Entrepreneurship Promotion Fund, Lithuania

This case study describes an example of a mainstream entrepreneurship programme that provides preferential access to youth, seniors, the unemployed and people with disabilities. Available supports include microcredit, loan guarantees, entrepreneurship training and business counselling. It describes the objectives and rationale for this approach and explains how the programme works. In addition, evidence is presented on the programme's impact. The description also discusses the implementation challenges face and the conditions for transferring it to another context.

Objectives

The Entrepreneurship Promotion Fund (EPF) was established at the end of 2009 and continues to operate. The Fund was initiated by the Ministry of Social Security and Labour, the Ministry of Finance and INVEGA, which is an agency that is responsible for the development of small and medium-sized enterprises in Lithuania and facilitating their access to financing. INVEGA is the managing authority of the EPF. The main objectives of the EPF are (INVEGA, 2015):

- To achieve the provision of small loans to start-up self-employed and SMEs at "better-than-market" conditions.
- To increase access to start-up finance for disadvantaged target groups including:
  - unemployed people;
  - youth entrepreneurs under 29 years old;
  - older entrepreneurs over 50 years old;
  - people with a disability.
- To achieve a minimum of 30% of training places and 15% of loans to be allocated to people from the priority groups.
- To increase start-up self-employment and entrepreneurship in the Lithuanian economy.
- To increase the levels of entrepreneurship and self-employment in the target groups.
- To encourage the take-up of training and advice by start-up entrepreneurs and those seeking to enter self-employment.
- To increase the number of sustainable new SMEs and newly self-employed.
- To reduce unemployment and keep people active in the business and labour market.
- To contribute to the development of a viable entrepreneurial culture in Lithuania.

Rationale

This programme aims to respond to high unemployment rates and difficult post-crisis economic conditions across the regions of Lithuania by addressing gaps in finance and skills for start-up entrepreneurs. It recognises the greater problems often faced by the unemployed, youth, seniors and disabled people by providing preferential access to people from these groups to the support offered.

The EPF combines microcredit with training support for potential entrepreneurs seeking to start a new business or become self-employed. Microcredit schemes are designed to provide access to small amounts of loan finance to businesses that would be excluded from commercial credit markets for reasons of small size, lack of a financial track record, risk or "unbankable" projects (Parker, 2002). Entrepreneurs and small firm owners are required to repay loans at interest rates which may be set at near or below market interest rates. Microcredit schemes can represent good practice because, unlike grants, they still impose a commitment and commercial discipline on entrepreneurs and the requirement to monitor performance (Hirsch and Wlaz, 2011). Start-up entrepreneurs do not have the financial track record which is required by financial institutions for credit proposals, as usually two years is the minimum trading period required. Hence, microcredit programmes can fill a finance gap by providing access to start-up finance until a successful trading record is established (Ayayi, 2012). However, in order to increase the chances of success and repayment by supported businesses, it is effective to offer complementary training and counselling support (OECD/EC, 2013).

Activities

The EPF programme provides microcredit finance and training to successful applicants in co-operation with the Lithuania Central Credit Union (LCCU), which acts as the financial intermediary in assessing applications from candidates. The LCCU partners with 15 training providers to deliver free training and business advisory services to loan recipients. LCCU operates as a one-stop shop by providing advice, information and further training to the programme's participants. The key elements of the EPF include:

- Independent financial assessment of applications from start-up entrepreneurs and self-employed, who have been operating for less than one year, by the credit union members of the LCCU.
- Short- and long-term microcredit of up to LTL 86 000 (approximately EUR 25 000) per SME. This means that it falls under the *de minimis* aid rule (i.e. less than a maximum of EUR 200 000 over 3 years to a single business undertaking) (INVEGA, 2014).
- There is no maximum term period for loans granted, but all advances are required to be repaid by loan recipients by the end of December 2018.
- The majority of loans are provided for investments, but loans for working capital are also issued.
- Microcredit interest rates charged to start-up entrepreneurs are below financial market rates.
- The credit union's interest rate margin is less than 3.49%.
- Comprehensive free training advice for successful applicants including the following aspects of running a small business:
  - business planning (a compulsory element for all applicants);

- financial accounting including tax planning;
- legal aspects of business law;
- business management including human resource management; and
- marketing.

