

ATM for SMEs

Access to Microfinance for Small and Medium-sized Enterprises

Regional Action Plan

Ministry of Finance, Hungary – Project Partner 2

Budapest, March 2019

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1 Executive Summary

This document is the Regional Action Plan of the Managing Authority of the Economic Development and Innovation Operational Programme in the Deputy State Secretariat Responsible for Implementing Economic Development Programmes in the Ministry of Finance Hungary - Project Partner 2 in the ATM for SMEs Interreg Europe Project. Our action plan provides details on four actions that were inspired by the interregional co-operation with our partners in the past three years. The actions aim at the improvement of EDIOP-8.8.1 – Incentive for employment – Loan programme, under Priority Axis No. 8. “Financial Instruments” in the Economic Development and Innovation Operational Programme (EDIOP).

ATM for SMEs is an excellent learning opportunity for the Ministry of Finance in Hungary in the field of microfinancing to SMEs and support to social enterprises since the EDIOP Managing Authority within the Ministry of Finance has the mission to manage financial instruments programmes from Structural Funds that is unprecedented in Hungary in size and diversity. The volume of EDIOP Priority Axis No. 8 “Financial Instruments” is more than EUR 2.2 billion and the successful management of this programme cannot be achieved without permanent learning from peers across Europe. ATM for SMEs has offered an excellent partnership in terms of diverse backgrounds and experience including ESIF and non-ESIF policy instruments.

During the interregional learning process in the past three years we experienced that in many cases we face similar challenges as our partners with regards to the six issues explored in the project. ATM for SMEs made it possible to learn a number of workable solutions in the field of microfinancing. The most interesting examples for us are collateral requirements; complex products including mentoring, coaching; loan approval mechanisms; special targeted products; and innovative promotion of products and initiatives.

The interregional learning process has come to end by getting close to the end of Phase 1 of ATM for SMEs. This action plan presents how the foreign experience that we have gained in Phase 1 is translated to concrete actions to be carried out in Phase 2 – that is from April 2019 onwards.

In this document we present the following four actions:

- 1) Improve loan conditions of EDIOP-8.8.1 Incentive for Employment Loan Programme
- 2) Enrich scope of services of EDIOP-8.8.1 Incentive for Employment Loan Programme
- 3) Improve marketing and promotion of EDIOP-8.8.1 Incentive for Employment Loan Programme
- 4) Adjust pre-screening and loan approval of EDIOP-8.8.1 Incentive for Employment Loan Programme

With our local actors and experts, we have compiled a feasible action plan including a breakdown of activities, timeframes, involved players, costs and funding sources.

Overall, we are convinced that ATM for SMEs has brought on such added value that we would not have been able to obtain without participating in this interregional co-operation. We look forward to the implementation of this Regional Action Plan in Phase 2 of ATM for SMEs.

2 General information

Project: Access to Microfinance for Small and Medium-sized Enterprises

Partner organisation: Ministry of Finance, Deputy State Secretariat Responsible for Implementing Economic Development Programs

Other partner organisations involved (if relevant): not relevant

Country: Hungary

NUTS2 region: Central Hungary

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ATM for SMEs aims at improving the access of SMEs to microfinance in the participating regions by sharing and exchanging the local knowledge on innovative solutions. Phase 1 of the project started in April 2016 and concludes on 31 March 2019. Phase 1 offered great opportunities for interregional learning for the Ministry of Finance. Starting from April 2019 Phase 2 will serve the implementation of this Regional Action Plan.

Project partners:

- Fejér Enterprise Agency (HU) - lead partner
- Ministry of Finance, Deputy State Secretariat Responsible for Implementing Economic Development Programs (HU)
- European Business and Innovation Centre of Burgos (CEEI Burgos) (ES)
- KIZ SINNOVA company for social innovation GmbH (DE)
- Zala County Foundation for Enterprise Promotion (HU)
- Autonomous Region of Sardinia Regional Department for Planning (IT)
- PORA Regional Development Agency of Podravina and Prigorje for Promotion and Implementation of Development Activities in Koprivnica Krizevci County (CR)
- Microfinance Norway (NO) – withdrew from partnership in Phase 1
- Świętokrzyskie Region – Marshal Office of Świętokrzyskie Region (PL)
- European Microfinance Network EMN aisbl (BE) – advisory partner

Main activities and project structure in Phase 1:

- Delivery of regional analyses by partners in three subjects (relevant conclusions of these included in the next chapter)
 - Regulatory framework concerning SMEs
 - Financial exclusion and access to microfinance
 - Promoting entrepreneurship and self-employment
- Interregional learning through 6 study trips (topics and locations of the study trips in the table below)
- Collection of good practices in the topics identified by the project
- Exchange reports on selected good practices
- Regular involvement of local stakeholder groups

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- Two local workshops to facilitate the delivery of the regional action plan of partners
- Delivery of the regional action plan by partners

