



**Case study**  
**Self-employment and Entrepreneurship:**  
**‘Entrepreneurship Promotion Fund**  
**2014-2020, Lithuania’**

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# Summary



- Lithuania
- Fund of funds Entrepreneurship Promotion Fund 2014-2020, financed by ESF **(FoF)**
- Financial instrument Entrepreneurship Promotion 2014-2020, financed by ESF **(FI)**
- European Social Fund (ESF)
- Small and Medium-sized Enterprises (SMEs)
- Microloan + consultations
- Financial size: Operation Programme contribution **EUR 24.5m** + **EUR 2.28** additional private resources



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# Strategic context

Block 1

# Strategic context

## – *Background*



- Baltic region
- Lithuania
- Capital: Vilnius
- Major cities: Vilnius, Kaunas, Klaipėda
- Joined EU in 2004
- National currency – Euro (since 2015)
- # inhabitants (January 2017) – 2,849,317



**In Lithuania**  
unemployment in:  
2012 – 13.2%  
2016 – 7.9%

**In Lithuania**  
GDP 2016 – 2.3%  
(forecast 2017 – 3.6%)  
GDP per capita  
2015 – 75 PPS

**In Europe**  
unemployment in:  
2012 – 10.6%  
2016 – 9.8%

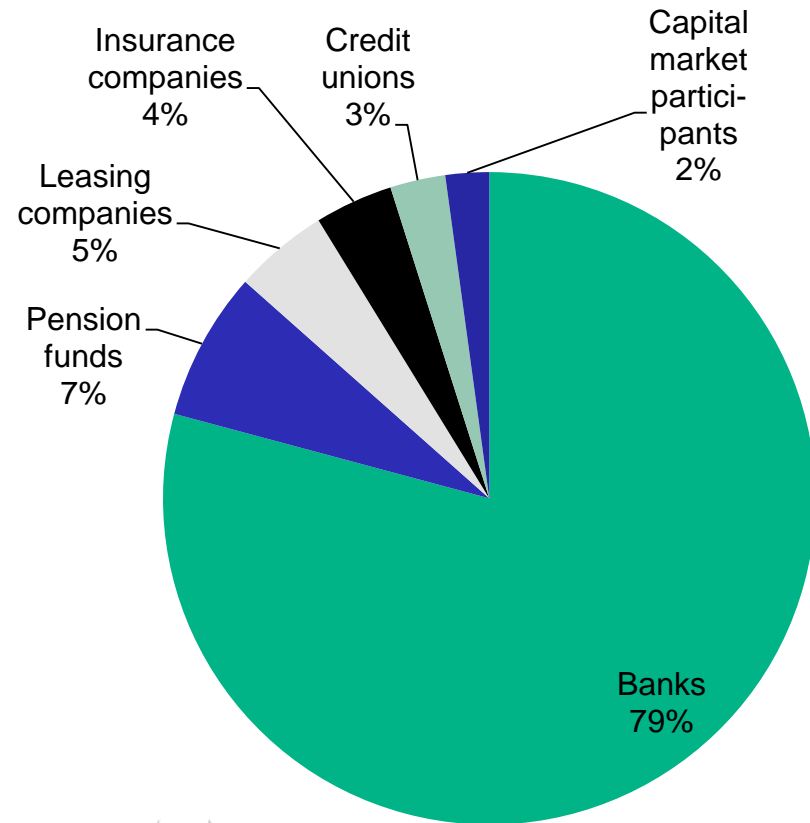
**In Europe**  
GDP 2016 – 1.9%  
GDP per capita  
2015 – 100 PPS



