COPIE 2 – subcop Access to Finance

Meeting in Lithuania

19-20 January 2011

Centrum Uniquestay hotel

Vytenio str. 9/25, Vilnius

Meeting Report

February 1, 2011

Present:

Joeri Colson, ESF-Agentschap Vlaanderen

Bettina Reuter, Federal Ministry of Labour and Social Affairs

Mechtild Juergens, Federal Ministry of Labour and Social Affairs

Brigitte Maas, Deutsches Mikrofinanz Institut e.V.

Jochen Bloß, Deutsches Mikrofinanz Institut e.V.

Beñat Egaña, Iq consult

Gerhard Braeunling, Taskforce Entrepreneurship and Microfinance, Employment, Social Affairs and Equal Opportunities DG, European Commission

Egita Poļanska, EU funds implementation department Ministry of Economics of Latvia

Norbert Kunz, Iq consult

Aurelio Jiménez Romero, Incyde Foundation

Ruben Vandeweghe, Hefboom

Pieter Werrebrouck, Hefboom

Guzmán García González-Posada, Ministerio de Trabajo e Inmigración

Toby Johnson, AEIDL - transnationality and innovation in the ESF

Ana María Méndez Rodríguez, Centro Europeo de Empresas e Innovacion del Principado de Asturias

Angeles García Viejo, Technical staff from the DG of Trade, Self-Employment and Social Economy within the Ministry of Industry and Employment of the Government of the Principality in Asturias

Nijolė Mackevičienė, Lietuvos Respublikos Socialinės apsaugos ir darbo ministerija

Lingailė Biliūnaitė, Lietuvos Respublikos Socialinės apsaugos ir darbo ministerija

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Ramūnas Dilba, Lietuvos Respublikos Finansų ministerija

Jovita Klevinskienė, Lietuvos Respublikos Finansų ministerija

Rūta Dapkutė-Stankevičienė, Lietuvos Respublikos Finansų ministerija

Jurgita Karčiauskaitė, Lietuvos Respublikos Finansų ministerija

Audrius Zabotka, UAB „Investicijų ir verslo garantijos“ (INVEGA)

Viktorija Jonušaitė, INVEGA

Jurgita Januševičiūtė, INVEGA

Sigita Rutkauskaitė, INVEGA

Sigitas Bubnys, Lietuvos centrinė kredito unija (LCKU)

Jūratė Tamošaityte, LCKU

Tomas Valauskas, LCKU

Aistė Lindžiuvienė, LCKU

January 19, 2011

Welcome

Nijolė Mackevičienė of the Ministry of Social Security and Labour welcomes the entire group, with its many nationalities, to Lithuania. She expresses her hopes of a good meeting, in which the Lithuanian case can be discussed and knowledge can be shared.

Introduction to COPIE 2 and subgroup „Access to finance”

Bettina Reuter of the German Federal Ministry of Labour and Social Affairs presents the framework of COPIE 2 and gives more information on the structure and the objectives of the 5 subcops or working groups. She highlights the European COPIE Tool and its results to emphasize the importance of COPIE and its working groups.

Joeri Colson of ESF Agency Flanders, Belgium uses his presentation to provide more information on the specific goals and the actions taken so far in the subcop Access to Finance. He starts with an overview of the partners of the subcop (Czech republic, Spain, Germany, Lithuania and Flanders), zooms in on the baseline study which was done, the Access to Finance tool which was developed and the upcoming meetings.

The specific needs of unemployed people and the role of the ESF

Gerhard Braeunling of the European Commission focuses on the needs and problems of the target groups in the European Union and explains the efforts which have been made to improve the situation.

He starts off with a description of the socio-economic situation in the EU and elaborates on the economics of microfinance and the resulting discrepancies to conclude that government initiatives are necessary to correct the market (provision of funds, guarantees, or subsidies for training services). He zooms in on the milestones in supporting microfinance (such as JEREMIE, JASMINE and recently EPMF) and stresses the importance of access to finance.

Challenges and opportunities implementing financial engineering measures in Lithuania

Ramūnas Dilba of the Ministry of Finance brings the attention to the Lithuanian context. He talks about a global approach, in which not only finance, but a combination of measures is needed. An overview of initiatives thus far shows that Lithuania already implemented credits, guarantees and interest rebates to support entrepreneurship.

The key actors and measures for start-ups are described and the lessons learned are presented. The conclusion is that there are still opportunities and challenges, both at national and EU level. At national level he wants an assessment of the demand, a stable flow of loans, a sharing of the risk and complementary financial engineering initiatives. At EU level he sees the need for a clear regulation, so as to avoid uncertainty about combination of funds, structures, eligibility, monitoring, …

Financial engineering measure Entrepreneurship Promotion Fund for start ups

Audrius Zabotka, deputy director of holding fund INVEGA, describes the structure and mission of the organisation. He presents an overview of the financial instruments that are managed by INVEGA, of which some are (co-)funded by ESF and ERDF. The Entrepreneurship Promotion Fund takes up a rather small stake of INVEGA funding with 15 million Euros coming from ESF.