Table 1: Study trips in ATM for SMEs

#	Location and date	Hosting partner	Topic discussed
1	Offenbach, 24-26 October 2016	KIZ Sinnova	Sustainability and efficiency of micro-finance programmes: Regional and local approaches and solutions
2	Oslo, 20-22 March 2017	Microfinance Norway	Social and technological innovation in microfinance (contributing to the implementation of Digital Agenda For Europe)
3	Burgos, 15-17 May 2017	CEEI Burgos	Involvement of priority groups (with special regard to gender equality)
4	Cagliari, 10-12 July 2017	Autonomous Region of Sardinia Regional Department for Planning (IT)	Social outreach of microfinance and mitigating the negative effects of financial exclusion
5	Kielce, 3-6 October 2017	Świętokrzyskie Region – Marshal Office of Świętokrzyskie Region (PL)	Microfinance as a local employment tool
6	Koprivnica, 15-17 October 2018	PORA Regional Development Agency of Koprivnica Križevci County	Promotion of local microfinance funds and entrepreneurship initiatives

The interregional learning process formed the core part of Phase 1. The partnership and the policy instruments were diverse including ESIF and non-ESIF instruments. This helped us formulate ideas for improvements even from “distant” practices. We delivered exchange reports in the six topics that were useful in concentrating on those selected practices that were the most relevant for us from learning and transferability point of view. The interregional learning was supported by the continuous “homework” of the Ministry of Finance with its stakeholder group. The local stakeholders took the important role of bringing in their own perspectives, sharing their experience and putting the objectives of ATM for SMEs into the local context. In Phase 2 local actors will take their part in realising the local actions planned in this regional action plan.

Beyond the work of the local stakeholder group, two action plan workshops were conducted in Phase 1 that supported the development of the regional action plan of the Ministry.

This action plan presents how the foreign experience that we have gained in Phase 1 is translated into concrete actions to be carried out in Phase 2 – that is from April 2019 onwards.

The actions included in this Action Plan are ignited by the examples and experience our project partners have brought forward during the joint work that we have completed in the past three years.

Ministry of Finance is confident that current practices of our addressed policy instrument in Hungary will be improved thanks to the practices that we have got to know and learned from our project partners in ATM for SMEs.

3 Policy context

The Action Plan aims to impact:

- Investment for Growth and Jobs programme
- European Territorial Cooperation programme
- Other regional development policy instrument

Name of the policy instrument addressed: Economic Development and Innovation Operational Programme of Hungary – 8th priority: Promotion of financial engineering instruments and services

Addressed policy instrument:

The addressed policy instrument of Ministry of Finance is Priority Axis 8 “Financial Instruments” of the Economic Development and Innovation Operational Programme (EDIOP). EDIOP is financed from ERDF, ESF and co-financed by the Hungarian state budget. Total financial frame is EUR 8 813 million. EDIOP includes eight priorities: 1. SME competitiveness; 2. Research and Development and Innovation; 3. Info communication Technologies; 4. Energy; 5. Employment; 6. Training; 7. Tourism; 8. Financial instruments including loan, guarantee and equity products. Total volume of financial instruments is EUR 2 235 million, which is unprecedented in size and diversity in Hungary. During the implementation of Phase 1 we have come to decide which is the specific policy instrument in Priority Axis 8 that we want to improve in Phase 2.

The specifically targeted product of our Regional Action Plan is the EDIOP-8.8.1 – Incentive for employment – Loan programme, which has a total financial frame of EUR 32 million of which only 9% is committed when the Action Plan is finalised. We can use the accumulated experience from the interregional learning process of ATM for SMEs very well for the improvement of the loan programme ranging from loan conditions, through scope of service, marketing and promotion to pre-screening and loan approval procedures.

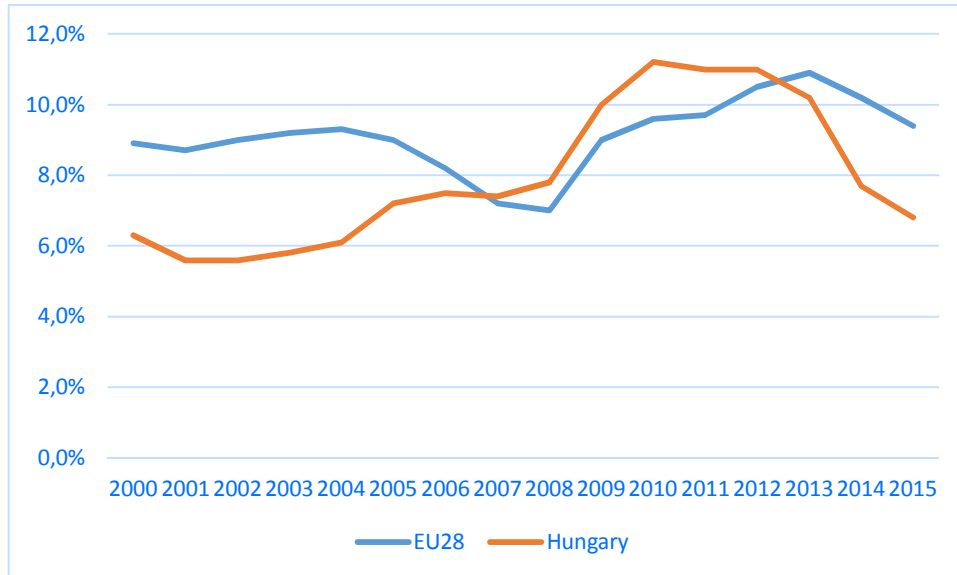
Relevant statement of our regional analyses with regards to EDIOP-8.8.1:

In the early stages of Phase 1 Ministry of Finance – similarly to the other project partners – carried out regional analyses in (1) the regulatory framework concerning SMEs, (2) financial exclusion and access to microfinance and in (3) promoting entrepreneurship and self-employment. The target groups of EDIOP-8.8.1 are (1) unemployed and inactive people who want to become entrepreneur and (2) social enterprises. Herein we sum up the most relevant data and conclusions from the three regional analyses with regards to the target groups:

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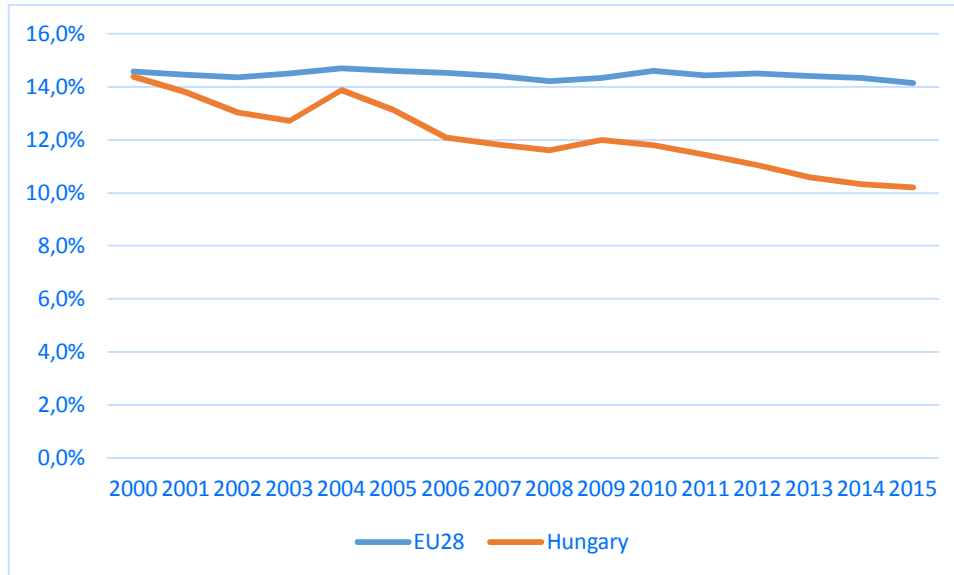
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Figure 1: Unemployment in Hungary and in the EU28

Source: Eurostat, Labour Force Survey

Unemployment was at moderate levels in the 2000's before the crisis kicked off but similarly to the change in GDP the crisis brought more significant impacts to Hungarian figures than to the EU average taking the unemployment rate above 10% from 2009 to 2013. From 2012 a visible decline can be observed: by 2015 the unemployment rate in Hungary is 6.8% compared to EU average of 9.4% and since then it has further decreased down to full employment levels (close to 4%) by 2017. Nevertheless **unemployment in preferential target groups (youth, elderly population) is still an issue.**

As compared to a basically stable 14-15% ratio of **self-employed population** in the EU-28, the corresponding ratio is smaller in Hungary and it is slowly but steadily decreasing over time from 14.4% in 2000 down to 10.2% in 2015, a trend that would be beneficial to change with targeted policy instruments.

Figure 2: Proportion of self-employed among the working population

Source: Eurostat, Labour Force Survey

In 2010 4.7% of the employed population (143,000 people) worked at a **social enterprise** in Hungary, which comes close to the EU average. Notwithstanding this, the economic and social weight of social enterprises should be enhanced in Hungary.

Identified good practices by the Ministry of Finance in the project were as follows:

Table 2: Identified good practices by the Ministry of Finance

No.	Topic	Good practice
1	Sustainability and efficiency of micro-finance programmes: Regional and local approaches and solutions	1) Micro credit the first step in entrepreneurship (Croatia) 2) Sodebur – micro credit facility (Burgos Spain) 3) Mikrofinans Norge operational model (Norway)
2	Social and technological innovation in microfinance (contributing to the implementation of Digital Agenda For Europe)	1) Risk management in microfinance (Germany) 2) Network Group approach (Norway)
3	Involvement of priority groups (with special regard to gender equality)	1) Social Business Women Microloan (Germany) 2) Strategy of Women Entrepreneurship Development in the Republic of Croatia 3) A sustainable microfinance institution to facilitate self-employment opportunities to women from marginalised groups (Norway)
4	Social outreach of microfinance and mitigating the negative effects of	1) Microfinance facility structure (Spain) 2) Seed programme – Seed Co-investment Fund

