



European Union
European Regional
Development Fund

ATM for SMEs
Interreg Europe



Regional Action Plan

ATM for SMEs project

West Practice Tanácsadó és Szolgáltató Kft.
2018.12.10.



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1. General Information

Contents of ATM project

Financial exclusion and the lack of access to credit can be a serious obstacle to business creation in many European regions. Microfinancing of SMEs and support to social entrepreneurship is an already tested and proven tool which can contribute to a high level of quality and sustainable employment, reducing disparities and poverty. Supported by Interreg Europe, Access to Microfinance for Small and Medium-sized Enterprises (ATM) project may provide help for SMEs and startups with difficulties in access to credit through application and dissemination of international experiences and good practices. The project is aiming at exchanging the local knowledge on innovative solutions and good practices in order to cease financial exclusion of starting SMEs as well as to ease and facilitate their launch and development. The project also aims to contribute to a high quality and sustainable employment, reducing disparities and poverty and thus contributing to the realization of the ‘Sustainable growth’ priority of the Europe 2020 strategy.

There is a wide variety of microfinance programs across Europe, however, there are significant differences in how these microfinance initiatives reach their target groups. Therefore, the “ATM for SMEs” project is aiming at improving the access to microfinance in the participating regions by sharing and exchanging the local knowledge on innovative solutions. In order to exchange these good practices and experiences, regional partners demonstrate their ideas in project meetings, which also greatly contributes to the weighing of the social effects of the project. A workshop was held for the exchange of ideas, economic integration, estimation of social inclusion and the presentation of enterprise crediting approaches. Principles have been identified which can be used in various areas, prospective success factors and their effects on local policy have also been taken into consideration.

Following the interpretation of experiences and the exchange of knowledge, a regional Action Plan was prepared which can also be used in local level. One element of the Action Plan is a program aiming at the establishment of an intelligent network system in order to

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provide stability and safety for the regional energy sector. Additionally, further diversification of the energy sector's structure and the reduction of environmental problems of the 21st century are also very important.

Project information in figures

- Number of partners: 10
- Participating countries: Hungary, Germany, Poland, Italy, Spain, Norway, Croatia, Belgium
- Main output: **9 regional action plans**, 6 study visits, 9 revised policies, 6 newly established projects
- Duration of the project: April 2016 – March 2021
- ERDF financing: € 1,622,097

The aim of the Regional Action Plan

According to Interreg Programme Manual v.3, every project partner will prepare their own regional action plan, applying the good practices they learnt during the course of the project. Accordingly, the action plan outlines concrete proposals on how a given partner (in this case Zala County Foundation for Enterprise Promotion, ZMVA) can realize the chosen good practices and how this contributes to the development of their selected policy instruments.

Following the same logic, the action plan takes the whole criteria, participants to be involved, costs, duration and potential resources of each option into account.

[Source: www.interregeurope.eu/atmforsmes]

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Introduction of the foundation network and the Zala County Foundation for Enterprise Promotion

Interested parties from the non-banking sector may avail themselves to financial services similarly to parties of the banking sector. In Hungary (as well as in Western Transdanubia) this sector includes enterprise development foundations and financial intermediaries.

The establishment of the foundation network

In the early 1990s local county entrepreneurial centers were established in different regions for the promotion of enterprises and the dissemination of entrepreneurial culture in the framework of EU's Phare Program and a promotional program launched by the Hungarian Foundation for Enterprise Promotion.

The operation of foundations

These foundations are members of the National Network for Enterprise Promotion; however, financially and organizationally they are independent nonprofit organizations. Every foundation is an important player in the Hungarian institutions system enhancing the development of national and international economic partnerships. They are aiming at facilitating the development of the economy of the counties (in the Western Transdanubia region – Zala, Vas and Győr-Moson-Sopron Counties), the establishment and maintenance of SMEs and, most importantly, the promotion of SMEs' growth. Correspondingly, the foundation network covers the whole country: every major town in every county has a local office (Zalaegerszeg, Nagykanizsa, Keszthely, Lenti and Zalaszentgrót in Zala County).

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Zala County Foundation for Enterprise Promotion

Just like the Network, Zala County Foundation for Enterprise Promotion was established in the early 1990s in the framework of EU's Phare Program and a promotional program launched by the Hungarian Foundation for Enterprise Promotion for the support of enterprises, the dissemination of entrepreneurial culture and also to provide information and an outbreak opportunity for the region's SMEs. With the assistance of Zala County Council, as an only establisher, Zala County Foundation for Enterprise Promotion came to existence in 1992. The original goals of the foundation have not changed essentially throughout the years: to facilitate the development of Zala County's economy, to promote the establishment, survival and growth of micro small and middle enterprises and to set up a self-sustaining office-network for enterprise promotion with a central office and several sub-offices to provide local entrepreneurs with high quality, sufficient and available services and projects.

The strategy

ZMVA, as a self-sustaining, public-benefit nonprofit organization, promotes the establishment, re-establishment, survival, development and continuous competitiveness of micro, small and middle enterprises in its operative range (especially in Zala County of the Western Transdanubia Region) through providing them with high quality services. By involving SMEs in EU market processes, innovation, partnership, clusters and other forms of networking and by increased financing, ZMVA provides further development for the economy of Zala County and the Region through a better operation of SMEs and their increasing national and EU participation. The strategy takes notice that there are many economy boosting organizations: profit-oriented, nonprofit and government organizations, all of which ZMVA considers its cooperating partners. Chambers, entrepreneurial strategic and representative bodies, industrial and innovative parks, clusters, regional and local development agencies, institutions of education and employment, municipalities and their associates are involved in the cooperation. ZMVA also assists SMEs with continuous information, advice, business partnership intermediation, soft loans, coordination,

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submission and awarding of mutual applications, writing applications, subcontract jobs, persistent harmonization of available resources and work sharing. In this process ZMVA aims to take an initiating and cooperating role, similarly to the practice of the past years. Advice activities of ZMVA are financed by projects presently (e.g. innovation or microcredit advice). Since 2012 ZMVA has participated as an accredited advisor in the Enterprise Advice Program. Funding rights of ZMVA were assigned to the Hungarian National Asset Management Inc. in 2012. Zala County Council completes regional development tasks in which ZMVA wishes to play a cooperating role. In accordance with EU2020 Strategy, ZMVA is involved in the development of employment, innovation, renewable energy and education.

[Source: the founding regulation of Zala County Foundation for Enterprise Promotion (2015)]

Introduction of the regional/county conditions

Western Transdanubia Region includes Győr-Moson-Sopron, Vas and Zala Counties along the western border of Hungary from the north to south. The region is in a fortunate position as it is located in a four-state-area including Slovakian, Austrian, Slovenian and Croatian border regions. Consequently, these counties participate in several cross-border development programs beside significant logistic activities.

The most developed areas of the region are the county capitals and, except Nagykanizsa, their sub-regions. From a general economical point of view, Győr's sub-region is the flagship of the area, which progressed significantly due to automotive industry investments in the past years. Szombathely sub-region also has remarkable income indicators and an advanced service sector from which Sopron-Fertőd and Zalaegerszeg sub-regions slightly lag behind. The Keszthely-Hévíz sub-region also stands out in the region due to its service sector (tourism). Körmend, Kőszeg, Mosonmagyaróvár, Nagykanizsa, Sárvár and Szentgotthárd sub-regions have indicators just above the average; however their rate of employment and income exceed those of Keszthely sub-region.

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On the whole, this region can be considered to be one of the most developed areas in Hungary. Its economic performance above national average is primarily due to the excellent location of the region. As mentioned above, high level investment activities have taken place for a decade, well-capitalized investors have settled down in the area partly due to its very favorable geographical position. With regards to economical openness, global networks, the availability of highways, the capacity of innovation centers, human resource and the presence of information and communication technologies, Győr is the most prominent city; however, industrial centers have emerged around other major towns, too.

According to figures of the Hungarian Central Statistical Office of 2010, in the rank based on gross domestic product (at market acquisition value) and average gross domestic product per head, Western Transdanubia is only second to the Central Hungary Region. Gross domestic product is 64% of the 27 EU Member States' average, which is also the second best indicator in Hungary.

It is important to note that the developments of the automotive industry, originating from Győr, seem to spread into neighboring counties. Thus, as part of a new initiative, Pannon Mechatronics Cluster has been established, among others, in the sub-region of Szombathely-Szentgotthárd-Zalaegerszeg.

The Region's conditions in consideration to SMEs

In relation to SMEs, Western Transdanubia is in the middle range in Hungary, in the number of employed, however, it is at the top (with an average 3.12 employed).

