

ZALAEGRSZEG CREDIT SUPPORT PROGRAM

Zala County Foundation for Enterprise Promotion

Objective of Good Practice:

Establish a successful partnership between MFIs and the Mayor's Office with the main objective of lowering interest rates on microloans.

Timeframe of Good Practice:

2015 - Ongoing

Keywords:

Partnership in the delivery of loans

Institutional profile

Zala County Foundation for Enterprise Promotion (ZMVA) has been established by the Zalaegerszeg County Self-government, as its sole founder in 1992.

Its objective is to promote the economic development of Zalaegerszeg County, to support the establishment, survival and first of all the growth of micro and small enterprises by operating a central promotion office and a county-level sub-office network.

Type of Organization

Foundation

Country

Hungary

Products & Services provided

- **Financial:** Business microloans.
- **Non-financial:** Mentoring and Coaching.

Gross Loan Portfolio

EUR 7,812,132
(As of Dec 2016)

Number of clients

623
(As of Dec 2014)

Target Audience

Unemployed people or people on welfare, Youth, Micro and Small enterprises

Organization Website

<http://www.zmva.hu/>

Overview of Good Practice

The Credit Support Program was developed as an initiative of ZMVA, who initiated a partnership with the Mayor's Office of the town Zalaegerszeg to efficiently direct municipal money to support microenterprises through microfinance. The inclusion of this governmental partner ensures a subsidy that enables ZMVA to offer microloans at favorable conditions (lower interest rate) to entrepreneurs of the 60,000 inhabitants in the city of Zalaegerszeg.

This partnership supported one of the Mayor's most important objectives: the creation of a strong microenterprise sector, seeing it as an efficient way to reduce unemployment, increase consumption and develop the local infrastructure. The project's contract runs from 2015-2019 and has an available budget of 50 million Forint (approx. EUR 160,000) for the partnership framework, 10 Million Forint per year.

In the framework of the partnership, the municipality disburses the amount of the interest difference directly to the MFI, approx. 2-3% for entrepreneurs under 35 years of age, so the foundation is able to provide the microloans at 1-2% interest rate to the final beneficiary. The target population of this product are young entrepreneurs and entrepreneurs that invest in the local area. ZMVA also complemented this service with tailored coaching and mentoring in order to support entrepreneurs beyond financial support to ensure a greater number of successful cases.

In terms of eligibility, the application criteria requires that the microenterprise be officially located in Zalaegerszeg since the programme is a local initiative. Furthermore, the microenterprise staff should not exceed 9 persons and the annual net income of the enterprise should not exceed EUR 2 million.

Innovativeness

The partnership framework between MFI and municipality allows the provision of microloans at better conditions for young entrepreneurs and microenterprises. It is also a good way for government to support microfinance.

Another innovative tool of this program is the 'one-stop-shop' approach. Entrepreneurs eligible for loan disbursement with reduced interest rates funded by the municipality only have to deal with ZMVA to handle the paperwork. Furthermore, for the entrepreneurs, there is an incentive to invest in the local area, which drives economic development in the city.

Outcomes

The partnership went into effect in 2015, and during its first year of implementation, 28 microenterprises were financed in the amount of EUR 668,866, of which EUR 3,303 was the subsidy component. During 2016, 15 new microenterprises participated in the program: EUR 238,329 in loan amount and EUR 8,650 in interest rate subsidy.

78% of the microcredits were distributed to the service sector; the rest of the portfolio, by order of size, are: commerce, industry, tourism and agriculture. The purpose of the loans are mostly for purchase of property, cars and equipment.

ZMVA found that the subsidy fund is appropriate in size, had no repayment problems and was a politically marketable product. As a result of the program, 3 companies decided to set quarters in Zalaegerszeg in order to benefit from it.

Efficiency and Sustainability

This practice is cost efficient thanks to task distribution. The Mayor's Office wants to invest public money in a productive way while also offering an incentive to spend the money locally to encourage a favorable local economic scenario. The MFI takes ownership of the loan disbursement, which does not exceed more than 15 days and offers non-financial services.

In addition, the Mayor's Office supervises the activity through regular reporting of the MFI, where they detail the number of clients in the program and the performance of the loans to ensure that public money is spent efficiently. Given the good results obtained, there is the possibility to ensure continuous support for the next 5 years (2020-2025).

Lessons Learned

This kind of partnership can be an effective framework to involve city councils in microfinance initiatives. Through this partnership, the city council can support local enterprises to ensure an efficient use of public money by institutions specialized in the delivery of microloans. This is the reason why the program can be easily replicated in other regions. In this respect, given the fact that geographical scope of the initiative is restricted, one key to success is to replicate it in areas with enough market potential. Another key role for the municipality is the promotion of the initiative at the local level. Strong cooperation with the MFIs in the area is important to ensure the success of the initiative.

Before launching the programme, a preparation phase and fine-tuning of the product are key as negotiations and arrangements with the local government take a long time.

In Practice: Success Story

Nikoletta Biró is one of the most successful cosmetic entrepreneur in city of Zalaegerszeg. The strong relationship with her customers greatly contributes to the success of her business. She took a loan from Zala County Foundation for Enterprise Promotion and renovated her cosmetic salon. Three years later, she opened a new salon where she provides a more aesthetic, comfortable and spacious environment for her customers. She chose ZMVA because - in addition to its flexibility - the interest rates on microcredits were more favorable than the bank, in part thanks to the subsidy of city of Zalaegerszeg.

<http://www.magymikrofinanszirozasinap.hu/wp-content/uploads/2015/10/Bross.pdf>

Further Readings

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