Insights from a microfinance organisation active in agriculture

Péter Vonnáč, Vice President, RVA Group, Hungary
Introduction

• **Main activities:**
  - Business financing
    - Microcredit
    - Venture capital
  - Business Development Services

https://www.youtube.com/watch?v=W8PaLRFK9DU
MICRO-LENDING ACTIVITY
Since 1992 independent of the sector

1. **FEA**
   - Total value of microcredit disbursed: HUF 7.6 billion (≈ EUR 21.0 million)
   - No. of clients: 2864

2. **VEA**
   - Total value of microcredit disbursed: HUF 5.2 billion (≈ EUR 14.3 million)
   - No. of clients: 2523

**FEA GROUP**
- Total value of microcredit disbursed: HUF 12.8 billion (≈ EUR 35.3 million)
- No. of clients: 5387

**EXPECTED LOSS RELATIVE TO THE DISBURSED CREDITS, 2022:**
- Total microcredit portfolio: 1.28%
- In case of general agricultural activity: 0.18%
- In case of rural tourism: 6.47%

**SECTORAL SHARE OF MICROCREDIT 2006**
- Industry: 24%
- Services: 29%
- Trade: 2%
- Other: 16%
- Agriculture: 10%
- Rural tourism: 6%

**SECTORAL SHARE OF MICROCREDIT 2022**
- Industry: 45%
- Services: 12%
- Trade: 4%
- Other: 7%
- Agriculture: 4%
- Rural tourism: 3%
MICROCREDITS

Main targets of microcredit in the agricultural sector

1. Rural tourism
   It got into a difficult situation due to COVID-19

2. Purchase of agricultural machines
   Forestry machines are popular

3. Purchase of a site
   It is typical of the agricultural processing industry

4. Purchase of agricultural drones
   NOVELTY! It is only funded by us
MICROCREDIT PRODUCTS

Sector-neutral microcredit products that are also accessible in the agricultural sector.

1. Investment microcredit
   - Loan amount: max. HUF 15,000,000 (= 40 000 EUR)
   - Maturity: 10 years
   - Grace period: 1 to 6 months
   - Own contribution: 0%
   - Interest rate: fixed at 9.9%, or JBA+2.5%

2. General purpose microcredit
   - Loan amount: max. HUF 10,000,000 (= 27 000 EUR)
   - Maturity: 3 years
   - Grace period: 1 to 3 months
   - Own contribution: 0%
   - Interest rate: fixed at 9.9%, or JBA+2.5%

3. Revolving microcredit
   - Loan amount: max. HUF 5,000,000 (= 13 500 EUR)
   - Maturity: 3 years
   - Grace period: 12 months
   - Own contribution: 0%
   - Interest rate: fixed at 5.9%

4. Subsidized municipal microcredit
   - Loan amount: max. HUF 5,000,000 (= 13 500 EUR)
   - Maturity: 5 years
   - Grace period: 1 to 12 months
   - Own contribution: 0%
   - Interest rate:
     - In the first year: 0%
     - From the second year: fixed at 2.5%

Operational characteristics:

Basic principles of lending:
- We only fund activities that are deemed viable
- Positive business prospects and market production are important considerations
- We provide assistance even after taking the loan
Microcredit product to purchase an agricultural drone

- Loan amount: max. HUF 5 million (≈ 13 500 EUR)
- Maturity: 1 to 3 years
- Grace period: 1 month
- Own contribution: 30%
- Interest rate: between 19% and JBA+25%, depending on the risk rating of the business
- Collateral: the purchased asset + other movable property
- Property insurance must be taken out for the collaterals
The rationale for agricultural microcredit
Lack of resources in non-profit micro-lending in Hungary

**Businesses**
- 98% of Hungarian businesses are SMEs
- Of this 95% are micro-entrepreneurs
- Micro-enterprises provide jobs for 35% of all the people employed
- This makes them the largest employer in the Hungarian economy

**In the agricultural sector**
- 3% of the business associations,
- 75% of individual farms use less than 1 hectare of land

The financing of micro-entrepreneurs, who typically operate as “primary producers”, represents a risk that is no longer acceptable to commercial banks operating under strict money market regulation.

**PROPOSAL:**
A revolving, sector-neutral microcredit fund should be set up for the Hungarian NON-PROFIT MICROCREDIT PROVIDERS

Bank finance is available for farmers using large areas of land, as the large amounts of land-based subsidies provide a balanced steady income that makes the lending risk for these farms acceptable to profit-oriented commercial banks.

https://www.youtube.com/watch?v=OeDCFWMVxA4
BASIC PRINCIPLES
Basic principles of publicly funded non-profit microcredit

PROFESSIONAL RECOMMENDATIONS FOR EUROPEAN DECISION MAKERS REGARDING THE LEGISLATION OF MICROFINANCE

Rome, 29 September 2016

Positive Social Goals are Priority

Microfinance, Development Cooperation and Human Rights Master’s degree

For the positive social impact of publicly funded microcredit to be realized, it is essential to have the knowledge that can currently only be acquired through the MASTER course offered by the University of Cadiz.

Directive 4: Microcredit schemes financed from public funds should be interpreted as providing assistance out of social solidarity, which investment in return would have a positive impact on society.

Directive 4.1: In case of microcredit schemes financed from public funds the achievement of positive social impact should enjoy priority over the ‘preservation’ or multiplication of the funds at nominal value in the course of the implementation of the scheme.
Recommended links:

http://microfinancegoodpractices.com/downloads/
https://microfinancecommunity.com/
https://ucamaster.com/
https://www.youtube.com/watch?v=TBmD_El0rdc
https://www.european-microfinance.org/publication/fejer-enterprise-agency-fa-entrepreneurship-promotional-tools
https://nyeresegesuzlet.hu/ecinfo-tv-english/
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