Major figures of small and middle enterprises by the region, 2012

| Region | One small or middle enterprise's | | | |
|--------|----------------------------------|-------|------------|-----------|
| | turnover | gross | investment | number of |
| | | | | |

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| | | value added | | employees |
|------------------------------|--------|--------------|-------|-----------|
| | | thousand HUF | | |
| Central Hungary | 97 041 | 16 023 | 2 118 | 3,15 |
| Central Transdanubia | 53 770 | 10 295 | 2 535 | 3 |
| Western Transdanubia | 50 142 | 10 855 | 2 168 | 3,12 |
| Southern Transdanubia | 41 590 | 82 37 | 2 071 | 2,88 |
| North Hungary | 46 901 | 9 108 | 2 086 | 2,91 |
| North-Great Plain | 52 674 | 9 748 | 2 245 | 3,11 |
| South-Great Plain | 54 378 | 9 730 | 2 717 | 3,2 |
| Whole country total | 69 627 | 12 319 | 2 263 | 3,09 |

[Source: www.ksh.hu]

Registered economic organizations in Western Transdanubia Region

| Type of entity | 2013 | 2014 | 2015 |
|-------------------------------|---------|---------|---------|
| Corporate enterprises | 41 826 | 40 283 | 38 876 |
| Individual enterprises | 115 881 | 119 291 | 120 817 |
| Total | 157 707 | 159 576 | 159 693 |

[source: www.ksh.hu]

Similarly to other regions of Hungary, the service sector is the strongest. In addition, trade and motor vehicle repair are also significant due to the nearness of borders and the motor vehicle developments in the Region. There is no need to explain the prominence of catering, the impact of Lake Balaton, Hévíz and the nearby borders is perceptible.

The two charts allow us a realistic insight on the structures of SMEs in Western Transdanubia. They also break down information on the number of SMEs, the number of workers employed and the types of entity. The decrease in the number of corporate enterprises

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due to a capital raising legislation is also present here but fortunately the number of individual enterprises show an increasing tendency.

Economic conditions of Zala County

Since the Action Plan is related primarily to Zala County's Integrated Regional Program (ZMITP), it seems relevant to take the economic situation of the county into consideration. In general, the economy of the county is based on the timber industry and forestry, tourism and machinery. The county's touristic attractions are the untouched natural sites, several spas and traditional rural catering. Large areas of forests provide excellent hiking opportunities. The largest hot water lake in Europe, Hévíz, is in Zala County. Accordingly, a particular attention is paid to tourism and economic development in the Integrated Regional Program. The end of the 1980s and the beginning of the 1990s introduced changes in the region's previous economy which was stabilized by the early 2000s, however, due to the economic crisis beginning in 2008 several large companies decreased their capacities significantly. On the other hand, features of the county are not bad at all. It is bordering Croatia and Slovenia while Austria is also nearby. Five capital cities are within a circle of 250 kilometer radius. Therefore, the county is in the fortunate position to be able to participate in all the three cross-border (CBC) programs of the region.

From the aspect of the national economy, Zala County has many strengths. Three fundamentally important towns should be highlighted that take a prominent developmental path: Lenti, Keszthely and Zalaegerszeg. Lenti and Keszthely (and also the sub-region of Keszthely – Hévíz and Zalakaros) have a large touristic potential. Hévíz has the second highest number of guest-nights in Hungary, more than 1,000,000. Zalaegerszeg is the county capital. It had an industrial potential primarily (see Flextronics and its local suppliers) before the developmental decision on the implementation of the vehicle test track.

After laying the founding stone of the test track (and after implementation) automotive industry development and added value will be the main profile of the town which fundamentally relates to the profile and economic structure of the region. (The other – existing - basis for the Hungarian automotive industry is Audi Hungary Ltd. in Győr.)

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The economics of Zala County in figures

Major types of economic activities and their relevance for Zala County:

- GDP (2016) sectors by added value: 4.4% agriculture, 65.1% services, 30.5% industry

From the aspect of economic growth:

- GDP growth (annual percentage): 2.2 (2016)
- GDP growth per head (annual percentage): 2.5 (2016)

Rate of rural areas:

- Rural population (in percentage of the whole population): 28,3 (2016)
- Growth in rural population (annual percentage): -1,8 (2016)

The size of enterprises (average turnover and average number of employees):

- Consistency of new businesses (new registrations per 1,000 15-64 year-old people): 3.4 (2016)
- Number of newly registered businesses 22,328 (2016)

Other taxes to be paid by businesses (percentage of commercial profit): 2.3 (2016)

[Source: Dr. Szabó László – Logistic Services in Zala County]

Introduction of the developmental demand

A survey in 2018 was searching for an answer to the matter if willingness for applications would increase in case of the introduction of a new microcredit product. The background of the survey was to find out how existing credit products match the demands of the county's SMEs.

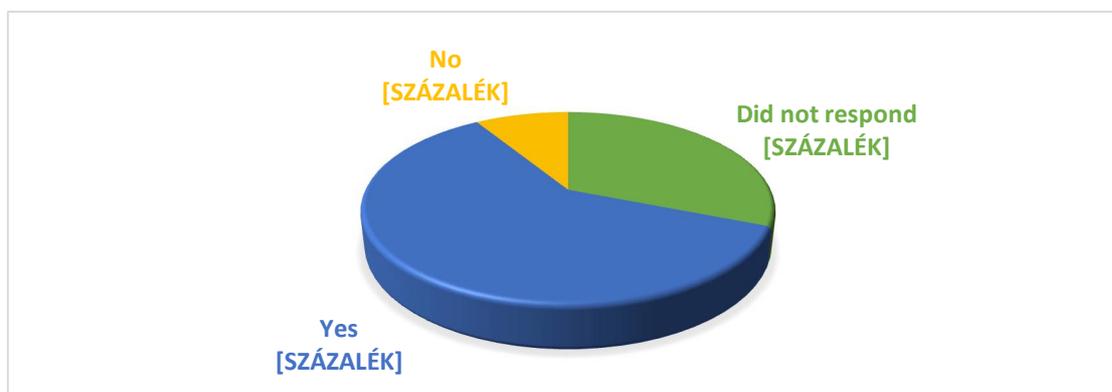
Results show that 130 out of 222 people who completed the questionnaire answered 'yes' to the question: 'Would your business apply for a new subsidized credit designed

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directly for SMEs with 1.5-3.9% interest, 10% own contribution and a real estate collateral?'. 25 people were not interested while the remaining 67 people did not answer this question.

Would SMEs borrow the new microcredit?



[Source: Szabó – A mikrofinanszírozási programok stratégiai kiértékelése, 2018.]

Based on the findings, demand for a new microcredit construction has been proven among SMEs in Zala County. It seems evident that there is an existing market gap in micro-crediting. However, some nuances should be taken into consideration. What we mean by this is the market is very optimistic at the moment, that is, having recovered from the crisis of 2008, willingness to borrow credit has increased to the pre-crisis level. Obviously, this would be a negative tendency only in case of a forthcoming new economic world crisis. Even in that unfortunate event the importance of energy efficiency crediting would be overshadowed by other factors in the SME sector. All in all, this is still the manifestation of a new market behavior, that is, players of the sector are interested in almost any kind of support (low-interest credits or others) which also derives from the fact that the whole sector is optimistic after the world crisis and there is a demand for growth and development. **In light of the fact that 60% of Zala County SMEs out of 222 would borrow such credit, which is approximately 130 enterprises, we can state that there is a relevant developmental demand.**

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2. Policy and Regional Context – The Introduction of Related Integrated Regional Program (IRP)

Integrated Regional Program of Zala County (ZMITP)

Regional and Urban Development Operational Program (TOP) for the 2014-2020 planning period originates from the fact that different areas of Hungary have different social, economic and environmental features, therefore, they have a different development potential, too. Based on previous development experiences, TOP follows a regional interventional logic which allows regional decentralization of developmental planning relying on allocation of resources at county level. County councils and local governments of 18 counties of the less developed regions are entitled to plan with TOP's budget in order to fulfill the specific objectives of TOP. Accordingly, county councils and local governments work out their own integrated regional programs (ITP) in parallel which they later harmonize with the county planning documents.

Zala County's Integrated Regional Program sets out the following main operational development goals in relation to available TOP resources:

- ***To generate a dynamic economy in Zala producing for the world market*** – a quality improvement of business infrastructure in the county and the formation of an attractive business environment for existing enterprises and those that wish to settle down in Zala.

Related TOP goals

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- 1.A – To facilitate job creation abilities of businesses by providing local-regional conditions to support the operation of the local economy
- 1.B – To deploy endogenous potential in local tourism in order to facilitate employment
- 1.C – To improve availability of workplaces, to promote the mobility of workers by the development of transport conditions
- 2.A – To encourage entrepreneurial activities and to retain population by urban development interventions

- **Future from our past! Preserving the traditions of rural Zala** – Use of local and area-specific products and services as economic development resources.

