

Transnational DP Start-up Promotion in economically different regions

Good practice in the field of microlending (Germany, Portugal, Spain)

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1 Introduction

On the 4th transnational meeting of the workgroup micro credit in Potsdam, 22th to 23th April 2004 the workgroup members had a discussion about the content of a good practice document for the 4 countries in the field of microlending. We agree on the content of this document.

For every country we try to show the current status of microlending. Based on our “Data Collection Microlending in Europe (Germany, Greece, Portugal, Spain)” we fix the number of the current national microlending programs.

Please see in WWW: www.equalb4all.com/wgMcDataColl.

We show some general environmental data like the general rate of interest in the four countries and if there is a bank necessary for loans.

The questions for the evaluation of the collected microloan programs are: what is good working and where are the weaknesses? The workgroup members try to answer this questions in this document.

2 Good Practice in Germany

In the past years in Germany more and more unemployed people have found the way to entrepreneurship. In 2003 ca. 1,6 Mio. people dared to build their own business, approximately half of them part time, 25% from unemployment. Among all entrepreneurs with financial needs their were 88 % who needs an amount up to 50.000 Euros. (see also KfW-Gründungsmonitor 2004, www.kfw.de 2004-09-17)

The economical importance of new small businesses is not be accepted enough in the society. But the social care systems (e.g. health care) will be relieved and supported with new contributions from entrepreneurs. The competition is increasing with businesses.

The help from entrepreneur supporting agencies with adequate consulting is required to solve problems like gender specific discrimination. All entrepreneurial personalities should have the same opportunities for startUp no matter of gender, age, nationality or physical disabilities.

In the middle of year 2004 there where approximately 22 micro loan programs working in Germany. These programs are in vast majority based on lokal or regional initiatives for promoting entrepreneurs. A direct loan support needs a special authorization in accordance with the German „Kreditwesengesetz“ (KWG). Bank loans are based on the current discount rate. In the Federal Republic of Germany today this rate is 1,13% (s.a. www.bundesbank.de 2004-09-17).

Weaknesses of microlending in Germany

In Germany there are no global financial instruments exististing which cover the needs of underprivileged entrepreneurs. There is a lack in the institutional support for StartUps in the service sector, especially for women.

Entrepreneurs often do not have equity capital and collaterals. Moreover in eastern part of Germany their is less private capital. Finance is an obstacle for startUp.

Institutional loans for supporting entrepreneurship, in the field of micro finance (“KfW Micro Loan” and “KfW Startmoney”), do not reach the entrepreneurs because they need a local bank. Because this business is not profitable enough for the banks and the supporting of entrepreneurs is too time intensive. The rate of interest for the institutional loan “Micro-Loan” („Mikro-Darlehen“) is now 9,15 % - by the way as mention above the discount rate is 1,13%.

Finally it can be said that in every case it is still very hard to create microlending solutions, especially small ones, mostly because of: finance of administration, finance of entrepreneurial support and bureucracy. A disadvantage of small microlending solutions is that the rate of return is bad and only regional and the fact that it only supports very specific groups. Therefore such structures depends on sponsoring and the programs often have limited endurance.

Good Working of microlending in Germany

The analysis of our data collection has shown, that on a regional level the amounts of loans are between 4.000 and 15.000 Euros. Approximately half of all microloan programs work without a rate of interest for entrepreneurs. Others work in general with 3 to 10 % rate of interest. Ca. half of all programs have no time free rate of interest, in other case 6 to 36 month free of interest rate will be granted. The credit time is between 24 and 120 months. The majority of microlending programs are a source of finance furthermore a combination of a coaching- or incubator-program.

The comparison between different reference models shows, that a close cooperation between entrepreneurial support agencies (coaching and mentoring and founding of security funds) and local banks (lending money) is the best basis for startUp support. The advantage of a security fund compared with direct lending is, that there is no need to secure the whole amount of all loans.

