



## Mikrodarlehen - Microloans for entrepreneurs and start-ups in Saxony, Germany

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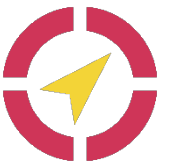
Financial Instruments Advisor, European Investment Bank

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# Summary

## ESF microcredit in Saxony

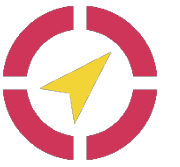


- Microloans, up to EUR 20 000
- Target group: microenterprises (start-ups and operating for max 5 years)
- ESF 2014-2020 resources, with use of reflows from previous periods
- EUR 17 million OP resources; EUR 6.7 million investments supported
- Combination with ESF grant measures to support entrepreneurship



# Why an ESF microcredit fund?

Rationale behind the measure/1



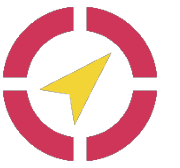
## Societal challenge

- Low start-up density in Saxony, compared with other regions in Germany
- Usual weaknesses of the microenterprise sector
- Need to provide a comprehensive approach to tackle a structural lack of support to social entities:
  - Microfinance (implemented since 2006 with ESF)  
together with
  - Technical assistance grants (business plan and application support, financial planning, management, climate alignment, etc.)  
within the “Strengthening start-ups and entrepreneurship” specific objective of the ESF OP



# Why an ESF microcredit fund?

Rationale behind the measure/2



## Market gap

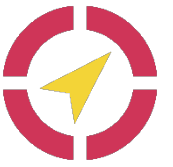
- Decreased commitment of national funds (such as KfW dedicated support) over years
- Available ERDF instruments do not focus on start-ups
- Special national legal framework (MFIs in Germany need to work with banks)
- Persisting financial gap and lack of interest by commercial banks

**Social mission of microfinance**

**to create employment and social inclusion  
through (self)entrepreneurship**

# ESF Microcredit in Saxony

From design to implementation



Body implementing the financial instrument:  
**Saxon Development Bank – SAB**  
(Sächsische Aufbaubank)

Process aligned with the law establishing the SAB, built on previous experience with financial instruments.

**Direct award**, compliant with applicable regulation.

SAB is the credit institution in Saxony responsible for, inter alia, implementing labour market and business development measures.

SAB is tasked with implementing the microcredit fund, including the relationship with final recipients.

Management costs and fees (2.68% of FI committed resources, to date) are based on committed amounts, disbursement and SAB staff timesheets.

Ex-ante assessment launched in April 2015; first disbursement in July 2016.

ESF Managing Authority  
State Ministry for Economic Affairs,  
Labour and Transport (SMWA)