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	financial exclusion	(Croatia) 3) Various mentoring activities in lending activities (Norway)
5	Microfinance as a local employment tool	1) Loan Fund of the Swietokrzyskie Voivodeship (Poland) 2) Measure for Self Employment (Croatia)
6	Promotion of local microfinance funds and entrepreneurship initiatives	1) Promotional channels of local funds, UMWS, Poland 2) Promotion through local embeddedness, Region of Sardinia, Italy

As it can be seen from the table above, in each of the 6 topics we have identified 2-3 good practices. At the identification of the good practices that are relevant for us, the focus was on the attractiveness from the point of view of the final recipients and on the novelty of the practice and also we kept an eye on transferability. However, we and our stakeholders were not looking at which exact product in the portfolio of EDIOP Priority Axis No. 8. could be improved and what specific parameters of the product could be refined or changed substantially. It was the next step of our learning process when we selected the product we could best improve by the identified practices. This is how our choice was made for EDIOP-8.8.1 – Incentive for employment – Loan programme. This loan programme is very close in its substance to the topics explored in ATM for SMEs, moreover it is an experimental product in the sense that our Managing Authority is much more experienced in ERDF type of loans than ESF loans. This is also reflected in the slow run-up of this product, since it has a total financial frame of EUR 32 million of which only 9% is committed when the Action Plan is finalised.

It was a subsequent crucial step in transforming inspiration from foreign practices to improvement actions to EDIOP-8.8.1. To reach this, first we have analysed the selected good practices again (disregarding in which topic of the project we encountered the practice) and then we grouped them under challenges that we face with EDIOP-8.8.1. As such the practices were grouped under the following four challenges:

- 1) Loan conditions
- 2) Complexity and scope of services
- 3) Promotion, marketing
- 4) Pre-screening, loan approval

The following figures include the good practices enrolled under the above challenges.