- Loan recipients who do not have any previous business experience receive general training on starting a business.

Although participation in all the training sessions and advice is not obligatory, it is reported as very popular among final recipients (INVEGA, 2014). In addition to this comprehensive support package, a successful feature of the EPF is that participants can also access additional financial instruments from INVEGA (INVEGA, 2014):

- Financial guarantees of up to 80% of the value of the loan. This element is particularly important to applicants having limited collateral such as the members of two target groups: young people and the unemployed.
- 2 categories of financial subsidies:
  - interest rate subsidies of up to 95%, reducing the interest repayments to minimum levels; and
  - employee salaries' subsidies. Beneficiaries may qualify for partial employee salary subsidies if they have employees.

The main components of the EPF, its process and management structure are illustrated in Figures 15.1 and 15.2. The process of financial intermediation which involves assessment of applications from aspiring entrepreneurs and self-employed people is carried out by the credit union members of the LCCU. Successful applicants receive small short-term loans for working capital or longer-term loans for capital investment. All loan recipients are required to become members or shareholders of the credit union. This requires a deposit of at least 10% of the loan amount to the credit union. This is repaid to the recipient after the loan is repaid.

Figure 15.1. **Implementing the Entrepreneurship Promotion Fund**

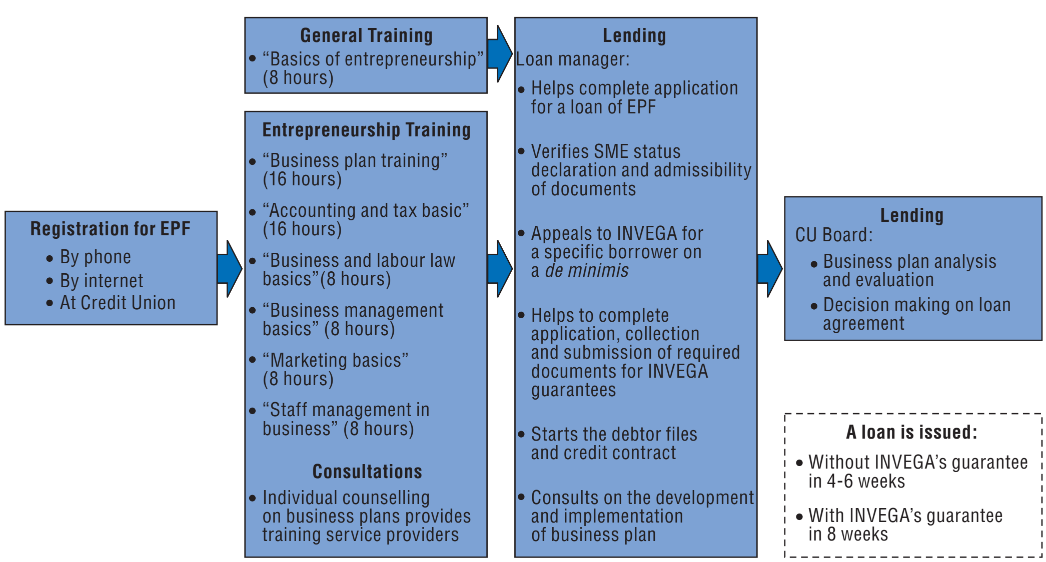
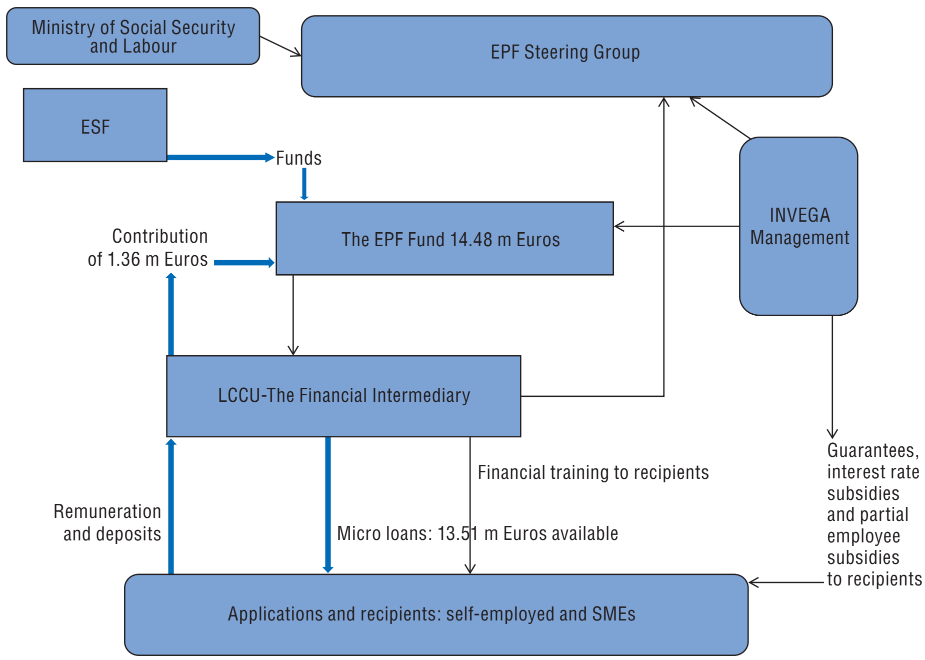


