



UNIVERSIDAD  
**COMPLUTENSE**  
MADRID

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR'S DEGREE IN ECONOMICS**

**THE MICROFINANCE SECTOR IN MEDITERRANEAN EUROPE**

Author: Violeta Lucía Morón Rodríguez

Tutor: Professor Raquel Marbán Flores

**Year 2012/2013**

**3 September 2013**

## TABLE OF CONTENTS

ABSTRACT.....	4
INTRODUCTION .....	4
CHAPTER 1. THEORETICAL FRAMEWORK.....	5
1.1    DEFINING MICROCREDIT .....	5
1.2    SHORT HISTORY .....	5
1.3    MICROFINANCE IN DEVELOPED COUNTRIES VS DEVELOPING COUNTRIES.....	6
1.4    SOCIAL EXCLUSION.....	7
1.5    FINANCIAL EXCLUSION .....	8
1.6    EUROPEAN MICROFINANCE INITIATIVES.....	8
CHAPTER 2. OBJECTIVES AND METHODOLOGY .....	10
CHAPTER 3. MICROFINANCE IN MEDITERRANEAN EUROPE .....	11
3.1    SPAIN .....	12
3.1.1    Macroeconomic data.....	12
3.1.2    Summary of microfinance development .....	12
3.1.3.    Characteristics of the microfinance sector .....	13
3.1.4.    Characteristics of Microcredits.....	14
3.2    ITALY .....	15
3.2.1    Macroeconomic data.....	15
3.2.2    Summary of microfinance development .....	15
3.2.3.    Characteristics of the microfinance sector .....	16
3.2.4    Characteristics of microcredits.....	17
3.3    PORTUGAL .....	17
3.3.1    Macroeconomic data.....	17
3.3.2    Development of Microcredits .....	17
3.3.3    Characteristics of the microfinance sector .....	18
3.3.4    Characteristics of microcredits.....	18
CHAPTER 4. ANALYSIS OF PARTICULAR MICROFINANCE INSTITUTIONS FROM SPAIN, ITALY AND PORTUGAL.....	19
4.1    SPAIN .....	19
4.1.1    MicroBank La Caixa .....	19
4.1.2    Fundación BBK Solidarioa .....	22
4.1.3    Fundación ICO .....	23
4.2    ITALY .....	25
4.2.1    PerMicro .....	25

4.2.2 Banca Popolare Ética .....	27
4.3 PORTUGAL .....	29
4.3.1 Millennium BCP.....	29
4.3.2 Caixa Geral de Depósitos .....	31
CHAPTER 5. CROSS-COUNTRY ANALYSIS .....	33
CHAPTER 6. CONCLUSIONS.....	37
BIBLIOGRAPHY .....	40

## **ABSTRACT**

This Bachelor's Thesis is intended to offer a global overview of the microfinance sector in Mediterranean Europe paying particular attention to Portugal, Italy and Spain, as they have been three of the countries hardest hit by the global 2008 economic crisis. This paper also provides an analysis of the main microfinance providers in the said three countries, their microcredit lines, finance conditions and the evolution of the number and total value of microcredits that they have granted from 2008 to 2011. Finally, a cross-country comparison of the total value of microcredits granted by these microfinance institutions is also established.

## **INTRODUCTION**

Microcredits have traditionally been linked to developing countries and they are usually known as small loans to promote self-employment among very poor people, especially women, in countries such as Bangladesh, India or Cambodia. However, microcredits are also used in developed countries, where they are achieving higher relevance and presence in the finance sector as they constitute a very useful tool to fight unemployment and social and financial exclusion. In fact, in April 2003, the European Microfinance Network (EMN) –a Non Governmental Organization– was launched with the support of the European Commission and the French Caisse des Dépôts et Consignations to promote microfinance in the European Union as a way of “fighting against unemployment and social exclusion through the development of microenterprises”<sup>1</sup>.

Within the European Union, microcredits are particularly interesting for Mediterranean countries as their economies have been the most affected by the global economic crisis that followed the 2008 financial crisis causing a dramatic rise of unemployment. For this reason, the main purpose of this paper is to analyze the development of microcredits since 2008 in Portugal, Italy and Spain and to offer a global overview of their microfinance sectors and microfinance institutions (MFIs). Greece has not been included in the analysis because microfinance is still at a very early stage in this country.

This paper is structured in six chapters. In the first one, the theoretical framework is defined providing the definition of microcredit and a brief summary of the history of microcredits, explaining two concepts intimately related to microcredits: social exclusion and financial exclusion, and finally, providing a global overview of the European Union action in the field of microfinance. Chapter 2 explains the objectives and methodology of this paper. Then Chapter 3 is devoted to the microfinance sector in Mediterranean countries, particularly in Spain, Italy and Portugal. The development of microcredits in these countries

---

<sup>1</sup> European Microfinance Network.

is explained followed by a description of the main characteristics of their microfinance sectors and microcredits. Chapter 4 offers an analysis of the main institutions that grant microcredits in the said countries and in Chapter 5 a cross-country comparison of the total value of the microcredits granted by these institutions is established. Finally, Chapter 6 provides the conclusions of this paper.

## **CHAPTER 1. THEORETICAL FRAMEWORK**

### **1.1 DEFINING MICROCREDIT**

Microcredits are defined by the Grameen Bank as “small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families”. A complementary definition was provided by the United Nations for the International Year of Microcredit 2005: “microcredit is a small amount of money loaned to a client by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending”.

Nevertheless, given the geographical focus of this paper, it would be more accurate to use the European Commission definition: “a loan under € 25,000 to support the development of self-employment and microenterprises”. According to the Commission, microcredits target small enterprises with less than 10 employees (microenterprises) and disadvantaged persons (unemployed, immigrants, etc.) who wish to go into self-employment but do not have access to traditional banking services (and are therefore financially excluded).

A remark about the use of the terms “microfinance” and “microcredit” should be made. As microcredit is still the primary focus of the microfinance sector in Europe, these terms are used interchangeably in European publications on the issue, and so will be in this paper.

### **1.2 SHORT HISTORY**

Microcredits were created by Professor Muhammad Yunus in Bangladesh back in 1976 when he launched The Grameen Bank Project, a research project aimed at providing small loans to poor people from rural areas who had no access to the finance system. After the success of the project in promoting self-employment among the poorest, the Grameen Bank project became a real bank.

In Europe, microcredits started to be used in countries from Central and Eastern Europe such as Poland, Romania, Bulgaria or Slovakia after the fall of the Berlin Wall. In particular, according to the European Microfinance Network (EMN), more than 73% of the microfinance institutions in Eastern Europe were created between 1980 and 1999. In Western Europe however, even though some sort of microfinance activity started to be performed centuries ago by

certain institutions such as the Raiffeisen Bank in Germany, lending charities in England, the “Monti di Pietà” and the “Casse Rurali” in Italy and the “Montes de Piedad” in Spain, the development of modern microfinance is more recent. According to the EMN, only 25 % of the Western microfinance institutions were created during the 1980-1999 period, so the microfinance market is quite young.

Nevertheless, Western microfinance institutions are gaining relevance in the European microfinance market. A study conducted by Nantik Lum for the EMN on Microfinance in Europe for the years 2008-2009 revealed that Western Europe accounted for 74% of the 84,523 microcredits that had been granted on that period, whereas Eastern Europe accounted for 26 %. The total value of the microcredits was 828 million euros, out of which 60% had been granted by microfinance institutions from Western Europe and the remaining 40% by Eastern European institutions.

### **1.3 MICROFINANCE IN DEVELOPED COUNTRIES VERSUS DEVELOPING COUNTRIES**

As this paper is aimed at assessing microfinance in developed countries and, more specifically, in three countries of the European Union, in addition to using the EMN definition of microcredits, some differences regarding certain aspects of microfinance in developed countries with respect to developing countries should be noted.

First, the concept of microenterprise is different. The European Commission defines microenterprise as “any enterprise with less than 10 employees and a turnover under €2 million”; something that would be excessive for a developing country where microenterprises usually have only 1 or 2 members and their turnover is certainly much lower.

There are also differences regarding the requirements for microenterprises. In developed countries, microenterprises are mostly regulated businesses that are required to be officially registered to start operating. It is forbidden for microfinance institutions to lend to unregistered businesses, and this is precisely a key difference with respect to developing countries, where most of the microenterprises are created in the informal economy (Gutiérrez and Pérez, 2005). Therefore there is a comparative disadvantage for potential microentrepreneurs in developed countries in this sense.

Moreover, within developed countries and within the European Union itself the legal requirements and bureaucracy required to start a business vary significantly from one country to another. For instance, the World Bank 2013 *Doing Business Indicator* for starting a business shows that Greece, the Czech Republic and Spain are the worst ranked among the OECD high income group, whereas Ireland, UK and France are among the best positions. Portugal and Italy are in the second and third quartile respectively.

It is also worth noting that for poor people in developed countries one of the hardest problems is social exclusion, whereas in developing countries this is different in the sense that the poor are not a minority, but a majority, as Rosalind Copisarow (former Chief Executive of Street UK) stated in the seminar “*Microcréditos en países desarrollados*” (microcredits in developed countries) organized by the Spanish Centro de Apoyo a la Microempresa (CEAMI).

#### **1.4 SOCIAL EXCLUSION**

Social exclusion is defined by the European Anti Poverty Network as “the processes 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, powerless and discriminated against”.

In Europe poverty and social exclusion are closely related. Poverty is a direct consequence of social exclusion, but the opposite is also true (European Microfinance Network). In the *Joint Report by the Commission and the Council on Social Inclusion* of 2004, a definition of poverty is provided that shows the link between poverty and social exclusion: “People are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalised from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted”.

According to the report *European Social Statistics, 2013* by Eurostat, in 2011 a total of 119.6 million people in the EU-27 (24.2% of the entire population) lived in households facing poverty or social exclusion. From 2005 to 2009 the number of individuals at risk of poverty or social exclusion had declined; however, due to the economic crisis, from 2009 to 2011 there was an increase of 1.1 percentage points, that is to say 5.8 million people. Italy had the highest number of individuals at risk of poverty or social exclusion in 2011: 17.1 million persons. Spain had 12.4, Portugal 2.6 and Greece 3.4 million people.

In this context of increased poverty and social exclusion, microfinance is undoubtedly needed. On the one hand, microcredits enable unemployed individuals who do not have access to traditional banking services to start their own business generating income for themselves and their families and maybe even creating new jobs in the future. On the other hand, they favor social inclusion and diminish poverty. Microcredits imply a relationship of trust both in the business project and the person receiving the loan, so it helps the recipient (who is socially excluded in many cases) recover self-esteem and confidence.

And, more importantly, in addition to the microcredit itself, microfinance institutions usually provide advising services to their clients and monitor the start-up process to help microentrepreneurs succeed. So microcredits have a very important educational value as Anna Zenarolla (2013) suggests, since they provide micro-entrepreneurs with knowledge and skills that not only will help them with their business management, but also will improve their employability.

## 1.5 FINANCIAL EXCLUSION

According to the EMN, “a person is considered financially excluded when he/she has either no access to some or all the services offered by mainstream financial institutions in his/her country of residence or does not make any use of these services. A distinction is made between access to services of mainstream financial institutions and informal ones. The financial services in question fall under the following four areas: transaction banking, savings, credit and insurance services”.

- **Access to transaction services:** this refers to people who either do not have a bank account –called “unbanked”– or, in spite of having it, they hardly use it –referred to as “marginally banked”–.
- **Access to saving services:** this refers to people who either lack the necessary documents to open a deposit account or simply are not interested in opening one.
- **Access to credit services:** there are two types of persons: those who are denied any access to credit by lenders –“excluded”– and those whose only way of obtaining credit is through loan sharks at unaffordable rates.
- **Access to insurance services:** it has not been defined yet what kind of insurances should be considered essential to talk about financial exclusion.

Therefore microcredits, by providing financing at reasonable interest rates to all these people who could not access it otherwise, favor financial inclusion. Moreover, once their microenterprises start working and generating income, they will be in a much better position to likely obtain access to ordinary banking services.

## 1.6 EUROPEAN MICROFINANCE INITIATIVES

The European Union is quite active in promoting microfinance. Not only was the European Microfinance Network created in 2003 with this purpose, but also several programs and action plans have been implemented:

- **The PROGRESS Microfinance Facility for Employment and Social Inclusion (EPMF)**

This initiative was created in 2009 with € 203 million of funding from the European Commission and the European Investment Bank and it is managed by the European Investment Fund.

It is aimed at increasing microfinance activities through guarantee products and funded instruments in order to support employment, the development of microenterprises and the social economy in the EU.

- **JASMINE (Joint Action to support microfinance institutions in Europe)**

This initiative was launched in 2008 by the European Commission, the EIB Group and the European Parliament with the aim of helping microfinance institutions expand, improve the quality of their operations and become sustainable. JASMINE provides funding and technical assistance to selected microfinance institutions, offers publications, conferences, seminars, etc.

The JASMINE initiative is financed by the European Investment Bank and has also the financial support of the European Commission. The initial budget amounted to 20 million euros.

