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The Guarantee Fund Modular Approach and Accession Criteria

Working Paper





The Guarantee Fund: *Modular Approach and Accession Criteria*

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INTRODUCTION

Circular migration is a growing phenomenon not only in Europe: recently, countries like Asia, America and also Africa have experimented a higher flow of individuals incoming and outgoing the national border for working reasons. According to the policies adopted by the European Commission, the concept of “mobility” versus “migration” should be reinforced by promoting social policies in favour of legal migrants’ integration (in destination countries) and their subsequent re-integration (in origin countries).

As of today, we see no specific EU instruments or mechanisms to support and facilitate the return of workers to their country of origin nor financial incentives as a mean for development (financial services and bank inclusion) once the migrants are back home again. Moreover, only a scarce number of initiatives (mostly focused at a local level) are presently offering assistance to migrants’ return and even fewer are giving economic and financial assistance to those returnees willing to start or expand a business in their own country. The situation can be summarized in the following sentence: no real policies are implemented to contrast “brain drain”, in the same way, no real strategies are planned to facilitate “brain gain”.

Successful experiences in the establishment of new models for supporting the start-ups and the following growth of new businesses¹, together with the increasing demand to support return migration of individuals in their country of origin, have provided the idea of giving birth to a Guarantee Fund (GF hereinafter) backed by the Veneto Region and designed to support the credit access of potential entrepreneurs willing to invest in Senegal. The result of the Senegalese experience aims to become a model that could be proposed and applied in similar areas and similar market conditions.

The main objectives to pursue throughout the implementation of the GF and the “return model” is as follows:

- Improve credit access for those migrants willing to invest in their origin’s country;

¹ Examples of successful experiences emerged during the last 20 years with some model contributions from Afford, SEON, Triodos Facet, IntEnt, ABC (Assistance to Business Creation) in Kenya, Jua Kali programme, etc. In the framework of the Interreg CADSES programme, the project Migravalue, also studied the feasibility of a GF for returnees between Italy and Eastern Europe and the Balkans.

- Improve attractiveness of Senegal as a working place and stimulate national policies encouraging the return of Senegalese from abroad (brain gain vs. brain drain);
- Foster transnational cooperation between regions of origin and regions of destination of migrants;
- Increase the financial services available both in origin and destination countries of migrants;
- Promote transnational services facilitating labour mobility vs migration between EU and the rest of the world;
- Establish the implementation of a GF in Senegal as an instrument for local development of small business;
- Implement a trans-national market of financial and assistance services to support “return” and “circular migration”;
- Foster self employment and increase the success of new businesses in Senegal.

After conceiving a realistic GF model based on the profile and needs of migrants, an empirical analysis of the situation in Senegal helped the Su.Pa project team to assess the viability, readiness, commitment and interest of stakeholders (both private and public) in each step of the migrants’ return path. Different institutional, private and individual stakeholders were involved in the definition of the scheme, each of them committing to economic, social and financial level.

1. THE RETURNEE: MAIN PROFILES

The empirical analysis conducted both in Marche and Veneto in Italy², provided the typical profile of the Senegalese migrant showing a good level of “return vocation” and a sufficient level of “acquired experience”.

More specifically, the Su.Pa team showed that the voluntary return for business reasons (we will call it more simply “productive return” as opposed to return for retirement or involuntary or forced return) is today linked to innovative and not yet fully codified procedures.

It is empirically shown that the experience (in terms of knowledge, skills and competence) acquired by many migrants during their medium to long-term permanence abroad could be an important factor of success to be used in their origin country in many different ways.

1.1 Motivations for return

The following approach, as conceived for the survey called “Il fenomeno migratorio e il rientro produttivo” (the migratory phenomenon and the productive return), shows different profiles of Senegalese migrants based on their attitudes towards return to their country. Such profiles are described in the following boxes.

Dissatisfied *This is the migrant who perceives the experience of return as a failure of his/her migration plan. The reasons have much to do with a general lack of integration/social inclusion in the destination country. In most cases, these are migrants who have lost their jobs and feel compelled for economic reasons to return to their countries of origin.*

Neutral *This profile refers to migrants who voluntarily decide to return without a clear plan of what to do once back home (namely, to Senegal). This category of returnees have no clear idea of the situation he/she will find at home or the changes occurred during their permanence abroad. It is likely that there will be no changes from the social status that preceded their return.*

² See Su.Pa “Il fenomeno migratorio e il rientro produttivo” (*The migratory phenomenon and the productive return*)

Satisfied *The satisfied migrant is the one who has achieved the goals he/she had set before emigrating. After the permanence abroad the migrant feels the need to return to his/her home country to complete the project for which they left the homeland (namely Senegal). Generally these migrants have sufficient financial means to change their social status even if not enough to start a new business. In this case, there is no project of circular migration and the migrants, once back, wants to stay in the country of origin.*

Transnational *The transnational migrant perceives migration as a kind of temporary mobility. These migrants either maintain contacts with both countries (possibly also with other countries) and decide to move amidst nations when conditions are favourable. For example, the migrant may be a seasonal worker who never considers the return as a permanent factor or the one who has different activities in different countries.*

Circular *The circular migrant has a project involving both countries (origin and destination country). He/she can rely on own resources and can maximize capabilities and opportunities offered by both nations. A typical example is the migrant who has become the partner of his/her former employer and needs to manage business both in Italy and Senegals. This migrant is in constant development and represents an important source of wealth for both countries.*

The elements for the evaluation of the profiles listed above were bound to specific benchmarks on a scale from 1 to 100 resulting from each of the questionnaire responses made by **67 would-be entrepreneurs in the Veneto Region³** willing to return to Senegal. A positive assessment is a score exceeding 50 points, while a lower rating indicates a state of failure and dissatisfaction.

Table n. 1a

The general reasons to return to your homecountry

Dissatisfied		Neutral		Satisfied		Transnational		Circular	
10	20	30	40	50	60	70	80	90	100

61

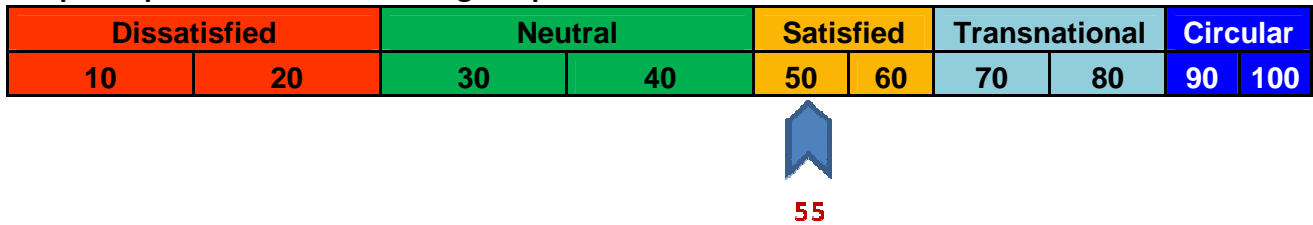
Source: *Su.pa* interviews realised by Veneto Lavoro

³ This is the sample that was used to make the interviews in the Veneto Region. All of them are migrants on the way to return to Senegal or who, at least, declared a serious intention to do so.

The migration project scores the highest points of **61** showing a big level of consciousness towards the “ideal” reasons for return.

Table n. 1b

Acquired professional skills during the permanence abroad

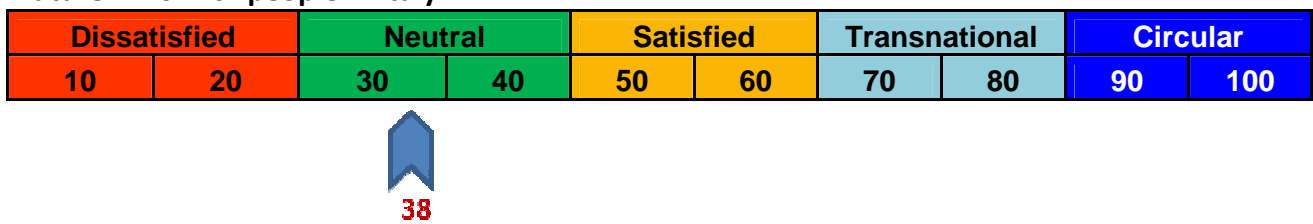


Source: *Su.pa* interviews realised by Veneto Lavoro

With regards to the skills acquired during their permanence in the destination country, the migrants answered with a satisfying level of **55** score points showing the fact that the project of return is generally built on a solid base.

Table n. 1c

Future links with people in Italy

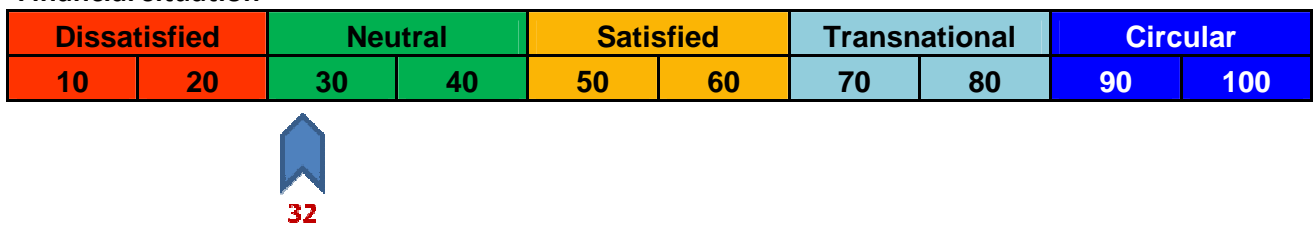


Source: *Su.pa* interviews realised by Veneto Lavoro

When asked whether the returnees think about keeping relationships with the people they met in Italy, a low score was obtained (**38** points) showing that a big number of them were not able (or didn't want) to share solid relationships with Italians or other communities living in Italy. This shows a significant lack in the possibility of creating a work-related transnational network. The creation of a GF can be supportive in order to maintain links between the two countries.

Table n. 1d

Financial situation



Source: *Su.pa* interviews realised by Veneto Lavoro

A major difficulty is the economic and financial situation of the Senegalese interviewees.

Because this is perceived as the most difficult condition for migrants who have a return plan, the provision of a GF for Senegal is a primary instrument for achieving the business objectives of potential returnees.

Table n. 1e

Personal reasons for return

Dissatisfied		Neutral		Satisfied		Transnational		Circular	
10	20	30	40	50	60	70	80	90	100



59

Source: *Su.pa* interviews realised by Veneto Lavoro

As already verified in the analysis of the ideal reasons for migration, a good response is achieved also in terms of personal intentions of returning, ranking **59** in our scale.

1.1.1 Conclusions on the profile of the Senegalese migrants in the Veneto Region

The average result of the interviews resulting from the average of the single questions that were answered by the interviewees amounts to **49** points, thus indicating a sufficient level of positive features to promote and assist a “healthy” return of Senegalese migrants to their country of origin.

Table n. 1f

THE GENERAL PROFILE OF MIGRANTS

Dissatisfied		Neutral		Satisfied		Transnational		Circular	
10	20	30	40	50	60	70	80	90	100



49

Source: *Su.pa* interviews realised by Veneto Lavoro

In sum, the only weaknesses that emerged from the interviews are related to the possibility of maintaining a **network** (see table 1c “future links with people...”) with Italy and the **financial** difficulties (see table 1d “financial situation”) that represent a concrete obstacle to invest in their own country. The response to such weaknesses is represented by the next chapters of this working paper, that examine the idea of structuring a model of support to productive return based on a network (that would provide an enabling environment for continuing relations with Italy) and the establishment of a GF (better access to credit in Senegal).

1.2 The Return Path: the width of a circle

As shown in the previous chapter (1.1), the main motivation for migrants to return to their own origin countries lays in the possibility to significantly improve their economic and social status once back. That said, one of the most viable choices (and the most attractive) is to become an entrepreneur or to self-employment.

The permanence abroad of many migrants often showed an important upgrade of their technical capacities and the acquisition of a different mentality with regards to their entrepreneurial vocation. The following scheme takes stock of the different steps characterizing a successful return path linking together concepts such as migration, entrepreneurship and development:



First of all, the migrant emigrates to a different country, finds a job (usually as an employee in a local firm), learns a trade (or profession) improving substantially in terms of skills, knowledge and competence and then he/she decides to capitalize on the acquired knowledge/skills by returning permanently or periodically to his/her country of origin and start a business.

The proliferation of these situations leads to significant consequences in the process of development not only in the country of origin (as a recipient of direct investments) but also in the country of destination in terms of increased possibility of transnational dialogue (especially in the case when the activity field chosen by the migrant provides connections with the country of destination as we have seen in the “circular migrant” case)⁴.

The experience of the Return Information Desk (RID hereinafter) of Veneto Lavoro⁵ shows how the most successful investments made by migrants in the origin country are those made by individuals who already had an experience of self employment in the country of destination.

Case 1



⁴ See above 1.1 Motivations for return

⁵ See Su.Pa “Circular migration as a lever forCo – development: the case of the Return Information Desk of the Veneto Region in context”

In the example shown above (case 1) we are dealing with a rather well-qualified individual: after having emigrated from the origin country (in this case, Senegal) the migrant has been employed in the destination country (in this case, Italy). After a variable period of time, the migrant was able to become independent from the initial job and find some successful form of self-employment in Italy. Such a path would make the migrant trustworthy in relation to the ability of starting a similar activity in Senegal.

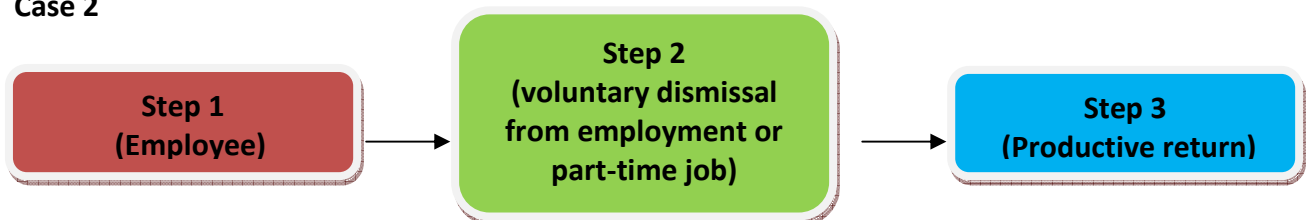
Such cases however are representative of a minority in the Senegalese diaspora. Nevertheless, they constitute an element of evaluation that should not be overlooked in the process of “productive return”. In this case, the motivation to return to Senegal can be summarized in two main trends:

- the migrant wants to go back to exploit new opportunities in Senegal
- the migrant wants to go back because things are no longer going well in Italy

The first case refers to a circular migrant whilst the second to someone unsatisfied of the present situation.