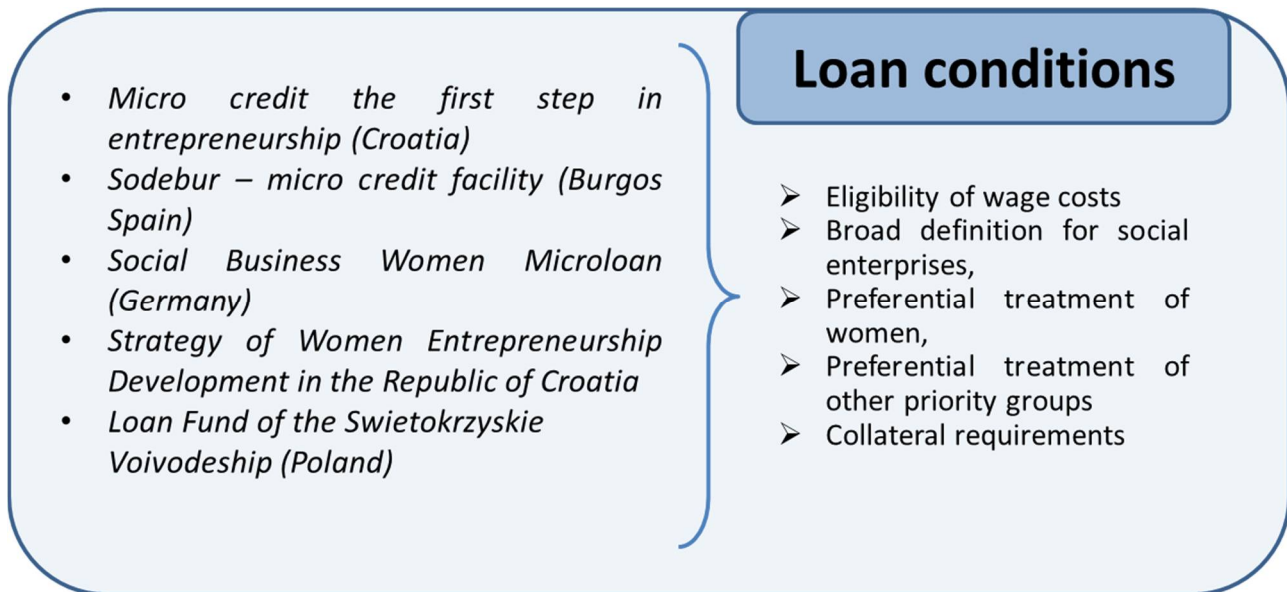
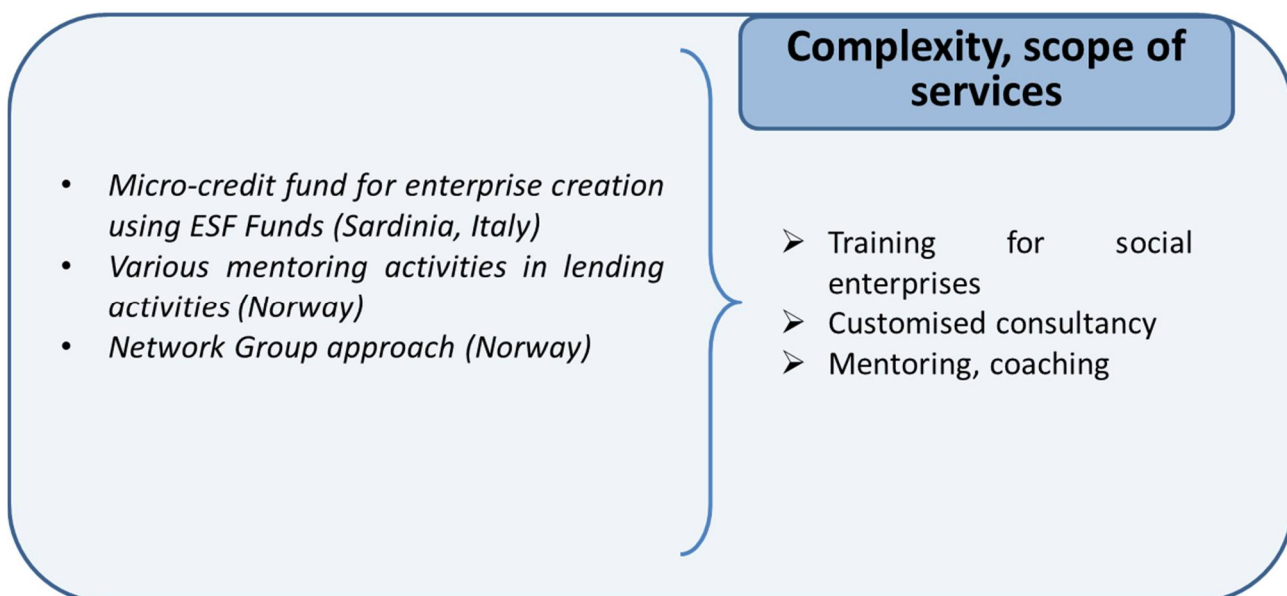
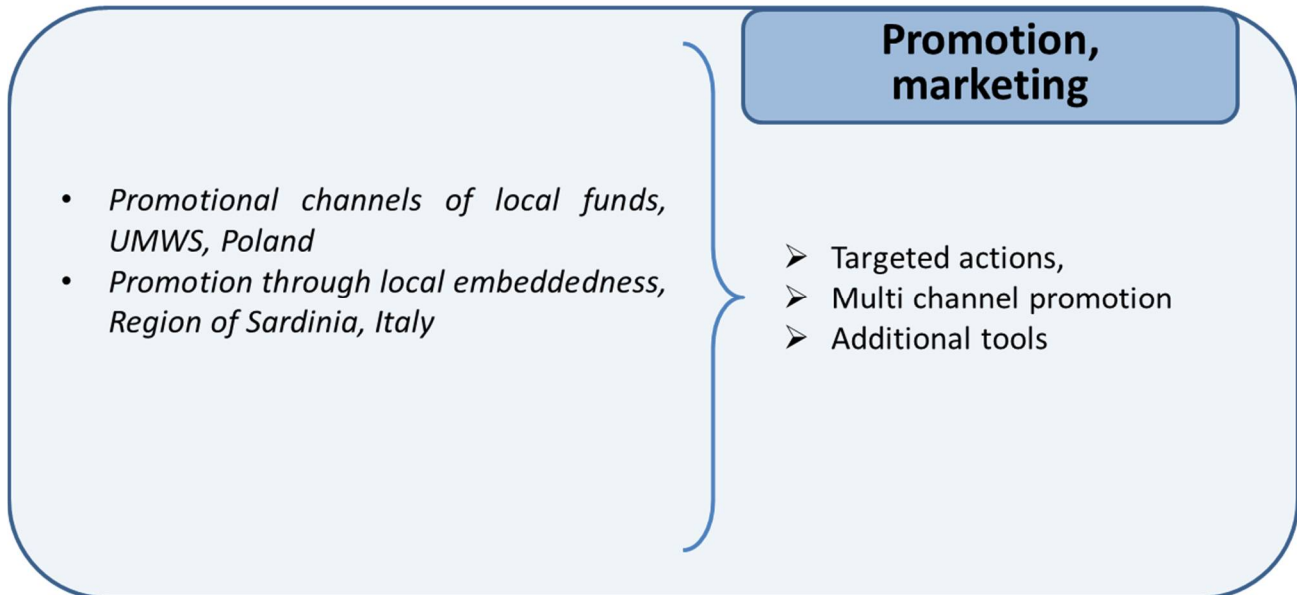
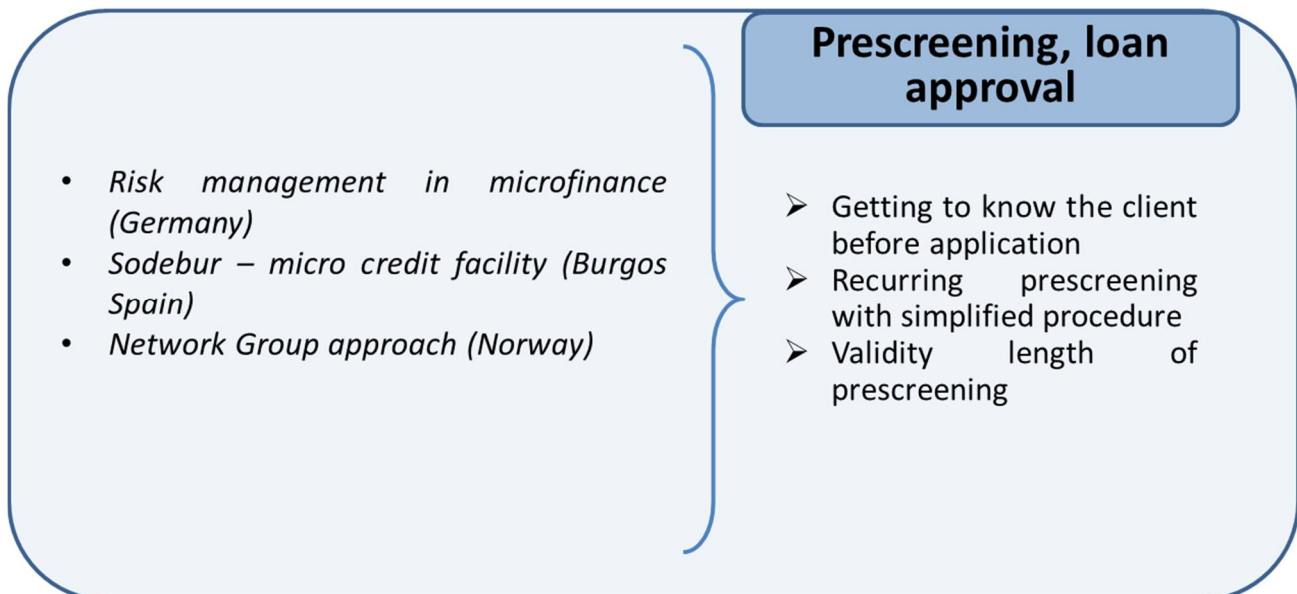
Figure 3: Challenge 1: Loan conditions**Figure 4: Challenge 2: Complexity, scope of services**