- **JEREMIE (Joint European Resources for Micro to Medium Enterprises)**

This is a joint initiative of the European Commission and the European Investment Fund created in 2006 to offer EU Member States the opportunity to use the EU Structural Funds to finance small and medium-sized enterprises (SMEs) by means of equity, loans or guarantees through a revolving Holding Fund that acts as an umbrella fund (European Investment Fund).

- **The Competitiveness and Innovation Programme (CIP)**

This program was created for the period 2007-2013 with an overall budget of €3621 million and is targeted at SMEs with the aim of supporting innovation activities, including eco-innovation, providing better access to finance and offering business support services at regional level.

Within the CIP there is a special initiative for microfinance institutions (MFIs): the Microcredit Guarantee Window, which is managed by the European Investment Fund and the European Commission. It is aimed at encouraging MFIs to provide financing to microenterprises.

- **Programme for the Competitiveness of enterprises and SMEs (COSME)**

This is the renewed version of the CIP for the period 2014-2020, which has a planned budget of €2.3 billion (it should be implemented on 1 January 2014). It is aimed at facilitating access to finance for SMEs in order to promote business creation and growth in the EU and helping SMEs operate in foreign countries.

## **CHAPTER 2. OBJECTIVES AND METHODOLOGY**

This Bachelor's Thesis has several objectives. Firstly, to offer a global overview of the microfinance sector in Mediterranean Europe, specifically, in Spain, Italy and Portugal. In particular, it is aimed at exploring how microcredits were developed in these countries, the main characteristics of their microfinance sectors and the general features of the microcredits they provide. Secondly, to analyze the main institutions involved in granting microcredits in the said countries paying particular attention to their microcredit programs and the number and total value of microcredits granted by them. And last but not least, to establish a cross-country comparison of the evolution of the microcredits granted based on the data obtained from these institutions.

As regards the methodology, for the theoretical and descriptive sections of this paper several sources have been consulted ranging from books and papers by expert authors to websites and publications by European bodies, microfinance networks (such as the European Microfinance Network) and particular institutions involved in microfinance such as Fundación Nantik Lum, MicroBank, PerMicro, the ANDC (Associação Nacional de Direito ao Crédito), etc.

As for the empirical part, in order to analyze and compare the evolution of the number and total value of microcredits granted in the three countries, the most significant microfinance providers of each country have been selected and data thereof have been collected for the maximum number of years possible.

The special case of Spain should be highlighted, since due to the financial crisis and the undergoing restructuring of the savings banks (which basically consists of mergers and acquisitions), many of the foundations of savings banks that used to grant microcredits have eliminated their programs or the information is just not available because the savings bank in question has been merged to some others and thus the website is new. In addition, compared to Portugal or Italy, there is a remarkable lack of transparency.

Another aspect that should be taken into account is that, given the youth of the microfinance sector in these countries, there is a lack of unified databases on microcredits, so all the data herein provided have been compiled

from annual reports by the financial institutions analyzed. Hence for certain years and institutions there was a lack of information either on the number of microcredits granted or on the total value. Also, the beginning of the microfinance activity widely varies from one institution to another (some of them started in 2007, others in 2008, 2009, 2010...) and thus it was not easy to find a specific period that fitted all of them. For this reason, some important institutions had to be excluded like the Portuguese Banco Espirito Santo, which started granting microcredits at the end of 2009 and therefore the first year that there was data available for was 2010.

Consequently, given the lack of data for certain institutions and the heterogeneity of the information compiled, for comparison purposes only the 2008-2011 period is analyzed and a total of seven institutions are described, three from Spain, two from Italy and two from Portugal.

### **CHAPTER 3. MICROFINANCE IN MEDITERRANEAN EUROPE**

In the European Union, Mediterranean economies have been the hardest hit by the 2008 financial and economic crisis. According to data from Eurostat for 2011, the percentages of the population at risk of poverty or social exclusion in Greece, Italy, Spain and Portugal were 31%, 28.2%, 27% and 24.4% respectively. As microcredits represent precisely a solution to promote self-employment and social inclusion, this chapter is intended to examine the microfinance sector in the said countries, with the exception of Greece, which has not been included because its microfinance sector is still at a very early stage. In fact, the European Microfinance Network states on its website that "the microfinance activity is not well developed in Greece. To date, there are no organizations or institutions that are members of EMN" (this information was last updated in September 2010). Nevertheless, it looks like the situation is starting to change precisely thanks to the European Union and its PROGRESS Microfinance Facility (EPMF). In January 2012, the European Commission announced that the Pancretan Cooperative Bank Ltd (PCB) had become the first Greek microcredit provider under the initiative PROGRESS Microfinance. And the PCB itself states on its website that a total of 8 million microloans have been granted.

Returning to the issue of this chapter, the market of microcredits in Western Europe could be broadly described as quite young (since most of the microfinance organizations started operating at the beginning of the 21<sup>st</sup> century), with mainly small-sized microfinance institutions (in general MFIs do not grant more than 100 credits per year and have less than 5 employees), having experienced a constant growth over the last few years and with a high

number of diverse microfinance actors which could be categorized in five groups (MicroBank, 2011)<sup>2</sup>:

1. Non Governmental Organizations (NGOs) focused on microfinance.
2. NGOs targeted at certain disadvantaged groups of society (like unemployed, immigrants...) which offer microcredit programs.
3. Public institutions or development banks that have specific programs supporting microcredits.
4. Traditional banks with units specialized in microcredits.
5. Specialized banks.

In the following sections the particular microfinance sectors of Spain, Portugal and Italy are described.

### 3.1 SPAIN

#### 3.1.1 Macroeconomic data

Population	46,196,276 (2012)
GDP per capita	22,700 (2012)
Unemployment rate	25% (2012)
Population at risk of poverty or social exclusion	27% (2011)
Population in a situation of financial exclusion	8% (2008)

Source: Eurostat and European Commission.

#### 3.1.2 Summary of microfinance development

In Spain, microfinance activity was initiated in the 90s by certain NGOs and associations. However, the main development of microcredits started at the beginning of the 2000s when the savings banks (“cajas de ahorros”) started to offer them as part of their social activity (“obra social”). In fact, these institutions have been the drivers of microfinance in Spain and constitute the major providers of microcredits.

The first savings banks that began granting microcredits in Spain were Caixa Catalunya, in 2001 through its Fundación Un Sol Mon, and later on Caja Granada in 2002. Then many other savings banks joined the microcredit initiative such as La Caixa, BBK, Caja de Ahorros de la Inmaculada, Caixa Galicia, Cajasol, Caja Navarra, Cajastur, etc. In 2007 La Caixa channelled all its microfinance activity in a bank specialized in microcredits: MicroBank.

Microfinance is also supported by public institutions such as the Instituto de Crédito Oficial, ICO, (Spanish Official Credit Institute) and the Instituto de la Mujer (Women’s Institute).

<sup>2</sup> This classification up to the fourth group was proposed by Evers, Lahn and Jung (2007) and MicroBank (2011) added the fifth category.

In addition to savings banks and public initiatives, there are also social organizations supporting microcredits that act as intermediaries between the savings banks and the potential microentrepreneurs.

### **3.1.3. Characteristics of the microfinance sector**

Therefore, Spanish microfinance institutions could be classified as follows:

1. Private Institutions
  - a. Savings banks
  - b. Commercial banks
  - c. NGOs and Foundations
2. Public Institutions

#### **3.1.3.1 Savings banks**

As abovementioned, savings banks are the most relevant actors in the Spanish microfinance sector. Spanish savings banks are private foundations with a social purpose. They are specialized in channelling people's savings and financing families and small and medium enterprises (Confederación Española de Cajas de Ahorros, CECA). A significant percentage of their profit is devoted to their "obra social", which consists of programs and activities aimed at improving social welfare. Their origin dates back to the eighteenth-century "Montes de Piedad" (inspired in the Italian "Monti di Pietà"), which were institutions aimed at fighting usury and helping the poor by lending money without interests, only pledges.

As regards microcredits, savings banks grant them through two types of programs:

- Programs financed with their own funds. This is the case of BBK Solidarioa or Fundación Caja Granada Desarrollo Solidario. Caixa Catalunya also provided self-financed microcredits through its social foundation Fundación Un Sol Mon and was actually one of the main providers. Unfortunately, due to the financial crisis and the restructuring of savings banks, it was nationalized in 2011 and the institution stopped its microfinance activity and Fundación Un Sol Mon has disappeared.
- Programs implemented in collaboration with public institutions, like the ICO or the Instituto de la Mujer. This is the case of Cajasol and Caja Navarra.

According to the CECA, in 2011 savings banks spent a total of 223.078 million euros in microcredits through 34,727 authorized operations. Therefore the average amount was 6,423 euros per authorized operation. This implies a 2.35% increase in the total value of microcredits granted with respect to 2010, a 6.8% decrease in the number of authorized operations and, consequently, the average microcredit increased by 9.81% in 2011.

However, in 2011 only 9 microfinance institutions continued granting microcredits, whereas in 2005 nearly all the 46 savings banks that were operating in the market by that time had microcredit programs, according to CECA data. This was due to the 2008 global financial and economic crisis and the collapse of the housing bubble in Spain, which extremely weakened the savings banks and, as a consequence, many of them decided to stop their microcredit programs (Lacalle and Rico, 2011).

### **3.1.3.2 Commercial Banks**

The only commercial bank specialized in microcredits in Spain is MicroBank, which belongs to the savings bank La Caixa and was created in 2007. More detailed information will be provided in the next chapter.

### **3.1.3.3 NGOs and Foundations**

In addition to savings and commercial banks, the important role played by the numerous NGOs and private foundations should also be remarked. In general, these organizations serve as intermediaries between the microfinance institutions providing the credits and the potential clients. Some examples are: Fundación Tomillo, Fundación Mita ONG, Associació de Dones per la Inserció Laboral, etc. There are also organizations that promote microfinance by working on social and economic research projects, sharing knowledge, organizing conferences, etc. This is the case of Nantik Lum, which has a very active role in promoting microfinance both in Spain and internationally.

### **3.1.3.4 Public institutions**

The Spanish Public Administration promotes microfinance mainly through two public institutions: Fundación ICO and Instituto de la Mujer. Fundación ICO has several initiatives which will be described in the next chapter. Instituto de la Mujer –which belongs to the Ministry of Health, Social Services and Equality– has a microcredit program for entrepreneurial women: Programa de Microcréditos para Mujeres Emprendedoras y Empresarias.

### **3.1.4. Characteristics of Microcredits<sup>3</sup>**

In Spain, microcredits are mainly granted to persons that are socially and financially excluded but have a business project that the microfinance institution trusts in. No collaterals are required; loans are granted based on confidence on the person and trust on the microenterprise success.

A summary of the general microcredit conditions in Spain is offered in the following table:

---

<sup>3</sup> Lacalle, M.C. and Rico, S. (2011). *Las Microfinanzas en España: Impacto y recomendaciones a futuro*. Presented in the Global Microcredit Summit 2011.

**Table 3.2. General characteristics of microcredit programs in Spain**

Average credit	From 8,000 to 25,000 euros.
Grace period	From 0 to 6 months.
Repayment period	From 3 to 5 years.
Interest rate	Between 4-6%.
Guarantee	No guarantees.
Commissions	No commissions (mostly).
General characteristics	Individual loans granted to start up small enterprises or microenterprises generating self-employment and employment.
Main requirements for target clients	a) Belonging to disadvantaged social groups with particular difficulties for social inclusion. b) Not having access to the formal finance system due to the lack of guarantees. c) Having entrepreneurial spirit and a viable business initiative.

Source: Rico, Lacalle, Márquez and Durán, 2005

As regards the use of microcredits, although the types of businesses that are financed are diverse, most of the credits are used to start up or expand small businesses of the retail industry, like small grocery stores or clothing stores, and the hotel industry, like restaurants and bars.

## 3.2 ITALY

### 3.2.1 Macroeconomic data

Population	59,394,207 (2012)
GDP per capita	25,700 (2012)
Unemployment rate	10.7% (2012)
Population at risk of poverty or social exclusion	28.2% (2011)
Population in a situation of financial exclusion	16% (2008)

Source: Eurostat and European Commission.

### 3.2.2 Summary of microfinance development

In Italy, microfinance activity has its roots in the fifteenth-century “Monti di Pietà”, like Spain, and also in the nineteenth-century cooperative model of “Casse Rurali”. Modern microfinance has been driven by non-for-profit organizations and local cooperative associations that started initiatives against usury and financial exclusion.

At the end of the 1960s, a mutual guarantee system was created, Confidi, according to which several small and medium-sized enterprises share their savings to create a mutual guarantee fund so that they can all obtain better

finance conditions from banking institutions. In the 1970s, another initiative against financial exclusion was promoted: the creation of the MAGs (Mutue di Auto Gestione), which were cooperative societies aimed at raising savings among their members and financing socially oriented projects. In December 1994, several MAGs together with 21 non-profit-making organizations founded L'Associazione Verso la Banca Etica (“the association towards ethical banking”). Four years later, the Association became a real bank, Banca Popolare Etica, which was the first banking institution with the purpose of operating exclusively in sustainable and alternative finance. In 2008 the Italian Microfinance Network –Rete Italiana di Microfinanza (RITMI)– was created and this has been crucial for the coordination of microfinance activity in Italy and for the sharing of knowledge on good practices<sup>4</sup>.