On April 2004, as result of work of entrepreneurial support agencies within the ESF-Program EQUAL, the “Deutsche Mikrofinanz Institut e.V.” (DMI) was founded by 34 organizations (see also <http://www.microlending-news.de/artikel/dmi.htm> 2004-07-26). The DMI is based on pilot projects, which have done successful microlending for several years, with sponsored and donated money. The bank „Gemeinschaftsbank für Leihen und Schenken e.G.“ (GLS) is trying to get money for the funds „GLS Mikrofinanz Fonds“. In the near future these funds in cooperation with the DMI will give money for enlargement of existing securities to entrepreneurial support agencies. The accreditation of entrepreneurial support agencies will be based on quality standards.

Mr. Robby Sandmann
(chair workgroup Micro Credits, Germany)

3 Good Practice in Greece

Micro lending is a new experience for a lot of countries, Greece included.

Even if we know that there are many successful micro finance experiences which are drawn from developing countries, for the moment and despite the fact that in Greece there are some initiatives, it seems that the implementation of micro credit facilities has not become widespread.

The only micro credit attempt in Greece was made by the Bank of Attica , at the end of 2003. This attempt was in the line of Equal Program.

Executives from the Bank with knowledge in lending methods, wrote a study with title: "Microlending in Greece: How to be Applied". This study was presented to targeted audience (Greek Banks, Universities, companies) in a panel discussion on 5th of December of 2003. The aim of this panel was to introduce the idea of micro lending to those (especially the commercial banks) who could be involved with it in the future.

Unfortunately, there was no response from any bank or any other relevant participant. It has to be underlined the excellent marketing of the programme which includes press, advertisements, brochures, etc.

The second step in the same direction was the office called "Office for the employment promotion" that was set on February 2004, in the main building of Bank of Attica in Athens. This office was set in order to inform and help the eligible entrepreneurs of EQUAL program to get the micro-loan they need and to help them to start their own firms. At this period of time, we are still waiting for the response of the Micro entrepreneurs.

Weaknesses of micro-lending in Greece

The micro-lending mechanism in Greece has never worked, mainly because the Greek Commercial Banks has shown no interest in developing this "product" (below, some of these reasons are mentioned)

- Because the Micro entrepreneurs defined as those who need a credit between 5.000 – 25.000 are often considered as a risky client group because the lack of collateral or the capacity to convince banks that they are able to get and repay a business loan.
- The cost of processing small loans and the risks involved on lending to micro business, make Greek financial institutions hesitant to develop services for micro entrepreneurs. The most significant problem for banks is the combination of high risks and high costs of micro-lending. Moreover, bank screening methods are asset based as micro lending organisation look for different assessment criteria based on character of the borrower
- Most micro lending requires staff that combines the capacities of both bankers and social workers.
- Services for micro-entrepreneurs often include new products which are different from traditional loans or enterprise support services

Ms. Eleni Meleti

(co-chair workgroup Micro Credits, Greece)

4 Good Practice in Portugal

Micro lending is a new experience for a lot of countries Portugal included. Our experience in this matter is no more than 10 years and we are still trying to find the best solution. One of the main problems in this area is related to the difficulties in catching the interest of commercial banks to this new field of business.

We have some experiences that deserve to be related in the area of micro lending, basically the ones that are described in our data collection, FAME and the experience of Associação Nacional de Direito ao Crédito. These are programmes with only a few years and have experienced good and bad phases.

Weaknesses of microlending in Portugal

The 2 principal programmes that we have are directed to different target groups. The program of Associação Nacional de Direito ao Crédito is the only one that works at national level, the other works only at local level and the target group and the working area of business are different.

The main weakness is related with the fact that the institution that controls this program is not the needed number of people working and in some cases as not adequate rules.

Only one program is not enough to support start-ups. Now and days the number of people that want to start their own business is increasing, but a big percentage does not have the needed capital so they need financial support. They need money but do not have the conditions to make loans directly in commercial banks.

If we really want to increase entrepreneurship is necessary to develop micro credits.

Good working of microlending in Portugal

As told before the history of micro credits in Portugal is recent, but we can say that we have been able, despite some difficulties that we had to overcome, to support an increasing number of people in their start-ups. We are talking about small and very simple businesses, which do not need a large amount of credit.