Figure 5: Challenge 3: Promotion, marketing**Figure 6 : Challenge 4: Pre-screening, loan approval**

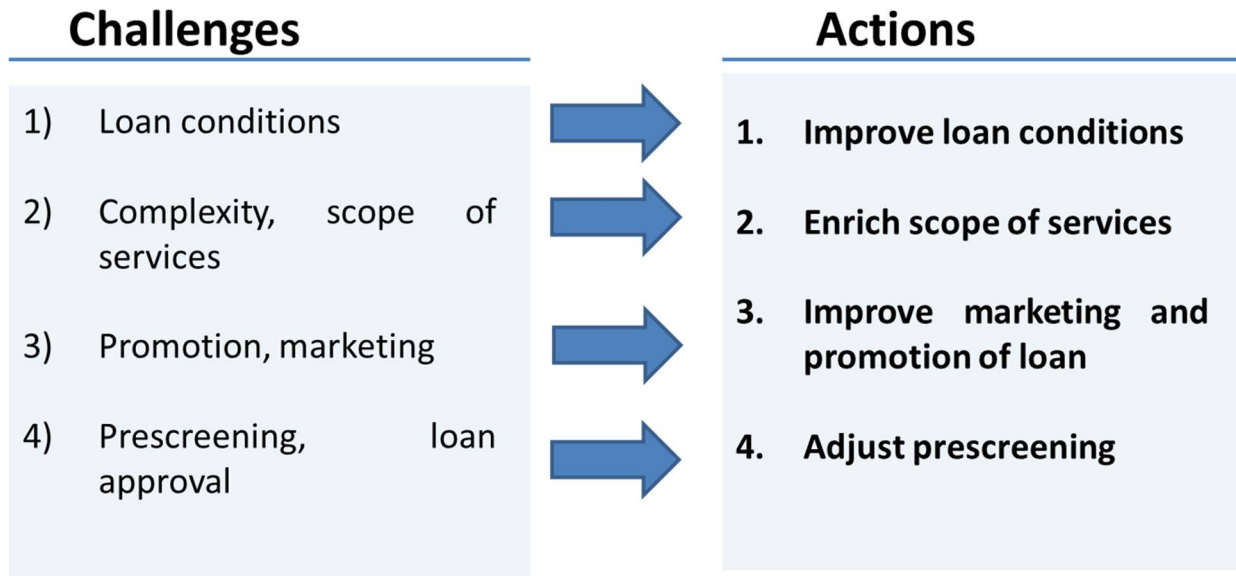
In the next step we have set up the four actions as responses to the four challenges. We introduce the four actions in the following chapters.