Thus, the situation of the returnees must be verified in terms of their actual level of integration in the destination country (Italy). It means that the second step in Case 1 (that is, having started their own business in Italy), although it may represent an added value, cannot be taken as the only criterion for evaluating the return project feasibility. This implies that the original assessment of the eligibility of a project should be extended to the following two situations:

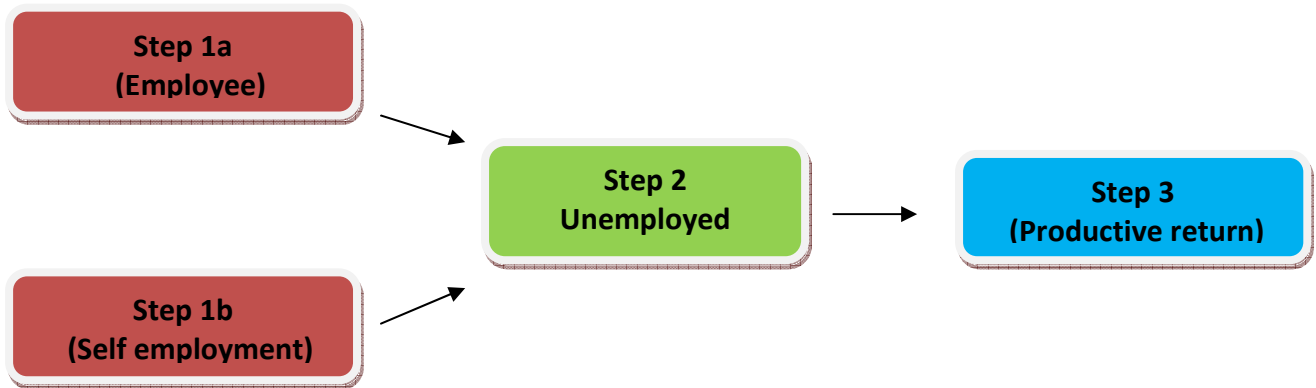
Case 2



In Case 2 the migrant is currently working in Italy as an employee but meditates of going back to Senegal in order to start a business. To do so, it is necessary for the migrant to quit the current job and return definitively to Senegal or to keep the job only in specific periods of the year (it may be

the case of a seasonal work) thus falling within the concept of circular migration (or transnational profile).

Case 3



In Case 3 the migrant has worked in Italy in the past (as employee or self-employed) but is currently out of work, including in this category persons who, without being officially registered as unemployed, do not work.

In this case, it is suggested to investigate on the real reasons behind the choice of a return to Senegal. The reasons that bring a productive returnee home should go beyond mere necessity (I have no job and ended my money!) but entail a real project of investment in the country of origin as well as the possibility and willingness to partially invest his/her own resources⁶.

In Case 2 and 3 the subjects do not possess a valuable experience as entrepreneurs and most likely require an orientation course and a subsequent training and mentoring program.

Based on these cases, it is clear that the inclusion in the GF of a specific return business idea will be the result of a long selection process in which the basic criteria leading to the actual start up of a business in Senegal need to be clearly laid out, shared and validated. All risks and thorough examination of elements that might create difficulties in the project of productive return need to

⁶ In other terms in our “Model of return” we should not consider those people who want to go back to Senegal just because they are unsatisfied of Italy. In this case the motivation to go back is not sufficient to undertake a “successful path”.

be included in the process, even for those migrants who have experience as entrepreneurs in Italy and are likely to “skip” some preparation steps, training or mentoring phases ⁷..

As a consequence, the difficulties to start a business in the country of origin can be summarized as follows:

- Poor access to information (for which a field market research is always recommended)
- Lack of a specialist in the country of origin to assist the business (business start up and initial development)
- Misperception of what is happening in the country of origin after years spent abroad

A follow-up assistance after the release of the guarantee and credit are a necessary step in order to ensure the feasibility of the investment and to facilitate the access to local credit as emerged from the interviews with local Senegalese banks during the mission to Senegal in December 2010.

⁷ See below Chapter 2 Path of Return

2 THE MODEL OF PRODUCTIVE RETURN (MOPRE)

The identification of migrants with the highest potential by means of the instruments introduced in the previous chapter is the preliminary step in order to admit the would-be entrepreneur into the so-called return path⁸. First of all, interviews will be carried out with the eligible applicants and will detail the profile of the would-be entrepreneur in Senegal and specific needs for capacity building (training, mentoring etc).

Migrants with a previous successful experience as entrepreneurs during their permanence in Italy (or those already working as autonomous workers in Senegal before their departure) should be considered as more experienced thus more “reliable” as productive returnees. A situation of unemployment (or underemployment) instead should be further investigated in order to avoid situations where the migrants want to invest in Senegal only because they are unsatisfied of their present situation in Italy and not because they have feasible ideas/real motivations.

Each migrant or returnee, should benefit from specific training before he/she will be deemed worthy to receive the guarantee by the GF of the Veneto Region. Depending on the feasibility of the applicant’s idea, each stakeholder intervening in the process of inclusion should be able to give an opinion on the soundness of the project and to place the applicant (returning migrant) in the right “step” of the Model called of Productive Return (MoPRe hereinafter).

For instance, if a migrant comes to the GF to apply for a guarantee having already performed a detailed and professional business plan and a field market research, he/she can theoretically be admitted to the final evaluation of the GF Commission “skipping” all the preparatory steps forecasted in the model below (see Table 2) up to step 5.

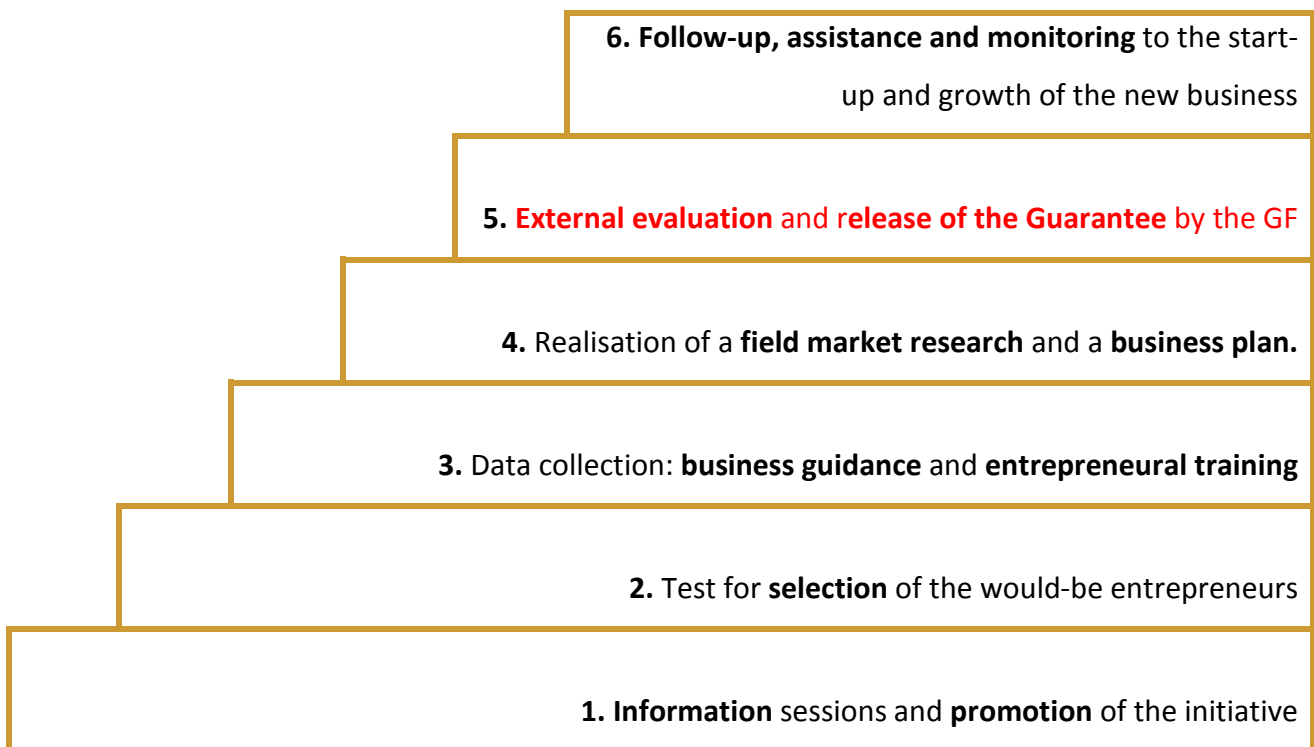
It is important to underline that in the process of inclusion into the GF, a greater or lesser experience of a would-be entrepreneur will not be considered as a determinant factor to obtain or deny the guarantee: the criteria that will determine the decision of the GF will be based on the feasibility of the business idea and on other formal indicators. A higher degree of business experience could help the migrant to skip the training which is compulsory for others.

⁸ The GF could be open to everybody who has a valuable idea to invest in Senegal (that’s why it is preferred to call it a Guarantee Fund for Senegal and not Guarantee Fund for Senegalese!) but in this paper we assume that the most applicants will be Senegalese presently residing in Italy.

Another important concept underpinning the MoPRE is that the issuance of the guarantee from the GF of the Veneto Region (step 5) is NOT the final objective of the returnee but ONLY an intermediate result between the process of selection of the project ideas and the subsequent follow-up in terms of start-up and development assistance.

The MoPRE can be briefly described in the following 6 modular steps that will be detailed in the next chapters:

Table n. 2 - Steps of inclusion in the Model of Productive Return (MoPRE)



In this model, the release of the guarantee, is only the fifth of the multiple steps that are necessary to get included in the initiative of productive return (MoPRE).

It is important to underline that many stakeholders will participate in the assessment of all steps indicated above and that each of them should enter in the evaluation process contributing to the final decision of admittance/refusal of the business ideas that will be proposed.

The need for a strict control on all steps of the initiative can be explained with the intrinsic risk always connected with the operations of business start up, which are commonly classified as the most risky operations.

The risk of a default or bankruptcy should be reduced to the minimum level both for banks delivering credit and for the GF which is responsible for the whole MoPRe process.

As already mentioned, the main advantage of having a previous experience in business is not only related to a higher possibility to get credit, but also to the possibility of skipping the first 4 steps and getting directly to the 5th point of the model, thus saving time.

For the same reason, a collateral (and the additional guarantee) can be required to expand a business already in operations in the country of origin (e.g. for a development or scale-up project): in this case, while maintaining the conceptual steps above, the project should be considered on an individual case by assessing whether it can be considered a productive return or else.

Several factors contribute to the final evaluation of the projects, including the willingness of the would-be entrepreneur to attend the training process in order to improve skills and invest money and other resources in the project. It is highly recommended that careful consideration be given to the self-evaluation of financial responsibilities as expressed by the entrepreneur in all the steps of the MoPRe: the willingness to dedicate time and money to realise the business plan and the market research are to be considered as an asset. In other terms, the MoPRe is to be considered a system to **support, facilitate** and **help** the would-be entrepreneurs make their investments/realise their project idea and never a **substitute** of the financial investment and responsibility, which have to remain an individual commitment at any given moment of the process.

The main role of the GF, when it will be required, is to provide additional warranty to the collateral required by Senegalese banks. The GF for Senegal has three main objectives, namely:

- (A) To facilitate the delivery of credit to the entrepreneur who has a winning idea but inadequate collateral;
- (B) To obtain more favorable credit terms (e.g. lower interest rates) by the local banks;
- (C) To get a quicker and easier bureaucratic process in order to obtain financing from local banks.

If the FG will not work towards the achievement of at least one of these three objectives, it cannot be considered as functional to the implementation of the investment project nor to the inclusion of the would-be entrepreneurs in the MoPRe.

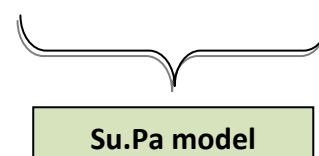
The main indicators to be used to assess whether a migrant should be included in the MoPRE are the willingness of these potential entrepreneurs to transform their idea into a real project investing time and other resources (steps from 1 to 4), and then to turn the project into a running operation (steps 5 to 6).

Another helpful information in order to better assess the typology of investment is related to the standard classification of Lessik and Farbman⁹ distinguishing the would-be entrepreneurs in the three different categories of grantworthy, creditworthy and bankworthy.

The following table can help visualize this concept:

Table n. 3 – The would-be entrepreneurs targeted by the Su.Pa project according to the type of beneficiary

Typology of funding	Grants	Loans/ small credits	Banking services
Financial Institution	NGO's or similar organizations	Micro Finance	Banks or equivalent institutions
Type of beneficiary	Grantworthy	Creditworthy	Bankworthy
Use of funding	Survival activities (generally in agriculture) in order to generate additional income.	Micro and Small Enterprises	Small and Medium Enterprises
Needs	Poor people working to create income on a day-to-day basis. The grant will help them to be less vulnerable.	Very small entrepreneurs but capable to generate enough income to pay back the loans they received in a microfinance programme.	Entrepreneurs operating in a stable and profitable business and who need a wider range of financial services (insurances, guarantees, payment services, etc.)



The return path encompassing the creation of a GF to support returnees and other entrepreneurs will be designed in order to meet the demand of banking services which are typical of SMEs and of entrepreneurs operating in a stable and profitable business who need a wider range of financial

⁹ See Farbman, M. and Lessik, A., 1989. *The Impact of Classification on Policy*, The Hague, UNCDF Workshop on Local Economic Development, Institute of Social Studies.

services. This option means that the GF of the Veneto Region is not supposed to release a guarantee to entrepreneurs whose needs to establish their business can be answered by microfinance tool.

As we will see in the next parts of this work, micro-finance operations are beyond the range of operations and represent different objectives of other stakeholders (such as Plasepri¹⁰ and others) already operating in Senegal. So, when referring to the financing of very small activities in Senegal (1-2 employees), the instruments to be used will not be conceived according to the standards of microfinance or microguarantees but according to normal entrepreneurial standards.

Both the GF and the “Su.Pa Model”, such as the MoPRE, will be linked to the banking services more than to alternative forms of financing.

Table n. 4 - The type of enterprise targeted by Su.Pa project

Size of enterprise	Main objectives	Support programmes
Medium enterprise <ul style="list-style-type: none"> • 50-250 employees • Formally registered • Legally constituted • Multiple ownership 	Profit oriented	<ul style="list-style-type: none"> • Investments • Promotion programmes • Partnership programmes • Equity programmes • Trade financing
Small and micro enterprise <ul style="list-style-type: none"> • 1-50 employees • Formally registered • Single owner/entrepreneur 	Profit oriented	<ul style="list-style-type: none"> • Entrepreneurship development • Business creation • Financing • Guarantee schemes
Survival activities <ul style="list-style-type: none"> • Seasonal activities • Part-time job • Occasional activities 	Not focusing on growth	<ul style="list-style-type: none"> • Microfinance programmes

Su.Pa model

With regards to the types of projects admitted in Su.Pa, Table 4 shows that the main target of the Su.Pa Model and the connected GF should be represented by small and micro enterprises up to 50 employees, which are profit oriented.

This positioning of Su.Pa tends to exclude bigger investments (demanding equity investment, promotion and partnership programmes, trade financing, etc) but also to avoid programmes of

¹⁰ To get more information on the Plasepri project, it is possible to download a presentation here: http://www.coopitadakar.net/Plaqueette_PLASEPRI.PDF

microfinance, not replicating existing financial tools. Financing, business creation, guarantee schemes are all goals of Su.Pa and the Model of Productive Return (MoPRE) and related GF are embedded in this framework. In the following chapters the detailed description the different steps of MoPRE is provided.

2.1 Promotion and selection process

Before any action will be taken in the Su.Pa Model, the basic needs of the project partners focus on the dissemination and promotion of the Model of Productive Return (MoPRE) through a campaign involving different stakeholders.

The assistance to returnees entails the creation of a model that should be equally applied to all regions in Italy and not only to the Veneto and Marche. Thus, the final aim of the model is to become a logical guideline that can be transferred and adapted to other similar contexts.

