

ENTREPRENEURSHIP PROMOTION FUND

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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. Co-financing 10% of each loan, the Credit Unions provide microcredits to the companies for financing business start-ups or expansion.

▪ Key aims/measures

- To grant 1,200 micro credit loans to start-up companies
- 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.

▪ 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.

- **Funding** 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 & 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 Stats:** Results to date

KEY MEASURE	TARGET	RESULTS TO DATE
Number of loans	1,200	c 329
Individuals trained	5,000	3,405 (c70% of target)
Jobs created	N/A	400
Value of contracted loans		€5,82M
(Total Budget - €15M)		

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3. KEY LEARNING POINTS & 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.

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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 ingredients for success include:**

- ✓ 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 self-employed 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

You Tube - <http://www.youtube.com/watch?v=GE52-1cHVFU&feature=plcp>