Nowadays, there is a growing awareness of the need for microfinance among banks and public institutions.

### **3.2.3. Characteristics of the microfinance sector**

According to PerMicro, Italy differs from other countries because its microfinance sector consists of a very large number of small microfinance institutions with a relatively low number of microcredits granted. Microfinance activity is promoted by small local initiatives –many of them voluntary associations– which do not provide microcredits directly, but promote funds of guarantee, being bank foundations and public institutions the ones that supply the loans.

In their majority these organizations have a small size and little practice, rely on private donations or public funds, do not personally undertake the risk of the loans, have a voluntary staff, lack of business accounts and are uncertain about their lasting. Nevertheless, in spite of such limitations, these organizations have proved to be quite efficient from a social point of view as they have particularly benefited women, immigrants and people struggling to enter (or re-enter) the labor market.

According to the European Microfinance Network, the non-banking institutions that grant credits in Italy could be classified in three groups:

- Cooperatives or consortiums.
- Micro-lenders such as Fondazione Don Mario Operti Onlus or small financial cooperatives.
- Microfinance institutions, NGOs such as Caritas, Fondazione Pangea Onlus, Etimos Foundation Onlus and Fondazione Giordano Dell’Amore, or finance companies, such as PerMicro or Fondazione Risorsa Donna.

---

<sup>4</sup> Sources: European Microfinance Network, Banca Popolare Ética and Rete Italiana di Microfinanza.

As regards banking institutions, the most relevant one is the abovementioned Banca Popolare Etica, which will be described in more detail in the next chapter.

The Italian government has also become more actively involved in microfinance over the last few years. In 2000 it created a microcredit program “Incentives for self-entrepreneurship and self-employment” and in 2007 a fund to support workers in precarious conditions, women and young entrepreneurs (European Microfinance Network, 2010). In 2006, the Comitato Nazionale per il Microcredito (National Microcredit Committee) was established and five years later, in 2011, another public institution was created: the Ente Nazionale per il Microcredito (National Body for Microcredit).

### 3.2.4 Characteristics of microcredits

According to the EMN, Microcredit requirements differ from one region to another. The beneficiaries of microcredits are small start-ups and microenterprises having less than 5 employees, women and immigrants.

In 2009, the total value of microcredits granted in Italy was 12.74 million euros, four times the value of 2007 (3.6 million euros). The total number of microcredits also increased from 392 microcredits granted by 27 institutions in 2007 to a total of 2,146 microcredits granted by 32 institutions in 2009<sup>5</sup>.

## 3.3 PORTUGAL

### 3.3.1 Macroeconomic data

Population	10,542,398 (2012)
GDP per capita	15,600 (2012)
Unemployment rate	15.9% (2012)
Population at risk of poverty or social exclusion	24.4% (2011)
Population in a situation of financial exclusion	17% (2008)

Source: Eurostat and European Commission.

### 3.3.2 Development of Microcredits

According to the European Microfinance Network, in Portugal microcredits have been developing for approximately 13 years. In particular, they gained relevance since 2005 thanks to the declaration of that year as the International Year of Microcredit by the United Nations.

The first microfinance institution was created in 1998, the Associação Nacional de Direito ao Crédito (ANDC), a non-for-profit private institution aimed at promoting social and financial inclusion through microcredits. It has been recognized as an institution of public utility and it actually receives public funds.

<sup>5</sup> Source: Rete Italiana di Microfinanza

In 1999 it signed two protocols of partnership with Millennium BCP (the leading private bank of Portugal) and the Instituto de Emprego e Formação Profissional and, in July of that year, the first microcredits were granted (Centeio, 2008 cited in Silva, 2011, p.27).

In November 2005 Millennium BCP implemented the Rede Autónoma de Microcrédito (Autonomous Microcredit Network) as an instrument to generate opportunities for socially excluded people. From that year on, several institutions and commercial banks joined the microcredit initiative, such as Caixa Geral de Depósitos, Banco Espírito Santo, Montepio Geral or Santa Casa da Misericórdia de Lisboa.

Therefore, the development of microcredits in Portugal can be divided into two differentiated periods: the first one, before 2005, characterized by the exclusive action of the ANDC in collaboration with Millennium BCP and the Instituto Emprego e Formação Profissional; and the second one, after 2005, characterized by an enlargement of the microfinance actors (Silva, 2011).

### **3.3.3 Characteristics of the microfinance sector**

In Portugal, only banks and financial institutions are authorized to collect deposits, provide loans and credits and offer financial services. For this reason, microfinance institutions like the ANDC or the Associação Nacional de Jovens Empresários (ANJE) have to establish partnerships with banks and agree the conditions for the microcredits (European Microfinance Network, 2010). In particular, the ANJE microcredit program for young entrepreneurs is financed by Caixa Geral de Depósitos, and the ANDC has agreements with several banks such as Millennium bcp, Banco Espírito Santo, Caixa Geral de Depósitos and Montepio Geral. ANDC helps microentrepreneurs elaborate their financial planning, advice them on legal and administrative requirements to open their business and monitor them during the business development.

As for banking institutions, they provide microcredits either through its collaboration with institutions like the ANDC or directly as new lines of their business.

Unlike Italy, Portugal does not have credit cooperatives, with the exception of Caixa de Crédito Agrícola (European Microfinance Network).

### **3.3.4 Characteristics of microcredits**

In general, the conditions required for microcredits in Portugal are the following (ANDC):

- No collaterals are required, only a guarantee for 20% of the capital lent.
- The minimum loan is €1,000 and the maximum €12,500 for the first year of activity. After this period, the applicant may ask for an additional payment of €2,500.

- The maximum repayment period is 48 or 60 months. The monthly payment is constant and the interest rate is Euribor 3 months plus 3-5%, depending on the bank.
- The money from the microcredit must be spent on capital expenses and other expenses considered essential to start and develop the business.

## **CHAPTER 4. ANALYSIS OF PARTICULAR MICROFINANCE INSTITUTIONS FROM SPAIN, ITALY AND PORTUGAL**

This chapter provides a more detailed description of the main microfinance providers in Mediterranean Europe.

### **4.1 SPAIN**

#### **4.1.1 MicroBank La Caixa<sup>6</sup>**

In 2007 the savings bank La Caixa created a social bank, MicroBank, to channel the microcredit activity that it had been developing as part of its “obra social”. Therefore MicroBank is a bank specialized in microcredits, and it is the only one in Spain.

Member of the European Microfinance Network, MicroBank is by far the largest microcredit provider both in Spain and in Mediterranean Europe, as illustrated in Chapter 5. Its funding is based on: a) its own funds, b) client resources and c) financing by credit institutions such as the Council of Europe Development Bank and by CaixaBank, which is the only shareholder. Moreover, according to CECA, MicroBank microcredits are guaranteed by the EU Competitiveness and Innovation Programme (CIP). MicroBank has three lines of microcredits:

- **Microcredits for entrepreneurs:** targeted at entrepreneurs whose annual income is under €60,000 and at microenterprises with less than 10 employees and an annual turnover under €500,000. The microcredit must be used to finance expenses needed to start up, expand or consolidate the business or to cover working capital needs. The financing conditions are:
  - Maximum credit amount: €25,000.
  - Up to 100% of the project can be financed.
  - Interest rate: fixed.
  - Repayment period: 5 years without grace period or up to 6 months of grace period included.
  - No real guarantees required

---

<sup>6</sup> Sources: MicroBank website and Annual Reports.

- **Personal and family microcredits:** for persons whose annual income is under €18,000 to finance projects related to their personal or family development or for exceptional needs (expenses related to housing, health, education, transport, etc). Financing conditions:
  - Maximum credit amount: €25,000
  - Up to 100% of the project can be financed
  - Interest rate: fixed.
  - Repayment period: 6 years without grace period or up to 12 months of grace period included.
  - No real guarantees required
  
- **Ecomicrocredits:** also for entrepreneurs whose annual income is under €60,000 and microenterprises with less than 10 employees and an annual turnover under €500,000. However, the microcredit must be spent on projects comprising investments on sustainable sectors (such as organic farming and food, renewable energies, recycling, ecotourism, etc.) or aimed at improving resource efficiency or decreasing the environmental impact (such as buying environmentally friendly vehicles for professional use or renovating buildings to improve energy efficiency). They have the same financing conditions as the “microcredits for entrepreneurs”.

The total number of microcredits that were granted from its origin until the end of 2012 is 169,282 and the total value amounts to 1,045.40 million euros. The following tables provide a breakdown of the number and total value of microcredits granted by MicroBank from 2008 to 2012. Graphs are also included in order to offer a visual perspective of the microcredit evolution.

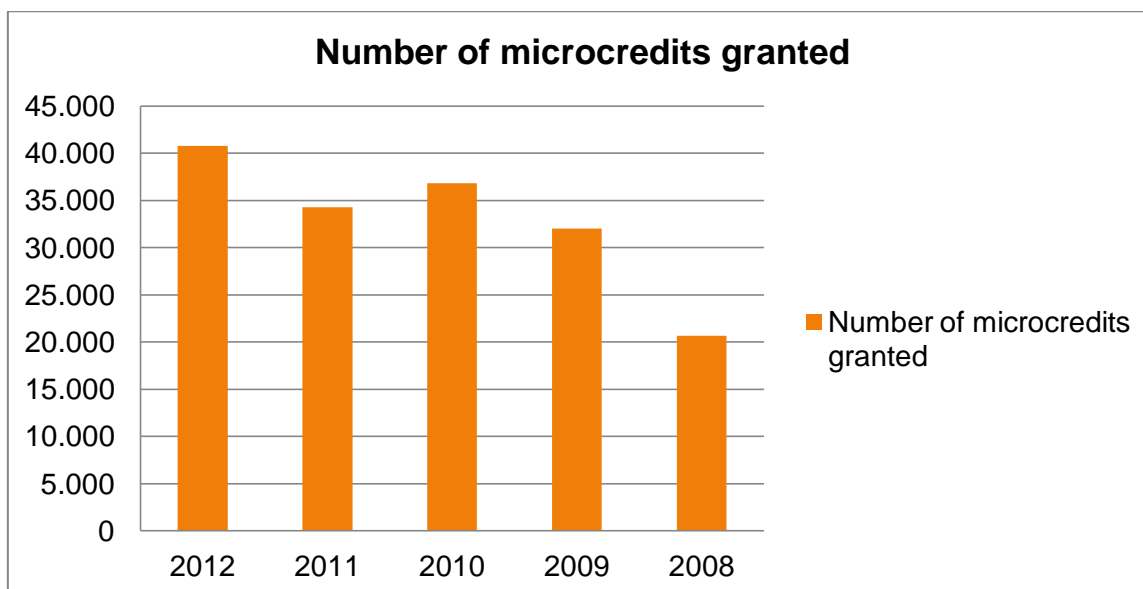
**Table 4.1. Number of microcredits granted by MicroBank 2008-2012**

MICROBANK	2012	2011	2010	2009	2008
	Number	Number	Number	Number	Number
Microcredits for entrepreneurs	11,185	8,939	6,011	**	**
Personal microcredits	29,599	25,368	30,834	**	**
<b>TOTAL</b>	<b>40,784</b>	<b>34,307</b>	<b>36,845</b>	<b>32,008</b>	<b>20,641</b>

\*\* No data available

Source: Compiled by the author based on data from MicroBank Annual Reports.

**Graph 4.1. Total number of microcredits granted by MicroBank 2008-2012**



As observed in the graph, in spite of the 2011 decrease, the number of microcredits significantly increased during the 2008-2012 period. In fact, the number of microcredits in 2012 was almost twice the number in 2008.

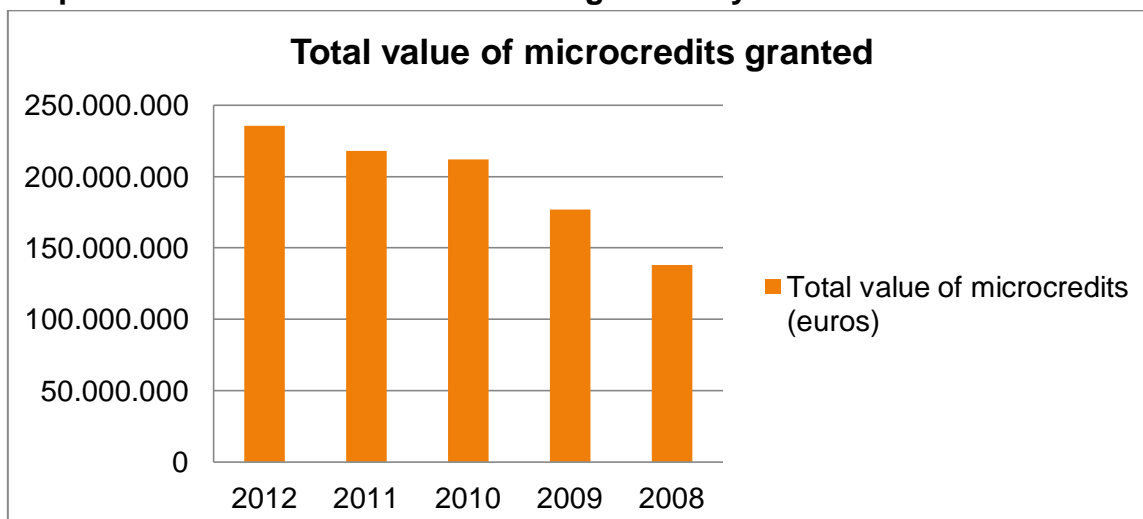
**Table 4.2. Total value of microcredits granted by MicroBank 2008-2012**

MICROBANK	2012	2011	2010	2009	2008
	Total Value	Total Value	Total Value	Total Value	Total Value
Microcredits for entrepreneurs	116,500,000	100,900,000	60,303,000	**	**
Personal microcredits	119,000,000	117,000,000	151,700,000	**	**
<b>TOTAL</b>	<b>235,500,000</b>	<b>217,900,000</b>	<b>212,000,000</b>	<b>176,778,000</b>	<b>138,066,000</b>

\*\* No data available

Source: Compiled by the author based on data from MicroBank Annual Reports.