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Figure 7: From challenges to actions



We describe in detail the good practices and the inspiration we gained from these in the background section of the specific action concerned.

4 Details of the actions envisaged

4.1 ACTION 1 - IMPROVE LOAN CONDITIONS OF EDIOP-8.8.1 INCENTIVE FOR EMPLOYMENT LOAN PROGRAMME

4.1.1 The background

As described in the previous chapter loan conditions of the EDIOP-8.8.1 can be identified as obstacles for a good performance of the programme. Project partners delivered a number of good practices in this subject that have relevant aspects for an action to improve EDIOP-8.8.1. The good practices that we have relied on when designing this action are:

- Micro credit - the first step in entrepreneurship (Croatia)
- Sodebur – micro credit facility (Burgos Spain)
- Social Business Women Microloan (Germany)
- Strategy of Women Entrepreneurship Development in the Republic of Croatia
- Loan Fund of the Swietokrzyskie Voivodeship (Poland)

The Croatian example of Micro credit - the first step in entrepreneurship was introduced in 2013 as a fast and efficient source of financing with the aim of encouraging entrepreneurship through self-employment with crafts and trade companies. The product is intended for start-ups operating less than for 2 years. Relevant conditions of the product are its interest rate (fixed rate at 0.99% per annum), repayment period and grace period (repayment period up to 5 years including a grace period for up to six months), supported activities (intended for investment in fixed assets but up to 40% the loan can be used to finance working capital), collateral requirements (promissory notes). **Particularly the working capital financing and the collateral requirement is of interest to our policy instrument** with regards to alleviating current collateral requirements and to broadening the eligibility of wage costs.

The Sodebur micro credit facility from Spain promoted social and economic development in the Province of Burgos, helping medium-low sized investments. The financial help focused on start-ups, unemployed people and rural development with maximum EUR 25,000, 4 years term without fees, guarantees or collaterals. This product provided an opportunity for those enterprises that suffer from the shortage of resources and possess insufficient collateral. In this practice **it is the lack of collaterals that is relevant for the Ministry of Finance**.

The Social Business Women Microloan from Germany is targeted to underserved female entrepreneurs in the Rhein-Main-Area. The product is a soft-loan without additional collaterals, it offers low interest rate and a substantial part of the loan must be used for training, coaching during the loan life cycle. Among many of the relevant features of this product, it is **again the absence of collaterals that is relevant for us** with regards to loan conditions.

The Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014-2020 explicitly targets female entrepreneurship. The adoption of such a strategy makes it possible to prioritise female entrepreneurship in various measures and actions. Main goals of the strategy are: (1) Improvement of compliance and networking of public policies, (2) Improvement of systematic support to women entrepreneurship, (3) Introduction of women entrepreneurship into the overall institutional infrastructure, (4) Promotion of women entrepreneurship. It was interesting to see that the Republic of Croatia has an articulated and adopted strategy of women entrepreneurship development. Women are an important target group of the Economic Development and Innovation Operational Programme, however such an overarching strategy for female entrepreneurship is not adopted in Hungary and no specific products in EDIOP target them currently. **In**

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some products female entrepreneurs are treated preferentially through the selection criteria but these are not endorsed by an underlying strategy and that is why the practice is relevant for us.

The loan fund of the Świętokrzyskie Voivodeship was set up within the framework of the Regional Operational Programme of the Świętokrzyskie Voivodeship for the years 2007-2013 in 2010. Overall the loan scheme is very close to former and current loan schemes launched by the EDIOP MA in Hungary. In this specific Polish scheme loans may be taken by micro, small or middle market entrepreneurs who concentrate their business within the boundaries of the Świętokrzyskie Voivodship. The Loan Fund may also finance entrepreneurs who are planning to establish their own business or who have been running their business for less than 12 months. The maximum loan amounts differ by the size of the enterprise: (1) Micro business: EUR 60,000; (2) Small business: EUR 120,000; (3) Middle size company: EUR 238,000. The use of the loan has a broad scope including purchase of fixed assets, construction, purchase of services, purchase of intangible assets, **covering working capital need – and this makes it relevant for the improvement of the conditions of EDIOP-8.8.1.**

4.1.2 Action (please list and describe the actions to be implemented)

The good practices above make the ground for the action presented herein. The activities will be carried out by the players involved in a working group, which is already established for the improvement of EDIOP-8.8.1.

Aim of action

To improve the loan conditions of EDIOP-8.8.1 so that this loan programme becomes more attractive for potential applicants.

Activities

Improving the loan conditions of EDIOP-8.8.1 requires the agreement and approval of relevant stakeholders of the Ministry of Finance on all details, which is then followed by publishing the modified loan programme by the MA in the Ministry of Finance. The procedure and main steps of the activity is known to us since changes of comparable significance are regularly implemented by the MA in this and other loan programmes. Beyond publishing the modified loan programme, the changes may require updating rules and regulations and procedures related to the bodies involved in the implementation. Below, we structure the activities needed to reach the aim of the action.