Related TOP goals

- 1.A - To facilitate job creation abilities of businesses by providing local-regional conditions to support the operation of the local economy
- 5.C – To promote local identity and local social dialogue

- **Recreation and therapy: Tourism development in Zala** – the creation of an internationally competitive tourism economy for domestic and foreign guests by the development of the architectural and natural environment, in particular attention to the extension of Hungary’s most remarkable therapeutic and recreational infrastructure

Related TOP goals

- 1.B – To deploy endogenous potential in local tourism in order to facilitate employment

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- 3.A – To facilitate sustainable social mobility
- **Well-prepared people of Zala capable of renewal** – reinforcing demand side of the labor market capable of quick adaptation to economic challenges, increasing the number of employees capable of coping with modern business circumstances in order to expand employment.

Related TOP goals

- 1.C – To improve availability of workplaces, to promote the mobility of workers by the development of transport conditions
- 1.D – To facilitate the return of workers with small children to the labor market by the improvement of childcare services
- 5.A – To improve employability and to increase the number of workers by local and regional economic players
- **The development of livable and competitive villages and towns in Zala** and decreasing the degree of emigration from the county by the improvement of the environmental quality in the municipalities – with special attention to the development of the quality and availability of public services

Related TOP goals

- 1.D – To facilitate the return of workers with small children to the labor market by the improvement of childcare services
- 2.A – To encourage entrepreneurial activities and to retain population by urban development interventions
- 3.A – To facilitate sustainable social mobility

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- 3.B – To improve energy efficiency of municipalities and to increase the rate of renewable energy resources
 - 4.A – To improve the quality and availability of public services of the municipalities
 - 4.B/5.B – To increase the number of inhabitants with better life chances in the impoverished urban areas
- **A strong and cooperating county community** – the reinforcement of local communities, social cohesion and local identity preserving cultural diversity.

Related TOP goals

- 5.B – To increase the number of inhabitants with better life chances in the impoverished urban areas
- 5.C – To promote local identity and local social dialogue

As evidenced by the interconnections in the IRP's target system, overall county goals and strategic sector goals, IRP makes a contribution to every county-level strategic objective even with its modest toolbox. Furthermore, IRP's objectives ensure a close connection between the goals of the county's regional development program and the 11 specific objectives of TOP investment priorities.

TOP indicator values undertaken by Zala County

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| TOP priority/ specific objective | Output indicator | Unit | TOP resource proportionate indicator values, 2023 | Indicator values calculated by the resource for each selected measure, 2023 | Target values undertaken by the County – 2023 | Target values undertaken by the County IRP, 2018 |
|---|---|-------------------------|--|--|--|---|
| 1.A | Area of recovered or newly established industrial sites and industrial parks | ha | 39,62 | 34,37 | 34,37 | 14,45 |
| 1.C | Total length of renewed or modernized roads | km | 9,81 | 9,81 | 9,81 | 5,81 |
| 1.D | Newly-established accommodating capacity for 0-3 year-old children | piece | 361 | 361 | 361 | 120 |
| 2.A | Open spaces developed or recovered in urban areas | m2 | 40259,77 | 44 667,16 | 44 667 | 10 200 |
| 3.A | Length of newly-established cycle routes | km | 19,8 | 19,8 | 20 | 20 |
| 3.B | Estimated annual reduction of greenhouse gases | tonne of CO2 equivalent | 2559 | 2559 | 2559 | 2559 |
| 4.A | Number of basic healthcare services involved in development (general practitioners, pediatricians, dentists, health | piece | 26,69 | 26,69 | 27 | 14 |

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| | | | | | | |
|----------------|--|---------------|---------|---------|------|-----|
| | visitor services, duty on-call and school health services) | | | | | |
| 4.B | Recovered housing units in urban areas | housing units | 33,47 | 33,47 | 34 | 15 |
| 5.A | Number of participants in labor market programs in the framework of employment pacts | number | 1238,1 | 1208,29 | 1209 | 242 |
| 5.B/5.C | Number of participants in local social actions | head | 3838,39 | 3838,05 | 3838 | 768 |

[Source: Integrated Regional Development Strategy of Zala County]

Interconnecting points between the Action Plan and the IRP objectives

In respect of the main operational development objectives ***'to generate a dynamic economy in Zala producing for the world market'*** is the most relevant. Two outputs of the indicator values are worth further attention, namely, greenhouse gas emission and increasing the number of participants in the framework of employment pacts.

Integrated Urban Development Strategy of Zalaegerszeg Municipality 2014-2020

Beside the IRP of the county, that of Zalaegerszeg could also be relevant in many respects for the Action Plan. Measure 5.1, 'Complex economic development and investment promoting interventions' aims at the following: *"In the frame of investment facilitating and enterprise promoting objectives, the City needs to reinforce the institutions of local economic*

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development. In order to fulfill these tasks effectively and competently, the establishment of a municipal institution with an economy-management and investment-promoting profile seems expedient. Furthermore, the reinforcement of Első Egerszegi Hitelintézet Zrt. (First Credit Institution of Zalaegerszeg) along with the extension of its authority with venture capital injection is also necessary. The introduction of Special Sectoral Credit products would be appropriate: (shipping management, tourism, agriculture among others that cannot be financed by Jeremie Programme) funding with short term, low amount credits with surety but without a real estate collateral. Besides, a closer cooperation is required between existing organizations dealing with economy development, investment promotion and advice for foreign market participation, moreover, a clear definition of tasks and responsibilities is necessary in order to eliminate parallelism and competition. A further affirmation of the City Council's entrepreneurship-friendly behavior is very important for the development of a favorable atmosphere for entrepreneurs, including the reduction of administrative obligations in the City Council's competence and the development of client-friendly proceedings. Touristic Cards and Local Currency could be substantial tools for the improvement of local entrepreneurial environment. In order to facilitate local economic processes, the establishment of a local procurement system would be adequate, thus, enterprises could cooperate in procurement proceedings. (...) Integration of small and middle enterprises into the whole economy is a prominent priority. Integration is necessary in consideration of small and large enterprises as well as domestic and foreign economic activities. Several tools should be applied, like support for export, loan guarantees, clustering, supplier-development programs, training or language learning."

[Integrated Urban Development Strategy of Zalaegerszeg Municipality 2014-2020]

The goals of the measure

- Expansion of investment opportunities in Zalaegerszeg
- Improvement of capitalization for urban enterprises
- Reduction of administrative burdens for urban enterprises

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- Vocational training, further training and the development of entrepreneurial competence
- Establishment of industrial and business sites

Indicators assigned to the measure *[Source: private compilation]*

| Indicator | Unit | Source of indicator | Target (2020) |
|---|-------|---|---------------|
| Number of settled down businesses | piece | Local Government (on the basis of business tax) | 10 |
| Number of businesses to gain capital contribution | piece | Egerszegi Hitel Zrt. | 10 |
| Number of finished trainings | piece | ZVF Zrt. | 10 |

The most relevant part of the measure is the number of businesses to gain capital contribution, which has not been solved institutionally because of the termination of Egerszeg Hitel Zrt. Thus, this indicator provides Zala County Foundation for Enterprise Promotion with a potential opportunity to implement such tasks and, this way, get actually involved in the measure. Expansion of the number of settled-down businesses is also an output where ATM Project's experiences and good practices could be suitable. Furthermore, the foundation could also support the Local Government in the training system as part of the financing and economic promotion programs.

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3. Introduction of Regional Actions

In the sections to follow, actual action plans will be introduced and discussed which the Zala County Foundation for Enterprise Promotion and the local stakeholder group found suitable for implementation in the context of the policy measures described above.

Actions spring from experiences and good practices learned in the course of ATM for SMEs Project; however, it is important to note that not all of them are pilot actions in the exclusive interest of ZMVA since, according to the relevant parts of the Program Manual, actions should be carried out with institutional cooperation. Accordingly, some actions are developed for partner institutions or member organizations of the local stakeholder group and some other actions are implemented with a high degree of mutual coordination with partner organizations. In order to facilitate implementation, information sheets of actions contain factual details: duration, responsibility, budget planned and resource of implementation.

In phase 2 of the project supervision of implementation of the action plans will be ZMVA's main role. In the consultation with the leading partner, we were informed that overall implementation is not the project's task, however, efforts should be made for the actual realization of action plans, in the course of which a partner makes offers for the project promoter (e.g. the Local Government).

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I. Action – Establishing the National Social Microfinance Fund* (Source: *Regional Action Plan - ATM forSMEs Project, FEA, 2017*)

1 BACKGROUND

B) Describing the situation and needs

The intention to create new jobs and to boost employment is of great importance for both EU level (Investment for Growth and Jobs) as well as national and regional (ITP of Fejér County) programmes. International experience supports that **the job creating capacity of small and medium-sized enterprises** plays a significant role in achieving a permanently high employment level. In order to utilize the economic and employment potentials of SMEs, it is necessary to develop **a complex set of tools to promote entrepreneurship**. An efficient element of this set of tools is the social microcredit scheme, which promotes self-employment, job creation and job retention, and gives precedence to social goals over profit-oriented aspect.

