity. 67% of the respondents depend on EU-initiatives supporting microfinance or guarantee activities. Another trend observe among our members is that they rely either on the CIP-programme or on structural funds facilities. Often they get from their national governments public counter-guarantees for the guarantees they emit.

Identified reliance on EU-subsidies in the field of microloan guarantees activities:

AECM - Member	EU - programmes					National subsidies
	CIP	JASMINE	EU-Progress	Structural Funds	Others	
Sowalfin				x		
SOCAMA	x					
aws	x					State counter-guarantees
Bürgschafts-bank Baden-Württemberg						Counter-guarantees from state and region
CESGAR	x					In some cases regional subventions
SPGM				x		State counter-guarantees
Garantiqa Hítelgarancia Zrt.						State counter-guarantees
KGF	x					Anti-crisis subventions
SGFA						