TRANSFER OF SUCCESS

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Micro Loans Schemes

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INTRODUCTION

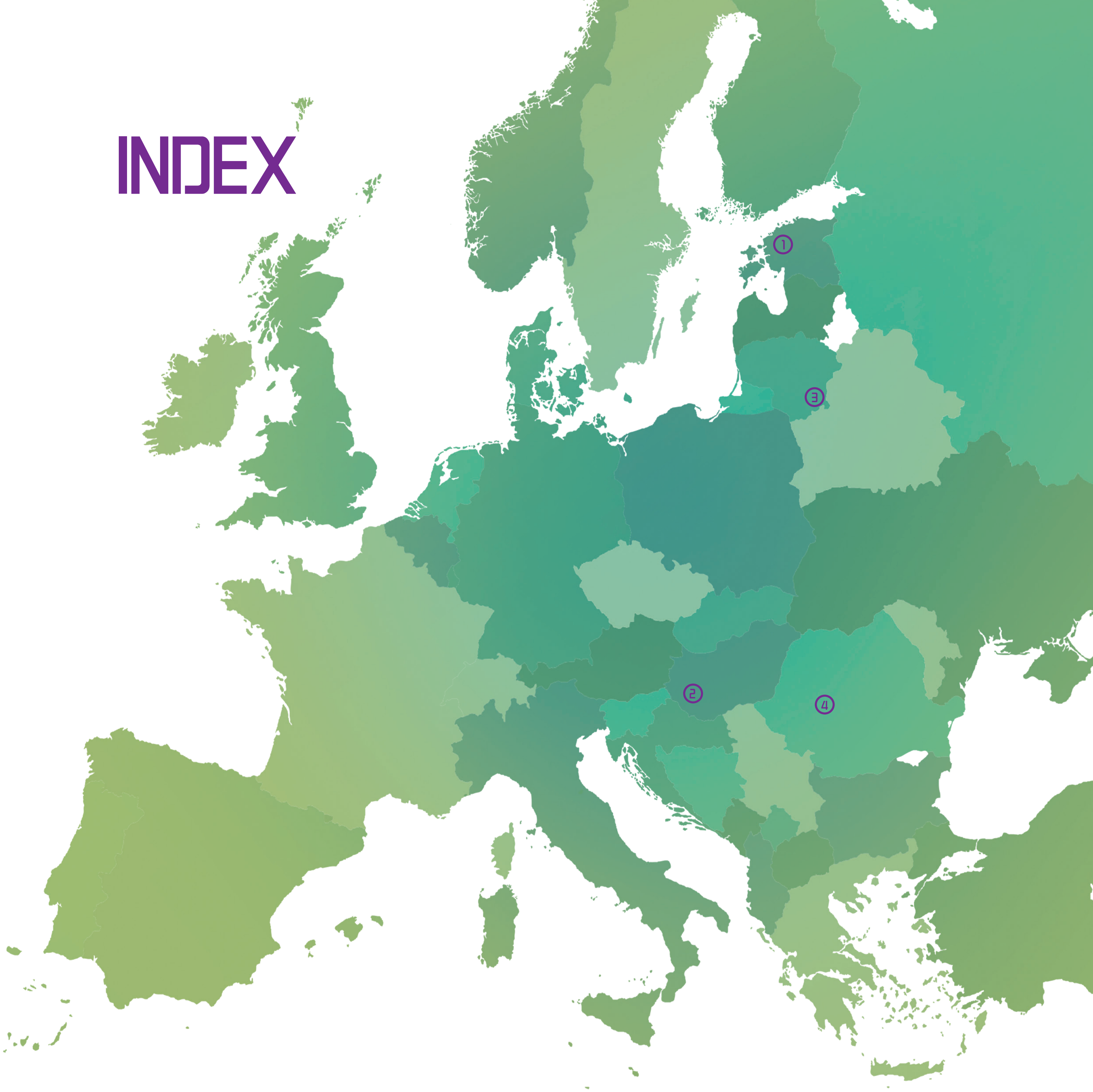
Exclusion from banking services often constitutes a major obstacle to the launch of new business activities. Micro credit is a financial process that allows someone who has capacities to develop his activity and be integrated to the economy while he has no money, no liabilities and no possibility to get any bank loan. Basic idea of Micro credit is that giving a small non secured loan in order to begin a small enterprise or activity future profits of this activity will permit to reimburse the loan. By extension, Micro Finance is defined by the offer of financial services (savings, loans, insurance…) to the poorest people. It is aimed at low income people who have no access to formal financial system and who have no regular paid employment.