First of all, the model should be publicly promoted to different stakeholders as the Senegalese diaspora in Italy, migrant associations, ethnic festivals, NGOs, banks dealing with migrants services and also, at a higher level, the Senegalese representation offices in Italy (Embassy and Consulates). Useless to say, in such an event, a large number of Senegalese expats may have interest in the model and the requests of a guarantee to be examined will be consistent.

This means that the main problem that the MoPRE will have to deal with - after a promotional campaign – might be a large quantity of requests, applications and project ideas that need to be examined and processed. Probably, one single Return Information Desk (RID) as the one activated in Veneto Lavoro and DEV.A could not manage alone the entire amount of applications in a reasonable time.

The set up of an automatic mechanism of selection is then a necessary step in order to create some initial barriers for those projects that have no chance to be financed: such barriers have the purpose of setting realistic expectations and minimum standards, therefore they must contain the possibility to try again to access with a different project.

The majority of the submitted project ideas will not lead to an approval, and only few of them will be selected and financed through the Regional GF. In other terms, we have to consider that the financial constraints of the GF (it is estimated that the GF will start with an amount of about 300.000€) will require a very rigorous policy in terms of selection and approval.

The situation will be different if the GF will seek and find different partnerships in order to increase the available amount for guarantee¹¹. It is likely to be as follows: lots of requests for financing and – at least initially - little money to respond in a proper way even to the good ideas.

The strategy adopted in the MoPRE (until when the GF will not make substantial changes in the availability of financial means) can be unfolded in two different paths both leading to a strict selection of the best project ideas:

1. Rationalisation and automatic processing of the project ideas (applications) at the initial phase of the MoPRE;
2. Follow-up and close assistance to start ups and development to all entrepreneurs investing in Senegal.

The strategy of selection in point 1 will help the MoPRE to be more efficient by selecting only those projects that have a chance of being financed, whilst in point 2 the local assistance in Senegal (follow up) will be the guarantee that the project will lead to good results even after the start-up phase.

Table 5a describes the main steps to be taken to promote the MoPRE services and to contact the potential returnees with an investment project.

During the first phase of the Su.Pa project, the Veneto and Marche desks have used a personal approach, and through appointment, they have met each migrant singularly. In case of high numbers of interested migrants, a standard approach to the presentation of Su.Pa and the MoPRE is necessary. The candidates, before being seen in personal interviews, will be invited to compile a module that verifies the project idea and the initial feasibility of the business proposed.

¹¹ This is an issue that we will further analyze in the following chapters

All the candidates will be free to attach any documents (business plans, memorandums, market research, etc.) to the formal application: the level of advancement that they have reached will determine the scale of advancement in the MoPRE steps.

Table n. 5a – The detailed steps of the MoPRE: promotion and information sessions

Phase	Summary	Steps	Description	Partners
1	Promotion & information sessions	It is the initial phase which includes meetings for promotion and information on Su.Pa as well as a first contact with the possible candidates to enter the MoPRE	1.1 Publicity & promotion The promotional campaign has to be performed mainly in the local Senegalese diasporas, in Migrants’ Organisations and NGOs dealing with migration issues. The promotional campaign entails a vast number of communication modalities ranging from website, to specific leaflets and face-to-face meeting with the interested migrants in the way to return. During the campaign a detailed description of the services should be assessed.	1. Veneto Lavoro 2. Veneto Region 3. Confesen 4. Marche Region 5. Banca Etica
			1.2 Information sessions on the activities Group meetings to disseminate information materials and explain the services that will be offered by entering the MoPRE (pre and post assistance, role of GF, entrepreneurship orientation, etc.) . During the meeting the application forms will be distributed.	1. Veneto Lavoro 2 Veneto Region 3. Chambers of Commerce- RDAs 4. Marche Region

During the first meeting with the would-be entrepreneurs (1.2), the description of the various steps of the MoPRE will be provided as well as some principles of the MoPRE will be communicated to the audience; in particular:

1. **Building awareness:** the candidates should be aware to enter a real business programme that awards potential entrepreneurs with good motivations and not those willing to return home merely out of necessity;
2. **Selective process:** a process of self selection is considered necessary in order to keep only motivated individuals in the programme. Not everybody can be successful as entrepreneur and the subsequent business orientation modules should highlight the opportunities and threats of

being self-employed;

3. **Training:** The MoPRE foresees a formal training for would-be entrepreneurs who are business oriented and propose realistic ideas that they can directly develop. The main purpose of the training is to endow them with the correct knowledge and tools to analyse all the aspects of their business idea and to realise a business plan, a market research and a SWOT analysis to be submitted to the local Senegalese banks and to the GF.
4. **Do-it-yourself approach:** the vocation required is basically modeled on a “do-it-yourself approach” requiring that the would-be entrepreneurs will take the responsibility collecting basic information and data that will be helpful to carry out the requested business plan and market research.
5. **Independency of the returnee:** each would-be entrepreneur will be guided in making his/her own decisions. Even though the returnees will be supported at various stages, they will have to present their project ideas in an independent way in order to negotiate credits, obtain guarantees, contracts, etc.
6. **Financial responsibility:** an important information that should be clearly communicated from the outset is that the financing of the investment is also seen as a responsibility of the entrepreneur who has to sustain a significant part of the operations with his/her own funds. The commitment of the MoPRE will be to equip the entrepreneur with the right information on the correct steps to be taken in order to start an activity (also by selecting the best consultants in Senegal).
7. **Role of the Guarantee:** even if the Veneto Region will provide supplementary guarantee thanks to the GF, the MoPRE trainer should underline that the decisions of the banks are taken independently from Su.Pa or any other stakeholder. The GF will help to obtain credits more easily, but the creation of a mutual trust between the beneficiary and the bank is totally up to the would-be entrepreneur not only during the initial operation but also during the various stages of development of the firm.
8. **Local services:** after the end of Su.Pa, the beneficiary will have to pay for the services of assistance in Senegal. Since the banks in Senegal put a major stress on the follow-up assistance after the release of the guarantee, a network of trusted and specialised consultants should be built and monitored in Senegal in order to assist the returnee-entrepreneurs in the difficult phase of growth in the market. Even though the MoPRE can conclude specific agreements and

fees with a network of local consultants, the cost of services will be at the expenses of the investors.

9. **Agreement with banks:** no subsidised interest are guaranteed to the investor even if the MoPRE will actively interact with the local banks in order to obtain the best interest rates (agreement with Plasepri can be useful). Also the bureaucratic path should be facilitated thanks to the intervention of the GF.

All information has to be submitted in a clear and realistic way to the potential entrepreneurs before they decide to take part in the MoPRE. It is likely that only motivated individuals will accept the rules and decide to further proceed in the process. Table 5b highlights the further steps for those would-be entrepreneurs who decide to participate in the full process.

The first document that the candidates (would-be entrepreneurs) will have to fill out consist of a **pre-printed test** prepared by the MoPRE business support body, which aims at a first assessment of the project idea.

The application will be a multiple choice test aimed at showing a brief description of the project idea, the sector of intervention, the availability of entrepreneurs own funds, the properties in Senegal (or in Italy), a draft budget-forecasts, company facilities to be bought, etc.

This test will be linked to a set of parameters that will make is possible to be admitted to the next steps of the MoPRE consisting of **personal meetings** (2.2). In the case of negative score, a note of explanation for the negative evaluation must be given to the candidates and they will be free to apply again.

Personal meetings consist of an interview with the would-be entrepreneur aimed at assessing the level of involvement in the project idea, the technical and professional skills acquired after the period of stay in Italy, the vocational attitude to become an entrepreneur, the feasibility of the idea, the progress already made towards bank financing, the steps to be taken and the general level of reliability that the would-be entrepreneur shows.

Table n. 5b - The detailed steps of the MoPRe: test, assessment and planning

Phase	Summary	Steps	Description	Partners
2 Tests, assessment & planning	The idea is to lead the participants to a modular assessment and planning of the steps they will have to take before applying for the Guarantee	2.1 Pre-printed tests	The pre-printed tests are effective applications to guide the would-be entrepreneur to elaborate a structured project through a well-defined path of questions (multiple choices). The questionnaires and tests will be prepared by the business support body on the project.	<ol style="list-style-type: none"> 1. chambers of Commerce- RDAs 2. Veneto Lavoro 3. Veneto Region 4. Marche Region
		2.2 Personal meetings	The applicants who have passed the test of 2.1 will be admitted to the personal selection meetings. In this step the real intentions of the applicants will be examined. Approach methodologies entail the realisation of some peer to peer meetings and a campaign of progressive “awareness building” on entrepreneurship.	<ol style="list-style-type: none"> 1. Veneto Lavoro 2 Veneto Region 3. chambers of Commerce- RDAs 4. Marche Region
		2.3 Planning	Following the information collected in the previous steps (2.1 and 2.2) a decision on a customised approach will be taken for each individual. In fact, according to the level of awareness and the entrepreneurial preparation of the applicants they will start a process of inclusion at different levels. If the idea is deemed to be feasible but the applicant lacks experience, he/she will follow the entire process starting from 3.1 (see below). If the individual shows potential the programme can start from a more advanced step.	<ol style="list-style-type: none"> 1. Veneto Lavoro 2 Veneto Region 3 chambers of Commerce- RDAs 4. Marche Region

Both the presentation of a CV and the verification of the profile as described in chapter I are important elements of evaluation before the project (business plan + market research) can be assessed.

The third and last step of phase 2 consists of **planning**: according to the results of step 2.2 the would-be entrepreneur will have to perform a personal path of training at different levels. The best case is when the candidate is deemed to have such good entrepreneurial skills and already

performed a satisfactory business plan and a market research in Senegal: in this case, if also the local offices in Senegal give a positive response, the would-be entrepreneur can already submit the application to the GF.¹²

If the candidate is deemed to have a feasible idea (e.g.: good idea and basic collateral) but with a weak entrepreneurial experience and/or insufficient business plan or market research. the would-be entrepreneur will perform all the step of MoPRe starting from 3.1 in table 4c.

2.2 Guidance, assessment and training process

As previously mentioned, the assessment process of phase 3 starts from the 3.1 and will lead to submission of the documents to the GF evaluation committee (see below 5.1). Each step of the MoPRe will be evaluated in order to move the would-be entrepreneur to the next step.

The process can be interrupted at any point if the would-be entrepreneur is not attending the training, personal plan and/or trainers' evaluation is negative.

Taking stock of the experience of other management courses, step 3.1 is aimed at explaining the risks connected to the decision of becoming an entrepreneur and prompt a process called "positive demotivation".

The candidate should first demonstrate that he/she really wants to be self-employed as an option for the career/ life plan. It is important to explain the diverse implications of developing a business plan and eventually starting a business at an early stage.

¹² See 5.1 below

Table n. 5c - The detailed steps of the MoPRE: data collection, business guidance & technical training

Phase	Summary	Steps	Description	Partners
3 Data collection, business guidance & technical training	This phase is the beginning of the empirical path that will lead the applicants to become entrepreneurs. It consists of a training course aimed at transferring the basic notions of what it means to start a firm, how to make a market research and how to prepare a business plan.	3.1 Group meetings and entrepreneurial orientation	This step aims at explaining the difficulties of being entrepreneurs and raise awareness about the risk of the decision of being entrepreneur. The methodological approach is based on the SWOT analysis.	1. Veneto Lavoro 2. chambers of Commerce- RDAs 3. Dev.A desk
		3.2 Training on business plan and market research	The training aims at supplying the theoretical basis to understand the reasons for preparing a business plan and a market research. The feasibility of the ideas of applicants will be examined jointly. The key instruments to negotiate with banks and major details on the MoPR (follow up and after investment assistance) will be a part of the programme.	1. Veneto Lavoro 2. chambers of Commerce- RDAs 3. Dev.A desk

Once the would-be entrepreneurs have demonstrated they really want to pursue their idea, the technical learning should start.

Step 3.2 is aimed at giving the **basic principles** to prepare a **market research** and a **business plan** as technical instruments to verify the real feasibility of the investment. Market research and business plan are also instruments to obtain **credit** from the Senegalese banks and a **guarantee** from the GF. Even during this step, the learning process should be oriented to develop and assess the entrepreneurial attitude of the would-be entrepreneur, his/her managerial vocation and his/her technical skills.

It is expected that return migrants understand more and more about entrepreneurship and gradually acquire the necessary functional management abilities to run a small enterprise. Those who already had an experience of self-employment will be keen to get advice from others and assimilate additional information. In this phase, the basic recommendation in order to make the training steps more effective is to consider 3.1 and 3.2 as a platform to discuss, explain and guide returning migrants into the process (that is an opportunity to meet, exchange ideas and network

rather than to receive instructions). The migrants who will pass phase 3 can access phase 4 described in the following table 4d.

At this point of the MoPRE, the would-be entrepreneurs have learnt the basics to create those instruments that will help them access the financing in Senegal.

Phase 4 below is designed to transform the theory into practice and start develop the **Business Plan** and the **Market Research** that will be submitted to the banks.

It is important to understand that steps 4.1 and 4.2 are strictly connected and should be performed concurrently: the business plan is useless (just figures and numbers!) without the market research, whilst the market research is a mere verification of opportunities without a financial plan of investment.

Table n. 5d - The detailed steps of the MoPRE: individual assistance for business plan and market research

Phase	Summary	Steps	Description	Partners
4	Individual assistance to the realisation of the business plan and market research	4.1 Elaboration of the market research	Each would-be entrepreneur, autonomously or with the support of a local consultant, will write a market research to highlight the realistic feasibility of the project. The information will be collected and verified on the field by the would-be entrepreneur or by the local offices of Su.Pa in Senegal.	1. Veneto Lavoro 2. Office in Kaolack 3. Network of local consultants 4. Dev.A desk
		4.2 Elaboration of the business plan	Based on the market research findings in 4.1, a business plan will be compiled together with the request of a guarantee to be released by the GF and a request for credit award to the bank in Senegal.	1. Veneto Lavoro 2. Office in Kaolack 3. Network of local consultants 4. Dev.A desk

The best way to write a market research is to physically be in the country (i.e. Senegal) where the investment has to be done and analyse all the information required on the ground (opportunities,

prices, customers, competitors, taxes, permissions, fees, location, company facilities, personnel, expertise, etc.). These data will inform a cautious, conservative Business Plan to avoid simplification of activities.

The migrants will be assisted during the elaboration of the business plan and market research by specialised staff of Su.Pa and by the local offices in Kaolack. Moreover, a pool of local experts (legal and tax assistance, sector experts, marketing experts) will be selected in Senegal to better respond to the needs for knowledge coming from potential investors.

One of the objectives of Su.Pa will be to create a network of consultants in Senegal to assist the returnees during their process of inclusion in the MoPRe and after they have started the new business (follow up).

The network of consultants will be trained on the methodologies of MoPRe both with regards to the coordination activities and to the implementing capacity.

2.3 Enterprise start-up and follow-up

After the preparation of the business plan and market research, the would-be entrepreneurs are ready to apply to get the expected financing from the bank. Different ranges of financial products are sought by migrant entrepreneurs depending on the level of development of their business idea, and a long process of negotiations with banks is often required before the entrepreneur will obtain the expected results.

In the following table we briefly summarize the steps that will lead the would-be entrepreneur to become a migrant entrepreneur in the country of origin. Of course, not all the projects presented after phase 4 will receive the guarantee but the selection process (MoPRE) should be built in such a way that a major part of them will be approved.