Figure 15.2. **Components of the Entrepreneurship Promotion Fund programme, 2009-15**



Each credit union has its own loans board and each applicant is allocated to a loan manager who conducts a business needs and personal skills assessment. Business plan training is offered before an application is made. Assistance is given to the applicant in preparation of the loan application, business plan and application for guarantees from INVEGA. The LCCU evaluates the application and business plan and a loan decision is made. A loan can be issued within 4 to 6 weeks without guarantees; if a guarantee is required to underwrite the loan it will be issued within 8 weeks.[1] Currently, 30% of proposals are rejected by the credit union's Loans Committee.[2]

Challenges encountered

A number of challenges in the establishment, management and operation of the EPF programme have been identified by INVEGA (INVEGA, 2014). Some of these challenges have required a change in direction and flexibility in strategy, including:

- The provision of financial assistance through the partial conversion of loans into a grant (of 30%) was a strategy originally foreseen at the start of the EPF in 2009 (INVEGA, 2014). However, European Union regulations prevent the conversion of part of the loan into a grant. Thus, other means of financial assistance were investigated. The Ministry of Economy reached agreement with the Ministry of Social Security and Labour on the introduction of interest rate subsidies, leading to their introduction into the EPF in 2012.
- Establishing the EPF programme took more time than anticipated, due to the complexity of European Union regulations and European Regional Development Fund (ERDF) funding conditions.
- The recent economic environment meant that conditions for business start-up were more difficult than envisaged and consequently, the initial demand for loans was not as high as expected.

These challenges point to the need to regularly monitor economic conditions and build in flexibility into programmes, such as in this case the possibility of additional financial instruments. The level of co-operation between different institutions was important to the success of the programme, e.g. between INVEGA and the financial credit union members of the LCCU.

Securing funding has also been a challenge for the EPF. Table 15.1 illustrates that the majority of funding used to establish the central fund was obtained from European Social Fund (ESF) monies. Of the EUR 14.48 million, EUR 2.32 million is allocated for management fees and training of recipients. There is also a contribution from the consortium of credit unions, the LCCU, of EUR 1.35 million to the central fund resulting in EUR 13.51 million available from the central fund for allocation to successful applicants. The contribution from the LCCU (10%) was agreed in public procurement documents and is paid at the final recipients level. This requirement ensures leverage of additional private resources to the Central Fund.

Table 15.1. **Funding for the Entrepreneurship Promotion Fund Central Fund, 2009-15**

	EUR millions
ESF monies	14.48
Less management fees and training expenses	2.32
Plus contribution from LCCU	1.35
Total available for microcredit awards	**13.51**

Source: Source INVEGA (2014b).