The setup of the facility is put in a time frame (2009-2010), which shows that the Facility has become operational in the months following the signing of the agreement between INVEGA and LCCU on July 30, 2010.

The Enterpreneurship Fund aims to provide training and credits of maximum 25.000 EUR to start up SME’s in collaboration with 57 Credit Unions.

The most recent results are presented. The number of attended trainings (2104) is in line with the objectives (4500 in 2.5 years), but the number of credits disbursed (9) is below expectations (1200 in 2.5 years). The target groups are more than sufficiently represented in the figures when it comes to training (79.5 % of objective), but again less when it comes to credits disbursed (4.4% of objective).

Capacity Building between Lithuanian Central Credit Union and Credit Unions

Sigitas Bubnys from the Lithuanian Central Credit Union explains what a credit union is and unfolds the structure of the credit union network in Lithuania. He describes the various services from LCCU to credit union and from credit union to client.

The focus is set on the microcredit project in which the LCCU is lead partner and the 57 credit unions and 154 outlets are partners. The role of the LCCU lies in coordination, consultation of credit unions and dissemination of information, whereas the role of the individual credit unions lies in the direct contact, support, evaluation of business plans and supervision with regards to start-ups.

The strenghts of both LCCU and credit unions are emphasized to make it clear why they were chosen as partner in the Entrepreneurship Promotion Facility.

Sigitas Bubnys stresses the importance of the component Business Support, which is included in the Facility by working with subcontractors who are specialized in providing training and consultation.

Q & A on the Lithuanian Case

Ruben Vandeweghe and Pieter Werrebrouck from Hefboom (Flanders, Belgium) invite all the participants to pose questions. By opening the floor they wish to stimulate an open discussion about the Lithuanian good practice. The sharing of information gives new insights and ideas to participants, which they can take home and hopefully implement to improve their own practices.

The following topics are discussed:

- **Financial setup**

  The Entrepreneurship Promotion Facility combines various funds and stakeholders to deliver microcredits to the final beneficiary. To make the financial setup more comprehensible, a scheme is designed and presented (see annex 2). This leads to following discussions:

  - Regulation:

    The Entrepreneurship Promotion Facility is financed by ESF and provides 90% of the funding of the microcredits to the credit unions. In the Lithuanian case, there is a possibility to guarantee the microcredits for 80% of the credit amount through the Guarantee Fund, which is financed by ERDF funds (and also managed by Invega). As this is a combination of ESF and ERDF funds, the European Commission disputed that this is not in accordance with the regulation. The reasoning is that the same amounts are claimed twice as an expenditure (once to ESF for the funding and once to ERDF for the guarantee).

    The Invega Fund and the European Commission are examining how to resolve the matter, but for the moment no guarantees can be granted from the Guarantee Fund for credits disbursed by the Enterpreneurship Promotion Fund. Some guarantees are advanced by government until the technical matter is resolved, but the current situation is possibly holding back credit disbursement. This could explain why the number of credits disbursed is below expectations (4.4% of objective after 0.5 years), whereas the number of trainings is according to schedule.

- Compared with other countries

  Brigitte Maas explains briefly the German Guarantee Fund (“Mikrokreditfonds Deutschland“). In setting up the Guarantee Fund in Germany no similar problems ocurred, because this Guarantee Fund was financed from ESF and no ERDF funds were involved. In Germany the funding of the microcredits is done by a separate entity: which is GLS Bank.

  Egita Polanska explains the Latvian case which is quite similar to the Lithuanian case. Microcredits of maximum 25.000 EUR are disbursed by a separate branche of a commercial bank. These loans are aimed at selfemployed or companies in the start up phase and are combined with training and grants (of up to 3.000 EUR). Funding of the loans and grants is financed by ESF. There is also a guarantee scheme which can be used for these microcredits and which is financed by ERDF funds. It is unclear whether this is in accordance with the regulations.

- **Client perspective**

In this section we describe the discussions we had when looking at the Lithuanian practice from the perspective of the (potential) client (see annex 3):

- Repayment
  - Collateral/pledge

    In cases where there is no guarantee through the Guarantee Fund of INVEGA (up to 80% of loan), the credit union demands collateral to cover the risk. This collateral can be provided through a pledge on equipment, a mortgage or a guarantee by another member of the Credit Union. Each client is requested to open a bank account with the credit Union, so that the balance of the account can be seized in case of non repayment of the microcredit. So far almost all microcredits are covered by (state) guarantees.

- Repayment rates:

  Normally credit unions face ‘a loan portfolio at risk (over 30 days)’ of 3 to 4% and a ‘write of rate’ of 0,2%. For these microcredits a write of ratio of about 1% is predicted.