Social microfinance grants small loans to clients who wish to succeed and make their living from an independent activity and who do not receive bank loans from the profit-oriented sector at all or not to the required extent.

The reason for this reduced credit worthiness may as well be the disadvantaged position of the clients, the fact that they only need a small amount of money, the inadequate legal collateral or the lack of appropriate entrepreneurial history. Social microcredit may be considered as an alternative to social assistance. In case of schemes financed from public moneys the **non-profit attitude** is important because the positive social impact of microcredit is best ensured by this. This lending activity must be coupled with an intensive and efficient advisory, mentoring and assistance activity as well as high-level business development services.

Currently, the potentials of non-profit microfinance are very limited in Hungary and in our region and county as well. Only the local enterprise agencies (LEAs) are capable of dealing with start-ups and small enterprises not satisfying the credit conditions of the banks. However, the funds managed by the LEAs are limited at the moment.

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Thus, presently there are no microcredit funds financed from public moneys, and mediated by specialized non-profit microfinance institutions to the most disadvantaged groups to promote their transition into entrepreneurship or self-employment.

A) Relevant experience gained within the scope of the project

Several of the good practices identified within the scope of the project and studied by the partners dealt with the relationship between **microfinance and active employment policy tools**. Zala County Foundation for Enterprise Promotion (ZMVA) and the Croatian PORA Regional Development Agency presented a good practice promoting the transition into self-employment, which combined financial incentives with training and other business development services. The financial source of the good practice identified by ZMVA is the National Employment Fund, and – in case of a successful application – grants could also be applied for in order to start up the business. However, due to its non-refundable nature the grant given to the self-employed was really small (max. HUF 3 million), and the fund usually ran out very quickly year by year.

For additional information about the good practices please

visit: <https://www.interregeurope.eu/atmforsmes/library/>

C) DETAILED DESCRIPTION OF THE ACTION

Goal

The purpose of the action is to establish a **National Social Microfinance Fund** in order to promote self-employment and the transition into entrepreneurship, mainly for groups being in a disadvantaged position in the labour market.

Activities planned within the scope of the action

Developing the legal and financial framework, selecting the intermediaries: when establishing the conditions and operating mechanism of the programme, the

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professional directives (“Roman Directives”) of the Committee of the European National Microfinance Networks (MicroFINET) published for political decision-makers must be considered.

The National Social Microfinance Fund would be a **separate revolving fund**, which is a part of the central budget, but managed locally by **non-profit local enterprise agencies as intermediaries** on the basis of statutory authorization. Its recommended size is HUF 40-50 billion (one LEA would manage a fund of approximately HUF 200 million).

After taking the necessary central legal and financial regulating steps – establishing and separating the Fund – the scope of intermediaries should be specified in a rule of law. Pursuant to the “Roman Directives”, **the social microcredit would be provided by non-profit microfinance institutions**, which are interested in maximizing positive social impacts and not in making profit and minimizing losses.

Launching microcredit schemes: the managers of the Fund are the LEAs having good territorial coverage (there is at least one local office in each county). Each and every step of the credit transaction (from the initial provision of information through credit application to the final settlement) would take place in the CREDINFO on-line credit information system developed in Hungary, which system has been used by the majority of LEAs for years, and has gained international recognition due to its innovative nature. The system is extremely user-friendly. It makes credit application simple and fast even for those who find it difficult to find their way around the financial world.

Developing the services related to microcredit: in addition to granting micro loans, LEAs also provide mentoring and other business development services. In the field of social microcredit, due to the social characteristics of the target group (presumably less educated groups), special attention must be paid to training and the development of entrepreneurial skills. The following related services should be developed:

- teaching entrepreneurial knowledge within the framework of e-learning
- mentoring, tailor-made counselling, following up on the transition into entrepreneurship
- entrepreneurial counselling in legal, taxation, etc. issues

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- business development services: income enhancement, due diligence services, promotion packages, application consultancy

C) Expected results (quantified)

The expected impacts of the programme:

A benefit of the programme promoting the transition into self-employment as opposed to social assistance is that it helps the spread of the desired working culture, and “finding their feet” has a favourable effect on the self-esteem of the clients.

It also has a favourable impact on the efforts aiming at the creation of the sustainable local society and economy. The purchasing power will increase in the settlements.

The social microcredit scheme helps to retain the inhabitants in the small villages and reduce migration therefrom, since sustainable entrepreneurial programmes may be implemented with its help.

The social businesses of smaller communities, which receive greater attention within the EU, may also be financed from the social microcredit scheme.

Results coming from the mediation of the local social microcredit fund (in case of one

LEA, calculating with an average fund of HUF 200 million):

40-50 new clients (calculating with an average loan size of HUF 5 million) 60-80 new businesses created

300 people: number of entrepreneurs and family members concerned, whose living conditions are improved by the microcredit

3) PLAYERS INVOLVED

In Fejér county, the intermediary of the National Social Microfinance Fund is the Fejér Enterprise Agency (see the introduction in Part 1).

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4) TIMEFRAME

The recommended payment period for the social microcredit is 15 years, in case of long-term current assets financing.

5) COSTS

The planned costs for an average LEA, related to the outplacement of the social microcredit: *(million HUF)*

| Year / Budget category | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|--------------------------|----------|------------|------------|------------|------------|------------|-----------|
| Internal costs | 3 | 3 | 3,4 | 3,4 | 3,6 | 4,4 | 20,8 |
| Staff costs | 1,8 | 1,8 | 2,2 | 2,2 | 2,2 | 3 | 13,2 |
| Operational costs | 1 | 1 | 1 | 1 | 1,2 | 1,2 | 6,4 |
| Equipment / Investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Administration | 0,2 | 0,2 | 0,2 | 0,2 | 0,2 | 0,2 | 1,2 |
| External costs | 3 | 2,5 | 2,7 | 2,8 | 3,1 | 3,1 | 17,2 |
| Promotion | 1,5 | 1 | 1 | 0,8 | 0,8 | 0,8 | 5,9 |
| Meetings | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trainings | 1 | 1 | 1,2 | 1,2 | 1,5 | 1,5 | 7,4 |
| Other external expertise | 0,5 | 0,5 | 0,5 | 0,8 | 0,8 | 0,8 | 3,9 |
| Total | 6 | 5,5 | 6,1 | 6,2 | 6,7 | 7,5 | 38 |

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6) FINANCING

The action can be financed from central budget.

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II. Action – Establishing Regional Credit Fund of Zala County

1. BACKGROUND

A. Describing the situation and needs

The Zala County Foundation for Enterprise Promotion (ZMVA) has been dealing with micro-crediting since 1992, initially only in Zala County, later regionally in Zala, Vas, Győr-Moson-Sopron counties, and on an ad hoc basis in Somogy county. Micro-credit activities and services have been the most successful over the past two and a half decades. Thousands of businesses gained access to resources and hundreds of individuals - including many unemployed - got the opportunity to start a business, thus increasing the economic output of Zala County. Over the years, ZMVA has discovered that dynamically developing and regularly investing customers apply again and again primarily for investment, secondly for revolving microcredit purposes. This tendency was fortunately helped by the fact that in the second half of the 2000s, in parallel with the expansion of the economy, micro-enterprises took higher and higher credits (1-3-6-10 million HUF) according to the changes of the credit facilities. This opportunity culminated in the combined micro-credit facility, where businesses were able to claim up to 10 million HUF financial support and 10 million HUF loan for up to 10 years. Based on the Foundation's experience, rising loans did not result in proportionately increasing credit risk and doubtful claims, on the contrary, decision makers expected more robust and more complex plans due to the higher loan volumes, so the repayment rate improved. Micro-credit facilities were no longer sufficient for successful micro-enterprises, especially if the company wanted to change its size and instead of tens of millions of forints it wanted to receive hundreds of millions to be able to reach its market potential in its overall business activity.

According to our experience, returning clients who were able to reach significant growth had two options for obtaining additional funding:

1. SMEs have moved to commercial bank financing.

Economic results:

- 1.1. ZMVA's micro-lending business has achieved one of its key goals: enabling these SMEs to obtain market credits.
- 1.2. The growth of these companies continued.
- 1.3. The growth of these companies resulted in additional employment and extra tax revenues.

2. SMEs have tried to switch to commercial bank financing, but bank constructions were not suitable for them, they did not get larger loans.

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Economic results:

- 2.1. ZMVA's micro-credit activity and its objective limits (credit limits) no longer allowed the financing of promising SMEs.
- 2.2. The growth of these companies stopped, their competitiveness significantly decreased.
- 2.3. The stagnation of these companies did not result in additional employment or extra tax revenues.

The above example shows that while ZMVA's credit supply - both in terms of volume and credit limit - has been constant for many years, the demand from SMEs is constantly increasing. The Foundation is lagging behind so it is not able to fulfill its essential role in business development.