# Strategic context

## – Structure of Lithuanian Financial System

### Assets

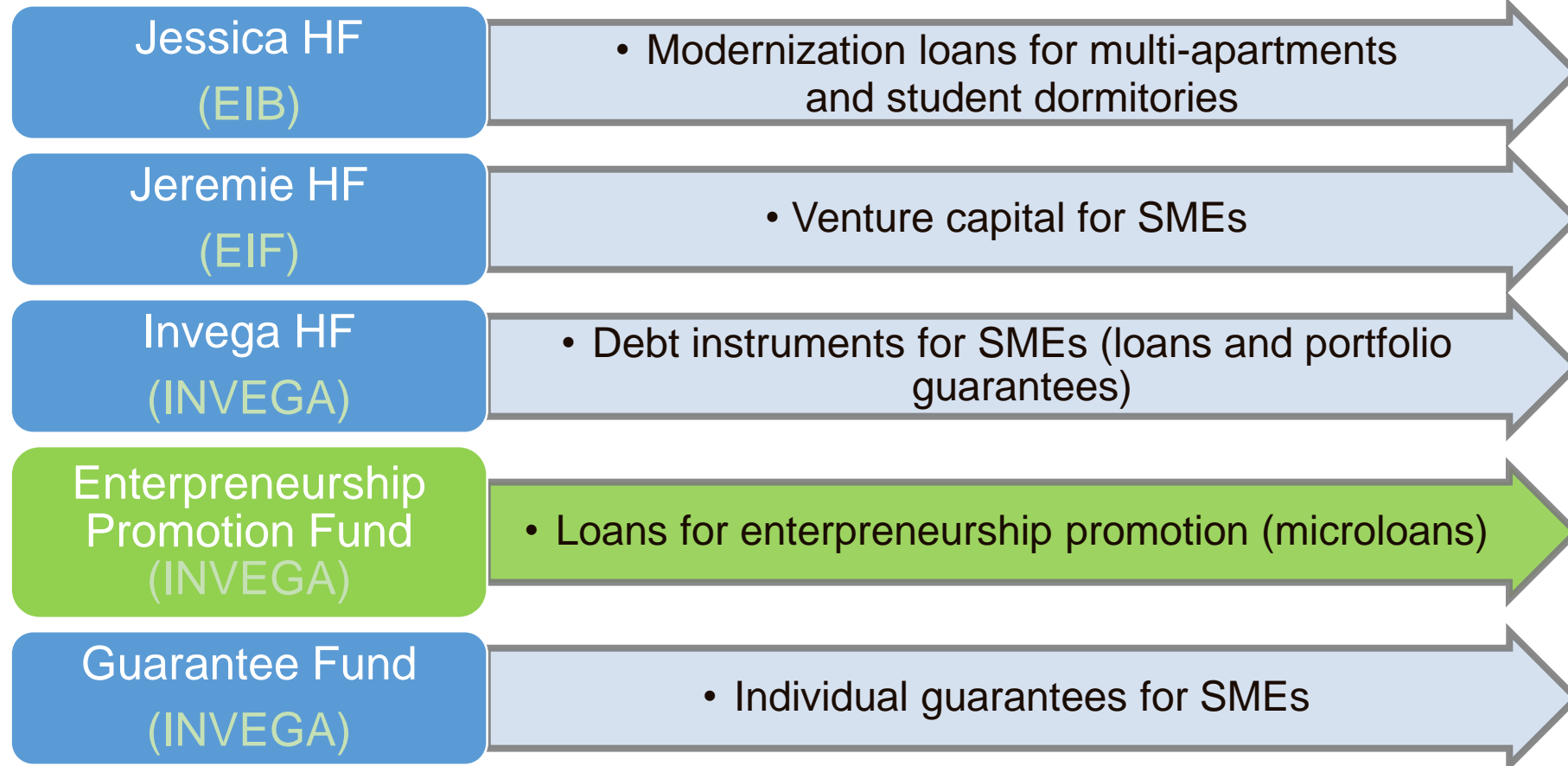


### 3 NPBs – INVEGA, PIDA, ACGF

#### INVEGA

- ✓ Established by Government (GoV) of Lithuania on 29 November 2001
- ✓ State owned 100%, private limited liability company
- ✓ Share capital – EUR 8.69m
- ✓ Liabilities under individual guarantees calculated into State Debt of Lithuania
- ✓ MoE is responsible for supervision of INVEGA

# HF and FI in Lithuania in 2007-2013



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# Experience and lessons learned 2007-2013 (1/2)



## FEI in 2007-2013:

- Holding Fund “Entrepreneurship Promotion Fund” (HF) with FEI – “*Entrepreneurship Promotion*” (FEI) under Human Resources Development OP
- Budget: EUR 14.5m (ESF) + 10% private resources
- HF manager: INVEGA
- FEI manager: Consortium of 57 Credit Unions, represented by LCCU
- Microcredits (up to EUR 25 000) for SMEs operating <1 year, with special attention for priority groups + trainings for business start, accounting, law, marketing
- Responsible ministry: MoSSL

+ Compensation of 95% (by ERDF) of interest paid by SME

+ Global grant measure – *Subsidies for Entrepreneurship Promotion*

+ INVEGA guarantees up to 80%



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# Experience and lessons learned 2007-2013 (2/2)



- Amount of disbursed loans (ESF) – EUR 18.2m
- 1/2 of borrowers – priority groups
- 72% of loans for investments
- 28% of loans for working capital
- Only 5% default rate
- Good results due to additional measures introduced (publicity, global grant measures)

Absorption

**149%**

New jobs created

**3 580**

# loans

**1 306**

# training participants

**5 002**



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# Use of legacy funds



FI “*Guarantees for start-ups*” under HF EPF:

- since June 2016
- guarantees provided until 31 October 2023
- Budget: EUR 8.3m
  - 80% counter-guarantee on INVEGA’s commitments under individual guarantees
  - Individual guarantee:
    - Guarantee rate – up to 80% of the credit to SME operating <1 year
    - Max loan amount – EUR 25 000
    - Guarantee premium – 4% (subject to additional compensation, what results to 1%)
    - Purpose – for investment or working capital loans
- FI manager: INVEGA
- Responsible ministry: MoSSL



# Objectives in 2014-2020



- Firm commitment to continue with financial instruments (FIs)
- Extending FIs to new sectors
- Cooperation between national and international financial institutions
- Promotion of NPBs and investment platforms by using EFSI



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# Strategic context

## – Specificity of the TO

**In Europe**  
**Self-employed in**  
**2012**  
**15.2%**

**In Lithuania**  
**Self-employed in**  
**2012**  
**9.7%**

**OP priority 7**  
**(ESF)**  
**EUR 286m**

**FI**  
**EUR 24.5m**  
**(9% of OP**  
**priority 7)**

### OP priority 7\*



OP priority 7 – Promoting quality employment and participation in the labour market specific objective

Objective 7.3.3 – Increase labor demand by promoting entrepreneurship of the population, in particular those who face difficulties on the labor market

*\* OP priority 7 corresponds to CPR Thematic Objective 8*

# Ex-ante assessment

## Overview

- *Ex-ante assessment 2014-2020* carried out by joint group – **INVEGA, MoF, MoE, MoSSL, EIF** in partnership with a wide range of stakeholders
- Presented to the Monitoring Committee – April 2015
- Limited access to finance for new and growing SMEs, especially start-ups and socially sensible groups
- Continuity of success story of EPF 2007-2013
- Full version and summary is available on website: <http://www.esinvesticijos.lt/lt/dokumentai/verslo-finansavimo-2014-2020-metu-europos-sajungos-strukturiniu-fondu-lesomis-isankstinis-vertinimas>





## Market assessment (1/2) – Market failure, suboptimal investment

Information gathering:

- Demand analysis – survey on SMEs' access to finance and investments planned
- Supply analysis – interviews with financial institutions on availability and terms for financing
- Analysis of recent studies for SME environment/governmental support for SMEs

Market failure – **EUR 645m** in 2016-2023 or EUR 80m per year

Factors limiting access to finance and lessons learned:

- little knowledge of alternative financing methods
- strict financing requirements
- lack of collateral
- exclusion of newly established enterprises – need for special attention to early-stage companies to promote development
- limitations of Basel III requirements
- legal regulatory failures, etc.

# Ex-ante assessment



## Market assessment (2/2) – Value added and leverage

QUALITATIVE	QUANTITATIVE
Prompt response to changing economic situation and changing needs of SMEs	Attract additional private resources
Loan instruments implemented in 2007-2013 correspond to best practice defined by OECD	Efficiency of FIs compared to subsidies due to repayment capacity of final recipient
Simple application process, clear and understandable requirements	Significant positive impact on investment loans identified
Less distortion of local market	Economic viability of investments

Leverage 1.1x – up to 90% financed by FI and  $\geq$  10% by F.Int





## Delivery and management (2/2) – Proposed investment strategy

2007-2013 vs 2014-2020

SIMILARITIES	DIFFERENCES	
SME <1 year	Trainings	Consultations
Priority groups		Base rate on 10% of loan + margin on entire loan
Up to EUR 25 000	Base rate + margin on entire loan	-
	Compensation of 95% interest	-
No admin. fees for SME	Maximum maturity not fixed	Maturity: up to 10 years