Table n. 5e - The detailed steps of the MoPRE: evaluation and decision on the guarantee issuance

Phase	Summary	Steps	Description	Partners
5	The documentation prepared during the previous steps is submitted to the GF in order to obtain the the guarantee and start the negotiations with banks to obtain the credit	5.1 Evaluation and decision on the guarantee release	The GF on the base of the documentation prepared during the previous phases (market research, business plan, guarantees, own capital) evaluates the opportunity to release the guarantee.	1. Board of GF
		5.2 Release of the guarantee with specification of the amounts	The guarantee will be issued together with the determination of the amounts that will be part of the investment costs and the mix of financial instruments needed to implement the investment.	1. Board of GF
		5.3 Intermediation with banks and additional financial instruments	The would-be entrepreneur may request the assistance of the GF and of the local network of consultants to mediate with the financial institutions in order to obtain the financial resources (local banks, other credit institutions and micro-credit)	1. Kaolack Office 2. Local network of consultants

Again, the guarantee issuance does not automatically ensure bank financing and each potential entrepreneur should interact with banks in order to obtain the best conditions. The local consultants will help the returning entrepreneur to mediate his/her relations with the financial institutions and support him/her to get the best treatment overcoming the bureaucratic difficulties often encountered in Senegal.

In general, the different financial products that should be obtained thanks to the guarantee are:

- **Co-financing of extra-cost** during the assessment and preparatory phase generally in the form of a non reimbursable soft loan or even better under the form of a grant by the sponsoring business creation organization (in this case Su.Pa)
- **Soft loans** for the start up phase whose repayment should be included in the subsequent business loan (long term)
- **Business loan** with a relative long period for repayment and a long grace period at the early stage of the investment. In this case, a decision should be made whether the loan should be in foreign (assets abroad) or in local currency (FCFA).
- **Long term – mortgage loans** will be useful to finance operations of premises/expansion or renovation.
- **Working capital loans:** once the business has started, such a form of loans can be issued in the first year of activity at the consolidation stage
- **Overdraft facilities** will be useful to counterpart the business fluctuations and the momentary lacks of cash-flow
- **Capital injections** will “refuel” the activities by financing new working capital and the acquisition of fixed assets in a more advanced phase of development.

The guarantee from the GF will support all the above cases during the different stages of new-born enterprises.

Table n. 5f - The detailed steps of the MoPRE: continuous assistance and monitoring of business development (follow-up)

Phase	Summary	Steps	Description	Partners	
6	Continuous assistance and monitoring of the business development	The follow up and the continuous assistance to the business development is a compulsory factor in order to limit the risk of default	6.1 Start up and engagement of the local network of consultants	Consulting and legal assistance for the creation of the firm is provided. The network of affiliated local consultants will be made available to the contractor at a price agreed in advance.	1. Kaolack Office 2. Local network of consultants
			6.2 Enterprise incubators	The entrepreneur will be supported by a specialized network to guide him/her in the early stages of development of the activity. The communication at this stage is essential to achieve the objectives of the business plan	1. Kaolack Office 2. Local network of consultants
			6.3 Business monitoring	At regular intervals, or upon request of the entrepreneur, the business performance will be monitored and its consistency with the in the business plan will be evaluated. At this stage any corrective measures that will be considered as necessary will be identified. Also credit lines may be renegotiated in response to new developments emerged during the business development.	1. Kaolack Office 2. Local network of consultants
			6.4 Continuous training and updating	It is important that the new entrepreneur is monitored and that he/she will kept updated on the news that may concern his/her business. For this purpose there is a need to implement a system of continuous training.	1. Kaolack Office 2. Local network of consultants

Table n. 5f above shows the scenarios where financing and guarantee were issued, so that the firm begins its activities in the Senegalese market (**start up**).

Experience has shown that the start-up and the following six months are the most critical moments of any firm¹³, since the new entrepreneur has to implement his/her plans at the same time. What has been learnt and described in the business plan has to be realised with no mistakes (legal matters, registration of activities, bank requirements, purchase of facilities, search for first clients, etc). For this reason, Su.Pa takes stock of the fact that the coaching and mentoring activities of productive returnees should not be limited to the preparatory phase but must be a **continuous process** during and after the beginning of the entrepreneurial activities. A business advisor is necessary in order not to leave the entrepreneur to rely solely on his/her own resources during this difficult phase of the process.

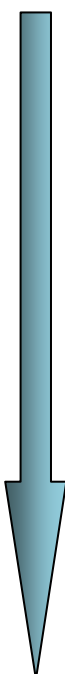
At a more developed stage, the MoPRE should take into consideration the opportunity of creating real business incubators to assist the enterprises and the “productive returnees” in all phases of the process. These steps should be provided in close consultation with and according to the needs of the individual entrepreneur.

An enterprise can have a more or less regular process of **development** and it is important that the decisions that the entrepreneur takes in his/her future are the result of dialogue with other entrepreneurs or associations representing the business community. The observation that in the Senegalese economy much is still left to the informal sector makes this argument even stronger showing a great need of the entrepreneur to become part of the community and share experiences with other entrepreneurs or businesses and the reality of his/her sector, with all the opportunities and threats that may arise.

Table 6 in the next page synthetizes the main phases and steps that form the MoPRE.

¹³ See for instance CiTHEf, *EQUAL OPPORTUNITY AND CORPORATE FINANCE*, 2002

Table n. 6 - The Model of Productive Return. Phases and Steps



Phases		Steps
1	Promotion & information sessions	1.1 Publicity & promotion
		1.2 Information sessions on the activities
2	Tests, assessment & planning	2.1 Pre-printed tests
		2.2 Personal meetings
		2.3 Planning
3	Data collection, business orientation & technical training	3.1 Group meetings and entrepreneurial orientation
		3.2 Training on business plan and market research
4	Individual assistance to the realisation of the business plan and market research	4.1 Compilation of the market research
		4.2 Compilation of the business plan
5	Evaluation and decision on the guarantee issue	5.1 Evaluation and decision on the guarantee release
		5.2 Release of the guarantee with specification of the amounts
		5.3 Intermediation with banks and additional financial instruments
6	Continuous assistance and monitoring of the business development	6.1 Start up and engagement of the local network of consultants
		6.2 Enterprise incubators
		6.3 Business monitoring
		6.4 Continuous training and updating

2.4 The Model of Productive Return (MoPRe) and the Return Information Desk (RID) methodology: towards an integration

One of the main challenges to make a return path successful is the need to integrate the existing services such as the Return Information Desk (RID hereinafter) with the Model of Productive Return (MoPRe) as it has been designed.

The RID is already offering assistance to the migrants, Senegalese and other nationalities, willing to return to their country of origin according to a methodology developed over time, which is described below:¹⁴:

- **1. Assessment.** This phase involves initial contact with the client. Here, information about the client is gathered. The client's current situation is identified and the problem is defined. The client's participation is highly regarded. This phase corresponds to the first step of the return plan, up to the drafting of the "individual return plan".
- **2. Planning.** This identifies the services to be provided to respond appropriately to client's needs, after a preliminary assessment of the client's situation and indicative return plan. The client's participation is integral in the process. This phase of the case management corresponds to the final draft and agreement on the "individual return plan", in which time, resources, actions and services are clearly laid out.
- **3. Implementation.** At this point, service delivery begins. The case manager's task is focused in providing the services, overseeing service delivery, and establishing network with other service providers. This phase is geared towards problem resolution.
- **4. Monitoring.** This involves keeping track of the services and activities and continuously evaluating the accuracy and effectiveness of the implementation of plans. This phase, as the following one will be implemented by the joint use of the managing tool.
- **5. Evaluation.** This is the phase where both client and the case manager review, evaluate, and discuss the case, the goals, the service plan, the service delivery, and the outcomes. It can be done at interim and ex post (i.e after one year from return). This is

¹⁴ See for further information: "Circular migration as a lever forCo – development: *the case of the Return Information Desk of the Veneto Region in context*" Su.Pa.

where the case manager may decide whether to close the case or continue monitoring until the client becomes self sufficient in starting and conducting the business, and more generally in the reintegration in the origin area.

A comparison between the MoPRe and the RID is given in the following table:

Table n. 7 – MoPRe and RID: a comparison

Phases		Steps in MoPR	Corresponding phases in RID
1	Promotion & information sessions	1.1 Publicity & promotion	This are both considered as “0 steps” before the phase of ASSESSMENT leading the migrant to be assisted by the RID
		1.2 Information sessions on the activities	
2	Tests, assessment & planning	2.1 Pre-printed tests	This can be considered a phase of pre-ASSESSMENT that will establish the conditions for the migrants to enter in the real assessment phase
		2.2 Personal meetings	This is a real phase of ASSESSMENT with face-to-face meetings with the potential entrepreneurs
		2.3 Planning	This step corresponds to the PLANNING in RID elaboration of the so called IRP (Individual Return Plan)
3	Data collection, business orientation & technical training	3.1 Group meetings and entrepreneurial orientation	According to the RID methodology all the steps of MoPRe correspond to the IMPLEMENTATION phase leading the migrant to become an entrepreneur in his/her country of origin and access the credit guarantee issued by the GF
		3.2 Training on business plan and market research	
4	Individual assistance to the realisation of the business plan and market research	4.1 Compilation of the market research	Both steps of MoPRe are considered as effective IMPLEMENTATION phase in RID since they equip the migrant with a set of instruments to realise his/her project. There is also a direct connection with the MONITORING phase
		4.2 Compilation of the business plan	
5	Evaluation and decision on the guarantee issue	5.1 Evaluation and decision on the guarantee release	The issue of the guarantee still belongs to the IMPLEMENTATION phase in RID and is a remarkable indicator for MONITORING.
		5.2 Release of the guarantee with specification of the amounts	
		5.3 Intermediation with banks and additional financial instruments	
6	Continuous assistance and monitoring of the business development	6.1 Start up and engagement of the local network of consultants	All the steps from 6.1 to 6.4 will be performed by local consultants in Senegal (Kaolack office and local consultants) with no direct intervention of RID on decisions and strategies. The results obtained will be subject of EVALUATION.
		6.2 Enterprise incubators	
		6.3 Business monitoring	
		6.4 Continuous training and updating	

3 THE GUARANTEE FUND (GF): THE IDEAL MODEL

3.1 The financial needs of migrants

The main, and sometimes one and only, limitation of would-be entrepreneurs willing to return to their country of origin is how to get credit from a bank, possibly at a low interest rate.

As described in the previous sections, training, business advice and a correct investment planning are generally more important than merely obtaining credit or a credit guarantee. Nonetheless, finance is an important part of the MoPRE and it deserves a specific chapter.

According to the different stages of investment, the need for finance presents different requirements and different services in connection with the advancement in business development. A useful scheme can be summarized in the following table:

Table n. 8 – Financial needs during different stages of MoPRE

Before entering the MoPRE	Planning and research implementation	Start-up	First year of activity	Firm development
<ul style="list-style-type: none"> Assets 	<ul style="list-style-type: none"> Preparation costs 	<ul style="list-style-type: none"> Investments 	<ul style="list-style-type: none"> Working capital 	<ul style="list-style-type: none"> Assets
<ul style="list-style-type: none"> Savings and indirect indebtness 	<ul style="list-style-type: none"> Savings from family, partners and relatives 	<ul style="list-style-type: none"> Working capital 	<ul style="list-style-type: none"> Banks 	<ul style="list-style-type: none"> Long -term loans
	<ul style="list-style-type: none"> Grants 	<ul style="list-style-type: none"> Savings 		<ul style="list-style-type: none"> Banks
		<ul style="list-style-type: none"> Loans 		<ul style="list-style-type: none"> Venture capital

Table n. 8 highlights a gradual swift from an initial financial effort based on private funds of the entrepreneur to a progressive intervention of financial capital from external sources.

The financial flow generally starts from the individual involvement and the efforts of the entrepreneur and relatives or partners to search and find external sources of financing. Briefly, the

would-be entrepreneur believes in his/her idea and is able to raise funds to achieve the objectives. In other terms, the financial history of most new entrepreneur starts from a personal engagement aimed at getting the instruments to start the business.¹⁵ For this reason, the would-be entrepreneur should take the risk of entering the MoPRe with his/her own resources whilst the achievement of the credit guarantee from the GF is destined to cover the lack of collateral to obtain the needed financing for the start up.

The need for a co-financing in the MoPRe appears to be a necessary element of evaluation since the first stages, irrespective of the source where these funds come from (own- resources, relatives, friends, other partners, grants, etc.), and it requires a personal investment.

In table n. 8 there is no mention of microfinance instruments, which are often suggested to and sought after by migrant entrepreneurs. Not always microfinance and Microfinance Institutions (MFI hereinafter) are the right answer to the needs of return migrants due to the following reasons:

- Even entrepreneurs willing to start a small business need long term loans whose conditions of repayment are often worse than in other financial institutions ¹⁶;
- Most migrant enterprises are in need of larger loan amounts than those a MFI could guarantee;
- Not always MFIs have experience with operation of start up and development of small enterprises;
- Microfinance institutions have achieved much in their support to micro-enterprises, but they have not always been so successful in enabling their clients to scale up and access loans from banks.

Other forms of migrant lending are more innovative but still have to be fully tested: one particular mention can go to financial services based on IT systems as KIVA <http://www.kiva.org/> or, specifically for Africa, MyC4 <http://www.myc4.com/>. These are forms of financing focused on

¹⁵ Linda Pincett and Jerry Jinsett, Steps to small business start up, SBDC's, 2009

¹⁶ Muhammad Yunus and Karl Weber. *Creating a World Without Poverty: Social Business and the Future of Capitalism*. PublicAffairs, New York, 2007

micro-lending through web based systems but, as far as we know, they lack a system to finance small entrepreneurs starting their activities for the first time.

These considerations lead to a first set of conclusions: migrants need to operate through banks having seat in their origin country and try to access the specific services tailored on financing for small enterprises. It is also widespread knowledge that banks are often reluctant to finance start up operations especially in absence of solid assets (or collateral) and without a track record of the would-be entrepreneur.

Moreover, an entrepreneur who is starting a new business needs a relatively important amount of money at the beginning to pay the investment and the running costs without being able to generate enough turnover to payback the loans at an early stage. Also, it will be necessary to negotiate with the bank a “grace period” (generally six months after starting operations) to give the entrepreneur the chance to grow.

Experience shows that during the first three years of operations of a small business there is constant need for **working capital** that should be added to the **initial capital for investment**: this is also something the local banks will be reluctant to grant to the new entrepreneur.

The need for **transparency** is a basic prerequisite to evaluate the position of each would-be entrepreneur.

If a would-be entrepreneur will not disclose his/her financial position from the beginning of the MoPRE, this could result in a rejection of the applications. The typical cases of lack of transparency described below need to be verified before and during the MoPRE:

- **Before entering the MoPRE**

The migrant has already obtained loans and credit from credit card companies to acquire company facilities or business assets. This can lead to rescheduling and refinancing operated by consumer loan organisations resulting in major debt burden and higher interest rates;

- **During test, assessment and planning phase**

The financial position of the migrant is worse than the one indicated during the process of business plan compilation (own assets and lower value than those indicated). This will

result in a different treatment by the the Senegalese bank granting the loan and the would-be entrepreneur does not have enough financial resources necessary for a regular start up of the business.

