

FIN-URB-ACT

Local Action Plan City of Leipzig



April 2011



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Initial situation:

The reluctance of the local private banking sector to finance SMEs poses a considerable problem to Leipzig's local economy. As nearly 90% of local enterprises have five or less employees and must be considered as small businesses, the demand for external finance via loans is large by number but small by average loan-sum.

Small loans (below €10,000) are unprofitable for the banking sector. The standards for deciding on and for handling small loans are the same as for larger loans whereas the revenues earned from interest and fees are minimal. The need to back-up small loans to SME with a higher rate of liable equity due to the Basel-accord is an additional obstacle.

Composition of the Local Support Group

Local partners

Within the Municipality of Leipzig the Office for Economic Development is the body responsible for organising the FIN-URB-ACT participation and the Local Support Group. Besides the City administration, the political level was also involved. Moreover, the responsible officers as well as the decision-making bodies of the other partners were also involved (e.g. professional chambers, banks, etc.). The following local organisations were involved in the Local Support Group:

- City of Leipzig
- Leipziger Unternehmensgründerbüro – ugb
- Industrie und Handelskammer
- Handwerkskammer
- BIC Leipzig GmbH
- BIO-NET LEIPZIG Technologietransfer GmbH

Activating banks for providing better access to finance for SME has long been on the agenda of the City of Leipzig's Department for Economic Development. Early in the FIN-URB-ACT in URBACT project it became clear that local banks would not substantially alter their procedures and conditions for small loans to SME. The local savings bank also terminated their initial planning to set up a micro-lending scheme assessing that such a scheme could not be run without financial losses in the management of the scheme in addition to the risk of further losses from unrecovered loans.

The City then addressed the labour agency and the regional ESF micro-loan funds of Federal State of Saxony/Freistaat Sachsen to alter their respective conditions for small loans and thus provide better access for SMEs in Leipzig and the region. The labour agency which runs a loan scheme for start-up companies created by unemployed tends to be very restrictive in the evaluation of the potential of new businesses. Federal State of Saxony/Freistaat Saxony with its ESF micro-lending programme is restrictive on loan-sums below 10.000€ and runs a very complex and time-consuming application procedure. However, neither institution was ready to reduce their barriers for SMEs.

At this stage it became evident that the City would have to establish an independent micro-lending scheme. This scheme would have to avoid the existing red tape to micro-finance and would have to provide wide access without impeding and transgressing the lending schemes run by public services (labour agency and Federal State/Freistaat) or by the commercial finance sector.

In order to fulfil these requirements it was decided that the private banking sector and the public support structure for SME should be included in the local micro-lending scheme. The cooperation with public funding was achieved by combining the local micro-lending with the ESF-micro-lending scheme financed by the ESF Operational Programme of Germany. To activate local banks, all banks were addressed with the request to support a local micro-lending scheme that would provide finance to SME below the threshold of commercial lending.

The local savings bank declared that they would engage in providing a local lending scheme with equity and by supporting the decision on individual loans but would not engage in the administration and management of a local micro-lending scheme. To the City of Leipzig this was a substantial break-through because the engagement of a local bank on such terms ensures the compliance of a public micro-lending scheme with commercial activities and thus prevents the risk of running a public support scheme that is not compliant with competition regulation.

In May 2010, the City Council of Leipzig established a local micro-lending programme with a portfolio of €200,000. The programme was established as a pilot project with a run-time until the end of 2012. The portfolio supports a revolving fund, where repaid loans and interest from previous loans can be used for further loans. Of the total funding, the City provides €25,000, the local savings bank provides €15,000 both as first loss security. The ESF OP for Germany provides the remaining €160,000 as back-up security for the portfolio. The management of the funds is run by the local business start-up office, which is a unit of the city administration's Department for Economic development. The board deciding on the micro-loans has one representative from the local savings bank and two representatives from the city administration.

In February 2011 the local micro-lending scheme has provided 25 loans, which is approx. one per week. Two loans have been repaid already. The average loan-sum is approx. €3,000. The recipients are 50% male and 50% female. Approx one-third of the recipients receive additional needs-tested support from the labour agency. Fifty percent of the businesses financed were less than one year old. In the first half-year of its existence it is generally agreed that the local micro-lending scheme has been successful already in closing a substantial gap in financing micro-businesses. If the current tendencies prevail, the micro-lending scheme will easily use up its portfolio and may even need to receive additional equity to continue its activities.

On the very concrete issue of providing better access to micro-finance for small businesses the Leipzig experience in activating banks has been positive under the condition that the city provides adequate structures for cooperation with the commercial sector. In addition, the Leipzig experience has been that cities will not be successful in trying to directly influence commercial banking strategies on lending.

These experiences and the concrete approach Leipzig took were shared with the Partner Cities of URBACT at the Meeting in Edinburgh and in consecutive meetings. Leipzig, in return, particularly profited from experiences with the banking sector at Gijón and Edinburgh.

Communication of the Micro-Credit Fund

In the early stages the communication strategy of the Leipzig Microfinance Fund was directed towards the commercial banking sector. The aim was to better induce banks into providing micro-finance. Banks were approached with the request to provide financial contributions to the fund and to support the decision process on individual loans.

Consequently the communication to local politics became more important. The aim was to receive the consent of the City Council to establishing a micro-loan scheme and to reach a decision on a funding for micro-loans. The City Council endorsed the FIN-URB-ACT project with a clear majority and unanimously agreed on the micro-lending scheme and on providing local financial support to the fund.

Compliance of the local scheme with other public funding for SMEs and an additional strand of communication led to local Chambers of Commerce, chambers of small crafts and particularly to the Ministry of Economy of Federal State of Saxony/Freistaat Sachsen on the regional level.