# Design and set-up

Block 2

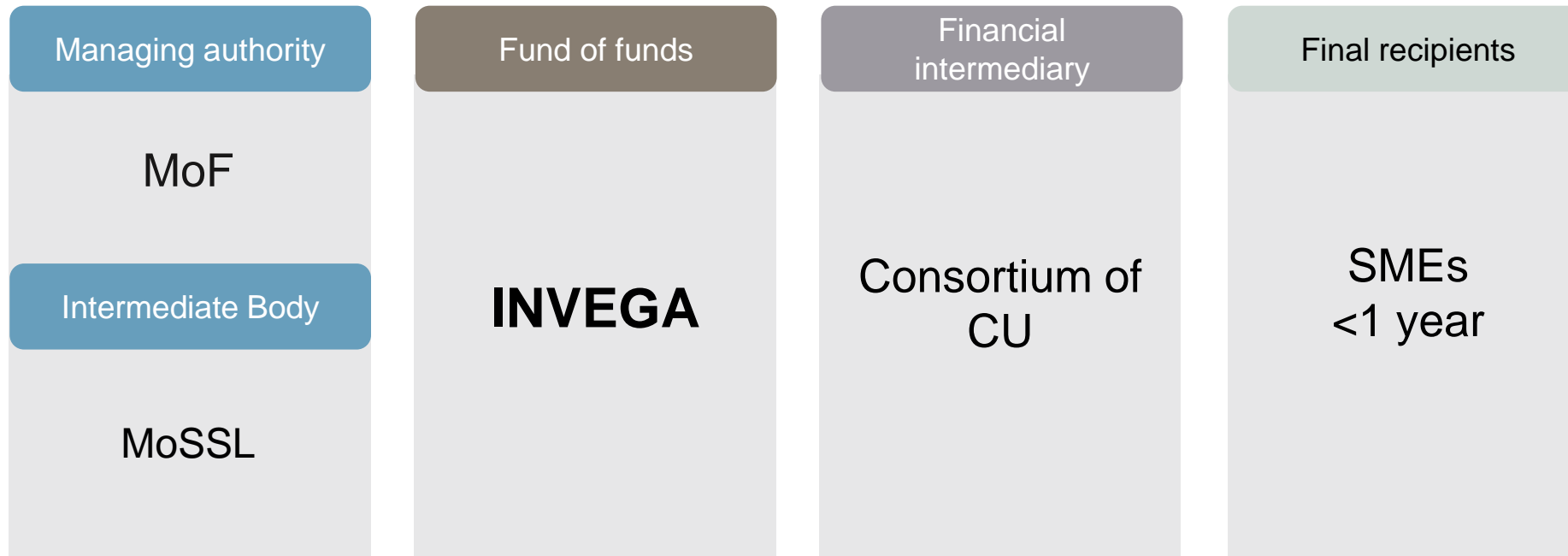


# Design and set-up

– *Implementation structure*



## Schematic overview



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# Design and set-up

## *Selection of FoF manager*



MAIN ACTIONS	DATE
Ex-ante assessment, presented to MC	23-04-2015
OP measure approved	13-07-2015
Selection criteria approved by the MC	27-08-2015
Launch of call for expression of interest	14-09-2015
Application received	18-09-2015
Assessment of application (including according to Art. 7 of Delegated Regulation)	24-09-2015
Project Selection Committee (PSC) established	25-09-2015
I PSC meeting Decision made – to submit additional information until next meeting according to questions raised by PSC members	28-09-2015
Assessment of applications based on additional information	21-10-2015
II PSC meeting Decision made – to sign the Funding Agreement	23-10-2015
Signature of Funding Agreement (MA, IB, FoF manager)	08-12-2015



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# Design and set-up



## **Selection criteria for FoF manager (MA) – assessed if:**

- FoF manager is a legal entity, aiming at achievement of public interest under control of public authority
- Corresponds to Art. 12(4) and 12(5) of Law on Investments and is acting in the field indicated in paragraph 1.1 of GoV Resolution No. 814 of 5 August 2015, as it is set forth in Art. 38(4)(b)(ii) of CPR

## **Selection criteria for FoF activities and final recipients (MoSSL):**

- Project must comply with goals and targets of measure „To provide support for start-up focusing on persons facing challenges in labour market” of national strategic document (Action plan for Programme of Employment, 2014-2020)
- Final recipients: SMEs operating up to 1 year; loan up to EUR 25 000 for starting-up (developing) own business

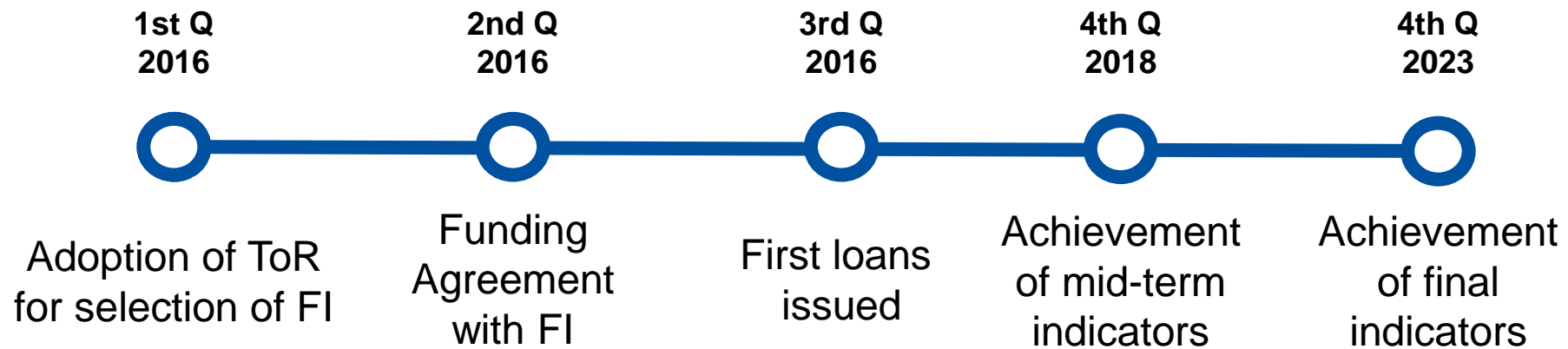
## **Signature of Funding Agreement (MA, IB, FoF manager) on 8 December 2015**