- **During the evaluation phase**

The business plan is presented in a very optimistic way leading the bank to reject the application out of their knowledge of the sector and opportunities. A good practice is to share a common vision of the business plan and the potential of the investment with the bank;

- **During start up phase**

If new entrepreneurs encounter problems to repay the bank during the first months, they are often afraid to inform the banks about the situation. This often leads the banks to take action against the debtor faster then necessary. Above all, in countries such as Senegal it is important to maintain a transparent and open behaviour during all the time. Financing can often be rescheduled according to a new path of development.

3.2 The role of the Guarantee Fund for Senegal

Technically speaking, a credit guarantee is a financial product that a small entrepreneur can buy as a partial substitute for collateral. In other terms, the credit guarantee is a promise by a guarantor to pay all or part of the loan if the borrower defaults.

This means that the target group for GFs are small entrepreneurs (the return migrants in this case) who have the necessary repayment capacity but who, for different reasons, have difficulties to obtain a bank loan without the support of the GF. As tested in the chapter dedicated to the profile of the migrant, one can assume that these entrepreneurs are bankworthy, but they lack the necessary collateral and financial track record to obtain a loan from the bank.

The main guideline that a GF should follow in order to stay in the market with its own resources is that no guarantee should be issued to those would-be entrepreneurs lacking an adequate collateral and lacking the potential to pay the credit back. More explicitly: if the entrepreneur fails to repay the bank, the GF should guarantee the entire amount subscribed but it must always have the possibility to act on some collateral (assets of the migrant).

GFs are not the only mechanisms that facilitate access to finance. In many parts of the world, other kinds of special credit and financing schemes have been set up to enable small and micro-enterprises to get started or to expand their operations¹⁷. These services are offered by various kinds of institutions, depending on the types of entrepreneurs being assisted.

As seen before, people in poverty who undertake income-generating activities for their immediate survival usually rely on socially-driven finance from Non-Government Organisations (NGOs hereinafter) or from government or International Institutions. Creditworthy micro-entrepreneurs usually deal with microfinance institutions whilst small and medium-sized enterprises normally try to obtain loans directly from banks. The latter is the category of beneficiaries that the GF for Senegal of the Veneto Region will have to refer to.

¹⁷ These are mainly governmental-backed schemes: for instance in UK we have the Enterprise Finance Guarantee (EFG) scheme and Enterprise Capital Funds (ECFs), in India the Small Scale Service & Business Enterprises (SSSBs), Confidi in Italy, etc.

A last argument in favour of GFs is related to the imperfections in contract enforcement procedures for collateral.

The long and costly judicial procedures for seizure of collateral in many developing countries (the land property has many different scales in Senegal as titre foncier, bail, permis d'occuper, plein propriété, etc.) affect small entrepreneurs more than larger firms. This may also result in a low allocation of credit to small enterprises, something that GFs could help to overcome.

However, even when taking into account the above issues in favour of GFs, it is not always true that they are the best way of dealing with misallocation or under-utilisation of credit resources.

The creation of a GF may or may not be the best solution, but this has to be assessed on a case-by-case basis, which is one of the tasks of the Su.Pa desks while following the MoPRE system.

A recommendation emerging from good practices on GFs states: “a Guarantee Fund’s portfolio mainly devoted to operations of start-up will be likely to fail or undergo severe hardship in its balance. If a GF agrees to offer guarantees for new business starters that should be not more than just a small part of its portfolio (3-5%)”.¹⁸ Of course there is something true in this sentence but, since the GF for Senegal will mostly deal with the financing of start-ups in Senegal, the intrinsic risk of such operations can be lowered only by adopting a strict process of selection based on the main principles of MoPRE, as set out in the previous chapters. When issuing guarantees for start-ups, the GF should evaluate the following potential requirements that will help the would-be entrepreneur to succeed in his/her process to acquire the guarantee:

1. **Feasibility of the investment** (*market research and business plans are important instruments of knowledge and investment planning*)
2. **Sufficient level of collateral** (*the would-be entrepreneur should show and prove his/her actual patrimonial situation and financial position*)
3. **Adequate (or lowered) interest rate** (*the GF should consider to link the guarantee issue to an interest rate in order to counterbalance the higher risk of default*)
4. **Presence of a co-guarantor** as an asset (*can be relatives of the migrants, other colleagues working in Italy, remitters, etc.*).

¹⁸ See ILO, “Guarantee funds for small enterprises. A manual for guarantee fund managers”, 2004

3.2.1 The GF and the Senegalese banking system: main requirements

As widely known, Banks will not extend credit, even to bankworthy borrowers, unless they are sure they can recover the debt after a default. The main criteria all banks apply to evaluate credit applications consist of the basic principles to “safeguard the interest of their depositors” and “to generate an acceptable level of income to cover costs and make a profit”.¹⁹

These are the main reasons why banks put so much emphasis on collateral.

In Senegal, like in all countries where private banking is not a very developed sector, this attitude constitutes a severe constraint for the development of a solid small entrepreneurial sector.

The amount of funds that a bank is allowed to lend by the regulatory authorities depends on the extent of the bank's own capital and the risk profile of its credit portfolio. Under-collateralised loans are rated as more risky, and lower the amount of lending a bank is allowed to give.

The rules and regulations of the Central Bank of West African States (BCEAO) applying to local private banks put some restrictions to the freedom of lending of the private banks operating in the country: the ratios for lending and the parameters for credit downgrading seem to be not very encouraging. Nonetheless, it is a common opinion that the existence of a GF should substantially help to lower the bureaucratic constraints that affect the normal operation of banks.

What is important to Su.Pa. is that no allowance from BCEAO is requested in order to sign a **Guarantee Agreement with a GF** (or Institution) having a current account in a Bank in Italy, i.e. each bank has freedom of operation.

This information is quite important because it allows an ample leeway in terms of cooperation that can be signed between the Senegalese interested banks and the Italian GF. The granted collateral will necessarily be submitted to local regulations: in this case it is foreseeable that there will be obstacles to accept such guarantees as stocks and receivables. Instead, company facilities are widely accepted as well as other assets like “titre foncier” (title deed) and similar property titles that are very common in Senegal.

¹⁹ *Ibidem*

3.2.2 How can the GF recognise a good collateral?

Irrispective of the Senegalese restrictions and regulations, the GF will have to set a series of parameters in order to recognise good collateral that can be subject of a guarantee issue. This is a typical function that will be fulfilled by the board of the GF and it is independent from the evaluations done by the stakeholders intervening in the MoPRe: a good idea and a good business plan could lack the technical evaluation responding to the parameters that the local Senegalese Banks apply and, consequently, those of the GF.

Of course, in its role of mediator with banks (see 5.3 of MoPRe) the GF can negotiate more flexible terms with regards to assets evaluation. Unfortunately, at least at the beginning, the limitations will probably be rather strict.

The following list shows the universal main characteristics of good collateral. It is up to the stakeholders of the GF to identify them as recommendations:

- the ownership can be easily verified
- it is seized cheaply
- it can be moved but not removed
- if collateral consists of movable assets, the assets are relatively unexpensive to store or manage
- low costs of conversion of collateral into cash or some other assets
- its value remains stable over time
- it should have a high and stable personal value to the borrower, even if it has a low monetary value

Taking stock of the all the above features, it is quite clear that (with the exception of the last condition), small entrepreneurs, especially low-income entrepreneurs in Senegal may have difficulty providing acceptable collateral. Their quality of collateral is often poor and sometimes the ownership of the asset is difficult to establish, particularly when land is used as a security and

the titles of property are not fully formalised. If there is no formal title, banks do not accept land or buildings as collateral.²⁰

Borrowers might wish to offer personal assets as collateral. While these may represent great value to the borrower, they are not necessarily good collateral for the banks. Liquidating these assets can result in extremely difficult consequences for the borrower and in socially undesirable situations for the bank.

Stock and small machinery can be used as collateral, but the value of these assets tends to fluctuate. When repossessed, they may be costly to store or manage. These assets may also be worth little and be costly to sell.

A specific session of information exchange with local Senegalese banks should be performed by the local offices in Kaolack in order to harmonise the flow of information between the GF for Senegal and the local Banks.

²⁰ This is something we recommend to verify with the would-be entrepreneur from the first face-to-face meeting of 2.2 in MoPRE

3.3 The main characteristics of the GF for Senegal

The common purpose of every GF is to create greater access to formal financing for promising small businesses. In order to achieve such a goal, there are many variations in how the GFs are set up and operated. These differences come about because of adaptations to their operating environment. There is no single or universal model that works better than others but there are many different possibilities that should be adapted according to different cases.

3.3.1 Categories of GFs

When designing a GF that should mainly work with a country like Senegal, one should take into account the existing financial environment of that economy (less advanced financial services, etc), the social and cultural conditions (credit traditions), and the prevailing rules and regulations (regulatory framework). Then, there are parameters to be respected: how the fund is capitalised, how the guarantees are delivered, when the guarantees are delivered, and whose loans are guaranteed.

In practice, any particular GF combines different features and adapts diverse models to each situation and environment.

The general recommendations on how to set up a scheme for Senegal are described as follows.

The **GF for Senegal** should be:

- a) **A Funded scheme:** unlike the practice that sometimes sees un-funded schemes when a GF is backed by an important institutions like a Region or a Government²¹, we deem that the GF for Senegal should maintain deposits specifically for its operational purposes. The forecasted amount is actually estimated in a cash deposit of 300.000€. This can be enough for the initial operations but it will probably have to be increased in the future when investment operations will become consistent.

There are three general ways to make the GF fully operational and increase the available amounts:

- Further intervention of capital increase by the Veneto Region

²¹ See Note 17

- Venture with other GFs operating in the world with similar objectives (WB, IntEnt, Afford, various NGOs, etc.)
- Increase the leverage with Senegalese private banks (up to 1:3 – 1:5 will be a big success in this phase).

All these options can be pursued at the same time, gradually improving both the financial position of the GF and its accreditation with local banks. The money should be deposited in an official account in a bank in Veneto.

b) Individual scheme: individual scheme indicates that each beneficiary of the guarantee fund is individually screened by the guarantor. Thus, the guarantee scheme has direct contact with the entrepreneurs. Each entrepreneur has to apply for a credit guarantee, and is evaluated before a credit guarantee is granted. The inclusion of return migrants will cover all steps indicated in the MoPRe and only the feasible projects will be submitted; nonetheless the GF will have to examine all cases and take the final decision on the guarantee issue. Clearly, this is very labour-intensive. It means that each entrepreneur who needs a guaranteed loan is screened twice: once for the loan by the bank and once for the guarantee by the GF , and this happens after the assessment and planning in the MoPRe.

In a portfolio guarantee scheme, the GF does not look at the credentials of each and every applicant. Instead, it gives the bank permission to attach a credit guarantee to any client who fulfils certain eligibility criteria. The bank simply informs the guarantee fund, usually on a monthly basis, of the new approved loans.

In a medium-long term perspective, it is possible that one of the purposes of the GF FOR for Senegal will gradually be transformed from an individual scheme into a portfolio scheme, depending on the level of trust and reliability that the GF will be able to attain with the local banks. This transformation (from individual to portfolio) represents a big saving in terms of work to be performed.

c) Enterprise-oriented: as verified in the previous section, the orientation of the GF should be towards small enterprises implicitly excluding large financing operations and other operations included in microfinance models (microcredit). The reason for such a choice relies on the big gap between the money to be issued as micro-loans and the work required to examine the application and the formal requirements of the beneficiary.

As a consequence, the GF takes the responsibility if an entrepreneur defaults and the guarantee fund pays the coverage on the loan of that entrepreneur.

- d) Ex ante scheme:** the guarantees can be granted at two different moments, either before the loan application is evaluated and approved by the bank (*ex-ante*), or after the bank has in principle approved the loan (*ex-post*).

In ex-ante guarantee schemes, the borrower presents a project and financing proposal first to the guarantee scheme. If the guarantee scheme approves the proposal, it can issue a letter of intent or guarantee to the client to a bank (usually identified beforehand). This is done with the explicit understanding that granting a guarantee will not imply that the lending institution will approve the loan. The disadvantage of this approach is that the client will expect the bank to easily approve the loan application after the guarantee issuance but, as said before, this cannot be taken for granted. The guarantee scheme will also be tempted to exercise pressure on the bank to approve the loan, which can lead to unpleasant misunderstanding.

3.3.2 The Basel II Accord and credit guarantee systems

In September 2010 the Basel Committee on Banking Supervision has given the green light to the new Basel III accord aimed at strengthening the banks' capital and avoid future global crises. The entry into force of the Accord is progressive and gradual and will be operational in 2020.

It is supposed that, even if Senegalese banks do not explicitly apply Basel II and III accords, the set of recommendations deriving from them will be widely considered as a universal term of reference when making decisions and cooperating within the global financial system.

For the purposes of this discussion, therefore, the current Basel framework (so-called Basel II) signed in 2004, should be retained as a fixed point of the framework set up on the basis of the New Accord on minimum capital requirements.

The main goal of the Accord is to make the methods for evaluating the risk for banks and credit institutions more sophisticated and accurate. In particular, the model identifies and evaluates three different categories of risks: the credit risk, the market risk and the operational risk.

The assessment of the repayment capacity of the loan affects the risk ratio which is connected to the capital charge rate provision. Capital requirements, in fact, are intended to cover unexpected

losses due to bad loans. The solvency ratio set by Basel II is equal to 8%. This risk-weighted ratio sets the minimum amount of capital that banks must hold in relation to all the activities (loans made).

In defining the methods for calculating the credit risk the Basel II Accord introduces important elements of flexibility as it allows banks to establish their own tools and internal ratings systems, which are matched by external rating in the risk evaluation. This leads to an increase in the role of the fiduciary relationship between the bank and the company and tends to redefine the function of the bank which goes from the role of "provider" to that of "adviser".

The weighting and evaluation systems for credit risk applicable under the Accord are three:

The first is the Standard Method, which is based on the legal requirements and considers only the legal form and the size of the borrower and the nature of the transaction.

Secondly, the IRB methods (Internal Rating Based Approach) are subdivided into basic and advanced methods. They are defined by each bank in-house and are characterized as structured and documented methodologies, and organizational processes, that allow the classification on an ordinal scale of the creditworthiness of a person and then allow the distribution of all the customers in different classes of risk corresponding to different probabilities of default. The variables to consider are the following:

- Probability of Default (PD): a percentage that expresses the probability of default of a customer;
- Loss Given Default (LGD): a percentage providing an estimate of the loss in the event of default;
- Exposure at Default (EAD): value indicating the expected exposure at the event of default.
- Envisaged Loss Rate (ELR) is the expected loss rate and is calculated as $= PD * LGD$
- Envisaged Loss (EL) is the value of the expected loss $EL = EAD * ELR$.

One of the most problematic aspects of the implementation of the Basel II Accord is the restriction of access to finance for Small and Medium Enterprises (SMEs). In fact, the rating system tends to reward the larger and more structured reality at the expense of smaller and flexible firms. In particular start-ups suffer from limitations in obtaining access to credit and even small loans tend to be impossible to get without the support of appropriate credit guarantees.

This problem is significantly affecting the Senegalese society and its local financial system due to an almost total lack of financial tools dedicated to SMEs (we have noted a wide gap between micro-credit instruments and instruments devoted to large enterprise operations).