ZMVA's credit offer in 2018 (typically the same as the past 10 years):

| Fund | Allocations (source) | Credit Facility | Credit Limit for an SME | Average Credit Size |
|----------------------------------|---|------------------------|--------------------------------|----------------------------|
| National Microcredit Fund | <i>approx. 200 million HUF (foreign source)</i> | Investment credit | maximum 10 million HUF | 6,0 million HUF |
| | | Working capital loan | maximum 10 million HUF | 3,0 million HUF |
| Helyi Mikrohitel Alap | <i>350 million HUF (Own source)</i> | Investment credit | maximum 10 million HUF | 5,5 million HUF |
| | | Working capital loan | maximum 10 million HUF | 3,5 million HUF |
| „Fürge” Credit Program | <i>100 million HUF (Own source)</i> | Investment credit | maximum 3 million HUF | 2,0 million HUF |
| | | Working capital loan | maximum 3 million HUF | 1,8 million HUF |
| ZALA Credit Fund* | <i>100 million HUF (Own source)</i> | Investment credit | maximum 8 million HUF | 6,0 million HUF |
| | | Working capital loan | maximum 8 million HUF | N/A |

*The facility is new, only started in October 2018 from own source

Despite the modest credit limits, the Foundation has made significant lending in recent years:

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| Report on the situation of the disbursed microcredit stock from the National Microcredit Fund (OMA), the Local Microcredit Fund (HMA), the New Hungary Microcredit (GOP) and the New Hungarian Combined Microcredit (ÚSZM-KOM) | |
|---|-------------------|
| Number of loans disbursed since 1993: | 2 981 |
| Amount of loans disbursed since 1993: | 9 241 180 123 HUF |
| The number of live loans on the 30th of November 2018: | 475 |
| Amount of live loans on the 30th of November 2018: | 1 608 005 445 HUF |
| Number of loans disbursed in 2017 (until the 31st of December 2017): | 26 |
| Amount of loans disbursed in 2017 (until 31 December 2017): | 121 419 000 HUF |
| Number of loans disbursed in 2018 (until 30 November 2018): | 40 |
| Amount of loans disbursed in 2018 (until 30 November 2018): | 200 764 000 HUF |

Latest rating of local transactions:

Loans from HMA, GOP, ÚSZM, ÚSZM-KOM, FÜRGE funds with 30.11.2018. reporting date

| HMA, GOP, ÚSZM, ÚSZM-KOM ratings | Number of outstanding loans | Amount of outstanding loans | % | The amount of capital backlog (HUF) | Amount of interest arrears (HUF) |
|----------------------------------|-----------------------------|-----------------------------|--------|-------------------------------------|----------------------------------|
| Qualification A loans | 339 | 1 106 748 578 | 84,37% | 456 179 | 89 252 |
| Qualification B loans | 9 | 32 836 635 | 2,50% | 967 535 | 71 105 |
| Qualification C loans | 7 | 24 692 674 | 1,88% | 1 186 474 | 123 370 |
| Qualification D loans | 9 | 30 394 388 | 2,32% | 5 032 401 | 203 853 |
| Qualification E loans | 21 | 93 018 454 | 7,09% | 83 573 254 | 45 065 617 |
| Qualification F loans | 3 | 24 162 399 | 1,84% | 24 162 399 | 26 890 104 |
| Total | 388 | 1 311 853 128 | | 115 378 242 | 72 443 301 |

It can be seen that the portfolio is good quality and reliable, taking into account that ZMVA finances the most risky business segment.

The volume of lending should be drastically increased so that all qualified credit applications can be financed, and the successful and growth-capable companies can be supported by the Foundation over a longer life cycle.

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B) RELEVANT EXPERIENCE GAINED FROM SIMILAR PROJECTS

This development is similar to the Świętokrzyskie Voivodship Loan Fund in Poland, where microfinance, small loans and medium loans are available for local SMEs from a single organisation and on a single fund base. Experience from the 14 million euros fund so far shows that all segments of local SMEs are worth and need to be serviced so that risks can be reduced and a more diversified loan portfolio can be created. The highest medium loan can reach up to 80 million forints, which already allows a significant real estate or technology development for the SME. The competitive effect of commercial banks still cannot be felt, as the “Świętokrzyskie Voivodship Loan Fund” primarily finances higher-risk start-ups and innovative companies, and their scale hardly influences the financing ratio of the local SME sector. The largest volume of loans is represented by micro-credits (67%) and the volume of medium loans is only 7%. At the same time, the ceiling for micro-credits is almost 20 million HUF, while the maximum for small loans is HUF 35 million, which is just double and 3.5 times the current credits of ZMVA. The Fund has been implemented from the local regional program.

2. DETAILED DESCRIPTION OF THE ACTION

A. GOAL

The primary objective of ZMVA and the region is demand-driven support for local SMEs. This means that the financing needs of local SMEs need to be more widely served, thus a larger fund needs to be created that is capable of helping enterprises with more monetary products on a revolving basis. For this purpose, an approx. 20 million euros ZALAI REGIONAL CREDIT BASIS needs to be created, preferably within or closely integrated with the ZMVA organization.

B) ACTIVITIES PLANNED WITHIN THE SCOPE OF THE ACTION

Establishing the legal and financial framework for forming the Fund.

The goal is to set up a credit fund, so as a first step it is important to find the legal form that can act as the fund manager. The Foundation may acquire management rights, but it would be more expedient to set up a financial business and/or a fund management company due to the supervisory requirements of the Central Bank of Hungary (MNB). In setting the conditions and operating mechanism of the program, the expectations of potential financiers (EBRD, EIF) should be taken into account.

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The REGIONAL CREDIT FUND OF ZALA COUNTY would be a **separate revolving fund** that is managed locally by a local business development agent with appropriate market embeddedness. Not mediatory but operator license should be attained by the new organisation.

The Fund would be **for-profit**, but the fundamental goal would be to continuously reload resources. The interest rate would be moderate but proportionate to the risks, which provides the fund manager's operating costs and expected profit.

Operational area: At least 40% of the Fund should be used in Zala County, distributing the remaining parts in the neighbouring Hungarian counties, ensuring not only Zala-centricity but also the regional character of the Fund.

Gradual Financing: In addition to microfinance, small and medium-sized loans should be set up with a maximum limit of HUF 100 million.

Independent Fund Management: The Fund's manager would be the Zala County Enterprise Development Foundation with good territorial coverage and decades of experience. At least one branch would be required in each neighbouring county. This can also be ensured by neighbouring HKVs. Every step of the lending process from the initial provision of information and the application for micro-credit to the final settlement would take place in the Hungarian-developed CREDINFO on-line credit information system - that has been used by most of the IGCs for many years -which has won many international awards because of its innovative nature. One of the special features of the system is that it is extremely user-friendly, making application for a loan simple and fast even for those who have difficulties with navigating in the financial world.

C) EXPECTED RESULTS (QUANTIFIED)

Expected effects of the program:

ZMVA, as a local actor, can make a more substantial contribution to local SMEs.

Change in the size of the supply may increase the ceiling for funding from 10 to 100 million HUF.

The segment of local SMEs that is not yet eligible for funding from commercial banks but is already ahead of dynamic growth can attain new flexible funding for its development.

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It also has a positive impact on efforts to create a sustainable local society and economy. The growth of high-quality companies will be easier.

Instead of one-time grants, we create a revolving fund.

The increase in the volume of micro-credit facilitates help the survival of the population in small villages and the reduction of emigration as they can assist the setting up of viable and sustainable entrepreneurial programs.

Results from running ZALAI REGIONAL CREDIT FUND:

- 150-200 new customers (calculated with an average loan size of 35 million HUF)
- at least 50-70 new enterprises

D) ACTORS TO BE INVOLVED IN THE IMPLEMENTATION OF THE PLAN

Framework of the ZALAI REGIONAL CREDIT FUND:

Potential actors and partners involved in setting up and running the Fund:

- ZMVA as operator, umbrella organization and minority investor in the fund (2%)
- The European Investment Bank (EIB) or the European Investment Fund as the Fund's main investor (90%)
- Local Government of Zalaegerszeg (city with county rights) and / or Zala County Government as Local Public Body and minority investor in the Fund (2%)
- Hungarian Government and / or one of its financial institution as guarantor and minority investor in the Fund (6%)

E) TIMEFRAME

Expected from 01 July 2020 to 10-12 years.