# Design and set-up



## Implementation period



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# Design and set-up

## Governance and management at FoF level



- Approval of ToR for selection of Financial Intermediaries
- Monitoring progress and results achieved
- Recommendations on further development of FoF activities
- Approval of annual FoF budget, manager management costs increase/reduction
- Proposals for usage of reflows

# Design and set-up



## Payment Claims (PC)

- 8 payments according to the project pipeline
- 1st PC EUR 6.7m paid in 2016

## Management cost and fees

- Management costs cannot exceed limit set in Art.13 of DA No 480/2014
- Preferential remuneration – in accordance with Art. 12 of DA No 480/2014

## Account management

- FoF – a separate block of finance with separate accounting
- Temporary free resources invested according to FA and order of MoF
- Info on interest and other gains submitted to MoSSL and MoF quarterly



# Design and set-up



## *State aid provisions*

### **MoSSL is responsible for the approval of State aid scheme:**

- under Regulation (EC) No 1407/2013 (*de minimis* rules)
- legislation, duration, restricted sectors, thresholds, final beneficiaries, gross grant equivalent calculation, cumulation, monitoring
- INVEGA has to ensure and monitor whether Financial Intermediary is providing loans under Regulation No. 1407/2013 and approved State aid scheme

### **• State aid scheme:**

- coordinated with Competition Council of Lithuania
- approved on 3 February 2016

### *“De minimis” calculation methodology*

*Aid < EUR 200 000 per undertaking over any period of 3 fiscal years*



# Design and set-up

## – Funding agreement MA-FoF



### Exit policy & winding-up

- Funding agreement is valid until fulfilment of all obligations (from EU funds or resources returned)
- Funding agreement can be terminated by INVEGA or Ministries
- After termination all resulting obligations, requirements and assets are transferred in accordance with instructions of Ministries

### Re-use of resources

- Resources returned will be used in accordance with CPR Art. 44 and 45
- Steering Committee proposes to MoSSL to allocate funds for implementation of FI based on market demand (according to assesment of market conditions)