While existed under diver forms since centuries, Microfinance has its structural form as modern microfinance movement at the 1970's; for a big part due to the "Grameen project" for the rural development. It rapidly developed in the 1980s and 1990s. Now days, it is implemented by schemes throughout the world, in Asia, Pacific, Africa, Latin America, and more recently in Eastern and Western Europe.

Almost 1100 Microfinance Institutions (MFI) exist serving 74 million borrowers with 38 billion USD in loans. MFIs are structures that provide products and services of microfinance to related populations. They are many forms: credit and savings cooperatives, nongovernmental organizations, programs implemented by international institutions, regulated microfinance institutions, microfinance banks. Commercial banks, microfinance investment vehicles, governments, local communities and insurance companies are interested on micro credits as well.

In Europe, the amount of the micro credits granted ranges from 220 Euros to 37.000 Euros depending on the recipient, (enterprise or a person having personally solicited a microcredit). The average microcredit amount was about 10.000 Euros in Europe with an average interest rate of 9%. Non-bankable clients comprise 66% of clients in Europe; usually they are women, immigrants and ethnic minorities; whereas 32% are concentrate on rural clients. MFIs main objectives are microenterprise development, job creation, social inclusion, poverty reduction and financial inclusion.

INDEX



MICRO LOANS SCHEMES

1 START UP-LOAN GUARANTEE SCHEME

1. SUMMARY OF GOOD PRACTICE

Overview

Delivered in association with five Banks in Estonia and support from Tallinn Science Park Tehnopol, the Start-Up Loan Guarantee Scheme is a loan guarantee initiative run by Kredex on behalf of the Government.

Key aims

The scheme was set up to improve the number of successful start-ups in Estonia by alleviating the four problems associated with new businesses; high failure rates, lack of credit history, lack of collateral and the owners' unwillingness to bear risks. The loan guarantee scheme is aimed at overcoming two of the key barriers:

- **The reluctance of banks to finance start-ups.** Start up businesses in the region have a high failure rate with only one in ten start-up businesses successful in the Baltic region. Characterised by a lack of collateral and no credit history, Banks consider start-ups a 'risky' investment
- **The reluctance of entrepreneurs to set up new businesses** because of the ' fear of failure' and their exposure to significant debt if they are unsuccessful. Liable for 30-40% of the loan value, the scheme provides small businesses with limited liability helping to mitigate their risk.

Key resources

Programme Funding: the European Social Fund **Programme Partners: KredEx A** self-sustainable public organisation created by the Ministry of Economic Affairs and Communications. The operating costs associated with the programme are financed from contract fees based on a percentage of the on the loan amount and a percentage guarantee fee on the loan balance to cover administration costs and part of the losses arising from the scheme. **Swedbank AS** One of the five banks involved in the scheme, Swedbank are the leading bank in the Baltic region with a 50% market share largely as a result of their extensive branch network across Latvia, Lithuania, Sweden and Estonia. Their mission is to promote a sound and sustainable financial situation for households and enterprises. **Nordea Pank, SEB Pank, Versobank, Eesti Krediidipank** are the other four banks participating in the scheme. **Tallinn Science Park Tehnopol** provides a science and business environment and high quality added value business development services for > 150 knowledge based companies. Their Startup Incubator helps to boost new and innovative business ideas. Having recently secured funding from the Swedbank Prototron Fund, they plan to provide support for participating businesses in the future.