In the last year the micro credit program has supported more than 200 start-ups.

In this moment the rules of working of the micro credit program are under revision, in order to make them more adjust to the reality, because that was one of the main problems of the program.

Ms. Etelvina Gamito
(co-chair workgroup Micro Credits, Portugal)

5 Good Practice in Spain

Weaknesses of Microlending in Spain

The first thing to explain is that the micro credits have not been the object of a whole analysis which allows us to understand the current state of micro finance in Spain. The information and statistics about different micro credit programmes is very fragmented. By learning more about the current scale and nature of activities of micro finance programmes, their performance and impact, we would be in a better position to identify and meet the needs of the sector and if necessary to promote it at both national and regional levels.

For the moment and despite the fact that in Spain there are some initiatives, it seems that the implementation of micro credit facilities has not become widespread.

However we noticed an increasing interest from the part of credit sector. Recently the saving banks of Spain have created a working group on micro credits with the aim of promoting the setting-up of micro credit facilities. For the moment only 5 entities, la Caixa, Caja Granada, Caixa Catalunya, Caixa Galicia and BBK have these tools but it is expected that in the following months they should be extended.

Even the most important micro-credit line, managed by the ICO with 18 millions of Euros has an amount smaller than the 120 million p.a. of micro credit (< 25.000) awarded by ICO to micro-enterprises under its SME programme. Furthermore the Micro credit facility is now being revised with a view to raising quality and transparency standards.

In the case of initiatives at regional level, our regional programme has shown some difficulties to coordinate criteria and approaches with the financial entity. In fact both social and economic criteria should be taken into account when evaluating projects. The initiative developed under the framework of an Equal project had very good acceptance but due to its limited duration whole funds are limited.

Good working of Microlending in Spain

At national level, the most known and developed micro credit program in Spain was launched by the ICO (Instituto de Crédito Oficial), the national promotional bank, at the end of 2002. With an amount of 18 m of €, and designed to foster the start-up of small business concerns by collectives excluded from the usual financing channels, ICO is providing credit to local banks which are in charge of retailing the loans to micro-entrepreneurs directed to them by social agencies and business support services.

In the implementation of this facility, ICO works jointly with some institutions:

- The European Investment Fund (EIF) which works with ICO in the improvement of the operations' financing conditions by means of the partial coverage of risk. The Cooperation Agreement was signed on September 2002.
- Credit entities: It is very important to highlight that this programme of national scope has involved almost all the financial entities in Spain, therefore making possible to cover almost all national territory. These banks are in charge to provide financial services to potential beneficiaries. In this sense the ICO already had yet very positive long-standing experiences in working alongside these institutions in the area of SMEs financial schemes so the coordination between entities was excellent.
- Social assistance institutions: which pinpoint the beneficiaries, channel their applications and furnish them with the necessary technical assistance throughout the operation's duration. SECOT (retired seniors association) is one of the main collaborators of the ICO micro credit facility. SECOT has more than 20 delegations with more than 800 seniors. More that 300 operations out of 800 were managed by this organization.

Since it came into existence, over 805 operations have been financed for an amount of almost 15.125.674 Euros with estimated investment of more than 24.801.400 Euros and the creation of about 928 jobs. The average of lend is about 18.789 Euros.

It has to be underlined the excellent marketing of the programme which includes press, TV advertisements, brochures, etc.

Because of its characteristics, administrative procedure through leading financial institutions established in Spain and scope, it may be considered to be at the forefront of European initiatives as far as social financing is concerned, as recognized by the European Commission and the CEEP (European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest) who selected this programme among more that 150 initiatives as example of responsible social good practise in Europe.

At regional level we have two initiatives. The first one was born out of a mutual understanding among regional entities: Government, Regional Development Agency, the CEEI (Business Innovation Centre), the Guarantee and Preferential regional financing society and some financial entities. The second one is in the framework of an Equal initiative. The fact that both are being managed by the main regional entity in charge of entrepreneurs, the Business Innovation Centre (CEEI) and promoted by the local network of support agencies made both initiatives good known by potential users.

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