F) COSTS

We primarily mention the cost elements necessary for basic management from the point of view of the Zala County Enterprise Development Foundation (million HUF).

| Year / Budget | 2020 | 2021 | 2022 | 2023 | Total |
|---------------|------|------|------|------|-------|
|---------------|------|------|------|------|-------|

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| category | | | | | |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Internal costs | 28 | 31 | 27 | 27 | 27 |
| Staff costs | 15 | 22 | 22 | 22 | 22 |
| Equipment / Investment | 10 | 5 | 1 | 1 | 1 |
| Administration | 3 | 4 | 4 | 4 | 4 |
| External costs | 9 | 6 | 5 | 5 | 5 |
| Promotion | 5 | 3 | 3 | 3 | 3 |
| Education, training | 4 | 3 | 2 | 2 | 2 |
| Total | 37 | 37 | 32 | 32 | 32 |

[Source: own edit]

The program is planned with realistic operating costs, as the income from the interest provides the multiple of the operating costs in the long run. Part of the employees would be transferred from ZMVA (could work on a part-time basis), but it will be necessary to hire new staff.

G) SOURCES OF FUNDING

| PARTNERS | CONTRIBUTION | SHARE FROM THE FUND |
|--|-------------------------|------------------------|
| <i>Zala County Foundation for Enterprise Promotion</i> | 128 000 000 Ft | 2,00% |
| <i>European Investment Bank (EIB) or the European Investment Fund</i> | 5 760 000 000 Ft | 90,00% |
| <i>Zalaegerszeg (city with county rights) Municipality and / or Zala County Government</i> | 128 000 000 Ft | 2,00% |
| <i>Hungarian Government and / or one of its financial institution</i> | 384 000 000 Ft | 6,00% |
| TOTAL | 6 400 000 000 Ft | 100,00% |

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III. Action - The Credit Program of Fürge

1. Background

A. Describing the situation and needs

The banking system in Hungary and as well as in Zala county does not perform entrepreneurial microfinance in the classic sense. The primary reason for this is the size of businesses and the size of loans. Micro-enterprises show low revenues and low growth potential and high bank costs compared to the size of their credit balance. The legal requirements for lending – collateral requirements - may be a problem for credit institutions.

The Szécheny Card program distribute dby KAVOSZ can provide a solution to the problem. But in many cases, the micro-entrepreneur runs into the above-mentioned magnitude problem. Micro-credit programs provided by enterprise development foundations could still be available for funding. The county enterprise development foundations have several credit programs as well. On the one hand, with its own microcredit base, which is about HUF 350 million for the Zala County Foundation for Enterprise Promotion. National Microcredit Program, which has limited information on the operation and size of county enterprise development foundations as commissioners of the Hungarian Foundation for Enterprise Promotion (MVA). The constructions are included in the European Union standard micro-credit scale, which is currently a maximum of 25.000 EUR.

The hedge expectations are also lower than for financial institutions. Intermediaries can also accept encumbered real estate collateral The problem is related to the size of the loan funds, the time required for the lending process, and the expected collateral. The amount of capital available for placement in the so-called Local Microcredit Funds is limited. ZMVA can only issue new loans out of the Fund's revolving amounts. This means HUF 5-6 million per month. From this it can be seen that in the program only 10-12 transactions can be financed annually. This is very negligible compared to the needs and a waiting list had to be introduced. The queue needs are already booked for April 2019.

There is another problem with the National Microcredit. The decisions made at the local level are reviewed by the MVA, which has significant time and uncertainty. At MVA, the coverage is primarily valued. In Zala the acceptance of real estate coverings in small villages is very rare.

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In the action plan, the development and operation of a program aimed at hedging and accelerating the lending process was initiated.

B. RELEVANT EXPERIENCE GAINED FROM SIMILAR PROJECTS

Among the good practices identified in the project and studied by the partners in the Sandomierz region was a microfinance facility funded from local (provincial) funds and managed through a business development organization at local level to provide resources to businesses in need.

More information about the good practises:

<https://www.interregeurope.eu/atmforsmes/library>

2. DETAILED DESCRIPTION OF THE ACTION

A. GOAL

The aim of the action is to develop a loan program at the Zala County Foundation for Enterprise Promotion, which, based on the experience gained by the foundation, helps the clients to obtain fast and efficient credit from the bank financing for some reason. The program helps to improve the viability of already existing businesses and allows access to credit in small village settlements. A cooperation agreement with Garantiqa-Hitelgarancia Ltd.

B. ACTIVITIES PLANNED WITHIN THE SCOPE OF THE ACTION

When designing the action, the conditions of the construction had to be defined. The micro-credit committee operating at the Foundation and the Steering Group established within the framework of the ATM project also help in this. The defined conditions had to be agreed with Garantiqa-Hitelgarancia Ltd. to reduce the risks of the program. The IT background of the program is provided by the Credinfo system. so you need to make the necessary settings in the software. The aim of the Zala County Foundation for Enterprise Promotion is to develop a loan program that, relying on the foundation's experience, helps customers get out of bank financing for some reason, for quick and efficient credit. The program helps to improve the viability of already existing businesses and allows access to credit in small village settlements. A cooperation agreement wit Garantiqa-Hitelgarancia Ltd

C. EXPECTED RESULTS (QUANTIFIED)

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Expected impacts by the project:

- The Credit Program of Fürge can provide companies that are excluded from bank financing for some reason outside their reach.
- The Credit Program of Fürge helps to maintain the population in underdeveloped, peripheral regions, and to reduce migration, as they can help to achieve viable, sustainable entrepreneurial programs.

The Credit Program of Fürge expected numerically results:

- 50 new customers (2 millions HUF, calculated with the average loan size)
- 10 new workplaces
- 170 people: number of involved entrepreneurs and family members who have benefited from micro-credit to improve their living conditions

D) ACTORS TO BE INVOLVED IN THE IMPLEMENTATION OF THE PLAN

Institution name and scope of activity:

Municipal Government of Zala County, Mayor's Office in Zala County. Local Offices of Chamber of Commerce and Industry, Departments of Agricultural Chamber. The organization responsible for managing the Fund is the Zala County Foundation for Enterprise Promotion. Garantiqa-Hitelgarancia Ltd.

E) TIMEFRAME

The proposed maturity of the microcredit is 3 years for investment loans and 1 year for corporate financing purposes.

The program would be evaluated after 5 years between the partners.

Based on the above, the recommended duration of the action is 5 years 2018-2022.

F) COSTS

Here are some of the costs associated with microcredit fund management:

Million HUF

| Year / Budget category | 2018 | 2019 | 2020 | 2021 | 2022 | All |
|------------------------|------|------|------|------|------|-----|
|------------------------|------|------|------|------|------|-----|

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| | | | | | | |
|--------------------------|------------|------------|------------|------------|------------|-----------|
| Internal costs | 2,2 | 2,2 | 2,2 | 2,2 | 2,2 | 11 |
| Staff costs | 1,5 | 1,5 | 1,5 | 1,5 | 1,5 | 7,5 |
| Operational costs | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 2,5 |
| Equipment / Investment | 0 | 0 | 0 | 0 | 0 | 0 |
| Administration | 0,2 | 0,2 | 0,2 | 0,2 | 0,2 | 1 |
| External costs | 2 | 2 | 1,5 | 1,5 | 1,5 | 10 |
| Promotion | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 3,0 |
| Meetings | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 3,0 |
| Education, training | 0,5 | 0,5 | 0 | 0 | 0 | 1,0 |
| Other external expertise | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 3,0 |
| Total | 4,2 | 4,2 | 3,7 | 3,7 | 3,7 | 21 |

G) SOURCES OF FUNDING

The action is financed from the budget of the Zala County Government and from the dedicated financial fund of the Zala County Foundation for Enterprise Promotion.

The project is implemented through the Interreg Europe programme co-financed by ERDF.

A projekt az Interreg Europe program keretében, Magyarország és az Európai Unió társfinanszírozásával valósul meg.

IV. Action – The Credit Program of Fürge Start for start-up enterprises

1. Background

A. Describing the situation and needs

The banking system in Hungary and as well as in Zala county does not perform entrepreneurial microfinance in the classic sense. The primary reason for this is the size of businesses and the size of loans. Micro-businesses have low revenue and low growth potential and high bank costs relative to the size of their credit scales. Providing credit institutions with the legal requirements for lending – collateral requirements – can also be a problem.

The above findings apply even more to start-ups. For them, the banking system cannot provide any alternative to personal lending.

Recent start-ups in GINOP programs have recently launched support and loan programs in Hungary under the name of “Young People become Entrepreneur”. Thousands of people came forward on this initiative. However, unfortunately, there was a lot of negative impact on the conditions that sounded good.

Some of these are highlighted:

- The serve of the program crawl all over,
- The system of conditions has often changed from the beginning, and it was untraceable.
- It takes a very long time to complete the training, prepare from the business plan and to the finance.

In the action plan, the development and operation of a program to address the financing and operational problems of start-up sat local level was initiated. On the basis of the experience gained in the ATM project and the Credit Program of Fürge, the program considers it important that the effective lending process is carried out as quickly as possible.