Eligibility criteria

The Start-Up Loan Guarantee Scheme is aimed at:

- Start-ups and companies (but not private individuals) < 3 years old
- Companies with a realistic Business Plan
- Companies with a reliable financial forecast, who are able to meet their financial obligations
- Company and owners with a good credit history, without any current overdue debts

Terms and conditions

Loans range from a minimum of €2000 to €64,000, slightly higher than normal micro finance, with repayment terms of up to 5 years. Companies also benefit from an initial 6 months grace repayment period, providing them with time to develop and test their product or service before going out to market. Current, (i.e. Sept 2012) guarantee fees and loan interest rates are 3% for KredEx + Euribor or bank's base interest rate and a risk margin up to 4% (~8%) Funds must be used for investments and/or working capital.

Loan Process - How it Works

STEP 1 Eligible companies seeking finance and meeting the criteria submit a loan application to participating Banks. (Free consultation is available from Business Advisory Centres for applicants needing help with their Business Plans).

STEP 2 The Bank advise a conditional decision and if positive make a 'guarantee application' to KredEx.

STEP 3 KredEx review the business proposal and advise the Bank of their decision. If their decision is positive the Bank grants the loan.

STEP 4 The loan is arranged by the Bank who advise the company of the outcome and carry out all administrative activities associated with the loan. KredEx guarantee up to 75% of the loan amount and clients are expected to guarantee 30-40% of the amount covering the balance of the loan and the fees involved.

2. IMPLEMENTATION

Key Stats Results to Date

The scheme has approved more than 200 loans and created almost a 1000 jobs to date across a wide range of sectors including manufacturing, accommodation and food service activities and the wholesale and retail sectors.

KEY MEASURE	Number	Value
Applications for finance	494	€5.5M
Average Loan	42	€24.000
Loans Issued	231	47% Approval Rate
Companies Supported	229	Take up to date
Jobs Created	992	50

* KredEx March 2008-August 2012

Key challenges have included:
Looking at the review and issuing process to see where both the time taken and overheads associated with the approval process can be reduced. A high proportion of start-ups with low credit scores, making it difficult to approve loans. Only half of the applications get positive guarantee decision from KredEx.

Both Kredex and participating Banks would like to see larger numbers of applications from companies. Swedbank, one of the five banks involved in the scheme, are keen to increase the number of applications it deals with from the 123 received over 4 years to date. With 1200 new businesses created every month in the region, loans made through the scheme represent just 10% of start-ups supported. Effectively operating the scheme at a loss, Swedbank view that longer term payback will come when companies are successful.

3. KEY LEARNING POINTS AND OPPORTUNITIES

Swedbank view the scheme as 'a state backed guarantee' from the Estonian Republic, good for their own business and a good endorsement for the Start-Up Loan Guarantee Scheme. For Banks, lending to businesses is risky business; with only 1 in 10 start-ups successful in the region the failure rate is very high. Whilst they want to help encourage more start-ups and help new businesses they have no profile information enabling them to identify good candidates for loans, the start-up loan guarantee scheme provides them with useful market intelligence, helping them to spot good risks in the future.

Has it done its job?

- The scheme has helped > 200 businesses and created almost a 1,000 jobs to date and is viewed by partners as a very effective way of supporting start-ups.
- Current reimbursement rates are 75%; most companies pay back their loans. This represents a good loss ratio for Kredex who are able to absorb a loss of 20-30%.
- Having compared the scheme to grants, Kredex consider the scheme much more effective. Companies awarded grants have a different mindset, it changes their thinking, and seen to be not so business-like and less likely to survive.

FURTHER INFORMATION

Featured case study:
www.taptender.com
DIFASS You Tube Channel:
http://youtu.be/aEzZNQG-LUE

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2 MICRO FINANCE MANAGEMENT TOOL

1. SUMMARY OF GOOD PRACTICE

Overview

Credinfo provides an online application, assessment and credit management facility. Originally set up to accelerate the credit application process, the Internet Based Micro Finance System was developed to provide an online facility for Hungary's Local Enterprise Agency network helping SMEs to access funds.

Key aims

The project was set up to:

- Accelerate the credit application process, helping for profit and not for profit SMEs to access finance.
- Provide a one-stop internet based client application and management solution for any agency managing micro funding schemes for SMEs.