**Graph 4.2. Total value of microcredits granted by MicroBank 2008-2012**



In terms of the total value of microcredits granted, there was a sustained growth during the 2008-2012 period, being the 2012 value 1.7 times higher than that of 2008.

According to the Annual Report of 2010 by MicroBank, most of the businesses financed with microcredits belonged to the retail sector (41%) and the hotel sector (19%). The rest of the sectors involved were: services to companies (11%), health and beauty services (11%), building services (11%), education services (3%) and agriculture (3%).

Finally, as regards the success of the businesses financed, according to its Annual Report of 2012, 77% of the start-ups financed with microcredits are still working, while 22% have shut down and 1% have been transferred.

#### **4.1.2 Fundación BBK Solidarioa<sup>7</sup>**

BBK is a savings bank that was established in 1990 as a result of the fusion of two previous savings banks: Caja de Ahorros Municipal de Bilbao and Caja de Ahorros Vizcaína. It is a member of the European Microfinance Network.

Until 2011, BBK had two foundations that provided microcredits: BBK Gazte Lanbidean (created in 1998) and BBK Solidarioa (founded in 2003). BBK Gazte Lanbidean had specific microcredits for young entrepreneurs and BBK Solidarioa offered microcredits to favor financial and social inclusion for unemployed people, excluded women, immigrants, families with scarce resources, disabled people... These microcredits were mainly aimed at promoting economic activities, but also at financing personal or family economic needs.

The total value of microcredits accumulated until 2008 by the two foundations was 47.5 million euros. In 2010, the total value of microcredits granted by BBK Gazte Lanbidean and BBK Solidarioa was over 3 million euros, and this was their last year of operation, as both foundations were dissolved. In 2011 the project BBK Solidarioa - Economía Social was created gathering the activities of the extinguished foundations. In this year, a total of 53 operations were financed with microcredits whose total value amounted to 184,918 euros.

The following table provides data on the total value of microcredits granted by BBK from 2007 to 2011, which is the latest year that BBK has published data of. A remark must be made about the data: given the abovementioned structural change of its social activity in 2011, the figure of 2011 differs from the data of the previous years. In particular, from 2007 to 2010 the data on microcredits correspond to the particular action of BBK Solidarioa in terms of “cooperation to development” (this was the only section in the accounts specifically referring to

---

<sup>7</sup> Source: BBK website.

“microcredits”) whereas the 2011 figure corresponds to the action of the new “Proyecto BBK Solidarioa – Economía Social” and it is specified as “microfinance” in the accounts.

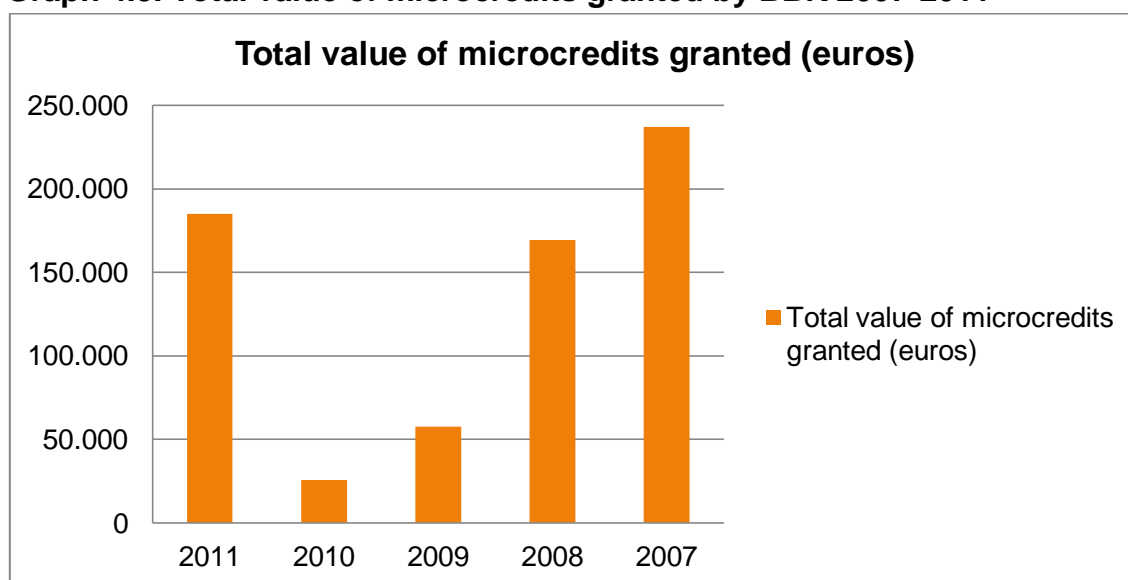
**Table 4.3. Total value of microcredits granted by BBK 2007-2011**

BBK	2011*	2010	2009	2008	2007
<b>TOTAL VALUE OF MICROCREDITS</b>	184,918*	25,799	57,515	169,500	237,198

\*Different from previous years.

Source: Compiled by the author based on BBK Social Action Reports.

**Graph 4.3. Total value of microcredits granted by BBK 2007-2011**



In 2009 there was a plunge in the total value of microcredits granted, which is quite surprising because precisely in that year the total social financing grew by 49% compared to 2008. However, the main recipients of such financing were non-for-profit organizations and social economy businesses.

No information could be found neither on the types of businesses financed through microcredits nor on the rate of success.

#### **4.1.3 Fundación ICO<sup>8</sup>**

Fundación ICO is the foundation of the Spanish Official Credit Institute, which created it in 1993. Since 2003 it is a public state foundation with a non-for-profit purpose and it is exclusively financed by the ICO. Its mission is to contribute to and support the development of society. It is also a member of the European Microfinance Network.

Fundación ICO implemented in 2008 a microcredit pilot program called “Proyecto Piloto de Microcréditos en España”, in collaboration with Fundación Cajasol (a savings bank). In 2009 Caja Navarra also joined the initiative. This

<sup>8</sup> Source: Fundación ICO website and Annual Reports, Fiare website, and PEM website.

pilot program provided both financial and technical support to persons who were socially or financially excluded, but it ended in June 2012.

Nevertheless, Fundación ICO is still active in the microfinance sector as it collaborates with Fiare, which is the finance agent in Spain of the Italian Banca Popolare Ética since 2005. Fiare is trying to create a cooperative finance institution by capturing deposits and granting loans for projects related to the environment, international cooperation or social economy. Fundación ICO collaborated with the project of Fiare helping it increase its capital.

Moreover, at the end of 2011 Fundación ICO supported Fundación Nantik Lum in the creation of the Plataforma de Emprendimiento y Microfinanzas (PEM), a Spanish microfinance platform aimed at connecting all the Spanish microfinance actors and providing entrepreneurs with all the resources available in this sector.

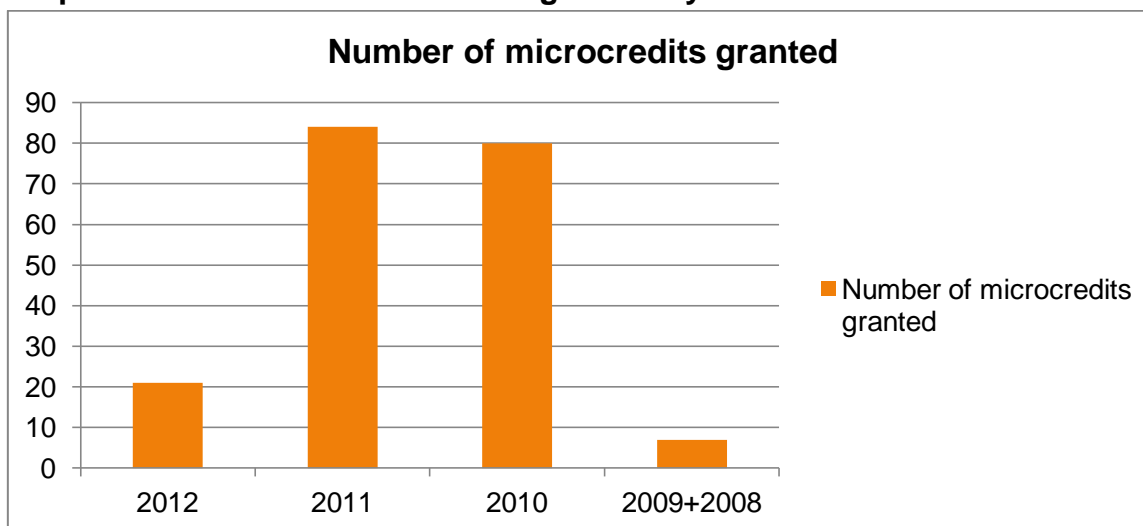
The tables and graphs below show the data of the microcredit pilot program that was implemented in 2008 by Fundación ICO. Although the program was developed in collaboration with Cajasol, the data only refer to the financing provided by Fundación ICO. The years 2008 and 2009 are together because the 2008 report by Fundación ICO did not include the data; instead, it was provided in the 2009 report together with the 2009 figures, so no breakdown could be found.

**Table 4.4. Number of microcredits granted by Fundación ICO 2008-2012**

FUNDACIÓN ICO	2012	2011	2010	2009+2008
	Number	Number	Number	Number
<b>PILOT PROJECT OF MICROCREDITS IN SPAIN</b>	21	84	80	7

Source: Compiled by the author based on data from Fundación ICO Annual Reports.

**Graph 4.4. Number of microcredits granted by Fundación ICO 2008-2012**



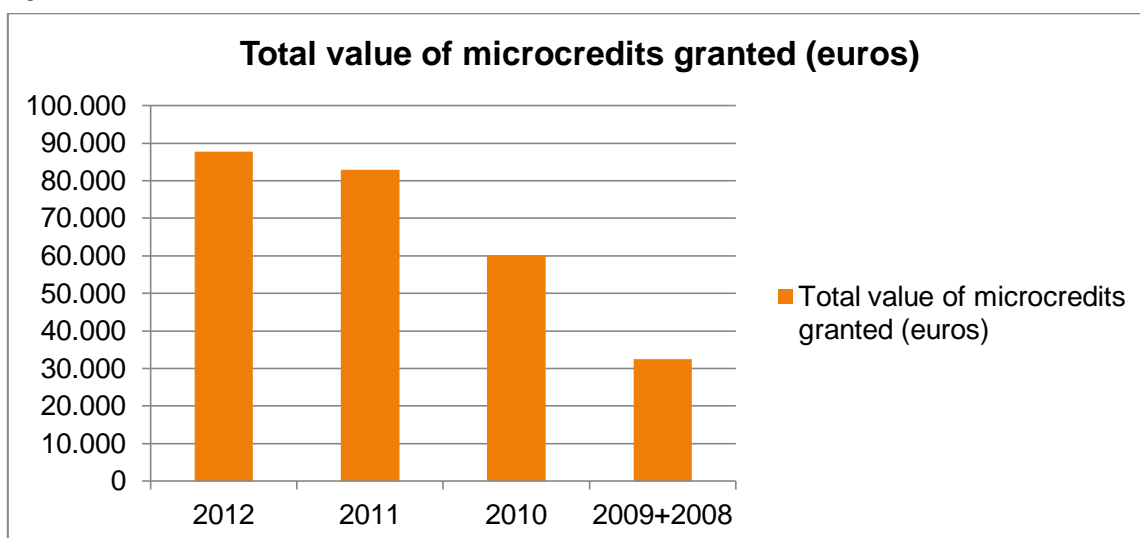
As clearly shown by the graph, the most important years in terms of the number of microcredits were 2010 and 2011.

**Table 4.5. Total value of microcredits granted by Fundación ICO 2008-2012**

FUNDACIÓN ICO	2012	2011	2010	2009+2008
	Total value	Total value	Total value	Total value
<b>PILOT PROJECT OF MICROCREDITS IN SPAIN</b>	87,719	82,886	60,000	32,500

Source: Compiled by the author based on data from Fundación ICO Annual Reports.

**Graph 4.5. Total value of microcredits granted by Fundación ICO 2008-2012**



In spite of the higher relevance of the years 2010 and 2011 in terms of number, as regards the total value of microcredits, 2012 was more significant.

No information could be found neither on the types of businesses financed through microcredits nor on the rate of success.

## 4.2 ITALY

### 4.2.1 PerMicro<sup>9</sup>

PerMicro is the first Italian company specialized in microcredits. It was created in 2007 in Torino but operates all across Italy. It is a founding member of RITMI, the Italian Microfinance Network, and likewise member of the European Microfinance Network.