The SUPA project aims to support the productive return process from Italy to Senegal. This means, in concrete terms, to support the creation of small and medium enterprises in Senegal. Thus, it is pivotal to identify which kind of credit guarantee scheme might be more effective in achieving such an ambitious goal.

It is therefore necessary to think more deeply about the mechanisms that rule the function of the guarantees in terms of risk weighting and thus how they affect the definition of capital requirements for banks. In fact, as it is crucial to build a solid relationship with the banks in order to create a multiplier effect, it is essential to understand the conditions under which a bank may be convenient to make loans to high-risk activities. This is also needed to understand at what condition the local banks will be open to invest in SMEs-oriented financial tools.

The Basel II Accord strictly defines the types of guarantees valid for the mitigation of credit risk and therefore of capital requirements. Essentially, only collateral and personal guarantees and credit derivatives are recognized.

Collateral (mortgages or liens) in order to be suitable for the purpose of leveraging the capital requirements must comply with the strict conditions set by the norm. The benefit of the guarantee is that the part of the funding entirely and fully covered by collateral has a weighting of 0%, while the remaining portion maintains its weight as if it were not guaranteed.

What is most interesting, however, for the purposes of this study, are the personal guarantees. A personal guarantee signifies that the lender (obligee) can lay claim to the guarantor's assets in case of the borrower (obligor) default. Personal guarantees are allowed only if they are direct, explicit, irrevocable, unconditional, free from any previous redemption of the principal debtor and extended to all payment obligations payable by the borrower including interest and ancillary costs. The effect of the guarantee on the system of weighting of credit risk is to replace the rating of the borrower to the guarantor. This means compliance with two requirements:

- i. the guarantor must have a rating (so it can be an individual),
- ii. The rating of the guarantor must be greater than that of the debtor and, as enshrined in the Agreement, but no lower than A- (average quality, Standard & Poor's scale).

The credit derivatives are contracts whose value and whose rights are derived from the dynamics of prices of other assets that are underlying the contract. These tools can protect the Bank from any depreciation of the collateral received (eg. forward contracts or put options). In addition, the Bank can directly acquire the guarantee of the loan with a swap agreement covering the risk of any default by the borrower. With these contracts, the Bank exchanges with the provider of the guarantee the flow of funds coming from its credit with a predetermined flow of funds. Obviously, in the formulas of swap contracts (credit default swaps and total return swaps) the counterparty of the contract bears the risk of default. For the purposes of the Basel II only swaps provide full coverage to the Bank for the purposes of credit risk mitigation. The share of the funding secured with the derivative contract is assigned the risk weighting of providing cover.

Summarising the above explanations, it seems that the guarantee institution which the project intends to establish in order to test the productive return model to Senegal must be able to provide guarantees that affect the risk weighting made for the calculation of capital requirements.

In particular, it is necessary to imagine an institution that can provide guarantees for the individual entrepreneurs willing to return in their origin Country according to a personal scheme. The guarantee must be of first instance and immediately enforceable as well as extended to all payment obligations of the debtor. A subsidiary guarantee, such as those typically offered by a portfolio Guarantee Fund, then, would not be appropriate for such purposes.

3.4 The size and the options of the GF for Senegal

3.4.1 Agreements with banks: risks and opportunities

The questions related to the need for the creation of a GF and its level of exploitation can be answered from the perspective of the the small entrepreneurs or that of the participating banks. Entrepreneurs' real commitment to invest should be assessed by the instruments of the MoPRE. Whether banks are willing to be part of the scheme can be inferred by the three following questions:

1. Are there banks in Senegal with well-trained staff and well functioning procedures interested in serving small entrepreneurs?
2. Are these banks reluctant to assist small entrepreneurs because of lack of collateral?
3. Are they willing to work with a GF and accept the extra costs of additional procedures?

As often experienced, banks state that they will participate in a guarantee scheme but then they fail to make real use of the fund. The reason is usually to be sought in the attitude of bank staff. Even if management has agreed to cooperate with a guarantee fund, the people at operations level might be hesitant to expose themselves to what they perceive as higher risks. Trained to accept real collateral and seek real coverage, they tend to consider the guarantee mechanism not acceptable for various reasons, including an automatic negative rating system even in case of guaranteed default.

The agreement with banks is a very important part of the entire process. The characteristics of the GF for Senegal are also tailored in 3.3.1 in order the make this Fund quite acceptable for local banks.

An individual guarantee scheme will be most acceptable for banks because most of the operational costs are sustained by the GF rather than by the participating banks. We deem that a small individual guarantee scheme can be started with resources of 30 to 50 times the size of the average guarantee per client. In the case of Su.Pa, if the GF is supposed to be capitalised with an initial amount of 300.000€, this means that the ideal average guarantee per person should not exceed 10.000-15.000€, which might be too low for the identified cases.

If we compare this amount with the average money requested in the business plans collected by the RID the evidence shows that the GF for Senegal is slightly undercapitalised. For an initial phase this may be enough, while investment opportunities will be decided in the future. Another solution is to link the existing operation of the GF for Senegal to some others GFs, allowing to increase the lending basis as well as provide a significant decrease of the single risk profile. This could also lead to better power of negotiations with local banks.

3.4.2 Sustainability of the GF and risk profile

With regards to its sustainability, we have to consider that the returns of the GF are generated only from the guarantee operations (guarantee fees, which are normally around 1-2% of the outstanding guarantee amounts) as well as the return on its investments of unused funds in the capital market. Because unused funds should not be invested in high-risk operations, these investments will have a relatively low return.

Thus, the total returns for guarantee funds are not very high, and this limits the possibilities of borrowing from other lenders. In other terms the best option should that the GF will overpass the Regional (Veneto) dimension to become a National one.

3.4.3 Leverage

GFs are not profit-oriented in the same manner as private enterprises are, their interest rates do not necessarily generate profit.

The main role of a GF is to convince banks to move funds to small enterprises: in fact, without the GF this might not be done, since the banks may consider the risks too high. Thus, the GF can act as a lever and stimulate the banks to channel to the small enterprise sector more funds than they normally do.

Leverage quantifies how much money is likely to be channelled towards small enterprises because a GF is in place. This is expressed as a ratio showing how much can be lent to small enterprises because of the existence of the guarantee fund. Leverage can be defined as:

$$\text{Leverage} = [\text{amount of loans extended}] / [\text{the capital of the guarantee fund}^*]$$

Any GF that provides a leverage below 1:1 is clearly failing its mission. It would be better off lending its funds directly to targeted borrowers, without the additional transaction costs of issuing guarantees.

In the initial phase it is unlikely that the GF for Senegal will reach a satisfying leverage. During the first year of operations the GF should at least reach the objective of attaining a leverage of 2:1 or 3:1. Anyway, such a result may indicate that banks expect a high default rate and fear that the GF will not be able to meet its obligations. Considering the history of GFs in the Veneto Region one can see that, during the 1950's, the first Mutual Guarantee Funds were able to get credit lines 5 times bigger than the amount available in the GF. The higher the leverage, the greater the achievement of the guarantee fund.

However, during the contracting of GF for Senegal the default rate has to be taken into account before determining the most appropriate and negotiable level of leverage. The GF must always be in a position to meet its obligations, but ideally not much more than that. Well-functioning guarantee funds attain leverage rates of 5:1 to 10:1 even if the leverage can reach in some cases the excellent levels of 25:1.

It is normal for GFs to show low leverage rates during their early inception period: as the GFs and their participating banks gain experience, much will be learned about the performance of the users of the guarantees.

3.5 Processes and suggested procedures

3.5.1 Application procedures

In individual guarantee schemes entrepreneurs have to apply explicitly for a credit guarantee. In the next pages we attempt to list and comment the application procedures that should be required on a typical situation.

If the applicant is an existing small enterprise wishing to expand current operations, the entrepreneur will have to fill out an application form for a credit guarantee, submitting the documents (balance, etc) of the existing firm as well as the plan of expansion (budget, cost-income statement and other relevant documents required by the GF). In general, the paperwork required will be less sophisticated than the one required from would-be entrepreneurs without experience.

If the applicant is a new entrepreneur (no previous experience and no existing firm), a real business plan should be presented and discussed, together with a market research to be realised in the country/area where the new business is planned to start.

From the point of view of the GF, the information required should quantify and assess the existing or forecasted factors:

- **The business activity** (*detailed description of what the would-be entrepreneur intends to do*)
- **Number of employees** (*and realistic costs for them*)
- **Expenditures** (*detailed list of material and non-material costs*)
- **Incomes** (*forecast based on the results of the market research and the knowledge of the competitors strategies*)
- **Letter of intents or request of contracts** (*if available*)
- **Purpose of the loan** (*investment, working capital, etc.*)
- **Amount of the loan and loan term** (*together with the plan of repayment*)
- **Required guarantee coverage** (*in percentage on the total amount of the loan*)
- **Available collateral** (*together with documents proving their existence and title of property*)
- **Assets owned** (*together with the documents proving their existence and title of property*)
- **Debts** (*bank certificates, credit cards, debts and credit position*)

The business plan and the market research performed together with the help of the stakeholders participating in the MoPRe contain all basic information described above.

3.5.2 Appraisal procedures

The GF should acquire enough competence to implement the overall procedures of appraisal. If the work is well done in Italy, the role of the bank in Senegal is restricted to monitoring the documents submitted by the applicants and release a decision whether or not to issue the loan. The agreements between the local bank and the GF should be based on a mutual trust so that the decisions on credit appraisal of the GF will be exactly the same of the local Bank, swifiting gradually from an individual approach to a portfolio approach²².

The main reasons for the GF for Senegal to directly appraise the would-be entrepreneurs are listed below:

- the local bank may not have the skills (or the experience) to appraise small entrepreneurs;
- the local bank may be reluctant to appraise small loan applications. Many banks do not have a specific department for small loans, and applications for such loans are dealt with by the same credit evaluation department that deals with large loans, but with the same costs;
- the partner bank may have a tendency towards adverse selection, only attaching credit guarantees to the most risky loans. The more confident the GF is about the lender's appraisal procedures, the less time it needs to spend doing the appraisal itself. This is one of the many reasons why it is important for a GF to select reliable banking partners.

Ultimately, the party that assumes the higher proportion of the credit risk ought to be more concerned with credit appraisal. In guarantee schemes that cover more than 70% of the risk, the GF has to devote a great deal of effort appraising borrowers and/or monitoring the bank's appraisal procedures. In a portfolio guarantee scheme, there are lower operational costs, and the appraisal of the client is left to the discretion of the bank. Even if this is not the case of our GF for Senegal, the portfolio scheme could be implemented in the future, once the relationships between the GF and the partner bank hopefully improve in terms of trust and mutual knowledge.

²² See 3.3.1

3.5.3 Issuance of the guarantee

In our guarantee scheme, a positive appraisal of the guarantee application will be followed by the issuance of a guarantee certificate. This certifies that the guarantee scheme will assume part of the credit risk of the borrower. The guarantee certificate stipulates the rights and duties of both the guarantee fund and the loan beneficiary (the lender).

As the certificate is issued, the guarantee scheme will also issue an invoice to the beneficiary for the guarantee fee (under condition of approval of the bank loan). Guarantee schemes usually charge an annual fee of around 1% to 2% of the outstanding guaranteed loan amount. If the borrower pays, the guarantee scheme he/she has to make sure that the fee for the entire loan term is paid in advance.

As to the payment of the guarantee fee, there are two different options to be considered:

1. the GF acts as a form of insurance for the lender. Therefore, as the lender is the ultimate beneficiary of the guarantee, it should pay for the guarantee. In this case an agreement with local Senegalese banks should be signed and the banks will probably charge the different interest rate on the borrower (migrant new entrepreneur).
2. the borrower obtains access to formal lending through the guarantee fund. Therefore, according to this logic, the fee should be paid by the borrower (migrant new entrepreneur).

In practice, the borrower pays the guarantee fee anyway, either by paying directly, or because lenders pass the guarantee costs on to borrowers by increasing the interest rate.

Once the guarantee certificate has been issued, the bank can issue the loan to the client.

3.5.4 The follow up: how to manage potential problems

The process of loans' follow-up entails that repayment problems should always be treated on individual basis.

The Senegalese bank sends information on the guaranteed loans to the GF, typically on a monthly basis. After the first year of operations the parts could agree that they will send reports only if the borrower is in arrears. This arrangement will have the advantage of reducing transaction costs for both parties.

The recommendation is to sign a contract stating that “if the bank fails to inform the guarantee fund of borrowers in arrears within the contractually stipulated time, the guarantee fund can invalidate the guarantee coverage”. In general, it is sound practice to have a clause in the contract that compels the lender (Senegalese bank) to provide monthly reports no later than fifteen days after the end of the month.

The monthly loan portfolio reports allow the guarantee scheme to follow up on any borrower in arrears. Follow-up can take the form of phone calls, visits and perhaps discussions on loan rescheduling. All follow-up contacts must be documented and filed. All follow-up by the guarantee scheme obviously increases its operational costs: during Su.Pa project this work should be done by the Kaolack offices.

In an ideal (medium – long term) scenario, the GF trusts the bank completely and leaves the bank deal with the follow-up issues. However, it is likely that the GF will be involved in following up on arrears. The GF also has to consider that the larger percentage of the loan is guaranteed, the lesser the bank has incentives to follow up on arrears (e.g. if the GF guarantees 100% of the loan, the bank could rather prefer to claim the GF than initiating any action against the borrower, on the other side if the bank is engaged with some 50% they will try to do their best to recover the credit directly from the borrower).

Loan follow-up should take place within two or three weeks of the first missed repayment. The BCEAO fixes strict regulations on loan downgrading after missing repayment so the GF should follow the same principles. Once follow-up has initiated, the bank and the guarantee fund have to review their findings and take action. Possible scenarios are:

1. The borrower has merely failed to repay one installment but is able and willing to repay this in the following month. In this case, the loan is normalised after the payment of arrears and the guarantee continues;
2. The borrower is willing to repay, but currently unable to. This may be a case for loan rescheduling;
3. The borrower is either not willing or not able to repay. In this case, the GF should take action immediately by recovering collaterals and assets.

Rescheduling is a practice often used to encourage repayment, but it is risky and should only be done in extreme circumstances. Over-rescheduling may harm the reputation of the GF and, what is even worse, its financial stability.

Generally speaking, the GF for Senegal should not allow banks to decide unilaterally on loan rescheduling: if a bank reschedules loans of borrowers who are unwilling or unable to repay, the bank increases the liability of the guarantee scheme.

3.5.5 What to do in case of insolvency?

How should claims be paid by the GF when the borrowers fails to pay the loans? An empirical example could be helpful: the GF that has paid out a claim to a lender will normally have some rights to the collateral pledged by the borrower. If the GF provided a 100% guarantee, it will have the right to claim all the collateral. If the guarantee covered less than 100% of the loan, collateral proceeds are distributed between the lender and the GF. A 70% risk coverage, for example, will normally result in the guarantee fund receiving 70% of the proceeds from the sale of collateral. A 50/50 agreement will result in a 50/50 distribution of proceeds.

Judicial procedures for seizure of collateral in Senegal are costly, uncertain and time-consuming. At the same time, banks are reluctant to follow up on judicial procedures if the value of the collateral is low. They will be even more reluctant if a large part of the collateral proceeds (90-100%) go to the GF. Many GFs do not have the staff capacity to follow up on judicial procedures when they take place in a country other than the one of GF's seat. To this purpose it is necessary to appoint a representation office in Senegal that will follow the GF on case of repayments' failure and subsequent judicial proceeds (Kaolack offices for instance).