Key resources

Programme Partners:

Credinfo was developed in association with **Fejer Enterprise Agency (FEA)** who wanted to accelerate the client application process. FEA already have experience of working with micro organisations, supporting 280 active clients with an average loan value of €11-37,000. With the development of the scheme funded by the European Microfinance Network, Credinfo Ltd are the lead software developers and system managers of the Credinfo application. Client loans are funded via the **JEREMIE** programme. Their funds are distributed and managed through the CREDINFO Internet-based system. Registered clients (entrepreneurs) can submit a loan application online for the loan product selected from the "credit webshop" to the MFI offering the loan product via a "microcredit cart". When completing the loan application an assistant helps the applicant to compile the business plan for the requested loan product.

The Hungarian Microfinance Network (HMN) is a network of 20 Local Enterprise Agencies (LEAs) offering a variety of financial and non-financial programmes throughout Hungary. The Credinfo system is used to manage their individual funding programmes. **Zala County Foundation for Enterprise Promotion (ZMVA)** is the lead LEA.

Loan Process – How it Works

STEP 1 Eligible Companies seeking finance submit an online loan application through each partners 'credit webshop'

STEP 2 Loan applications are initially assessed online. The software tool developed for the site enables an easy and comprehensive financial analysis of the applicant; the company's liquidity, indebtedness, profitability and efficiency.
Applications passing this stage are then assessed by a committee and advised of the outcome. The entire loan application process including assessment is carried out on line.

STEP 3 Credinfo also offer financial and enterprise development services and provides SMEs with an opportunity to search for Business Partners.

As well as providing SMEs with an online application route for funding, CREDINFO:

- Provides partners subscribing to the system with real time management information on their individual clients and the overall status of their funding scheme.
- Provides individual SMEs with the means to track the progress of their application and if successful, the status of their loan account.
- Provides the Funding body, in this case JEREMIE, with instant access to management information reports.

2. IMPLEMENTATION

Overview and aims

An award winning initiative, Credinfo was rolled out in 2009 and is used by 26 LEA partner organisations in Hungary and 1 partner in Norway, achieving all the basic functions it was set up to deliver.

Partners pay a small installation cost for translation services and a monthly fee based on the number of clients supported to use the Credinfo system. Partners are also invited to regular project meetings to share best practice and review progress and developments associated with the programme. The Credinfo system is being constantly developed in response to the needs of its clients, this includes the recent addition of the management system for collective landing as well as the development of the dashboard and a special module enabling the measurement of social benefits.

Key Stats:

- The average assessment period for loans before Credinfo was 30 days. This has now been reduced with the average time of loan assessment shortened to 1-2 weeks.
- Funding Bodies, Client's Partners' and Client Businesses now have instant access to up todate management information enabling them to manage the flow of funds.
- Several European partners have expressed interest in the programme with a Norwegian agency being the most recent partner to join the scheme.

3. KEY LEARNING POINTS AND OPPORTUNITIES

Main benefits and success factors for MFIs using the system include:

- Access to a top-rank system containing the practical tools/innovations of other MFIs without major investment
- A tailored system able to deliver high-quality online services for its clients
- Different modules of the system that can be installed independently
- A system that supports the loan application process
- Access to a management information system providing performance reports on the whole micro financing system as well as the MFI itself.
- Financial reports

The lead partners now want to encourage more take up from the 'not for profit' sector.

Transferability

Credinfo is completely transferable to other countries, languages and legal environments. Available to any agency involved in managing funding schemes, the internet application can be adapted and tailored to support any micro web based loan scheme in any country, helping to remove the barriers to internationalisation. The system has been developed using a SaaS (Software as a Service) model so no additional software costs are involved.