B. RELEVANT EXPERIENCE GAINED FROM SIMILAR PROJECTS

Among the good practices identified in the project and studied by the partners, the Croatian partner is the PORA-implemented by the employment authorities of Croatia **Your initiative – your workplace**“.

More information about the good practises:

<https://www.interregeurope.eu/atmformes/library/>

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3. DETAILED DESCRIPTION OF THE ACTION

C. GOAL

The aim of the action is to develop a loan program at the Zala County Foundation of Enterprise Promotion that, based on the experience gained by the foundation, will help finance start-ups and start-ups out of bank financing, as well as realize their business ideas as soon as possible. In addition to the lending process, participating companies receive mentoring assistance for the survival and development of their businesses.

D. ACTIVITIES PLANNED WITHIN THE SCOPE OF THE ACTION

Establishing legal and financial frameworks, selecting intermediaries: When setting up the program conditions and operating mechanism, the European National Microfinance Network (MicroFINET) guidelines for policy-makers ("Rome Directives") should be taken into account.

The ZMVA FÜRGE START Microcredit Fund would be a separate revolving fund managed by the Zala County Foundation for Enterprise Promotion. Suggested magnitude of 200 million HUF.

According to the "Rome directives", micro-lending would be provided by a non-profit microfinance fund, the Zala County Foundation for Enterprise Promotion, which is not interested in profit making and minimizing losses, but in maximizing positive social effects.

Launch of micro-credit programs: the organization entrusted with the management of the Fund is the Zala County Foundation for Enterprise Promotion. All steps of the credit transaction, from the initial provision of information and the application for micro-credit to the final settlement, would take place in the Hungarian-developed CREDINFO which is an online credit information system. Due to the innovative nature of their formation system, it has won numerous international awards. The feature of the system is that it makes the loan application extremely user-friendly, simple and fast even for those who are difficult to navigate in the financial world.

Development of micro-credit services: Zala County Foundation for Enterprise Promotion provides mentoring and other business development services besides disbursement of micro-credit. The program should pay particular attention to education and the development of entrepreneurial skills.

The following related services are designed:

- Entrepreneurship education in e-learning
- Mentoring: personalized consulting, wait on the process of becoming an entrepreneur
- Entrepreneurial advices: legal, tax, etc. issues

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- Business development services: revenue increase, company audit, promotional packages, tender advice

E. EXPECTED RESULTS (QUANTIFIED)

Expected effects of the program:

- Young people's willingness to become entrepreneurs increases.
- The participants' financial and credit knowledge is expanded
- The local business community is getting stronger.
- The migration of young people from the region is decreasing
- Continuing to help new entrants with the development of a mentor network

Results of the Credit Program of Fürge Start

- 50 new customers (3millio HUF calculated with an average loan size)
- 50 new workplace
- 200 people: number of involved entrepreneurs and family members who have benefited from micro-credit to improve their living conditions

F) ACTORS TO BE INVOLVED IN THE IMPLEMENTATION OF THE PLAN

Institution name and scope of activity:

Municipal Government of Zala County, Mayor's Office in Zala County. Local Offices of Chamber of Commerce and Industry, Departments of Agricultural Chamber. The organization responsible for managing the Fund is the Zala County Foundation for Enterprise Promotion.

G) TIMEFRAME

The proposed maturity of the microcredit is 10 years for investment loans and 3 years for corporate financing purposes.

The program would be evaluated after 5 years between the partners.

H) COSTS

Here are some of the costs associated with microcredit fund management:

Million HUF

| Year / Budget category | 2019 | 2020 | 2021 | 2022 | 2023 | All |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|------------|
| Internal costs | 4,7 | 4,2 | 4,2 | 4,4 | 4,4 | 21,9 |
| | | | | | | |

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| | | | | | | |
|--------------------------|------------|------------|------------|------------|------------|-------------|
| Staff costs | 3 | 3 | 3 | 3 | 3 | 15 |
| | | | | | | 0 |
| Operational costs | 0,8 | 0,8 | 0,8 | 1 | 1 | 4,4 |
| | | | | | | 0 |
| Equipment / Investment | 0,5 | 0 | 0 | 0 | 0 | 0,5 |
| | | | | | | 0 |
| Administration | 0,4 | 0,4 | 0,4 | 0,4 | 0,4 | 2 |
| | | | | | | |
| External costs | 3,5 | 3 | 2 | 2,3 | 1,8 | 12,6 |
| | | | | | | |
| Promotion | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 2,5 |
| | | | | | | 0 |
| Meetings | 1 | 1 | 0,5 | 0,5 | | 3 |
| | | | | | | 0 |
| Education, training | 1,5 | 1 | 0,5 | 0,5 | 0,5 | 4 |
| | | | | | | 0 |
| Other external expertise | 0,5 | 0,5 | 0,5 | 0,8 | 0,8 | 3,1 |
| | | | | | | |
| Total | 8,2 | 7,2 | 6,2 | 6,7 | 6,2 | 34,5 |
| | | | | | | |

SOURCES OF FUNDING

The action could be financed from the Separate Resources of the Zala County Government Office, the Zala County Municipality Budget and the dedicated financial fund of the Zala County Foundation for Enterprise Promotion.

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V. Action: Increase of Self-Employment Amongst Newly Graduated Students

1) BACKGROUND

A) CONDITIONS, THE INTRODUCTION OF NEEDS

By launching TOP-5.1.1-15-ZA1-2016-00001 project entitled 'Zala Innovative Employment Pact', Zala County Council has taken a decisive role in coordination of economy-development and employment-related networking and, in the scope of the project, is aiming at the establishment of partnerships with the following fundamental **objectives**:

- To retain the population and human resources of the county, to provide an attractive place to live even for people coming from other regions, to ensure quality workplaces, living environments and living standards;
- To improve productivity, efficiency and the job creating ability of enterprises, thus, to reinforce the economy of the county;
- To provide students with knowledge matching the labor market's needs by training institutes;
- To facilitate meaningful dialogue and well-functioning partnership between the participating organizations.

Helping long-term unemployed people become **self-employed** is one of the most important goals of the project. The number of self-employed in Hungary is slightly declining. Despite the fact that a mild increase started in 2004, the ratio of self-employed was only 10.9% in 2013. Similarly to EU's average, the number of self-employed is more among men. The rate of self-employed men decreased by 5.5% between 2000 and 2013, while the same indicator show a 2.5 decline among women. There was also a decrease in the difference between the rate of sexes, they converged by 5.5%.

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Self-employment is a priority in the European Union. The rate of self-employed is high in the Hungarian SME sector. The latter statement does not originate from the first, that is, self-employment is a priority in the EU (and it is often supported financially), the truth is, lacking other opportunities, these people become 'false' self-employed. It means that people who otherwise would like to be employed workers are pressured into entrepreneurship. Such businesses lack decisive space and are unable to employ further workers. A lower potential for growth is an additional problem compared to opportunity-oriented businesses.

Therefore, the introduction of a program would be adequate to help graduates of secondary schools or higher education becoming long-term unemployed start their own business. With further education and mentoring (follow-up) beneficiaries will not become false employed but viable and strong private entrepreneurs. This program could be an appropriate extension to TOP-5.1.1-15-ZA1-2016-00001 project entitled 'Zala Innovative Employment Pact'.

B) RELEVANT EXPERIENCES LEARNED DURING THE PROJECT

Burgos, Spain – In the scope of the project long-term unemployed graduates of the local university gained a non-repayable support equivalent to HUF 3 million. After funding they had to run their business for at least 4 years. The most instructive part of the example is that beneficiaries are not really funded but social benefits of 4 years are reshuffled and allocated as funding. As a result of this absolutely win-win situation, 70% of young entrepreneurs' businesses survive. *[More information: <https://www.ceeiburgos.es/servicios/servicios-para-instituciones>]*

2) DETAILS OF THE ACTION

The project is implemented through the Interreg Europe programme co-financed by ERDF.

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A) THE GOAL

The goal of the action is to introduce a program which, as a complementary, provides an additional output to the reservations of the results of TOP-5.1.1-15-ZA1-2016-00001 project entitled 'Zala Innovative Employment Pact'. It should be pointed out that the main problem in Zala is not unemployment but shortage of qualified workforce. Thus, in case of parallel introduction with the project, the extension of entrepreneurial knowledge, follow-up and mentoring of the self-employed would be the principal output.

B) ACTIVITIES PLANNED IN THE FRAME OF THE ACTION

In the frame of the action non-repayable financial support would be provided for long-term unemployed graduates of vocational school or higher education under the age of 25, the amount of which would be equivalent to the original good practice. As a condition for the application, applicants must take trainings on entrepreneurial studies with the assistance of Vocational Centers in Zalaegerszeg and Nagykanizsa.

The amount of the fund, maximum levels and conditions of the aid as well as the conditions of non-repayable applications would be determined by the Local Government, however, Zala County Foundation for Enterprise Promotion would make recommendations on the basis of the good practice.