PerMicro has two lines of microcredits: for companies and for families.

- **Microcredit for companies:** these are microcredits for people willing to start or develop an economic activity but not eligible for traditional bank credits. In order to obtain the microcredit the candidate not only must have a good business plan and the adequate technical and

<sup>9</sup> Source: PerMicro Website and Social Balance 2007-2010.

entrepreneurial skills to develop it, but also he/she must belong to some sort of association, community or group that can provide references about him/her, guarantee his/her reliability and collaborate with PerMicro in helping him/her develop the business. The maximum microcredit is €15,000, refundable in monthly rates and no guarantees are required.

- **Microcredit for families:** PerMicro provides up to €10,000<sup>10</sup> for families with urgent needs related to health, education, housing, transport, etc. Candidates are required to have steady income, an identity card, a tax identification number, a residence permit and a temporary or permanent work contract.

From the beginning of its activity until 2010, PerMicro granted a total of 995 microcredits, out of which 779 were for families and 216 for businesses, and the total value of these microcredits amounted to €4,958,286. In 2011 this institution provided 761 additional microcredits for a total value of €4,125,983, so its microfinance activity was significantly more intense in this year than in the previous ones. In fact, the total value of microcredits granted in 2011 was 1.53 times bigger than that of 2010 and 2.72 times higher than in 2009. The tables and graphs below provide more details with a breakdown by year of such figures.

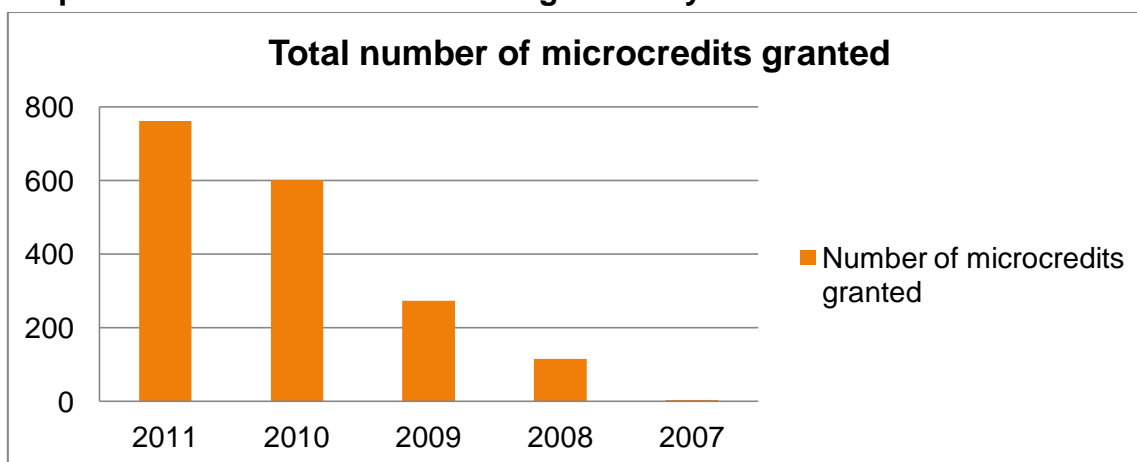
**Table 4.6. Number of microcredits granted by PerMicro 2007-2011**

PERMICRO	2011	2010	2009	2008	2007
	Number	Number	Number	Number	Number
<b>BUSINESSES</b>	**	87	88	41	0
<b>FAMILIES</b>	**	514	186	75	4
<b>TOTAL</b>	<b>761</b>	<b>601</b>	<b>274</b>	<b>116</b>	<b>4</b>

\*\*No data available

Source: Compiled by the author based on data from PerMicro Social Balances.

**Graph 4.6. Number of microcredits granted by PerMicro 2007-2011**



<sup>10</sup> According to the Italian version of PerMicro website, the maximum amount is €10,000. However in the English, Spanish and French versions the maximum amount is €15,000.

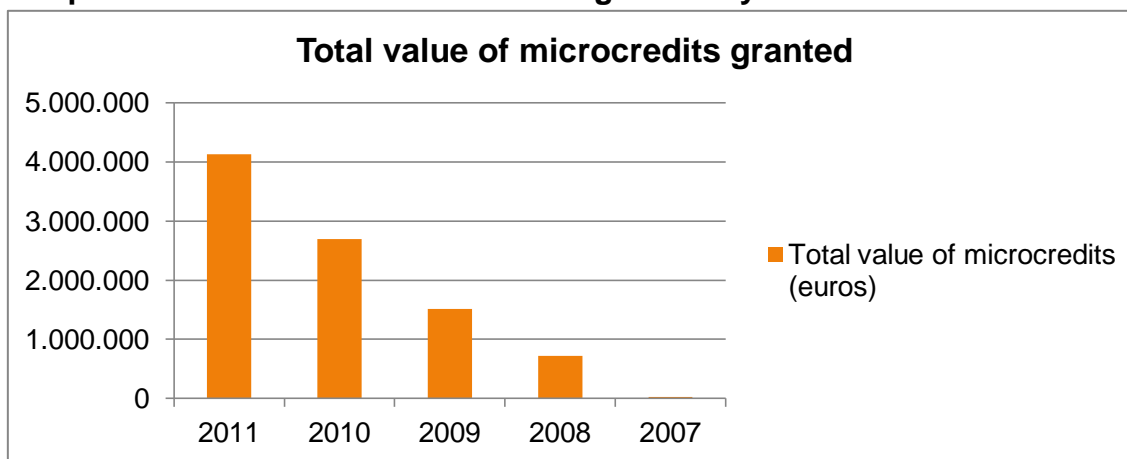
**Table 4.7. Total value of microcredits granted by PerMicro 2007-2011**

PERMICRO	2011	2010	2009	2008	2007
	Total value	Total value	Total value	Total value	Total value
<b>BUSINESSES</b>	**	637,404	643,709	317,620	0
<b>FAMILIES</b>	**	2,059,558	872,809	400,808	26,378
<b>TOTAL</b>	<b>4,125,983</b>	<b>2,696,962</b>	<b>1,516,518</b>	<b>718,428</b>	<b>26,378</b>

\*\*No data available

Source: Compiled by the author based on data from PerMicro Social Balances.

**Graph 4.7. Total value of microcredits granted by PerMicro 2007-2011**



According to PerMicro Social Balance 2007-2010, the businesses financed with microcredits operate in the following sectors of activity: street trade (29.6%), permanent trade (12%), handicraft (8.3%), phone centers (7.9%), consulting services (7.9%), food (7.4%), transport (5%), culture (5.1%), services to people (4.6%), restaurants (4.2%), construction industry (3.7%), import export (2.8%), agriculture (0.5%).

No information could be found on the success of microenterprises.

#### **4.2.2 Banca Popolare Ética<sup>11</sup>**

Banca Ética is the first Italian credit institution inspired in the principles of ethical finance. It was created in 1994 by 22 non-for-profit organizations that decided to create the Associazione Verso la Banca Etica (the association towards ethical banking). A year later it was constituted as a cooperative, Cooperativa Verso la Banca Etica, and in 1998 it was given authorization by the Bank of Italy to perform credit activity and become a real bank, the Banca Popolare Ética.

Banca Ética has two lines of microcredits:

- **Social welfare microcredit:** for people in difficult situations.

<sup>11</sup> Source: Banca Popolare Ética website and Social Balance of 2011.

- **Microcredit for microenterprises:** to start up or consolidate social businesses with a maximum of 10 employees, to facilitate self-employment or to develop local economic activities.

Banca Ética also manages the guarantee fund for microcredit projects in Italy, “Fondo di garanzia per progetti di microcredito in Italia”.

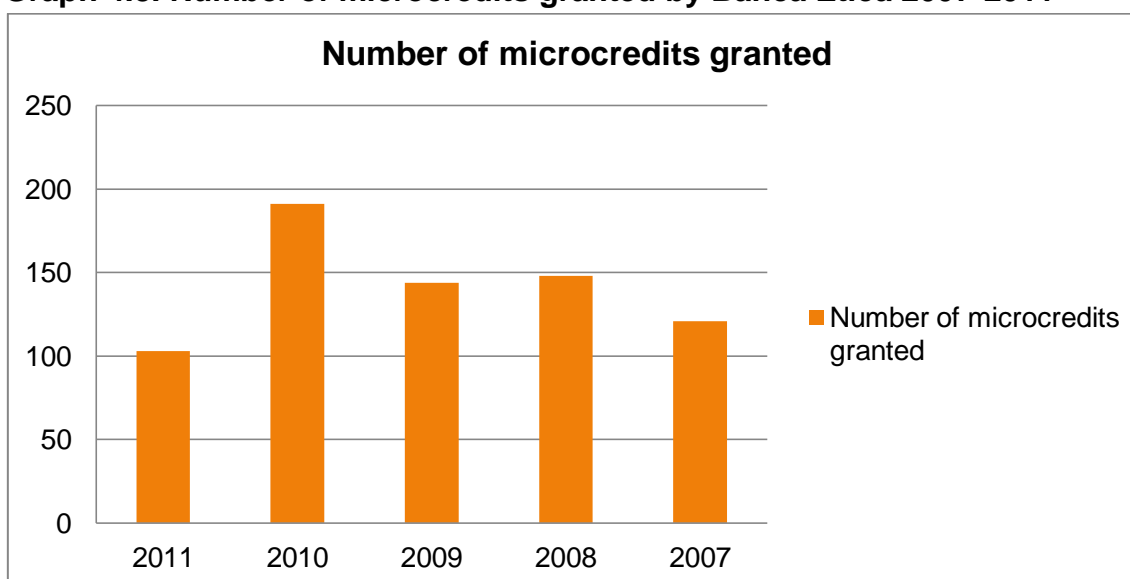
**Table 4.8. Number of microcredits granted by Banca Ética 2007-2011**

BANCA ETICA	2012	2011	2010	2009	2008	2007
	Number	Number	Number	Number	Number	Number
<b>MICROCREDITS</b>	**	103	191	144	148	121

\*\*No data available

Source: Compiled by the author based on data from Annual Reports of Banca Popolare Ética.

**Graph 4.8. Number of microcredits granted by Banca Ética 2007-2011**



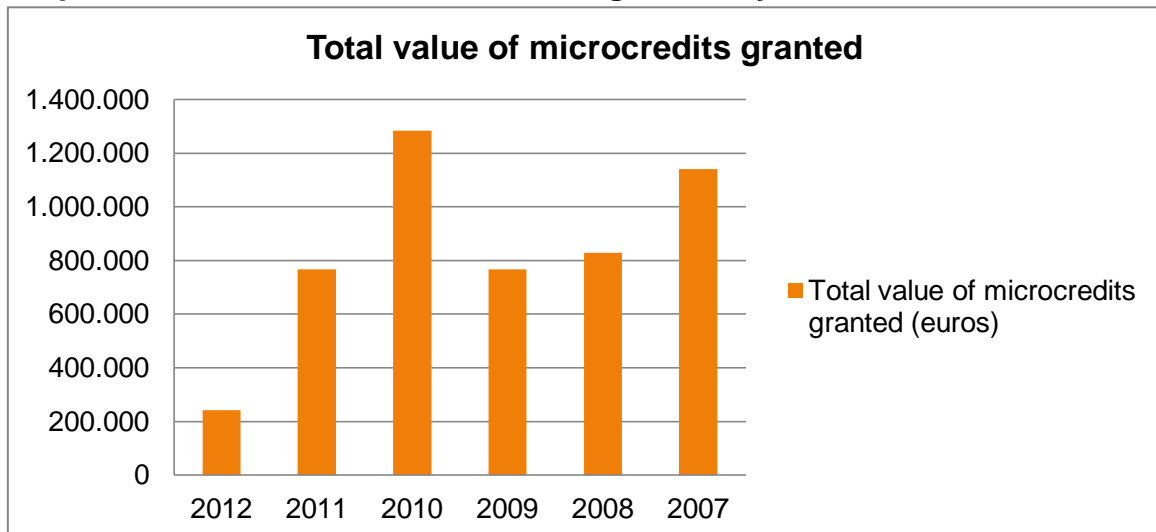
As observed in the table and the graph, although the number of microcredits stayed relatively constant from 2007 to 2010 at an average of 150 microcredits per year, in 2011 the amount considerably diminished compared to 2010, in particular, it went down by 46%.

**Table 4.9. Total value of microcredits granted by Banca Ética 2007-2012**

BANCA ETICA	2012	2011	2010	2009	2008	2007
	Total value	Total value	Total value	Total value	Total value	Total value
<b>Microcredits</b>	242,547	766,544	1,284,055	766,342	828,419	1,141,277

Source: Compiled by the author based on data from Annual Reports of Banca Popolare Ética.

**Graph 4.9. Total value of microcredits granted by Banca Ética 2007-2012**



The years with the highest microcredit financing were 2007 and 2010. However, the total value of microcredits granted in 2012 was much lower than in previous years, specifically from 2011 to 2012 it decreased by 68%.

No information could be found neither on the types of businesses financed through microcredits nor on the rate of success.