FURTHER INFORMATION

Project website:
www.credinfo.eu
Fejer Enterprise Agency (FEA):
www.rva.hu
JEREMIE Programme:
http://www.eif.org/what_we_do/resources/jeremie/
DIFASS You Tube Channel:
http://youtu.be/RVR8H3fOhSU

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3 ENTREPRENEURSHIP PROMOTON FUND

1. SUMMARY OF GOOD PRACTICE

Overview

Set up in August 2009 with ESF funds the Entrepreneurship Promotion Fund is a microcredit loan scheme aimed at supporting start-ups and viable micro companies who have been trading for < 12months. Using 'smart money', loans are accompanied by help with Business Planning and access to optional training across a range of six key business skills units. The fund is delivered through a network consortium of 57 Credit Unions, represented by the Lithuanian Central Credit Union which provides micro companies with additional benefits. Cofinancing 10% of each loan, the Credit Unions provide microcredits to the companies for financing business start-ups or expansion.

Key aims

- To grant 1,200 micro credit loans to start-up's
- To train more than 5,000 individuals from the companies involved
- 30% of the training and more than 15% of the loans to benefit the priority groups: unemployed, disabled, young people < 29 and the 50+ age group.

Key resources

Key Partners:

INVEGA - the manager of the Holding Fund – Entrepreneurship Promotion Fund. Set up in 2001 to guarantee loans issued to SMEs by commercial banks, INVEGA have extensive experience of microcredit loan schemes and SME financing, issuing almost 4,000 guarantees for loans exceeding a total value of €400M. Selected through a public procurement process, the Consortium of **57 Credit Unions**, represented by the Lithuanian Central Credit Union, is the financial intermediary and distribution channel for the Entrepreneurship Promotion Fund Microcredits. Conditions set up for the programme has enabled the Credit Union to offer more favourable micro crediting terms, which has some state aid/De Minimis implications for the beneficiaries, entrepreneurs and microcredits.

The Ministry of Social Affairs and Ministry of Finance, both co-signatories on the Funding Agreement of the Entrepreneurship Promotion Fund.

Match funding

€15M ESF budget running from December 2009 to December 2018.

Eligibility Criteria

- Individuals who want to start a business
- Registered businesses operating < one year: micro, small enterprises and individuals engaged in business activity or activity requiring a business certificate i.e. those micro/small enterprises defined in the Commission Recommendation 2003/361/EC.
- Social Enterprises (Priority groups set by the Ministry of Social Affairs include unemployed, disabled, young people < 29 and the 50+ age group).

Key Terms and Conditions

Rules governing Credit Unions determine that loan applicants must become members. A mechanism has been developed to offset the legislative restrictions that normally enable members to borrow a maximum of 10 x their share capital i.e. their membership fees.

2. IMPLEMENTATION

KEY MEASURE	Target	Result*
Number of loans	1.200	329
Individuals trained	5.000	3.405
Jobs Created	N/A	400
Value of contracted loans		€5.82 M

* Results to date INVEGA Oct. 2012

3. KEY LEARNING POINTS AND OPPORTUNITIES

Despite its slow start, the programme is on track to achieve its targets. The scheme was originally set up using structural funds which did not work well due to inflexible public procurement procedures involved in selecting financial intermediaries. This together with work involved in tailoring the instrument to meet market needs resulted in a 'year lost' to the programme. Introducing loan guarantees and interest subsidies helped to kick start the programme which is now on track with targets.

INVEGA have also developed a different, 'tailor made' financial Grant instrument introduced to run in parallel to the Microcredit scheme. This enables eligible companies considered high financial risks at the outset to recover compensation for interest payments set at a higher level by the financial intermediary. This interest subsidy scheme enables companies to recoup up to 95% of the interest paid and has helped companies recover interest payments totalling €80,000 to date.

Fully subsidised training has proved very popular with companies involved in the scheme and has meant that training targets have exceeded loan targets. This has now had to be scaled back with consultancy support funded and delivered by the Credit Unions still available to help companies.

Key succes factors

- Providing companies with mandatory Business Planning support and optional business skills training helps companies develop the knowledge they need and improve their chances of success.
- Selecting the right financial intermediaries who are committed to supporting and financing micro start-ups, rather than large companies, is critical to the success of the programme.
- Both the guarantee, compensation of interest payments and 'smart money' help mitigate the risk for the financial intermediary and make the scheme more attractive to unemployed and selfemployed entrepreneurs

Debt finance for start-ups was not common practice in Lithuania before the programme and has filled a gap in the market. Unemployed, self-employed entrepreneurs and companies trading for less than 12 months now have access to capital in the form of microcredits. Set up in August 2009, the Entrepreneurship Promotion Fund runs until 2018, so it is too early to tell what may happen but the results to date are good.