# Design and set-up

## – Selection of bodies implementing the FI



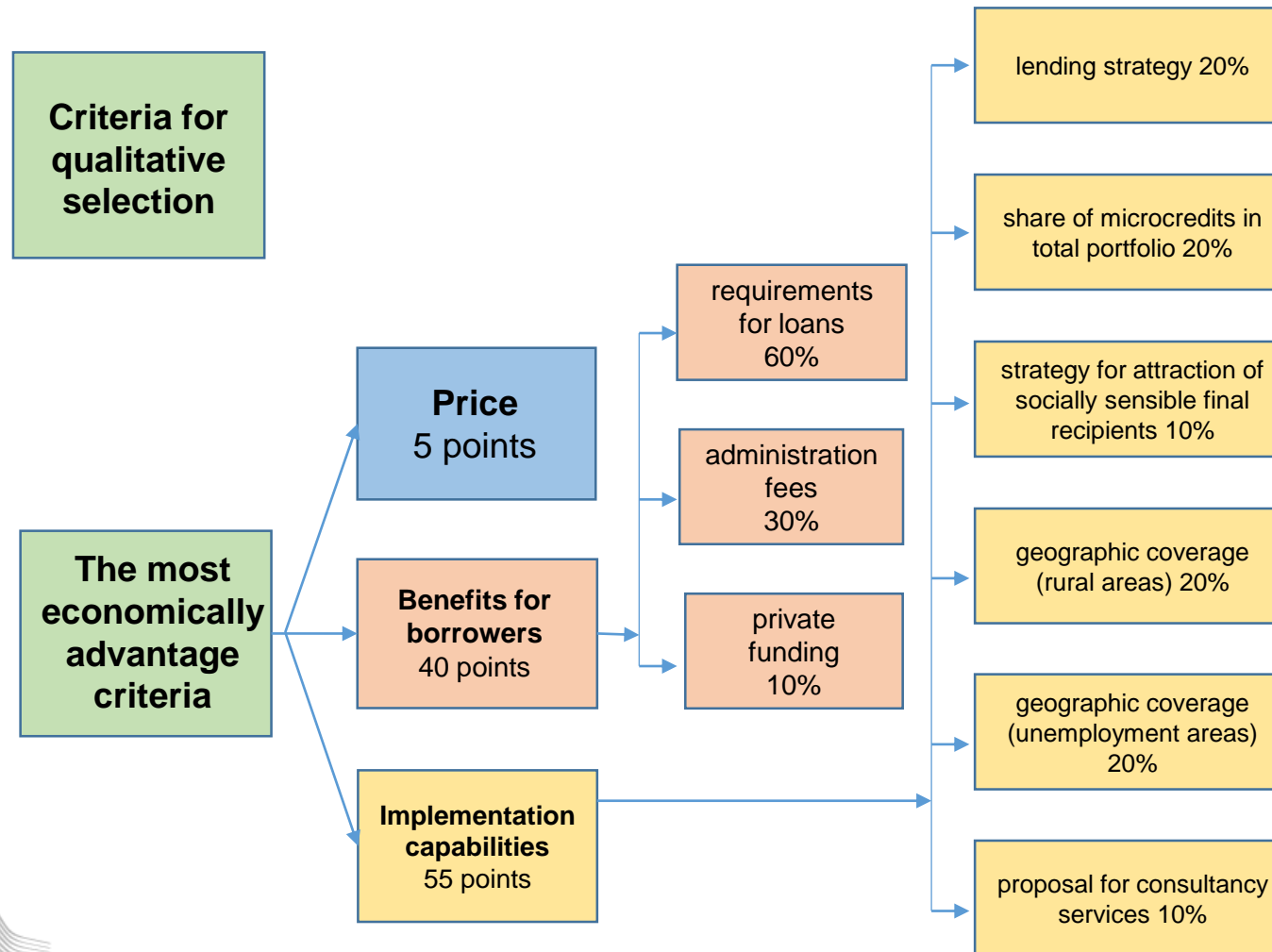
Main actions	Date
Public discussions on requirements for selection of Financial Intermediary launched	01-04-2016
Tender published (3 applications received)	18-04-2016
Deadline for applications	30-05-2016
Winner (Consortium of 42 Credit Unions, represented by Lithuanian Central Credit Union (LCCU)) announced	04-07-2016
Funding agreement between INVEGA (FoF) and Consortium (F.Int) signed	05-10-2016
First disbursement to SMEs	December 2016

**Financial Intermediary selected exclusively by INVEGA internal resources**



# Design and set-up

## – Selection of bodies implementing the FI



### Selection criteria

- criteria for qualitative selection
- the most economically advantage criteria

Criteria fully in compliance with DA No 480/2014



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# Design and set-up

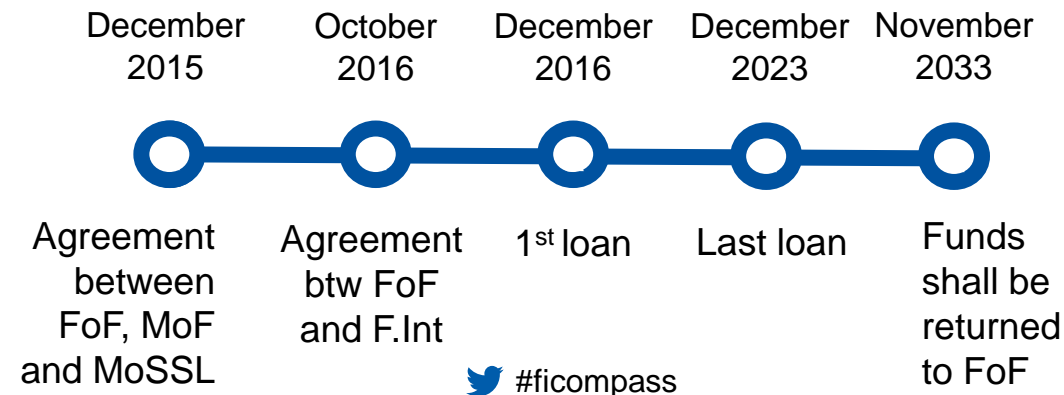
## – Funding agreement

### FoF – Financial intermediary



## Implementation period

- FoF with FI:
  - since December 2015
  - loans (microcredits) shall be disbursed until 31 December 2023 (not less than 10% – until 31 December 2018)
  - funds shall be repaid to FoF until 5 November 2033