### **4.3 PORTUGAL**

#### **4.3.1 Millennium BCP<sup>12</sup>**

Millennium BCP (Banco Comercial Português) is the largest private bank in Portugal and was founded in 1985 after the deregulation of the Portuguese banking system. It is a member of the European Microfinance Network.

Millennium BCP started to grant microcredits in 2008 and in November of that year it also launched two lines of credit for small and medium-sized enterprises in collaboration with the European Investment Bank and signed a collaboration agreement with the Associação Empresarial da Região de Viseu (business association of Viseu region) to encourage entrepreneurship, the creation of microenterprises and self-employment. In 2011 it was awarded the Microfinance Recognition Awards in the category Commitment to social and financial transparency.

Millennium BCP offers microcredits to support individuals and microenterprises with viable business initiatives. It provides up to €25,000 per candidate to start up or expand his/her business. There are two types of credits: individual or in group. The maximum repayment period is 48 months up to €7,000 and 60 months for credits over €7,000.

<sup>12</sup> Source: Millennium BCP website and Annual Reports.

In addition to microcredits, Millennium BCP also offers a prize, Prémio REALIZAR, to reward the initiative of entrepreneurs. The contest has two categories: dynamism and innovation, and best execution; and the winner from each category receives a €5,000 prize. There is also a €1,000 prize for the two finalists from each category.

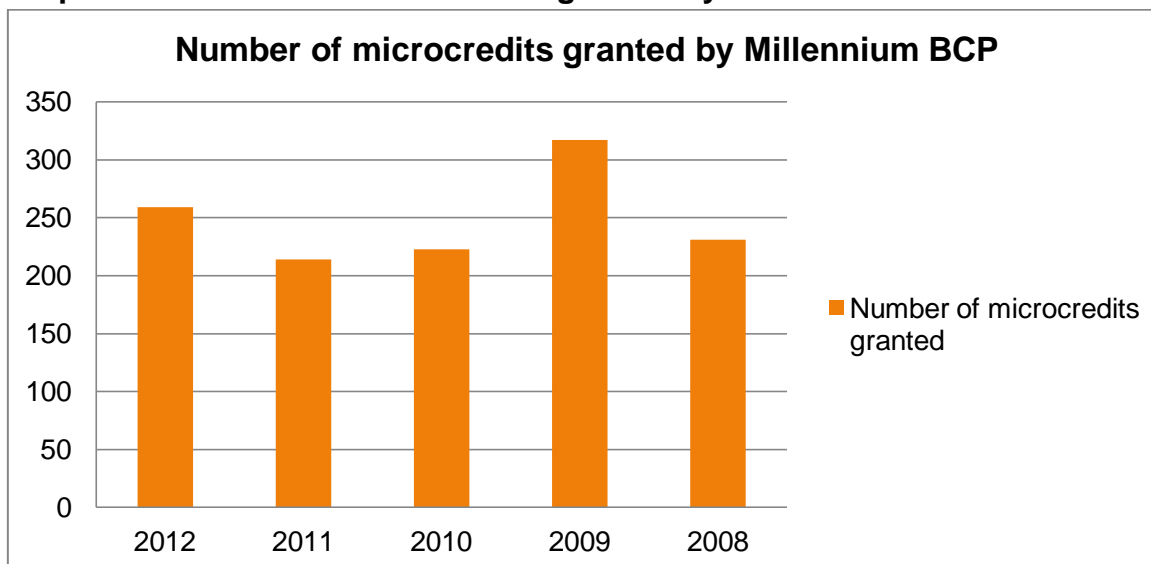
Since the beginning of its microfinance activity until 2012, Millennium BCP has granted a total of 1,244 microcredits with a total value of 12,649,000 euros. It has maintained relatively constant the number of microcredits granted being the average around 250 microcredits per year. The highest number of microcredits, 317, was provided in 2009 (see Table 14 below). As for the total value of microcredits, although 2010 and 2011 were the weakest years in this sense, the overall evolution of the period shows an upward trend being 2012 the year when the total value of microcredits was at its highest with €3,149,000 of microfinance (see Table 15 and Graph 11 below).

**Table 4.10. Number of microcredits granted by Millennium BCP 2008-2012**

MILLENNIUM BCP	2012	2011	2010	2009	2008
	Number	Number	Number	Number	Number
	259	214	223	317	231

Source: Compiled by the author based on data from Annual Reports of Millennium BCP.

**Graph 4.10. Number of microcredits granted by Millennium BCP 2008-2012**

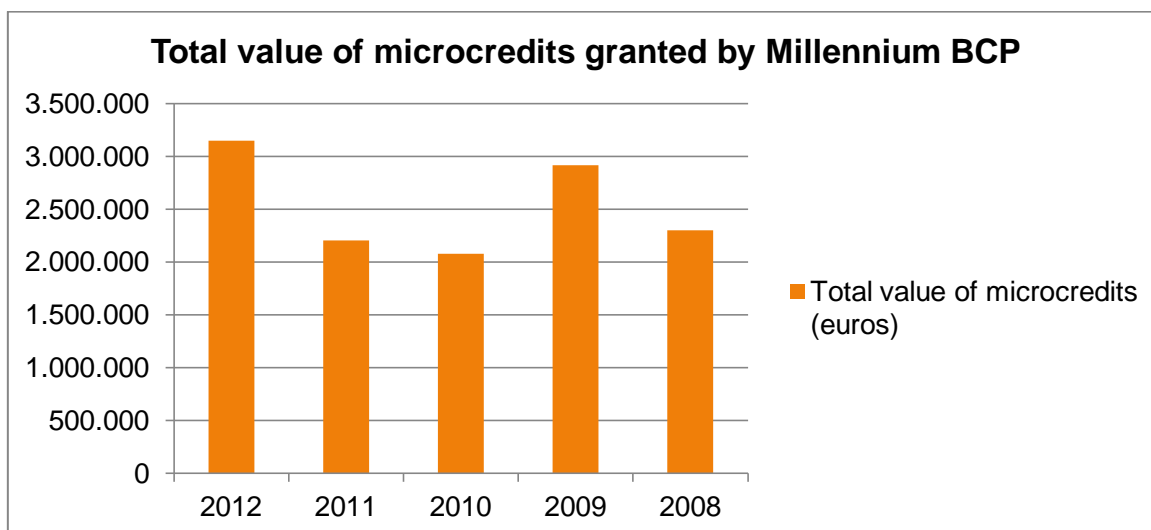


**Table 4.11. Total value of microcredits granted by Millennium BCP 2008-2012**

MILLENNIUM BCP	2012	2011	2010	2009	2008
	Total value	Total value	Total value	Total value	Total value
	3,149,000	2,204,000	2,081,000	2,915,000	2,300,000

Source: Compiled by the author based on data from Annual Reports of Millennium BCP.

**Graph 4.11. Total value of microcredits granted by Millennium BCP 2008-2012**



As for the activities financed through microcredits, in 2008 the distribution was as follows: retail sector (21%), hotel sector (22%), building services (3%), services to companies (3%), other services (51%).

No information could be found on the rate of success.

#### **4.3.2 Caixa Geral de Depósitos<sup>13</sup>**

Established in 1876, Caixa Geral de Depósitos (CGD) is a public bank fully owned by the Portuguese State. In 2008 CGD created an agency to centralize all its microfinance operations, the Agência Central para o Microcrédito (ACM).

It offers several microfinance products. First, it has a line of microcredits agreed with the Associação Nacional de Direito ao Crédito (ANDC) for individuals who: a) have the skills to create either self-employment or small businesses; b) have not had any incident with the Bank of Portugal, c) are residents in Portugal, either nationals or immigrants, duly legalized, d) cannot access traditional bank credits, and e) have difficulties to access the labor market. The financing conditions are the following:

**Table 4.12. Financing conditions for microcredits by CGD**

<b>Maximum amount:</b>	Up to €15,000
<b>Repayment period:</b>	Up to 48 months, including a grace period of up to 2 months
<b>Payment scheme</b>	Monthly fixed payments
<b>Interest rate</b>	Euribor 3months plus 3%
<b>Commissions and expenses</b>	No commissions or fees
<b>Collateral</b>	No collateral required, but a personal guarantee is required for 20% of the capital

<sup>13</sup> Source: Caixa Geral de Depósitos website and Annual Reports.

CGD also offers a microfinance line in collaboration with the Associação Nacional de Jovens Empresários (ANJE) for young entrepreneurs so that they can start up or expand their businesses. However, the maximum amount offered is €50,000 and therefore it cannot be considered “micro”-credit.

Finally, Caixa Geral de Depósitos has two credit lines called Linha Microinvest and Invest+ in collaboration with the Instituto de Emprego e Formação Profissional (IEFP), the Sociedades de Garantia Mútua (SGM) and the Sociedade de Investimento (SPGM). The main objective of these two lines is to encourage the creation of businesses by favoring access to bank credits for unemployed people. The payment period is up to 84 months with a grace period of 24 months and the interest rate is Euribor 30 days + 0.25%. The microinvest line finances up to €20,000 per operation and the Invest+ line finances loans from €20,000 up to €100,000.

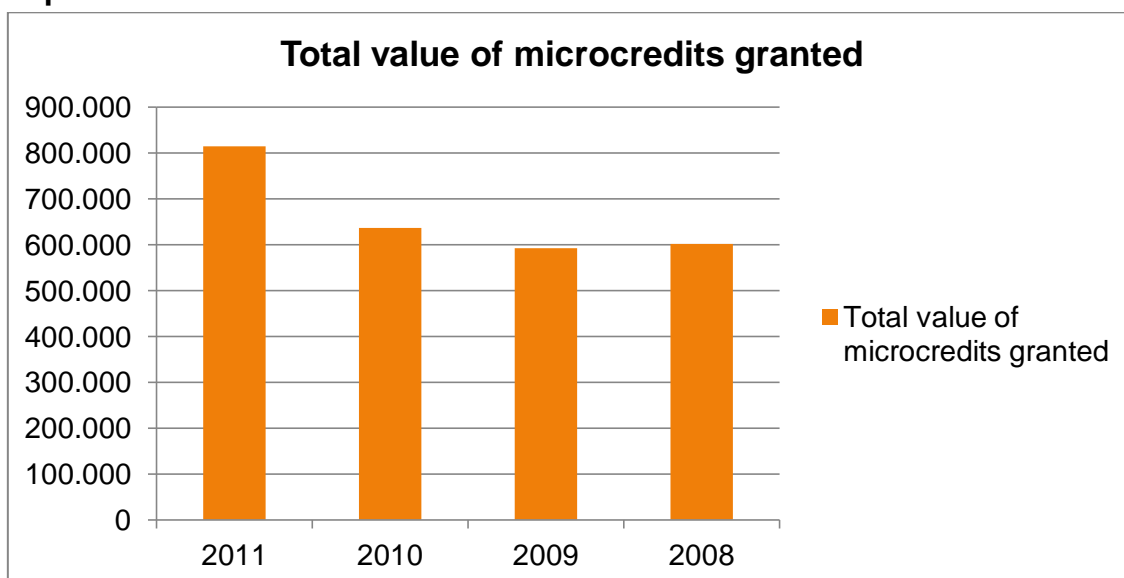
The evolution of the total value of microcredits granted by CGD has been quite stable since the creation in 2008 of the Central Agency for Microcredits; the only year that stands out a little bit is 2011.

**Table 4.13. Total value of microcredits granted by Caixa Geral de Depósitos 2008-2011**

	2011	2010	2009	2008
<b>CAIXA GERAL DE DEPOSITOS</b>	<b>Total value</b>	<b>Total value</b>	<b>Total value</b>	<b>Total value</b>
	815,000	636,865	591,832	602,000

Source: Compiled by the author based on data from Annual Reports of Caixa Geral de Depósitos.

**Graph 4.12. Total value of microcredits granted by Caixa Geral de Depósitos 2008-2011**



No information could be found neither on the types of businesses financed through microcredits nor on the rate of success.

## CHAPTER 5. CROSS-COUNTRY ANALYSIS

In this chapter, the data compiled about the seven institutions previously analyzed is used to establish a comparison of the evolution of the microcredits granted by the main microfinance providers in the three countries, Spain, Italy and Portugal. Given the heterogeneity and the reduced number of institutions and the different sources of information, this comparison should only be considered as an approximation to the evolution of the microfinance activity in these Mediterranean countries.

