



## GOOD PRACTICES - CASE IDENTIFICATION /1<sup>ST</sup> LEVEL ANALYSIS

### 1. Good Practice title:

Innovative rural microfinance

- *sustainability and efficiency of local microfinance programs*
- *social outreach of microfinance and mitigating the negative effects of financial exclusion*
- *microfinance as a local employment tool*
- *social and technological innovation in microfinance*
- *involvement of priority groups (with special regard to gender equality)*
- *promotion of local microfinance funds and entrepreneurship initiatives*
- *OTHER good practices in microfinance provision*

### 2. Territory of implementation/application (country/region/...)]

Geographical coverage of FEA (75% of clients from Central Transdanubia region)

### 3. Timeframe:

year of introduction:  year of termination:  (leave 0000 if ongoing)

### 4. Brief description of the promoting organization:

Fejér Enterprise Agency: non-profit Local Enterprise Agency. FEA was established in 1991 by 47 founders. The founders include the local government of Székesfehérvár, the General Assembly of Fejér County, several chambers, banks, enterprises and private people.

The mission of FEA is to provide high-level, easily accessible financial, advisory and training services in Hungary to start-ups and existing micro and small enterprises operating in the Transdanubian region in order to improve their skills and abilities which enable them to make their financial situation, social standing and living conditions better.

In order to fulfill its social mission and to realize the goals set by the founders, the Foundation performs concentrated business development activity, which basically focuses on the following main fields:

- Business Development Services



- Training programmes to disseminate entrepreneurial knowledge
- Microcredit programmes to finance enterprises

#### 5. Main objective of the initiative:

The social outreach plan (2012) of FEA defines the main target groups of the activity of the Foundation. One of the target groups is the rural population (entrepreneurs living in settlements with less than 5000 inhabitants). A significant part of these entrepreneurs pursue agricultural activities.

In Hungary, considering the number of offices in the countryside, the resources of FEA are rather moderate; therefore, a different solution had to be developed to reach rural clients. In order to provide access to financial resources, the CREDINFO® system was developed, allowing rural clients to submit a loan application online.

Risks associated with rural clients:

- High transaction costs for both borrowers and lenders
- Low population density and dispersed demand
- Limited economic opportunities available to local populations
- High risks faced by potential borrowers and depositors due to the variability of incomes, exogenous economic shocks and limited tools to manage risk
- Seasonality – potentially affecting both the client and the institution
- Heavy concentration on agriculture and agriculture related activities exposes clients and institutions to multiple risks

#### 6. Brief explanation of the initiative:

Through the online system available from FEA webpage, after completing the online steps, the final version of the application is generated and recorded in the system with the push of a button. After this step, the client has no more work to do. The process continues with the online assessment management system, which enables the evaluation of loan applications. As a result, rural clients do not need to go to the loan offices located in big towns. They can submit their loan applications online. In addition, the client can receive help and other business development services online.

FEA is also working on the development of a separate financial instrument for rural clients. The Rural Microfinance Fund would be available for rural entrepreneurs, combined with tailor-made business development services: training on entrepreneurial skill, coaching and consultancy; help in communication and promotion activities.



**7. Target group and measures to involve the target group:**

The target groups of the initiative are:

- self entrepreneurs or small enterprises in settlements with less than 5000 inhabitants
- agricultural enterprises, local farms
- organic (certified or not certified) agriculture producers and their clients

**8. Innovativeness:**

There are innovative aspects about the financial resources mobilized, the guarantee mechanism and the tutoring activity. In addition, the alliance between microfinance institutions, consumers and small farms could be a new instrument to support the activity of local farms.

**9. Outcomes:**

- Proportion of rural enterprises in the clientship of FEA: 28%
- No. of clients participating in the rural financing programme: 132
- Average size of enterprise (in terms of employee no.): 1.8