



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



**A farm in Eleja used the microcredit to buy a new car and seeds. Eight family members are working on the farm. During the peak season four more persons can be employed.**

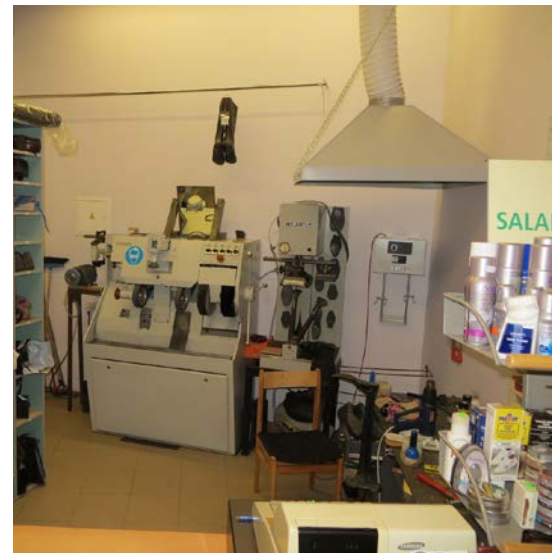
The unemployment ratio in Latvia rose dramatically as a result of the world's economic and financial crisis. The microcredit programme makes it easier for micro enterprises and the self-employed to obtain business loans and results in the creation of new jobs.

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. With its contribution of CHF 7.92 million, Switzerland is enabling further start-ups and thus supporting the entrepreneurial and economic development of Latvia.

### TARGETS EXCEEDED

The aim of the project was to award around 650 microcredits and thus create up to 900 new jobs. This target has been exceeded: Over 1,000 microcredits have been allocated, enabling over 2,500 jobs to be preserved or newly created. If analysed by economic sectors, the majority of loans issued related to agriculture and forestry – 49% from the total number of loans. Second most popular economic sector was services (22%), followed by trade (15%) and processing (10%). The regional distribution is well balanced and also the structurally weak regions could benefit.



**A shoe repair shop in Cesis used the microcredit to procure equipment and tools. In addition, the loan provided a possibility to employ a trainee. Swiss parliamentarians visited this project in September 2013.**



The Swiss ambassador (middle) celebrating the 1,000th microcredit with the owners of the POGA kindergarten. The microcredit enabled the owners to have a kitchen installed and create two extra jobs. The POGA kindergarten now employs around ten staff, mainly from social or health services.

## DEVELOPMENT BANK WITH MANY YEARS OF EXPERIENCE

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

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

- Self-employed people and micro enterprises with up to nine employees could apply for business microcredit of up to LVL 10,000 (about EUR 14,000). Upwards of LVL 5,000 (about EUR 7,000), the borrower had to contribute at least 10% equity capital. Interest rates were 5-8% per year.
- If the borrower fulfilled all the provisions of the credit agreement, repayment of part of the loan – up to LVL 500 (about EUR 700) in larger cities and up to LVL 750 (about EUR 1,000) in rural areas – was waived.
- Only 2.43% of the microcredits were non-performing. Since 2013 the programme has been running solely on funds derived from loans already paid back.

## THE PROJECT IN BRIEF

### OBJECTIVE

Promoting economic growth and improving working conditions

### 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 (about EUR 2 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 ALTUM

### DURATION

2011 – 2015