# Design and set-up



## Investment strategy and business plan (1/2)

- **Microcredits up to EUR 25 000** for start-ups (up to 1 year)
  - Up to 90% financed by FoF and  $\geq 10\%$  by Consortium
  - Maturity: up to 10 years
  - Interest rate for SME: 3 months EURIBOR on the private part of the loan (i.e. 10%) + 3% on total loan
  - No loan agreement administration fees for SMEs
- **Consultations** on establishment and management of new business
- **Particular focus** on priority groups facing difficulties on labour market – unemployed, disabled, youth below 29, persons over 54, women, creating “green” job places
- **Financial Intermediary** bares entire lending risk

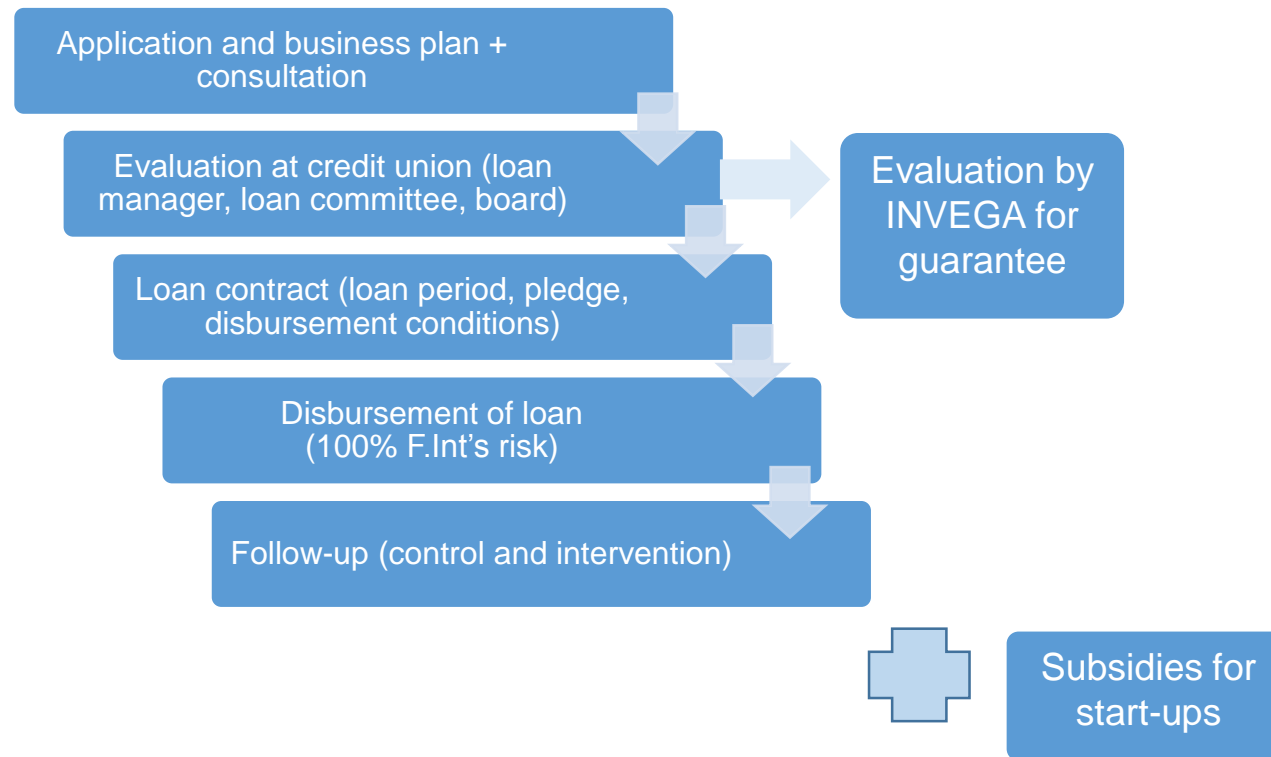
**FI Budget: EUR 22.83m (ESF)** for lending and for management fee of Consortium + **EUR 2.28m** private funds of Consortium



# Design and set-up



## Investment strategy and business plan (2/2)



# Design and set-up



## Monitoring and reporting requirements

- **FoF manager** monitors FI + F.Int and final recipients:
  - implementation of FI – on-the-spot check once a year (on a sample basis)
  - purposes of check – assurance that F.Int is following the plan of FI implementation and F.Int's reports are correct
  - aspects to be checked:
    - *loans are provided in line with requirements*
    - *data provided by F.Int in reports is correct*
    - *other requirements of agreement with F.Int are fulfilled*
- 1<sup>st</sup> check in 2Q 2017