With the establishment of the micro-finance fund the communication strategy has focused on the target group, i.e. on small and micro-businesses existing and in the start-up process. FIN-URB-ACT has contributed to brochures and flyers addressing potential lenders. The experiences and intermediate results of Leipzig activities in FIN-URB-ACT have also been shared with the national Ministries of Economy and of Labour and Social Affairs and also with DG Employment on the occasion of meetings not in the immediate context of FIN-URB-ACT.

Finally and in line with the design of the project, the experiences in providing local micro-finance have been intensively communicated with the Partner Cities and Regions of the FIN-URB-ACT Project.

SEPT Programme and Support

SEPT uses the broad know-how of German SMEs, both good examples and experiences of SMEs as well as those institutions that foster and promote SME development. The SEPT programme bundles the following activities:

Besides an International MBA Programme in SME development which SEPT is offering at Leipzig University and the Technical University in Hanoi, Vietnam, PhD programmes in the field of development and promotion of SMEs, Research and Training Programs in the field of SME promotion and training, SEPT also addresses local start-ups and offers different activities to promote and support them.

One of these initiatives is SMILE (Self-Management Initiative Leipzig), a support programme for start-ups, which addresses students, employees and alumni from the Leipzig region. The initiative is developed in cooperation with the Chair of Marketing of the University of Leipzig, the Leipzig Graduate School of Management (HHL), the Academy for Engineering, Economy and Culture Leipzig (HTWK) and the Helmholtz – Centre for Environmental Research (UFZ) Leipzig and financed from the Development Bank of Saxony (SAB) and the European Social Fund

(ESF). The initiative focuses on the development of entrepreneurial skills in the environment of the universities in Leipzig.

SMILE offers seminars and workshops, which supports entrepreneurs and start-ups to discover and develop their potential and abilities. Since its start in 2006 more than 3,000 people have joined the seminar and as a direct result from the initiative more than 250 businesses were founded. In 2008 the sister project – Smile.medibiz – was founded. Smile.medibiz specialises in supporting start-ups and spin-offs in the area of biotechnology and medicine. In practice, the idea of SMILE is not limited to coaching and capacity building. The SMILE support team offers overall assistance for the development of a company: they screen potential ideas on expected demand and the entrepreneur's personality; they support the entrepreneur in developing a business plan; they assess the application on its market potential and verifiability and ease the access to finance, which might even include accompanying an entrepreneur to the bank. Therefore a broader network exists with local and regional partners like the Economic Office of the City of Leipzig. The interdisciplinary team of 13 employees with diverse entrepreneurial backgrounds, skills and experiences operates in a highly professional and flexible fashion to bring the best ideas to the market. SMILE founders have won several business plan competitions. Furthermore, SEPT offers consultancy services for SMEs and promotion institutions in cooperation with private partners. 'SIL' (Service Innovation Lab) – founded in 2008 and funded by the Federal Ministry for Economy and Technology –specialises in the consultancy for innovation processes and the transfer of technologies in the crossroad of university and service companies. The focus of 'SIL' lies in the medical sector and creative industries. SEPT works closely with local and regional partners such as the City of Leipzig, especially the office for economic development and the ugb-start-up centre in Leipzig. The founders can draw additional value from the resulting synergies. During the coaching by SMILE or SMILE.medibiz founders can be involved in the cluster networks with support of the office for economic development and network for their start-up projects. The aim of the joint initiative is to offer entrepreneurs from the university in Leipzig the best possible conditions. Leipzig's experience shows: needs-based specialisation of bids for founders increases the success; Leipzig is an important site of humanities education; SMILE and the municipality of Leipzig want the expansion of counselling start-up services for these target groups. Following the strategic focus for the Creative Industries in Leipzig, SEPT is actually developing several projects in the design as well as in the media sector. Based on the strong orientation of the higher education institutions in Leipzig towards social and cultural sciences as well as art and music, the interests of SEPT lie in the development of service solutions for the market entry and growth of young companies from the creative sector.

CONTACT:

Brigitte Brück	Stadt Leipzig Abteilungsleiterin Amt für Wirtschaftsförderung Abteilung 80.2 Postanschrift: 04092 Leipzig Hausanschrift: Martin-Luther-Ring 4-6 04109 Leipzig Phone.: 0049-341/123-5841 Fax: 0341/123-5805 E-Mail: uta.johannes@leipzig.de Internet: http://www.leipzig.de
Uta Johannes	Stadt Leipzig Amt für Wirtschaftsförderung Abteilung 80.2 Postanschrift: 04092 Leipzig Hausanschrift: Martin-Luther-Ring 4-6 04109 Leipzig Phone: 0049-341/123-5835 Fax: 0341/123-5805 E-Mail: uta.johannes@leipzig.de Internet: http://www.leipzig.de
Wennemar de Weldige	Stadt Leipzig Amt für Wirtschaftsförderung Postanschrift: 04092 Leipzig Hausanschrift: Martin-Luther-Ring 4-6 Phone: +49 (0)341-123-5848 Fax: +49 (0)341-123-5825 E-Mail: Wennemar.deWeldige@leipzig.de Internet: http://www.leipzig.de

URBACT II

URBACT is a European exchange and learning programme promoting sustainable urban development.

It enables cities to work together to develop solutions to major urban challenges, reaffirming the key role they play in facing increasingly complex societal challenges. It helps them to develop pragmatic solutions that are new and sustainable, and that integrate economic, social and environmental dimensions. It enables cities to share good practices and lessons learned with all professionals involved in urban policy throughout Europe. URBACT is 181 cities, 29 countries, and 5,000 active participants

www.urbact.eu/project



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