If the borrowers (return entrepreneurs) have the wrong perception that nothing happens if they will not repay the loan, they'd probably choose not to repay. This is one of the main reasons why the follow-up phase²³ is considered so important, even in the interviews carried out with Senelagese Credit Institutions (BRS, CNCAS, BIMAO) during the preparation of this working paper have repeatedly underlined.

The GF for Senegal needs to define a clear strategy for seizure of collateral based on a realistic perception of the practicability and time-scale of judicial procedures.

²³ See steps from 6.1 to 6.4 of the MoPre

A feasible way to set up a procedural instrument in case of credit default is to sign up a contract establishing that the Senegalese bank will transfer any claims it has on the borrower, but only after the guarantee fund has paid out the guarantee.

The experience with other countries shows that many banks prefer this option because they do not want to waste time, energy and public image on physically seizing and selling assets. They would rather see the GF doing so and accept that they might lose some money.

In such cases, the GF can add the value of the seized collateral to its balance sheet as assets. When assets are liquidated, the corresponding corrections can be made if proceeds differ from the recorded value. In such cases, the GF could incur in some losses.

3.5.6 The financial sustainability of the GF

The main question arising from the discussion on GFs regards their need to maintain financial sustainability.

The answer to this question mainly depends on the objectives of the GF as it is set up. Two classical examples represent well the two different scenarios in which a GF may incur:

1. “The objective is that the guarantee fund is to become financially independent from contributions from parties other than the clients. In these circumstances, once the GF is established, income generated through fees and returns on investment must be enough to offset all costs”.²⁴
2. “If the guarantee fund has been established with macro-economic objectives in mind, and with a development focus, donors and management may consider losses to be justifiable. In this case, the promoters of the guarantee fund have to be prepared to assume a certain level of losses. But even here, a maximum limit for losses should be set and adhered to by management”.²⁵

²⁴ See Note 18

²⁵ Ibidem

In the case of the GF for Senegal, the scenario is in between the two cases: in, fact the Su.Pa project contains **both aspects of a cooperation project and plain financial assessment**. Also sustainability should be found at an **intermediate** level.

More specifically, all actions of the GF should be oriented to **achieve financial independence** whilst, on the contrary, if the GF incurs in **losses**, this can be **justified from a macro-economic point of view**.

Useless to say, such a perspective entails a **high commitment from the Veneto Region** that could be justified if the GF becomes an **instrument of internationalisation** more than a mere instrument to make Senegalese residents return to their country of origin.

One must also consider that sustainability should not be pursued to the detriment of the guarantee fund's primary objectives, namely, to issue guarantees to the would-be entrepreneurs, to bridge the gap between Banks and new entrepreneurs and to pay out Banks when guaranteed borrowers default.

Above all, in the presence of risky situations as financing of start-ups in a foreign country, the GF may be so concerned with being self-sustainable that it only issues a minimum number of guarantees, avoids risk and cuts down on its operating expenses.

This practice could allow the GF to invest its profits, and it may well generate a large financial income: such a guarantee fund will undoubtedly be sustainable, but its sustainability will have been achieved at the cost of its primary objective and the overall experience should be considered as a failure.

3.5.7 Risk to be avoided

We now try to examine the main risks that the GF for Senegal might run at an early stage of its operations to get a better focus on the solutions to be adopted and adjust the potential distortions:

- **Guarantee fees set too low:** to make the targeted migrant entrepreneurs pay a fee for the guarantee issuance could may seem a discouraging practice but nonetheless the GF must find a concrete source for its sustainability. The possibilities to link the return entrepreneurs to the concession of a lower interest rate with a local bank (thanks to the agreements of Plasepri) could counterbalance the loss of 1% or 2% of the guarantee fee.

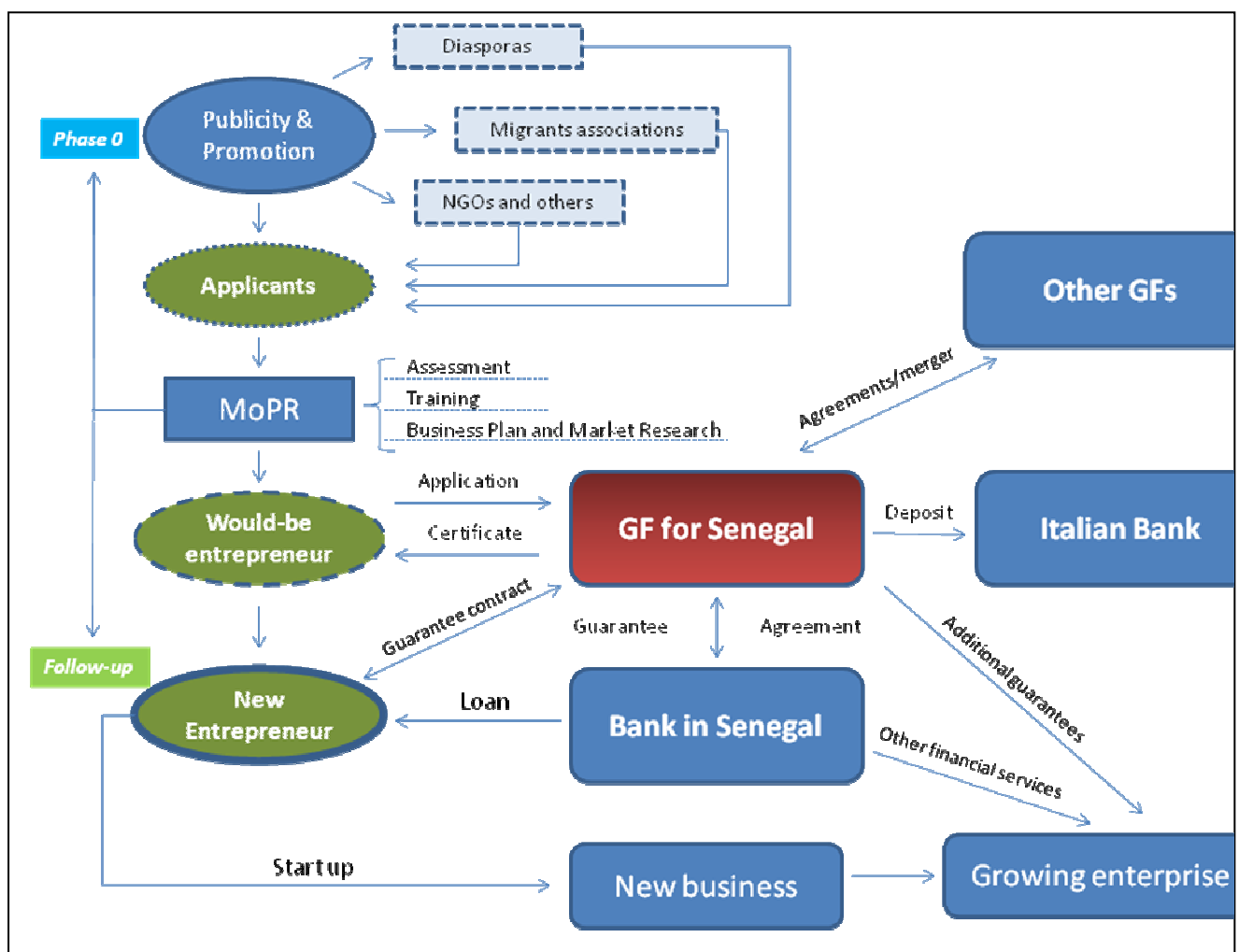
- **Lack of resources to issue many guarantees:** if the GF will not be able to follow the path of development and to respond to the feasible plans that will come from the diaspora and migrant associations in Italy, it will lack a positive image and reliability over time, to the point that the GF will not be considered by migrants as an useful instrument. For these reasons, the GF should start a policy of agreements and possibly ventures with other GFs or financial institutions interested in the project since its establishment.
- **Scarce use of Guarantee facilities:** a problem of reliability of the GF could lead to a low level of applications that will make the GF useless for the purpose it was created.
- **Low leverage:** since its inception the GF should be strongly committed to seek an acceptable leverage with the local partner banks. Probably in the beginning banks will be reluctant to allow a leverage higher than 1:1 but, in the first period of operations the level should quickly increase to 1:2 or 1:3 by reaching a level of 1:5 in an acceptable period of time.
- **Over employment of the staff:** there must be a strict control on the staff that will work for the GF avoiding to incur in major expenses due to excessive labour. Until the GF will be independent, it is suggested that the board will manage the GF with the lowest level of personnel expenses.
- **Double tasks of the GF and local Banks:** at the beginning it seems that duplication of tasks will be unavoidable. Over time, an agreement with Banks to lower the amount of time and work devoted to examine different cases should be reached.
- **Weak selection of would-be entrepreneurs:** the procedures of selection of beneficiaries should strictly follow the provisions of MoPRE with no exception. Problems may arise when banks become an active part in the proposal of businesses to be financed. The problems should be solved on a case-to-case basis also considering the evaluation method applied by the bank and the parameters to be applied according to the MoPRE.
- **Insufficient recovery procedures on the part of local Banks:** since the local bank may lack a specific interest in recovering missed repayments from the returnee, agreements should be made in order to avoid a lack of support in this case. The personnel in Senegal (local Desks of Su.Pa) should be given a role in this case.

- **The value of collateral is overestimated:** the value of collateral should be continuously updated and verified by the local staff of Su.Pa project in order to avoid a net loss of capital in case the operation of investment doesn't give the expected results.
- **Adverse legal, political or social environment:** the situation in Senegal must be kept under control and the possibility of a SACE insurance (<http://www.sace.it>) could be evaluated in the moment GF starts its activities.

3.6 The GF model

In the proposed GF for Senegal, the process can be summarized in the following graph that includes all the steps preceding the intervention of the GF and those who have to be considered after the guarantee has been issued.

Chart 1 – The GF model



The MoPRE scheme should be promoted to the diasporas, migrant associations, NGOs and all possible stakeholders having a direct connection with the Senegalese workers residing in the Italian areas of interest.

The visibility phase simply consists of an active acknowledgement of the activities of Su.Pa, the MoPRE and what is the actual operations of the GF for Senegal.

To this purpose both formal and informal campaigns can be implemented through the media and other outlets (corporate material, leaflets, etc.)

The promotion phase will consist of group meetings with potential clients of the MoPRE: the meetings should make clear what the mission of Su.Pa is, and which are the steps to be performed for the inclusion in the programme of productive return. The promotion campaigns have to offer comprehensive information on the possibility to set up a business in Senegal. The target group will receive details on the pros and cons of setting up a business.

As a result, such an activity will raise the interest of many returning migrants but will also serve as a first selection for those who have not enough motivation to participate in such a complex (and time consuming) programme.

The compilation of the pre-printed questionnaires will be the first official document needed to have access to the MoPRE. The applicants who meet the requirements will be included in the MoPRE at the appropriate step. The would-be entrepreneurs will be assisted according to the entry level up to the point when they can submit a business plan, a market research and the application to obtain the guarantee certificate.

The Board of the GF for Senegal will receive the applications and the remarks of the MoPRE and will decide autonomously on the release of the guarantee certificates.

Concurrently, the GF for Senegal draws up a “guarantee contract” with the Senegalese Banks defining the terms of the guarantee and the commitments of the GF as well as the conditions of deposit in the Italian Bank of reference. The contracts should be inspired to the recommendations set out in the previous chapters.

A guarantee contract must also be signed with the final beneficiary of the loans in order to establish obligations and the kind/size of the collateral that the entrepreneur will confer in order to cover the possibility of default. Again, the above mentioned recommendations help also in this action.

If the guarantee is issued (in the form of a guarantee certificate), the next step of the would-be entrepreneur is to make an application to the Senegalese partner bank and discuss the terms of cooperation (interest rates, financial services, additional collateral, etc.) The MoPRe will help and advise the would-be entrepreneur to get the best conditions in the market but the Bank will still have the right to deny the loan, at least in the initial phase of the cooperation with the GF. The managers of the MoPRe and of the GF must make clear to the would-be entrepreneur that the issuance of the guarantee doesn't automatically give the right to obtain a loan from the Bank.

As explained in the previous chapters, the aim of the GF is to improve its relationships with the local Banks over time in order to transform the so called "individual schemes of guarantee" in a sort of "portfolio scheme".²⁶ Such an upgrade will help both the entrepreneur to automatically get the loan together with the guarantee, and the GF to increase its reliability in the opinion of the would-be entrepreneurs.

In an advanced phase of enterprise development, the Bank should offer specific financial services to the entrepreneur and the GF for Senegal can put additional guarantees in order to help the follow-up of the enterprise expansion. Clearly, the needs for a guarantee are not limited to the initial equity but will be also required when the enterprise starts to run operations and needs additional financing of its working capital.

To look for agreement or mergers with other GFs having similar purposes as for instance the GF of the World Bank, those of IntEnt, etc., will be a necessary step in the life of the GF for Senegal.

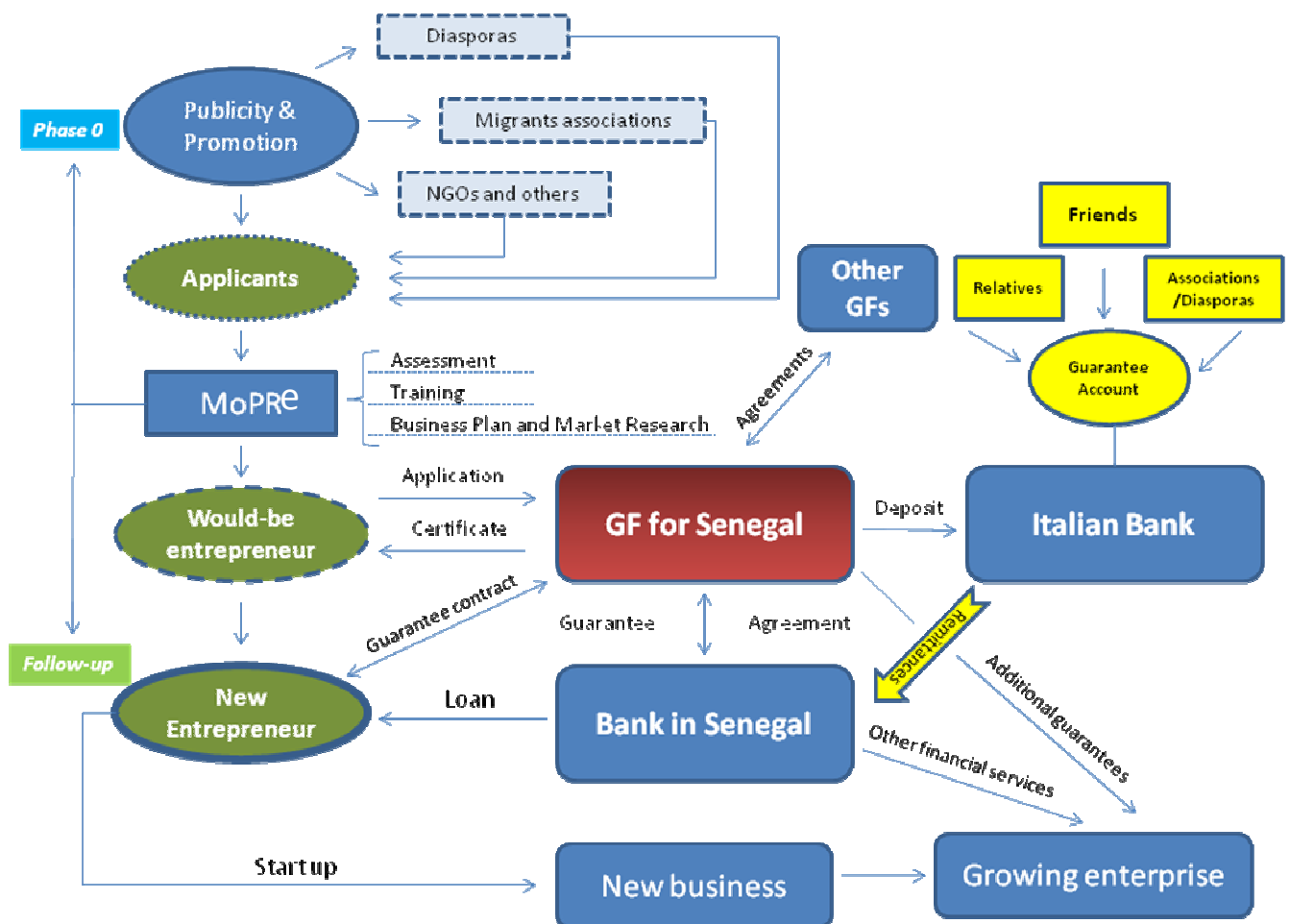
An initial capitalisation of 300.000€ may be enough to start the initial phases of the project but will be rather inadequate when the operations get bigger: hence the need for an external contribution that goes toward the GF objectives.