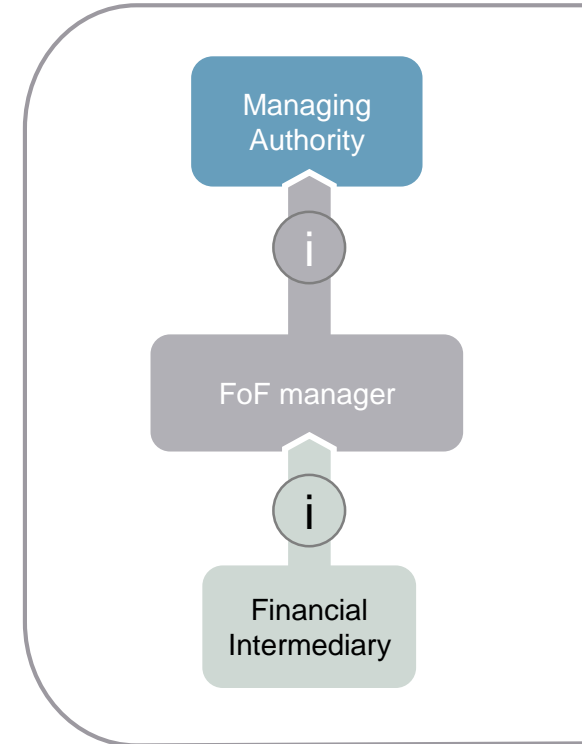
# Design and set-up



## Monitoring and reporting requirements

- **F.Int → FoF manager:** monthly reports on achievement of indicators, quarterly reports on irregularities, semi-annual report on communication
- **FoF manager → MA, MoSSL and SC:**
  - monthly reports with main information
  - quarterly reports on achievement of indicators and irregularities
  - quarterly financial statements of FoF and report on accrued interest and other income
  - semi-annual treasury report
  - annual report on implementation of FoF and FI + audited financial statements
  - cash-flow report (annual + when needed)
  - final report

Monitoring of the implementation



# Design and set-up



## Audit requirements:

- Supporting documents kept at F.Int level
- Access to documents for: European Court of Auditors, European Commission, National Audit Office, MA, MoSSL, INVEGA, Financial Crime Investigation Service under Lithuanian Ministry of Interior, Special Investigation Service of Lithuania, Competition Council, other EU institutions and EU bodies and duly authorized national entities entitled to inspect





# Design and set-up

– *Funding agreement*

*FoF – Financial intermediary*



## Payments

### FI funds accounted separately from other funds of Financial Intermediary

- Advance payments in tranches for Financial Intermediary
- Funds transferred to Financial Intermediary within 10 calendar days from request (payment claim)

#### Phased contribution

- up to **15%** in each interim payment
- if at least **90%** of previous payment(s) has been spent as eligible expenditure (disbursed to SMEs)



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# Design and set-up



## Financial Intermediary management fees

- Calculated according to DA 480/2014 Art. 12 and Art. 13 → overall  $\leq 9.64\%$  of EUR 22.83m (ESF funding) (including consultation activities)



In all cases shall not exceed 1.5% per annum of ESF funds and reflows paid to final recipients and not yet repaid to CU, calculated from the date of payment to final recipient until repayment to CU

- Management fee to Financial Intermediary is paid quarterly



# Design and set-up

– *Funding agreement*

*FoF – Financial intermediary*



## Exit policy & winding-up

- Funding agreement between FoF and Financial Intermediary valid until 31 December 2033
- Funds from FI shall be repaid to FoF until 5 November 2033

## Re-use of resources

- priority for ESF funds (programme contribution)
- reflows can be re-lent – additional agreement between FoF and Financial Intermediary





# Implementation

## Block 3

# Implementation

– *State of play, results*



Name of the indicator	Target 31-12-2023	Performance 30-09-2017
Persons and enterprises supported by FI	1 000	176 (18%)
Persons or enterprises that used FI, out of which: persons and enterprises facing difficulties on labour market	440	115 (26%)
Number of new jobs in new enterprises/businesses	1 800	64 (4%)
Number of new jobs in new enterprises/businesses, out of which: persons facing difficulties on the labour market, employed in new enterprises/businesses	810	30 (4%)
Share of new enterprises/businesses supported by FI, successfully operating 12 months after receipt of loan	82%	0



## Results from monitoring and control activity of the MA and CA

- *1<sup>st</sup> payment claim verification (December 2015)*

## Audit from external audit bodies (AA and EC, CoA and etc.)

- *EC Audit mission (December 2016)*

# Visibility and publicity

- Active promotion of FI
- Annual reports on publicity measures implemented
- Participation in entrepreneurship promotion events → possibilities for business under FI
- Information about FI on [www.invega.lt](http://www.invega.lt), [www.lku.lt](http://www.lku.lt), [www.socmin.lt](http://www.socmin.lt), [www.esinvesticijos.lt](http://www.esinvesticijos.lt)
- Press releases about FI