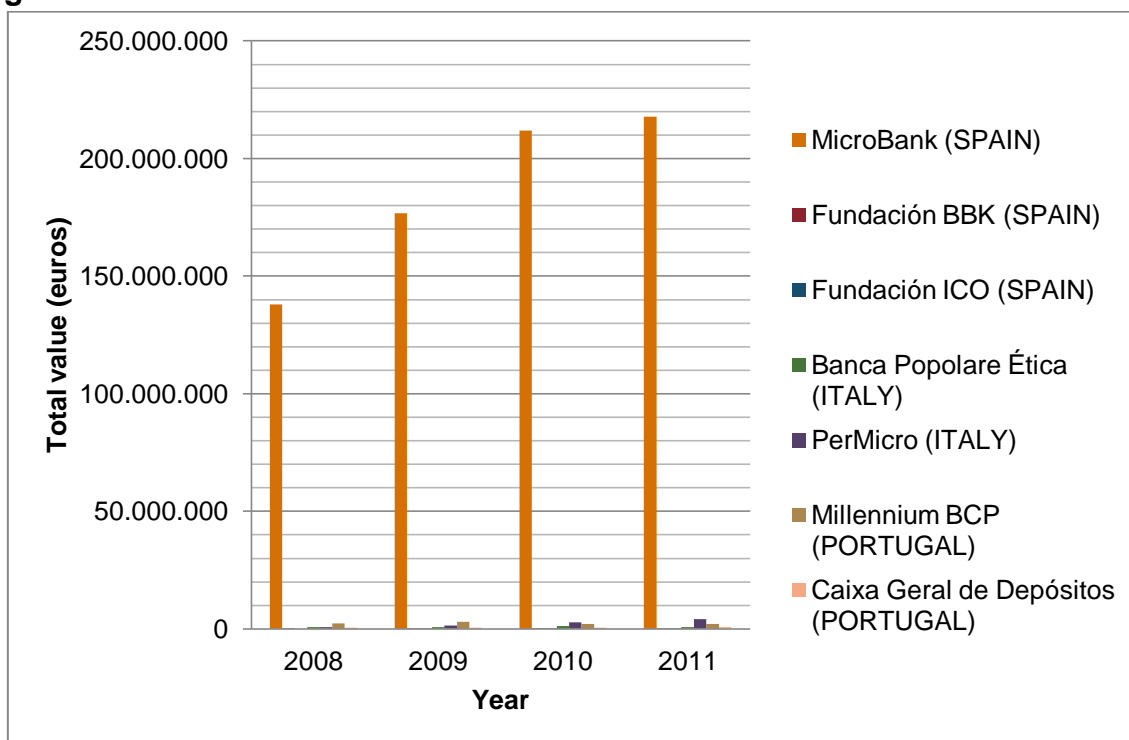
The period of analysis is 2008-2011 since these are the years for which there are data available from all the institutions, with the only exception of Fundación ICO in 2008, as the data of this year was published together with the figures of 2009, as previously explained in section 4.1.3. Given the fact that not all of the institutions have published data on the number of microcredits provided, only the total value of microcredits granted will be compared.

Therefore, gathering the data available on total value of microcredits granted by the seven institutions from 2008 to 2011, the following table is obtained:

**Table 5.1. Comparison of total value of microcredits granted in Portugal, Italy and Spain from 2008 to 2011.**

COUNTRY	Microfinance Institution	2008	2009	2010	2011
SPAIN	MicroBank	138,070,000	176,780,000	212,000,000	217,900,000
	BBK	169,500	57,515	25,799	184,918
	Fundación ICO	/	32,500	60,000	82,886
ITALY	Banca Popolare Ética	828,419	766,342	1,284,055	766,544
	PerMicro	718,428	1,516,518	2,696,962	4,125,983
PORTUGAL	Millennium BCP	2,300,000	2,915,000	2,081,000	2,204,000
	Caixa Geral de Depósitos	602,000	591,832	636,865	815,000

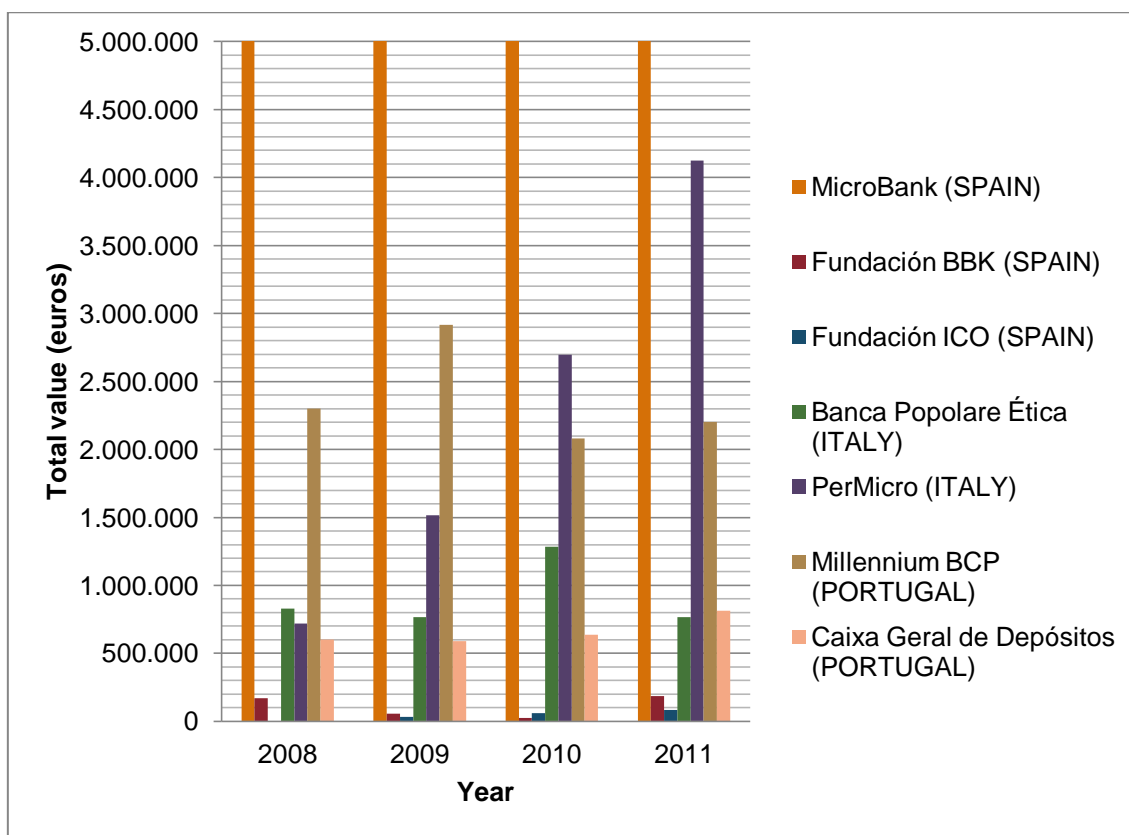
**Graph 5.1. Cross-country comparison of total value of microcredits granted from 2008 to 2011**



As clearly shown in the graph, the difference between MicroBank and the rest of microfinance institutions (MFIs) is such that it is not possible to establish any comparison whatsoever. While MicroBank has been lending hundreds of millions of euros per year, the other MFIs have only granted hundreds of thousands. For instance, taking as reference 2011, if we compare MicroBank with PerMicro, which was the second highest lender that year, we obtain that the total value of microcredits lent by MicroBank was 53 times bigger than that of PerMicro.

Therefore I considered it more appropriate to leave MicroBank aside and change the maximum value of the vertical axis to €5,000,000 so that the performance of the rest of MIFs could be seen with more detail.

**Graph 5.2. Cross-country comparison of the total value of microcredits granted from 2008 to 2011 (MicroBank excluded)**



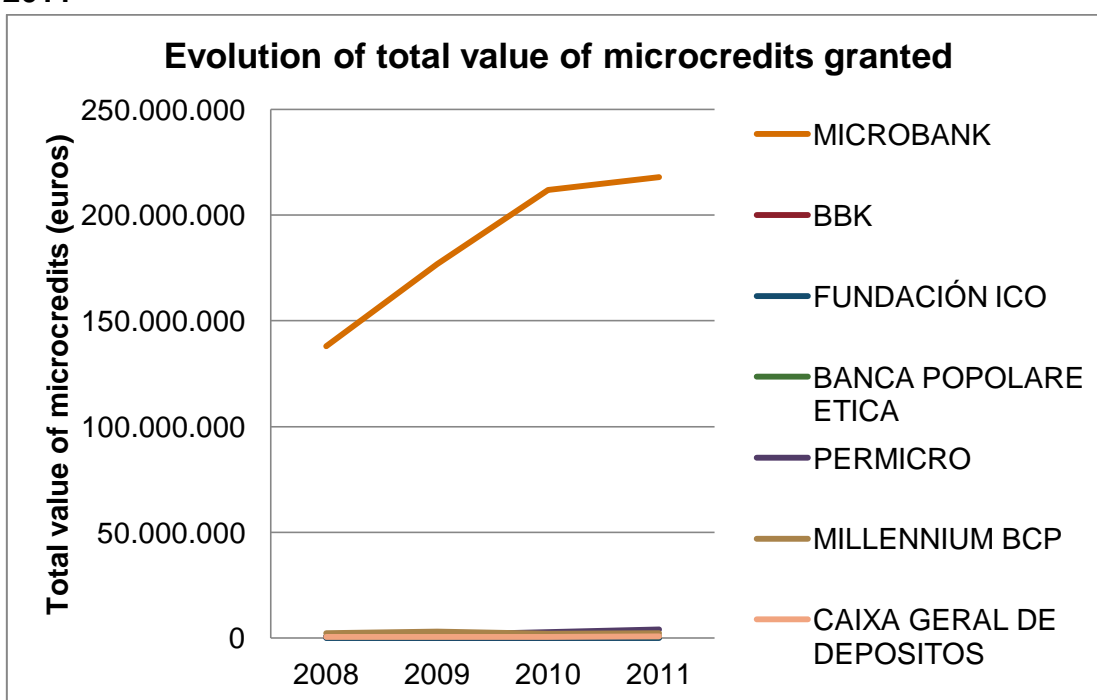
If MicroBank is left aside, the two remaining Spanish institutions, Fundación BBK and Fundación ICO are the least significant actors as far as the total value of microcredits granted is concerned. From 2008 to 2009 the MFI that was lending the most (after MicroBank, of course) was the Portuguese Millennium BCP. However, in 2010 it was surpassed by the Italian PerMicro, which not only maintained but considerably improved its position in 2011. As regards the Italian Banca Popolare Ética, although it started the period being in a third place after Millennium BCP and MicroBank, in 2009 it was the fourth lender (PerMicro occupied the third position) and by 2011 it was in a fifth place, although only slightly surpassed by the Portuguese Caixa Geral de Depósitos. This latter institution differs from the rest because of its relatively steady evolution.

Therefore, given this large disparity, no conclusions on countries performances can be drawn. Even within countries the differences between institutions are remarkable. The most extreme case is Spain, with the giant MicroBank on the one side, and the poorly-financing Fundación BBK and Fundación ICO on the other side. As regards Italy and Portugal, they also have very active institutions on the one side (PerMicro and Millennium BCP, respectively) and more moderate institutions on the other side (Banca Popolare Ética and Caixa Geral de Depósitos).

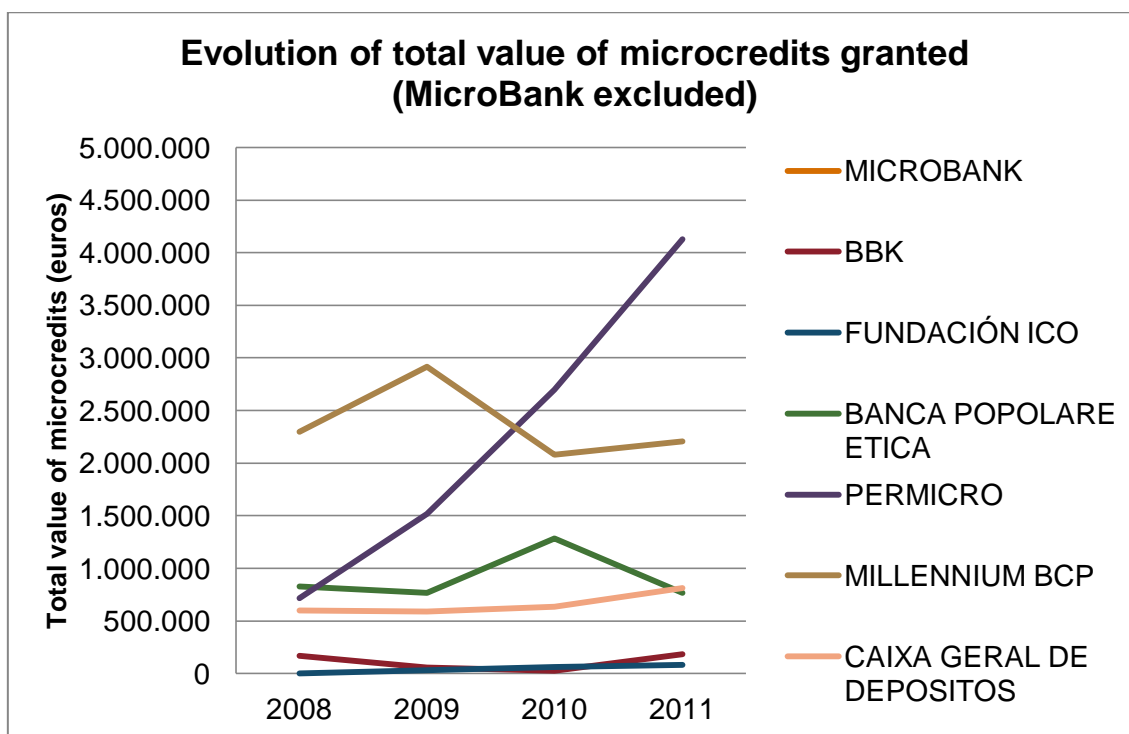
However, what could be argued though is the difference between public and private institutions. It looks like the microfinance activity in Mediterranean countries is mainly driven by private institutions, such as MicroBank, PerMicro or Millennium BCP, while public bodies have a more modest role, such as Fundación ICO or Caixa Geral de Depósitos.