- Borrower history and risk monitoring

  Credit unions have the means and access to verify credit history in order to estimate and monitor risk.

- Sanctions

  If there are problems in the repayment of the loan, the Credit Union will talk to the client to find a solution. If the loan is not repaid, the client will be marked on the black list. Wether the Credit Union goes to court to enforce repayment and seize the collateral depends on the amount of the loan.

- Target groups:

  - What are target groups and are they sufficiently reached?

    The Entrepreneurship Promotion Facility is open to SMEs that exist less tan 1 year, but focuses on target groups such as young, old, unemployed and disabled. Because these target groups are defined rather broadly, most of the clients reached come from these target groups. Audrius Zabotka from the Invega Fund stresses that the Entrepreneurship Promotion Fund is more a financial (stimulating entrepreneurship) then a social measure (stimulating social inclusion).

    When the Entrepreneurship Promotion Fund was launched, it was done with a big promotional campaign. Apart from that, there are also a lot of organisations such as labour offices, youth organisations, a network of business advisors and information centers who refer entrepreneurs to the EPF.

  - How to measure social impact?

Seeing that banks are not very willing to offer microcredits, there is a large potential for the Facility, but whether the needs of the underpriviliged are reached is not totally clear.
Still, the participants underline the necessity to measure social impact. The suggestion is made to measure social impact by verifying how many entrepreneurs are still selfemployed after 1 or 2 years.

- Training
    - Are target groups reached with the training and consultation?

      Target groups for training are defined rather broadly. The free sessions are popular (2014 participants up till now) and it is based on the first come first served principle.

    - Mandatory or optional?

      Training is optional, but often requested.

    - Costs

      The entrepreneur does not have to pay for training and consultation, but the allocated hours are limited.

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Business support (targeted approach)

Anna Maria Mendez Rodrigues from CEEI (Asturias, Spain) works within the subcop Business Support and brings a presentation on its goals and methods.

She starts by situating the working group Business Support whithin COPIE 2 and presents its members (Germany, Spain, Wallonia, Incyde Foundation, Czech Republic, Galicia, Extremadura), its methodology and its main goals. She then makes a linkage to access to finance and stresses the importance of business support in order to get better results.
To conclude the session, she divides the group in several smaller groups to analyze different aspects of business support in Lithuania. This leads to insights for participants on the situation regarding entrepreneurship promotion and business support services in different phases of development and for different target groups.

Reflection of the delivery of services and linkage with the financial support

Anna Maria Mendez Rodrigues continues to promote the necessity for business support services in the second session, by asking small groups to identify possitive and negative measures in Lithuania when it comes to bussiness support and to propose improvements.

She shows results from a study, indicating that the perception of implemented measures, both on access to finance and bussiness support, can differ a lot when viewed through the eyes of implementing bodies and final beneficiaries. In general implementing bodies tend to think that their measures reach target groups sufficiently, whereas the target groups often think differently. In some cases it is the other way around. Anna Maria Mendez Rodrigues stresses therefore the importance of regular evaluations by implementing bodies. Bettina Reuter points to the European COPIE Tool as an interesting instrument to do this.

Conclusions

Member states can promote microcredit in their country by intervening on different aspects of the provision of microcredits:

- on the risk side: through a guarantee fund
- on the funding side: through a funding mechanism for the microcredit providers
- on the costs of training and consultation: through a subsidy for the providers of these trainings

In the Lithuanian case, there is an intervention on the three levels: the Entrepreneurship Promotion Fund provides funding to the Credit Unions for the microcredits and subsidies for the provision of training, and the Guarantee Fund provides guarantees for these microcredits. As this Guarantee Fund is funded by ERDF, the question rises whether this combination of ESF and ERDF funds is conform the regulation.

In most member states government funds (European, national or regional) are used to support microfinance in order to support entrepreneurship by target groups. Governments invest money in these measures because they believe it has a positive impact on economic growth and social inclusion. But how can we measure this social impact? If we can define criteria to measure the social impact of these interventions in microfinance, we could also compare different measures and determine which measures are succesfull in the most cost effective way.

It is usefull to adopt measures to stimulate the provision of microcredits to entrepreneurs from target groups, but it should be noted that this is not enough. It is crucial to combine the provision of microcredits with the provision of adapted training services and a regulation that is adapted to entrepreneurs from target groups. The succes of the training courses in the Lithuanian case clearly shows the need and demand for training by entrepreneurs from target groups.

The next COPIE 2 – subcop Access to Finance meeting focusses on a good practice in Flanders and will be held in Brussels on May 12 & 13, 2011.

Annexes

1. COPIE II evaluation and assessment tool Lithuania

2. Flow chart funding, operational costs and risk

3. Client perspective