Funding for additional financial support for the subsidies and guarantees under the EPF programme is contributed from the ERDF, ESF and national funds. These contribute to 3 funds for interest rate subsidies and guarantees (ERDF), partial employee subsidies (ESF) and financial guarantees:

- A global grant fund of EUR 16.2 million (ERDF) has been established for interest rate subsidies for the beneficiaries of the EPF. Up to 95% of the loan interest is subsidised.
- A global grant fund of EUR 2.9 million (ESF) has been established for partial employee subsidies for the beneficiaries. The value of the wage subsidy at an individual level can be up to EUR 7 240.5 if the beneficiary belongs to a priority group (under 29 years old, over 50 years old, unemployed or people with disabilities).
- A guarantee fund of EUR 37.4 million (ERDF) has been established for guarantees. Guarantees are awarded of up to 80% if applicants do not have collateral and can be important for people from priority groups such as the unemployed and youth.

In principle, a successful microcredit programme should be self-sustaining through the interest rate repayments made by beneficiaries. By the end of September 2014, due to the reinvestment nature, the value of loan agreements with recipients was 24% higher than the total amount of EPF (INVEGA, 2014).

Impact

The EPF was established at the end of 2009 and the first micro loan was issued in November 2010. The interest rate subsidies were established from January 2012 and the partial employee subsidies from September 2013. The current programme has been extended until 2018.

The key results of the programme against targets for 2009-15 are listed in Table 15.2 up to 31 September 2014. The data show that more than 1 000 microcredit loans were issued since the end of 2010 and a total of 1 758 jobs were created. One-year survival rates of beneficiaries are currently 97%,[3] which reflects the rigour of the financial assessment of projects by applicants.

Table 15.2. **Impacts of the Entrepreneurship Promotion Fund programme 2010-14**

Indicator	Target	Results up to 31 September 2014
Individuals attending training	5 000	4 205
Individuals completing training	4 500	4 117
Individuals from priority groups attending training	1 500	2 607
Number of loans issued	1 200	1 017
Number of loans issued to priority groups	180	479
Number of new jobs created	1 000	1 758

Source: INVEGA (2014a).

The programme also successfully recruited individuals from the programme's priority groups, i.e. people under 29 years old, people over 50 years old, people with disabilities and unemployed people. These groups accounted for 47% of loans issued. This was achieved by using the 154 sales points (i.e. through the LCCU network) to ensure the accessibility of the EPF, especially in rural areas (INVEGA, 2014).

Moreover, the businesses launched and supported by the EPF were able to more easily apply for and access commercial bank loans in mainstream credit markets through the establishment of a track record with microcredit from the EPF.

Further, the credit union members of the LCCU were considered to have developed a more positive approach to working with small business entrepreneurs and the self-employed through the experience of the EPF (INVEGA, 2014).

Conditions for transfer

Microcredit programmes have the potential to assist low-income and disadvantaged groups in business creation. There are a number of criteria and conditions which will be required for a programme similar to Lithuania's EPF to be successful:

1. *Distribute risk*. The role of selection of candidates for loans needs to be undertaken by a trusted and respected intermediary body that has the financial expertise to undertake risk assessment of applicants. In the case of Lithuania, the consortium of credit unions, the LCCU, was a unique body that was capable and trusted to perform this role.
2. *Leverage credibility*. The central or holding Fund should be independent and managed by a high profile and respected management body. In the case of Lithuania, INVEGA, was well respected in the business community and undertook this management role.
3. *Provide access to non-financial supports*. Microcredit programmes, in isolation, are unlikely to provide sufficient assistance to ensure successful start-ups and are best supported by additional training or mentoring support for beneficiaries. Additional funding will be required for these support provisions if they are to be provided free or for nominal fees. However, a microcredit programme with mentoring support can be a means to encourage more take-up of such advice and training support from people from disadvantaged groups in entrepreneurship.

4. *Ensure accessibility*. It will be important to ensure that the scheme is accessible to priority or target groups. This may mean undertaking an awareness-raising campaign to ensure good take-up. In Lithuania marketing and publicity was undertaken by partners and institutions.
5. *Allow for flexibility in implementation*. Flexibility in arrangements may be required to allow for changes in strategy, reaching target groups and changes in economic conditions.

Notes

1. This information is drawn from a presentation that INVEGA made to the OECD and international experts in November 2014.
2. This information was provided to the OECD via email by INVEGA in February 2015.
3. This information was provided to the OECD via email by INVEGA in February 2015.

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