

### **START UP-LOAN GUARANTEE SCHEME**

**Originator:** Lehar Kütt Head of Enterprise Division KredEx

**Partners:** Kaarel Aus, Swedbank, Pirko Konsa Tallinn Tehnopol

**Web:** <http://www.kredex.ee/> **E mail:** [kredex@kredex.ee](mailto:kredex@kredex.ee) **Telephone:** +372 6674 100

#### **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** from 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 as well as 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 Start-up 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 feasible and 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

▪ **Key Terms & 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**

<b>STEP 1</b>	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).
<b>STEP 2</b>	The Bank advise a conditional decision and if positive make a 'guarantee application' to KredEx.
<b>STEP 3</b>	KredEx review the business proposal and advise the Bank of their decision. If their decision is positive the Bank grants the loan.
<b>STEP 4</b>	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 <u>up to</u> 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		€24,000
Loans Issued	231	(47% Approval Rate)
Companies Supported	229	take up to date
Jobs Created	992	

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 & 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:**

**You Tube:** <http://www.youtube.com/watch?v=aEzZNQG-LUE&feature=plcp>

**Featured Case Study:** Erki Poldma, Tap Tender <http://taptender.com/>