FURTHER INFORMATION

DIFASS You Tube Channel:
http://youtu.be/GE52-1cHVFU

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4 MICRO CREDITS

1. SUMMARY OF GOOD PRACTICE

Overview

Operated by Opportunity Microcredit,
a non-banking financial institution set up to support micro and small size enterprises in Transylvania, Microcredits are flexible loans granted to creditworthy micro businesses unable to access bank finance. Supported by a simple written application and loan approval process, grants can be used by micro enterprises to pay off their debits, refinance their enterprise and/or fund capital or working capital expenditure.

Key aims

The scheme provides companies with the financial resources needed to enable them to widen their business opportunities, helping them to grow and achieve more efficient sustainable development. Opportunity Microcredit takes the view that enabling clients to develop a business will lead to long term employment and economic growth.

Key resources

Programme Partners: Set up in 1995 by the Opportunity International Network expert in operating microfinance programs. **Opportunity Microcredit** is one of the leading financial institutions in Romania with a social purpose. It is a non-banking financial institution founded with the purpose of supporting micro and small size enterprises in Transylvania. **Opportunity International Network (OIN)** is a globally recognised leader in the microfinance Sector providing services to 5 million people worldwide.

The key funder for the Microcredits programme OIN provides technical assistance and links to the financial systems and processes needed to implement the programme in addition to funds for the loans. Although not the financial body or implementing organisation for the scheme, having identified the good practice the **Regional Development Agency** do promote the scheme through their networks.

Target Client Group/Eligibility criteria

The scheme is aimed at four key sectors;
Manufacturing, Services, Trade and Agriculture. Companies eligible for support include:

- **Micro-enterprises** up to 9 employees and annual net turnover or total assets of up to 8 mil RON (~€2 mil)
- **Small enterprises** 10-49 employees with an annual net turnover or assets of up to 40mil RON (~€10 mil)
- **Agricultural Companies** owing or renting a minimum of 50-60 Ha and a min of 30 cattle or 400-500 sheep
- **Agro Licensed Individuals** with agricultural companies owning/renting < 50/60 Ha with a maximum of 30 cattle or 400-500 sheep.

Terms and conditions

Grants range from €250 for new clients to €15,000 to €30,000 for existing clients. Payback periods range from 3 months to 60 months. Clients are charged a fixed interest rate in the first 12 months which is then subject to 3 monthly reviews linked to the current ROBOR rate.

2. IMPLEMENTATION

As far as the Regional Development Agency is aware the project has been delivered as intended following a good implementation plan.

Key Stats Results to Date

KEY MEASURE	Outcome
Assessment of Applications	7 days
Applications Approved	15,000 +
Total Funding Granted	€47,362,637
Companies Supported	13,000
Jobs Sustained	18,500

* Regional Development Agency Centru Sept 2012

3. KEY LEARNING POINTS AND OPPORTUNITIES

Backed by a highly experienced international organisation, Opportunity Microcredit is an ongoing and proven financial instrument able to adapt to the changing market and global economic evolution. With its international dimension and mission to provide opportunities and support for small entrepreneurs in order to improve their living, Romanian stakeholders consider the scheme represents a good return. Operating for > 15 years, Opportunity Microcredit has succeeded in establishing long term relationships with its customers and has a positive image on the market with satisfied clients endorsing the programme. Key success factors include a high quality service with access to international best practice, specific knowledge and experience of microcredits and focus on the microcredits sector.

Whilst the results to date from the programme are good, the inability of customers to pay back microcredits in the recession, the competitive environment, withdrawal of creditors and political instability are factors which may impact on the project.

FURTHER INFORMATION

Opportunity International Network:
www.opportunity.net
DIFASS You Tube Channel:
http://youtu.be/KWaNZP0Wcjw

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