



## MICROCREDIT FINANCING FOR MICRO ENTERPRISES AND THE SELF-EMPLOYED IN LATVIA SOLUTIONS TO UNEMPLOYMENT



The unemployment ratio in Latvia rose dramatically as a result of the world's economic and financial crises. The microcredit programme makes it easier for micro enterprises and the self-employed to obtain business loans and should result in the creation of up to 900 new jobs.

After boom years with 10% economic growth, Latvia's economy collapsed in 2008 from the effects of the worldwide economic and financial crisis. The



country's economic output shrank by 18% in 2009 – a decline more dramatic than in any other EU country. Unemployment increased sharply, reaching almost 20% in 2010.

The Latvian government decided to counteract this development by using state funds to make it easier for micro enterprises to obtain business loans, since around 75% of Latvian companies are micro enterprises with only up to nine employees (in terms of full-time equivalents). With its contribution of CHF 7.92 million, Switzerland is enabling further start-ups and thus supporting the entrepreneurial and economic development of Latvia.

### DEVELOPMENT BANK WITH MANY YEARS OF EXPERIENCE

The Latvian Hipoteku Banka, which has implemented credit programmes financed through state funds or EU structural funds since 1995, was commissioned to implement the project.

Hipoteku Banka set up a credit fund for financing business loans and capital grants:

- Self-employed people and micro enterprises with up to nine employees can apply for business microcredit of up to LVL 10,000 (LVL = Latvian lats; 1 lat = CHF 1.70). Upwards of LVL 5,000, the borrower must contribute at least 10% equity capital. Interest rates are 5-8% per year.
- If the borrower fulfils all the provisions of the credit agreement, repayment of part of the loan – up to LVL 500 in larger cities and up to LVL 750 in rural areas – is waived.

The aim of the project is to award around 650 micro-loans and thus create up to 900 new jobs.



*In the same way as in many other countries, micro-enterprises also traditionally play an important role in Latvia's economy. Four out of every five companies are micro-enterprises. Demand for micro-loans is persistently high, both from existing businesses as well as from start-ups. During many years in the field of micro-lending, Hipoteku Banka had already accumulated considerable hands-on experience, but the launch of the new micro-lending programme in autumn 2011 was both an honour and a challenge for the bank, with micro-loans and grants co-financed by Switzerland. We are pleased to note that this programme is already very popular among Latvian micro-enterprises throughout the country, and demand is increasing. After just five months since the programme was launched, aid totalling 1 million Latvian lats has been granted to around 200 micro-enterprises. Micro-loans are instrumental in implementing business projects in traditional areas such as agriculture and forestry, trade and services. Thanks to the micro-lending programme, hundreds of jobs will be maintained or created. The programme is also having a positive impact at the regional level: micro-loans are now being sought from all regions of Latvia, and a number of business projects have been initiated in outlying areas. We are confident that this programme will continue to be successful and the bank will be able to meet the expectations of Switzerland.*

Jēkabs Krieviņš,  
Deputy Chairman of the Board of Hipoteku Banka

## THE PROJECT IN BRIEF

### SUBJECT

Access to external financing for SMEs

### COUNTRY

Latvia

### STARTING POINT / BACKGROUND INFORMATION

Since people with low or irregular incomes and no collateral often have difficulty obtaining business credit from commercial banks, it is frequently impossible for them to realise their business ideas. To combat the high unemployment resulting from the financial and economic crisis, the Latvian government decided to use state funds to make it easier for micro enterprises to obtain credit.

### PURPOSE

Granting of up to 650 microloans, creation of 900 new jobs, increase in economic activity

### ACTIVITIES

Granting of microloans

### TARGET GROUPS

People who want to found companies; self-employed persons; incorporated companies with annual sales volume of up to LVL 1.4 million and up to nine employees.

### COSTS

Total project budget:

CHF 9.71 million

Swiss contribution:

CHF 7.92 million

### RESPONSIBILITY FOR PROJECT IMPLEMENTATION

The Latvian development bank Hipoteku Banka

### DURATION

2011 – 2015