²⁶ See above in 3.3.1b

3.7 Which relations between GFs and remittances and savings?

In addition to the model laid out in chart 1, the following chart represents the ideal mechanism to link the GF resources (at the moment the public funds of the Veneto Region) to a private but relevant contribution from the migrants and their representations/associations. The specific theme, in this case, is well represented by the role of remittances and more so savings²⁷ highlighted in yellow below.

Chart 2 – The GF model and the inclusion of remittances and savings



As described in the previous chapters, the GF can be of great utility when the returnee has to start negotiations with the local banks in order to obtain a loan.

²⁷ As research on remittances points out, the overwhelming majority of remittances are sent and used for immediate consumption (personal, house, education), the concept of savings is more appropriate because they are linked to investment purposes (of different kinds, clearly) and could be more easily conveyed in the scheme financing productive return.

Nonetheless, it seems that the reluctance from the private financial institutions in Senegal to grant credit to the would-be investors can still be high and somehow invalidating the efforts of creating a mutual trust between entrepreneurs and banks.

The challenge addressed in Chart 2 is to find a way to reduce the dependency on banks and build an additional mechanism of financing, while giving momentum to the diaspora positive contribution in a co-development perspective.

The experience of the Veneto area during the 1950's and 60's shows that also the private and small-size companies of the time had little access to both debt and equity financing and that the main way the whole system started to develop was focused on forms of mutual consortium among enterprises working in similar sectors. In fact, the main equity needed to fund a new business was thanks to family (or friends) contributions or to the participation in the so-called Mutual Guarantee Funds where hundreds of small enterprises gathered together and contributed to create sizeable funds.

In present-day Senegal it is difficult to think that the creation of such consortia can take place there, because of the strong under-capitalisation of the local economy. However, since most migrants are remitters and save some money in Italy the Senegalese diaspora, other migrants' associations and the family networks could be an untapped resource to support the creation of a co-managed (with Italian authorities) fund sponsoring new businesses and new investments in their origin country.

The question then is how to render such a mechanism effective or, in other terms, how to leverage remittances/savings for the origin country.

The main purpose of remittances is linked to the fight against poverty since the remittances sent from relatives living and working abroad are the means to consume essential goods and attain a better standard of life in the home country. Hence, only a minor part of remittances (5%-7%) are actually dedicated to investment purposes.

Moreover, experience shows that the migrants who are well integrated in the destination country often prefer to invest or save their money in the destination country thanks to the better financial products offered by the banks and to a general greater transparency of their services.

A Dutch NGO called IntEnt²⁸ represents a good practice that approaches the migration and development nexus by bringing together these two different aspects (the opportunity of an investment in the country of origin and the demand to keep money invested in the country of destination) together in an unique perspective. The following description, based on the experience of IntEnt, is an attempt to adapt their model to the MoPRE.

The scheme in chart 2 simply shows that the operation of saving (which is a part of the overall remittances dynamics) increases a bank account deposited in the same bank where the GFs keeps its own money. In other terms, the would-be entrepreneurs working in Italy together with their representations or associations can decide to save a part of their money (or part of their remittances) in order to create a guarantee bank account that could make it easier to access a loan to a fellow return entrepreneur.

Basically, a major role is given to those relatives, friends, community members who believe in the potential of the migrant entrepreneur. The active involment of migrant communities for the financial funding and above all the ownership of the entire operation represents an opportunity to be tapped in.

An example can be useful: after a period abroad the returnee is working back in Senegal to start and develop a new business. In Italy he has left some relatives (or friends and members of the diaspora) still working in different fields and who believe in the good potential of the new business. The group of supporters in Italy (network of co-guarantors but also other entrepreneurs) help the business creation in Senegal together with the activated GF by giving a certain amount of money (variable) in tranches (variable) that will co-guarantee in case the return entrepreneur fails to pay a loan instalment.

If the return entrepreneur fails to pay, the local Senegalese bank will have the right to claim the guarantee account and *only* in that moment the deposited money will become a remittance.

If the return entrepreneur pays all the loan instalments and no additional guarantee (guarantee account) will be claimed from the bank, the investors will have the entire amount at their disposal for further investments.

Such a mechanism has the advantage to create a stronger network between the returnees that have invested in their origin country and those who remain in the destination country.

²⁸ See Molenaar K., *Enterprising migrants in the drivers seat*, IntEnt Foundation, 2009

During the interviews conducted by the RID many would-be entrepreneurs expressed their intention to return to Senegal not to start their own business, but rather to join the activity of relatives who returned before and opened an economic or commercial activity. This can be the specific target of the model in Chart 2.

Moreover, if diaspora-led organizations are oriented to invest part of their funds in the activities of selected returnees and the MoPRe offers a quality assessment and selection of the most feasible projects this can add value to the Su.Pa. co-development approach, in line with most recent “migrant centered” methodology actively pursued by the global approach to migration. Including a central role for migrants in this model means to strengthen ties both with the local community in Italy with those who returned home, and increase the positive image of migrants in Italy and the origin areas back in Senegal.

The process description

To avoid possible misunderstandings with regards to the objectives of this scheme a step-by-step description of the process is needed.

Initial situation: the friends or relatives are employed in Italy or have a regular income (otherwise it is the diaspora and/or the migrant associations to be in charge of the process). These individuals and/or groups/associations believe in the entrepreneurial capabilities of the migrant entrepreneur and start to feed the guarantee account described in Chart 2. To make things easier, the guarantee account will probably be in the same bank where the GF has deposited the money.

At this stage the saving group (relatives, friend, associations, diasporas, other entrepreneurs, etc.) will start to feed the account with relatively small amounts of money. They will agree also that the deposited amounts will be blocked for the period of the outstanding loan of the return entrepreneur.

In case the entrepreneur fails to re-pay the loan the bank can first refer to the GF and in turn the GF can claim back a part of the amount (in the IntEnt practice it is 50%) to the saving group (guarantee account).

Only then the savings will be converted into remittances and sent to Senegal. In the meanwhile the money stays in an account in Italy. If the entrepreneur has repaid the loan in due time, no transfer is needed and all the money will be returned (plus interest rates) to the saving group.

A similar product has been tested and piloted in 2008-2009 with a co-funding from the European Union and the direct participation of Netherlands based social investment bank, the ASN bank See <http://www.asnbank.nl>

CONCLUSIONS

In order to draw some conclusions both on the MoPRE and the GF model, a set of recommendations are provided to support policymakers and relevant stakeholders involved in the the implementation of Su.Pa's main activities.

Strong Public commitment

In order to set up a functional model, a required action is to raise awareness of the importance of these models as instruments to rationalise and improve the migratory flows to and from the Regions involved. The MoPRE and the GF for Senegal should be seen strategic tools of internationalisation rather than a mechanism to allow the Senegalese would-be entrepreneurs to a successful return to their home country.

Funding the GF

The funding of the GF should meet the requirements of an adequate level of capitalization mainly in the start-up phase. The estimated amount of 300.000€ may respond to the initial operation activities. However the capital should be quickly increased by identifying external contributions from other stakeholders interested in the objectives consistent with those of the GF managers. This can be done with merger agreements with other international GFs or through the extension of the model to other Regional contexts in Italy. In addition, a great effort should be made to involve the migrant representations (diaspora and associationism) as active stakeholders and possibly investors in the GF model.

Professional Management of the Fund

The selection process described in the MoPRE should be put in place by a management that follows the experience of other successful Guarantee Funds. There are a number of possible actions to improve financial sustainability and decrease dependence on promoters and financiers. These measures fall into the categories of income-increasing and costs-decreasing actions described in this report.

GF as the pivot

The GF should be considered as the pivot operator of the entire process with a specific role of control with regard to processes, responsibilities and actors of the MoPRE. The GF should make clear agreements and arrangements with other involved stakeholders and decide on the guarantee issuance only when all the formal and substantial steps of inclusion will be met. According to the indications provided in the previous sections a set of measurable indicators should be created in order to assess the application and give impartial responses to the different requests.

Stability of the GF

The GF must be oriented to maintain or even increase value over time. Nonetheless, sustainability should not be pursued to the detriment of the guarantee fund's primary objective ie. to issue guarantees to lenders, bridge the gap between lenders and the targeted entrepreneurs, and pay out lenders when guaranteed borrowers default. A GF may be so concerned with being self-sustainable that it only issues a minimum number of guarantees, avoids risk and cuts down on its operating expenses. This and the practice of issuing risky guarantees to would-be entrepreneurs with no sufficient collateral or not feasible business ideas should be avoided.

Low interest rates and less bureaucratic constraints

An important issue for the GF is to guarantee lower interest rate compared to the existing market offer in Senegal. This could be pursued by means of agreements between the GF and the local Senegalese bank/s. It is a long process whose improvement should be pursued and monitored constantly. Hence the need for agreements with other stakeholders sharing the same view and the same objectives.

Networking process

A networking mechanism needs to be created in order to link different stakeholders such as associations, business support service centres and others both in the destination country and in the origin country of the migrant. The success of the GF for Senegal relies on a strong institutional network which is the key for successful paths.

Local environment

If the local environment in Senegal is not favourable, this could lead to a general lack of concrete agreements with local Banks and other economic institutions and of financial support from local authorities. At the same time, it is possible to deal with the general unwillingness of the local management to expand the range of activities of the GF to small businesses and to take further responsibilities. All of the above should be empirically overcome during the operational phase of deployment of the Kaolack offices that should also liaise with local actors to obtain a clear commitment of the Local Authorities to pursuing the goals of the MoPRE and the GF.

Pre-screening of the would-be entrepreneurs

The role of associations and other intermediaries must be recognized. As a minimum, they may have a say in the pre-screening and validation of the business plans, the market research and the entrepreneurial ideas, so to decrease the rate of default of new projects and the evaluation costs sustained by the banking system. The MoPRE provisions should be implemented by the bank, considering the process of inclusion as the main guarantee for the effective success of the investments in Senegal in which the GF is a pivotal tool that can work only if all other quality conditions are met.

When size matters

It has been highlighted that, in order to create sustainable development it is important that the size of businesses that are supported by the whole process of the MoPRE and awarded the guarantee, go beyond the kind of micro and very small businesses for which existing tools (such as microcredit tools) are already performing a role of access to credit.

It is recommended that the whole system (both services and the GF) has a preference for the creation of businesses of a certain size (similar to SMEs rather than craft or micro-enterprise), by encouraging single would-be entrepreneurs to join forces, skills and financial means to establish a business that can create jobs, revenue and an overall impact on the areas where they the enterprise is run. Encouraging single entrepreneurs to find partners enhances the credibility (and all the other related “-worthy” factors) of the business idea in the eyes of the banks, and generally of the involved stakeholders. This also includes increased credentials, collateral and overall strength of the business. Furthermore, by joining force, new entrepreneurs may find complementary skills/resources that can increase the success rate of the enterprise over time. The

creation of multi-partner business and the possible dangers that it may entail, should also be closely monitored by the MoPRE and GF staff and consultants.

The tradition of former poor countries developing into industrial and tertiary-oriented areas shows that the best forms of financially sustainable development are related to the creation of spontaneous aggregations of entrepreneurs working in the same field and for common objectives. Family links and a shared technical background of experience are also important elements for a successful growth.

Participation of beneficiaries

One of the goals of the MoPRE should be that of including all those migrants that show potential for successful paths. This requires the creation of a strong networking involving all stakeholders that are relevant and are connected to Senegalese migrants in Italy and actively working on the promotion and publicity of the Model.

Portfolio perspective

In order to allocate the risk of bad loans due to high-risk profile operations as start-ups of new companies by non-experienced entrepreneurs, pursuing agreements with other stakeholders (Banks, other GFs, local Associations, Plasepri, etc.) seems to be a key point to pave the way to better control such risky operations.

Transnational stakeholders in a common view

The characteristics of the Intermediary stakeholders participating to the model should be transnational. Services, irrespective of where the migrants access them, must be provided with the same method and quality and all involved stakeholders must ensure this consistency. The links between the local offices of Su.Pa and the stakeholders in Italy and Senegal should be inspired by a common view and common procedures. This can offer the beneficiaries a trans-national perspective and the feeling of being supported by reliable institutions during all the migration phases.

Migration phases

The project should stress in the importance of a continuous assistance in the pre-migration, in-migration and post-migration phases. This will consist in a proper dissemination of information,

effective bank inclusion, provision of training, support in the return schemes, financial advise and business support in the initial phase of activities through a working system of assistance. This could dramatically reduce the risk of unsuccessful start-ups resulting in bad loans for the system.

Clear strategies

In absence of clear strategies and the difficulties to understand the role to be played by each stakeholder in the scheme can strongly limit the performance of the MoPre and GF model implementation. Communication is key in this regard. A tailored communication strategy targeting the appropriate partners is needed for the creation of a successful model. In particular, not only the variety, but also the quality of the network needs to be fostered. The strategy of inclusion should be aimed at those partners who can benefit but also concretely contribute to the smooth operations, and they need to be regularly mobilized and motivated.

From Public to Private

As global dynamics show, the initial public intervention and modelling of the MoPre and GF for Senegal should gradually move from from a Public funded financial instrument to a private or semi-private system of sustainable Credit Guarantees (e.g. as Afford, IntEnt, etc). Once the models have proven to be market oriented, that is, they respond effectively and efficiently to a specific demand of the migrants, the operational role of the public authorities (Veneto, Marche and Kaolack Regions) should be limited, while the overall transnational governance of the model must be ensured by the local authorities that will have to guarantee the accountability of the network and create coherence among different policies (financial, economic, social etc.). A greater role of the private stakeholders (migrants, businesses, development agencies etc.) will ensure that the model is sound and increase its long-term sustainability well beyond the natural life cycle of Su.Pa.

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