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Efficiency and Sustainability in the entrepreneurial microfinance programs, especially the non-profit microfinance institutions

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4 tips to implementing effective and efficient microfinance programs (Neal Youngquist)



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Microfinance is being used in a variety of ways, but this form of financial service should be implemented strategically and effectively by **well-informed, highly skilled, socially sensitive microfinance players and development practitioners.**



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“The **effective use** of money is fundamental to achieving development objectives. Without affordable credit and accompanying financial services, offered at the right terms and sizes, sustainable long-term economic expansion at a household and community level cannot occur.”



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The effectiveness of microfinance

Erase the misunderstandings, learn the trade

- “Implementing microfinance is not for all. Development practitioners partnering with established microfinance providers with a ‘social bottom line’ offers the best avenue for real opportunity and success.”



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The effectiveness of microfinance

Be willing to take on a risk/reward mentality

- Microfinance, at its very core, is still a financial undertaking, which means a loss-return element is inevitable. This is the case especially in **high-risk development programs** serving communities where borrowers may not always have the capacity to pay back their loans.



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The effectiveness of microfinance

Think outside the box

- In microfinance, there is **no one-size-fits-all approach**. Microfinance practitioners need to develop a structured approach on how their target beneficiaries may use the service, tailored to the demographic of the community.
- **Tailor-fitting** a repayment scheme to a specific situation will also help the borrowers become more financially disciplined and empowered. In addition, it reduces the risk of beneficiaries defaulting on their loans.



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The effectiveness of microfinance

Do not be afraid to say no

- Above all else, practitioners and communities should learn the virtue of saying no, especially **on terms and conditions** that would negatively affect an individual's capacity to pay, whether in the short or long term.



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Sustainability

The factors
influencing
the
sustainability
in nonprofit
financing:

- Economic environment
- Regulatory environment
- Operating environment limitations
- The operating cost of the program resources



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Sustainability

Problems which may arise regarding the sustainability:

- The importance of achieving high volumes.
- Small groups access to credit will not improve the competitiveness of micro-enterprises.
- The chances of supported microfinance programs to involve additional resources is quite bad.



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Efficiency issues

Motto: „Good, fast, or cheap, but only two options is available”

- Depending on the desired target
- Administration towards online solutions
- Decision making at the local level, close to the entrepreneurs



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Proposals supporting effectiveness and sustainability

Providing credit and training together in the
Enterprise Development programs

Introduction of Graded lending

Lending Group - The lending group is mainly
security replacement device

Guarantee Programs



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Sustainability of the credit programs of ZMVA

ZMVA local fund:

- Low initial capital fund
- Relatively high cost of funds
- The current fund would be eight times when the program is self- sustainable for a long time



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Interest subsidy schemes supported by City of Zalaegerszeg

Long-term cooperation agreement
(5 years)

Predictable revenue

Win-win position for all three parties
involved (City, ZMVA, SMEs)