Finally, the outstanding growth experienced by PerMicro should be mentioned. Although in absolute terms MicroBank lending increased more during the 2008-2011 period (in particular €79,830,000 while PerMicro increase amounted to €3,407,555), in relative terms, PerMicro has experienced the highest rise as its microcredit lending grew by 474% while that of MicroBank rose by 58%. As for the rest of institutions, although with some ups and downs, their financing has not changed substantially.

**Graph 5.3. Evolution of total value of microcredits granted from 2008 to 2011**



**Graph 5.4. Evolution of total value of microcredits granted from 2008 to 2011 (MicroBank excluded)**



## CHAPTER 6. CONCLUSIONS

The development of the microfinance sector in Western Europe –and in Spain, Italy and Portugal in particular– started mainly at the beginning of the 21<sup>st</sup> century. Especially relevant was the year 2005 thanks to the United Nations International Year of Microcredit, which raised awareness on the importance of microcredits as an instrument to fight unemployment as well as social and financial exclusion in developed countries. In fact, microfinance activity in Mediterranean countries thrived since 2005: in Spain nearly all the savings banks that were active by that year had microcredit programs; in Portugal the autonomous microcredit network, RAM, was established precisely in 2005; and in Italy the Permanent Microcredit Committee and the Italian Microfinance Network, RITMI, were created some years later.

As far as microfinance actors are concerned, savings banks have been the driving force in Spain; credit cooperatives and non-for-profit organizations have boosted ethical financing and hence microcredits in Italy (although there are also very important financial companies); and in Portugal microfinance has been promoted mainly by a non-for-profit private institution (ANDC) although for legal reasons banks and financial institutions actually provide the financing.

Therefore, microfinance institutions in Mediterranean Europe are quite heterogeneous and, as the cross-country analysis performed in this paper

shows, diversity is even larger regarding the total value of microcredits granted, which extremely varies not only from one country to another, but also within the same country. The most important microcredit providers in Mediterranean Europe are MicroBank (a Spanish commercial bank specialized in microcredits that belongs to a savings bank), PerMicro (an Italian private company specialized in microcredits) and Millennium BCP (a Portuguese private commercial bank), which in 2011 granted microcredits for a total value of 217,900,000 euros, 4,125,983 euros and 2,204,000 euros respectively. Hence the lending of the most important microfinance institution, MicroBank, was 53 times higher than that of the second one, PerMicro, which in turn lent almost twice as much as the third one, Millennium BCP. As regards the overall evolution of microcredit financing from 2008 to 2011 (measured in terms of the total value of microcredits lent by the 7 institutions herein analyzed), there was an increase of 83.4 million euros thanks to MicroBank and PerMicro lending mainly. The rest of microfinance providers either did not increase their financing substantially or even decreased it.

However, what the three countries do have in common is the fact that their microfinance activity is mainly driven by private initiatives. Public institutions, although active and not negligible at all, do not provide as much financing as private organizations. Nevertheless public institutions have a very important role in promoting and supporting private initiatives.

The profile of microcredit borrowers is quite similar in the three countries. They are mostly unemployed people, women, immigrants or people that are socially or financially excluded; but they all have something in common: potentially successful business ideas. In general, they use the microcredits to start up or expand small businesses mainly from the retail sector, hotel sector and services to companies sector.

Finally, it should be highlighted that, despite the quantitative focus of this paper, an equally (or even more) important aspect of microcredits is the advising and monitoring role played by microfinance institutions. This “accompanying” is precisely the key of microcredits, as not only microentrepreneurs are given the financial aid they need to start up their businesses, they are also taught financial concepts they need to understand before applying for a credit, they are given technical advice (for instance on the financial planning) and they are monitored to make sure that important questions that might determine their business success are being properly addressed. Therefore, microcredits have a very important educational value which differentiates it from other instruments like simple subsidies.

Moreover, given the demonstrated ability of microcredits to encourage entrepreneurship and job creation, they should be regarded by policy-makers as possible instruments to fight the high unemployment rates that Italy, Portugal

and, especially, Spain present due to the recession of their economies. In this sense, the case of MicroBank should be considered an example of business sustainability for commercial banks and other financial institutions that are still reluctant to grant microcredits.

Nevertheless, it is also true that start-ups are quite vulnerable and highly dependent on the economic environment during their first years of existence, so the business proposals should be studied with caution and the risk of failure due to the negative economic context should be properly assessed.

In Mediterranean Europe there is still a lot of work to do; not only more financing for microcredit programs is needed, also more microfinance institutions involved in the extremely important stages of advising and monitoring (Spain particularly lacks of MFIs in this sense) and, of course, a proper regulatory framework for microfinance.

## BIBLIOGRAPHY

- Banca Popolare Ética, 2011. Bilancio Sociale 2011. [pdf] Available at: [http://www.bancaetica.it/sites/bancaetica.it/files/web/la-banca/Chi-siamo/profilo\\_istituzionale/bilanci/bilsoc\\_be\\_ok\\_low.pdf](http://www.bancaetica.it/sites/bancaetica.it/files/web/la-banca/Chi-siamo/profilo_istituzionale/bilanci/bilsoc_be_ok_low.pdf) [Accessed 29 July 2013].
- Banco Espírito Santo, 2012-2009. *Relatórios Anuais 2009, 2010, 2011, 2012*. [online] Available at: <http://www.bes.pt/sitebes/cms.aspx?plg=292AF390-446F-4D7D-BE0C-BCF3DF715E64> [Accessed 11 July 2013]
- BBK, 2011-2008. *Memorias Anuales 2008, 2009, 2010, 2011*. [online] Available at: [https://portal.bbk.es/cs/Satellite/portalbbk/es/sobre\\_bbk/memorias\\_anuales\\_3/generico](https://portal.bbk.es/cs/Satellite/portalbbk/es/sobre_bbk/memorias_anuales_3/generico) [Accessed 27 July 2013]
- Caixa Geral de Depósitos, 2011-2008. *Relatórios de Sustentabilidade 2008, 2009, 2010, 2011*. [online] Available at: <https://www.cgd.pt/Institucional/Sustentabilidade/Relatorio/2011/Pages/Relatorio-Sustentabilidade.aspx> [Accessed 11 July 2013].
- Caja Granada, 2008. *Informe Económico y de Actividades 2008*. [online] Available at: <http://www.memoriadeandalucia.com/opencms/opencms/CajaGranada/institucional/memoriasanuales.html> [Accessed 23 July 2013].
- Confederación Española de Cajas de Ahorros, 2013. *Memoria Sectorial RSC. Microcréditos*. [online]. Available at: <http://www.ceca.es/rsc/microcreditos.html> [Accessed 14 August 2013]
- Council of the European Union, 2004. *Joint report by the Commission and the Council on social inclusion 2004*. [online]. Available at: [http://ec.europa.eu/employment\\_social/soc-prot/soc-incl/final\\_joint\\_inclusion\\_report\\_2003\\_en.pdf](http://ec.europa.eu/employment_social/soc-prot/soc-incl/final_joint_inclusion_report_2003_en.pdf) [Accessed 14 August 2013].
- European Anti-Poverty Network, 2013. *What is poverty*. [online]. Available at: <http://www.eapn.eu/en/what-is-poverty/poverty-in-the-eu-a-very-real-problem> [Accessed 13 August 2013].
- European Commission, 2008. *Financial services provision and prevention of financial exclusion*. [online] Available at: <http://ec.europa.eu/social/BlobServlet?docId=760&langId=en> [Accessed 25 August 2013].
- European Commission, 2012. *A first Greek microcredit provider under Progress Microfinance*. [online] Available at: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1153> [Accessed 9 August 2013].
- European Commission, 2013. *Competitiveness and Innovation Framework Programme (CIP)*. [online] Available at: [http://ec.europa.eu/cip/index\\_en.htm](http://ec.europa.eu/cip/index_en.htm) [Accessed 14 August 2013].
- European Investment Bank, 2013. *Microfinance*. [online] Available at: <http://www.eib.org/products/microfinance/index.htm> [Accessed 22 July 2013].

European Investment Fund, 2013. *JASMINE, Joint Action to Support Microfinance Institutions*. [online] Available at: [http://www.eif.org/what\\_we\\_do/microfinance/JASMINE/index.htm](http://www.eif.org/what_we_do/microfinance/JASMINE/index.htm) [Accessed 14 August 2013]

European Investment Fund, 2013. *JEREMIE – Joint European Resources for Micro to Medium Enterprise*. [online] Available at: [http://www.eif.org/what\\_we\\_do/jeremie/index.htm](http://www.eif.org/what_we_do/jeremie/index.htm) [Accessed 14 August 2013].

European Microfinance Network, 2010. *Microfinance in Europe*. [online] Available at : [http://www.european-microfinance.org/europe-microfinance\\_en.php](http://www.european-microfinance.org/europe-microfinance_en.php) [Accessed 26 August 2013].

Eurostat, 2013. *European social statistics, 2013*. [online]. Available at : [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-FP-13-001/EN/KS-FP-13-001-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-FP-13-001/EN/KS-FP-13-001-EN.PDF) [Accessed 13 August 2013].

Fundación Inversión y Ahorro Responsable, 2013. *Proyecto FIARE*. [online] Available at: <http://www.proyectofiare.com/web/es/fiare/quienes-somos> [Accessed 17 August 2013].

Fundación ICO, 2012-2008. *Memoria de Actividades 2012, 2011, 2010, 2009, 2008*. [online] Available at: <http://www.fundacionico.es/index.php?id=24> [Accessed 31 July 2013].

Grameen Bank, 2013. *A short history of the Grameen Bank*. [online] Available at: [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=19&Itemid=114](http://www.grameen-info.org/index.php?option=com_content&task=view&id=19&Itemid=114) [Accessed 4 May 2013].

Gutiérrez, B. and Pérez, M.J., 2005. *Microcréditos en países desarrollados: Problemas, retos y propuestas*. Madrid: Marcial Pons.

Lacalle, M.C. and Rico, Silvia, 2012. Las microfinanzas en España: Impacto y recomendaciones a futuro. *Nantik Lum*. [pdf] Available at: <http://www.nantiklum.org/cuadernos/CM18.pdf> [Accessed 10 April 2013].

MicroBank, 2012-2010. *Informes Anuales Corporativos 2012, 2011 y 2010*. [online] Available at: [http://www.microbanklacaixa.com/informacioncorporativa/datosbasicos\\_es.html](http://www.microbanklacaixa.com/informacioncorporativa/datosbasicos_es.html) [Accessed 10 June 2013]

Millennium BCP, 2012-2008. *Relatório e Contas 2008, 2009, 2010, 2011, 2012*. [online] Available at: <http://ind.millenniumbcp.pt/pt/Institucional/investidores/Pages/RelatorioContas.aspx> [Accessed 10 July 2013]

Nantik Lum, 2009. *Fundación de Microcréditos para el Desarrollo*. [online] Available at: <http://www.nantiklum.org/index.php?sec=1&ssec=7> [Accessed 11 August 2013].

Pancretan Cooperative Bank, 2012. *Corporate Presentation*. [online] Available at: <http://www.pancretabank.gr/cms/uploaded/corporate%20presentation%20July%202013%20EN.pdf> [Accessed 9 August 2013].

PerMicro, 2010. *Bilancio sociale dell' attività PerMicro 2007-2010*. [online] Available at : [http://www.permicro.it/docs/Bilancio\\_Sociale\\_PerMicro.pdf](http://www.permicro.it/docs/Bilancio_Sociale_PerMicro.pdf) [Accessed 29 July 2013].

PerMicro, 2011. *Relazione sulla Gestione in accompagnamento al bilancio 2011*. [online] Available at: [http://www.permicro.it/docs/10\\_BIL2011\\_PerMicro.pdf](http://www.permicro.it/docs/10_BIL2011_PerMicro.pdf) [Accessed 29 July 2013].

Plataforma de Emprendimiento y Microfinanzas, 2013. *Descubre la PEM*. [online]. Available at: <http://www.emprendimientoymicrofinanzas.com/descubre-la-pem/> [Accessed 23 April 2013]

Rico, Silvia, 2009. *Microcrédito Social. Una evaluación de impacto*. Barcelona: Fundació Caixa Catalunya.

Silva, J., 2011. *O Microcrédito em Portugal*. [pdf] Available at: <http://core.kmi.open.ac.uk/download/pdf/6333026> [Accessed 18 August 2013]

Srinivas, H. 2012. *The Virtual Library on Microcredits*. [online] Available at: <http://www.gdrc.org/icm/what-is-ms.html> [Accessed 1 May 2013]

World Bank, 2013. *Doing Business 2013, Smarter Regulations for Small and Medium-Size Enterprises*. [online]. Available at: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf> [Accessed 13 August 2013].

Zenarolla, A. 2013. Education as a strategy to combat poverty. The microcredit, the accompanying and the family budget, the most suitable instruments to deal with the new poverties. *Italian Journal of Sociology of Education*, 5 (1) [e-journal] Available at: <http://www.ijse.eu/index.php/ijse/article/viewFile/179/171> [Accessed 12 August 2013].