Assessment of applications for credit and support, however, would be the competence and responsibility of a committee established by the fund's managing local government. ZMVA would participate exclusively as a credit intermediary in the value chain. Since these supports are non-repayable, it is important to mention, that for-profit attitude could not apply to the system, project partners could only account for operational costs in the frame of the project.

C) RESULTS TO BE EXPECTED

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- A positive message for young people – ‘the Local Government cares for them’, thus, contributes to keeping them in the locality
- Easy introduction as a pilot action – only a certain amount of central resource is required (could be launched even at HUF 15-30 million)
- Contribution to the improvement of local young people’s business knowledge
- Contribution to the development of relations between schools and local stakeholders
- Contribution to the reduction of unemployment, the development of qualified workforce and the reduction of bottleneck job vacancies

D) PARTICIPANTS TO BE INVOLVED IN IMPLEMENTATION

- Zala County Council, as resource issuer
- Zala County Foundation for Enterprise Promotion, as intermediary and mentor
- Vocational Centers of Zalaegerszeg and Nagykanizsa, as training institutions
- Institutes of higher education in Zala County (Pannon University, Budapest Business School)

E) DURATION OF THE ACTION

1 January 2019 – 31 December 2022

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F) COSTS

| Duration / Type of cost | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Internal costs | 0,6 | 0,6 | 0,6 | 0,6 | 0,6 | 3 |
| Personnel | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 2,5 |
| Purchasing, investment | 0 | 0 | 0 | 0 | 0 | 0 |
| Administration | 0,1 | 0,1 | 0,1 | 0,1 | 0,1 | 0,5 |
| External costs | 1 | 1 | 1 | 1 | 1 | 5 |
| Promotion | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 2,5 |
| Training, education | 0,5 | 0,5 | 0,5 | 0,5 | 0,5 | 2,5 |
| Total | 1,6 | 1,6 | 1,6 | 1,6 | 1,6 | 8 |

[Source: private editing]

As we can see in the chart, operational costs for the whole project are HUF 8 million for Zala County Foundation for Enterprise Promotion. It could be included in the resource allocation of the project. This way, planned project budget would be HUF 38 million for the whole pilot. Thus, beside operational costs, 2 or 3 applications should be managed a year and 10 in the whole duration.

G) SOURCE OF FUNDING

Own resource provided by Zala County Council

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VI. Action: County-level Extension of Zalaegerszeg's Interest Subsidy Program

1. Background

A. Describing the situation and needs

In 2016, the Municipality of Zalaegerszeg, Zala County Council approved the Zalaegerszeg Interest Support Program as an initiative within the framework of the Zalaegerszeg Urban Development Strategy. The program was created to promote the development of micro, small and medium - sized enterprises in Zalaegerszeg, including support for new investments in the region. The main objective of the program is to strengthen local SMEs through the new construction of given loans through lower interest rates. Within the framework of the interest subsidy, Zalaegerszeg MoCT provides HUF 10 million for five years, from which the ZMVA established the fund. The essence of the interest rate subsidy is that the customer requires micro-credit at ZMVA, and in case of a positive decision - if he is entitled to interest subsidy - the city of Zalaegerszeg provides the necessary difference of the 10 million HUF provided by him (eg if the product has 6.5 % interest, the client is entitled to 2% of the interest rate subsidy, then 4.5% is paid out of the HUF 10 million fund). ZMVA implemented the program in co-ordination with the city's economic department. As we have previously described for the new loan structures, and as a result, the interest subsidy loan program has been in serious demand over the years and now. In the past, one of the biggest problems was the fact that the sole beneficiaries of the aid scheme were companies based in Zalaegerszeg. These criticisms usually came from companies that were so disqualified. At the county level, there is currently a negotiation on the introduction of a new energy efficiency loan between the municipality and the foundation, so it would be a real opportunity to integrate the two objectives into one output.

Shorter description of the planned loan program: The Green Zala Program is primarily aimed at spreading energy-saving thinking among SMEs in Zala County. Under the program, local SMEs can use a special type of loan to help businesses get energy-efficient / renewable energy sources and help their business run green. This program will be a pilot program in Hungary, which, if successful, will be distributed throughout the country through the Hungarian Enterprise Development Network (part of the ZMVA network).

The credit product was preceded by a needs test that ended with the following results: "A total of 153 responses received from the approximately 1,000 Zala SMEs surveyed, which the study considers to be representative. On the basis of the responses received, three issues need to be distinguished: the basic demand, the use and the amount. ... **Out of 153 companies in zala SMEs, 86.3% would use such loans, which is about 132 businesses.**"

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The basic need for a new energy efficient construction

Would you apply for a new energy efficiency loan specifically for SMEs with your business? (Base rate 3,9%, Own resources 10%, Real estate cover is required)



[Source: Szabó L. – Banász Zs. – Added Value Research]

As can be seen in the figure, there is a serious demand for county entrepreneurs at the moment. Accordingly, it would be worthwhile to base the interest subsidy program on the Green Zala Energy Efficiency Loan.

B. RELEVANT EXPERIENCE GAINED FROM SIMILAR PROJECTS

For the purpose of this development, the interest subsidy program previously carried out by ZMVA, as well as the Székesfehérvár Microcompany's Interest Support Program (SZMKP), was launched, which was launched in 2015 in cooperation between the initiator Székesfehérvár Regional Enterprise Development Foundation and the Municipality of Székesfehérvár County Town.

2. DETAILED DESCRIPTION OF THE ACTION

A. GOAL

The introduction of the Green Zala project on the market is a separate source of the Zala County Enterprise Development Foundation, with the involvement of the Zala County Government. Since the county government is essentially the maintainer of the ZMVA, the activity can easily be created, thus facilitating the fulfilment of the TOP indicator values. Since the construction is part of other applications and is more than likely to be carried out in

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real terms, the action plan is not primarily concerned with this possibility, but with the possibility of building on the county extension of the Zalaegerszeg Interest Support Program. Accordingly, the most important outcome of this action is the implementation of the interest subsidy measure.

B. ACTIVITIES PLANNED WITHIN THE SCOPE OF THE ACTION

As stated in the objectives, the most important is the introduction and implementation of the two programs. Thanks to the programs, the Municipality of Zalaegerszeg-Municipality of County Town -Zala County Foundation of Enterprise Promotion can form a consortium where the two source institutions can find their own benefits in the area of their ITP commitments.

As part of the program, companies based in Zala County can receive interest rate subsidies for the Zala credit facility, this reducing the basic interest rate of 3.9% to 1.5-2%. Since there was a great need for the Green Zala construction during the preliminary market research, in the first two years of the interest subsidy program, the support would be coupled with the Green Zala construction only, while in the future it could be extended to the full range of products offered by ZMVA, with the proviso that Green Zala would mean extra points during the evaluation or, if necessary, a low interest rate. With this, the interests of the Zala County Government in reducing greenhouse gas emissions could be maintained.

C. EXPECTED RESULTS (QUANTIFIED)

- The spread of an energy-efficient and environmental approach
- Co2 and greenhouse gas reduction
- The recognition of municipal bodies is growing
- Increased satisfaction among county SMEs
- Energy efficiency tools also appear as investments

D. ACTORS TO BE INVOLVED IN THE IMPLEMENTATION OF THE PLAN

- Municipality of Zalaegerszeg
- Zala County Council
- Zala County Foundation of Enterprise Promotion

E. TIMEFRAME

Expected from 01 June 2019 min. 3 years (start date depends on the introduction of the Green Zala program).

F. Costs

In the course of the costs, we first mention the cost elements required for the action from the point of view of the Zala County Foundation of Enterprise Promotion.

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| Year / Budget category | 2019 | 2020 | 2021 | 2022 | Total |
|------------------------|------------|------------|------------|------------|------------|
| Internal costs | 0,3 | 0,5 | 0,5 | 0,5 | 1,8 |
| Staff costs | 0,2 | 0,4 | 0,4 | 0,4 | 1,4 |
| Equipment / Investment | 0 | 0 | 0 | 0 | 0 |
| Administration | 0,1 | 0,1 | 0,1 | 0,1 | 0,4 |
| External costs | 0,2 | 0,2 | 0,2 | 0,2 | 0,8 |
| Promotion | 0,2 | 0,2 | 0,2 | 0,2 | 0,8 |
| Education, Training | 0 | 0 | 0 | 0 | 0 |
| Total | 0,5 | 0,7 | 0,7 | 0,7 | 2,6 |

[Source: own editing]

We plan the program at a very low operating cost, because the demand for interest subsidy is spread over the running costs of the Green Zala project. In addition, the cost elements shown above may also be covered by CBC projects, building on new pilot actions shown here.

G) SOURCES OF FUNDING

- ZMVA's own resource for the Green Zala program (30 million HUF)
- Municipality of Zalaegerszeg for related interest subsidy (HUF 8-10 million)

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