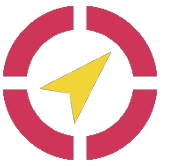
**Saxon Development Bank - SAB**

Final recipients - microenterprises

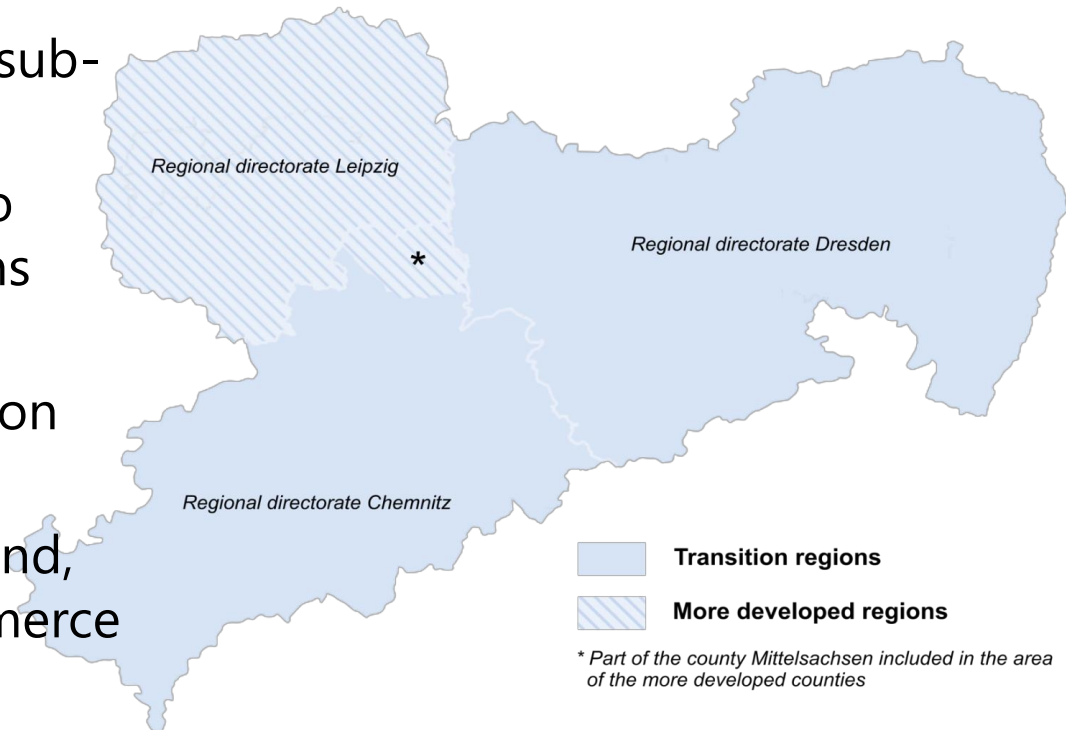


# ESF Microcredit in Saxony

## Other features



- ESF funds used to provide microcredits in transition sub-regions (Chemnitz and Dresden)
- Reflows from previous programming periods used to provide microcredits in 'more developed' sub-regions (Leipzig and others)
- In addition to online, applications can be submitted on paper
- Beside eligibility checks, applicants to propose a sound, viable business plan, endorsed by Chamber of Commerce or sectoral associations
- Each financed project shall generate at least one full-time employment
- Communication activities performed by both intermediate body and SAB



# ESF Microcredit – the financial product

## Terms and conditions of the microloans



- Final recipients: new businesses or micro-enterprises during their first five years of operation
- Loan of up to EUR 20 000 (min EUR 5 000)
- Possibility for a follow-up loan (same amount and conditions)
- 1% interest p.a.
- No fees (including for early repayment)
- No collateral
- Maturity up to 6 years
- Grace period possible (6 to 12 months)
- **Microloans cover up to 80% of the overall project (skin in the game)**
- *De minimis* State aid

*historical  
average loan  
amount*

EUR 17 000

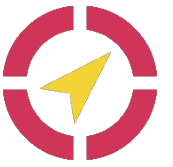
*About 50% of applicants take advantage of the 'Advisory services for start-ups' grant measure.*

*FI and grants in separate operations.*



# Combination of microcredits and crowdfunding

Paving the way to innovative solutions



- SAB in partnership with crowdfunding platform Startnext – cross sponsorship
- Synergies at appraisal level
- Possibilities to overcome issues in providing own funds

**Crowdfunding via  
Startnext platform**

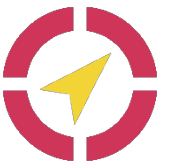
The screenshot shows a crowdfunding page for 'Sachsen-MikroCrowd'. At the top, it says 'Cofunding' and 'laufend'. The main heading is 'Sachsen-MikroCrowd'. Below this, there is a paragraph: 'Du bist auf der Suche nach Startkapital zur Umsetzung Deiner Geschäftsidee oder hast bereits erfolgreich ein Unternehmen gegründet und benötigst finanzielle Unterstützung? Dann hat Deine Suche jetzt ein Ende, denn die Sachsen-MikroCrowd kombiniert Crowdfunding mit einem Mikrodarlehen.' To the right of this text is the logo for 'SAB SÄCHSISCHE AUFBAUBANK'. Below the main text, there are two sections: 'Anschlusskredit für Projekte' and 'Was ist ein Organisationsprofil?'. A yellow arrow points from the left text box to the screenshot, and another yellow arrow points from the screenshot to the right text box.

**ESF microfinance as a  
follow-up product.  
SAB considers  
crowdfunding as  
'equity'**



# Achievements of the Microcredit fund

Implementation figures at December 2020



418 loan agreements signed with final recipients  
*(target 627)*

46% women  
*(35% Saxony average)*

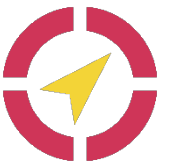
320 jobs created

4% default rate  
89% survival rate



# Impact of the Microcredit Fund

## Success stories



### MKT Metal construction

After completing his training as a metal worker, Mr Tyrock wished to become independent to make the best use of his newly acquired skills. The micro-loan, supplemented by his own funds, laid the foundation for the acquisition of machines and tools, some of which were acquired second-hand to make the start-up as cost-effective as possible. The Chamber of Trades, where the master craftsman's training took place, provided information about the Saxon Microcredit scheme and advised on its use.



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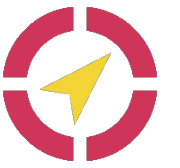
### Hairdresser in rural area

Being a master of the hairdressing profession for some 20 years, Erika Mustermann wished to open her own salon. The aim was to obtain a better balance of work, life and income. She investigated the different options and ultimately decided to establish a salon on her own premises, located in a village in the county of Zwickau. Commercial loans were hardly available and the ESF microcredit was the sole opportunity to undertake the necessary small scale investments. With the micro-loan, she was able to finance the necessary refurbishment of a new entrance area, equipping the salon with two seats, and other items needed to start the business.



# Conclusions

## Lessons learnt and outlook



### Areas for improvement

- Cumbersome application procedures
- Delays between approval and disbursement
- More flexibility in the financial product

### Success factors

- Lean implementation structure
- Transparent communication and implementation processes
- Synergies with local Chambers
- Favourable terms and conditions
- Complimentary advisory services

Reduced unemployment rates, increased interest of commercial banks in addressing microenterprises, use of reflows... **is the financial instrument victim of its own success?**



**Thank you!**

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