1. Analysis of current loan conditions with special attention to:
 - Eligibility of wage costs
 - Broad definition for social enterprises (e. g. including social co-operatives),
 - Preferential treatment of women,
 - Preferential treatment of other priority groups
 - Collateral requirements
2. Working out concrete proposals for the improvement of loan conditions as amendments of the loan programme
3. Approval of amendments to the loan programme
4. Publishing the amended loan programme

Under the framework of ATM for SMEs we have reached an agreement with all of our relevant stakeholders that there is room for development of the loan conditions of EDIOP-8.8.1 based on the foreign

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examples. Beyond that a common understanding was reached what the relevant parameters are that can be subject to change (these are listed in bullet points above). What is ahead of us in Phase 2 is defining the exact changes in the loan programme. For example, the lesson learned from foreign good practices was that beyond investments in fixed assets, financing working capital and running costs may bring advantages. Currently in EDIOP-8.8.1, three months of wage costs of staff of the final recipient is eligible and the intention is to extend this 3-month-long timeframe. But the range of extension (whether to 6 months or up to 1 year) is still to be discussed and agreed by our stakeholders. Moreover, we also want to keep open the scope of parameters to be changed. Once the scope and metrics of changes are determined the MA with the participation of the members of the working group will work out the concrete proposals and will initiate the approval of amendments so that the amended loan programme can be published at last.

Expected results

The action is about making the loan conditions more favourable for applicants while the risk of default is not increased. As a result, we expect an increased number of loan applications from the target groups of the loan programme and an increased absorption rate of the loan programme. **We set the target absorption rate of the loan programme to 80% as a result of our four actions planned in this action plan.** The deadline for reaching this absorption rate is 30 June 2020, when – according to current intentions – the loan programme is closed.

4.1.3 Players involved

Managing Authority of the Economic Development and Innovation Operational Programme in the Deputy State Secretariat Responsible for Implementing Economic Development Programmes in the Ministry of Finance Hungary (Project Partner 2): The Managing Authority is the organization responsible for the implementation of the EDIOP-8.8.1 Loan Programme. As such it will initiate and facilitate the work process. It will invite all others players listed here and it will move players to come to an agreement on all issues. Following approvals at the Managing Authority, at the policy maker (see below) and the Hungarian Development Bank (see below), it will publish the amended loan programme.

State Secretariat Responsible for Employment Market and Training in the Ministry of Finance Hungary: The State Secretariat is responsible for designing the loan programme in terms of content (policy maker). To put it simple it provides input for the Managing Authority on what to implement. As such it is a very important stakeholder to the Managing Authority in defining the changes in the loan conditions. The State Secretariat is a permanent member of the working group.

Hungarian Development Bank (HDB): HDB acts as Fund of Funds in the Hungarian implementation system of financial instruments under ESIF. HDB conducted public procurements to select those financial intermediaries that offer the loan products to potential final recipients. HDB guides, supervises, monitors and controls the operation of the selected financial intermediaries with regards to the ESIF financial instruments. As such HDB has a role in providing feedback and comments on the feasibility of the planned changes, how it fits with banking experience and has also feedback from clients through the contracted financial intermediaries. HDB is a permanent member of the working group.

OFA Hungarian Employment Public Benefit Non-Profit Limited Liability Company (OFA): OFA is a state-owned non-profit company aiming at increasing employment and maintaining jobs, supporting innovative forms of employment and implementing projects serving employment market integration. Among others it implements EDIOP funded employment programmes as beneficiary (EDIOP-5.1.2, EDIOP-5.1.7) related to social enterprises, unemployed and entrepreneurs (in cases together with IFKA). Since they are in direct contact with potential applicants and contracted final recipients, they provide valuable feedback on the needs of applicants. OFA is a permanent member of the working group.

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IFKA Public Benefit Nonprofit Ltd (IFKA): IFKA is a state-owned non-profit company for the development of industry with a very broad portfolio of programmes and projects some of them funded from EDIOP and many of them co-funded from Interreg Europe and other international and transnational programmes. Among the EDIOP projects IFKA implements as beneficiary, some of them deal with social enterprises, unemployed and entrepreneurs. Therefore - similarly to OFA – IFKA has a strong understanding of the needs of potential applicants of the EDIOP-8.8.1 loan programme and so it is the voice of market in the working group. IFKA is a permanent member of the working group.

4.1.4 Timeframe

The action is implemented in 1 year until March 2020 according to the following schedule:

Table 3: Timeframe for Action 1

No.	Activity	Deadline
1	Analysis of current loan conditions	1 April 2019 - 31 May 2019
2	Working out concrete proposals for the improvement of loan conditions as amendments of the loan programme	1 June 2019 – 31 October 2019
3	Approval of amendments to the loan programme	1 November 2019 – 28 February 2020
4	Publishing the amended loan programme	March 2020

Length of approval procedures is hard to schedule due to external factors and players. The current estimate is based on past experience. Nevertheless, divergence can occur and improved loan conditions may be effective earlier than planned but also delay is possible. Even so, in the 2-year-long timeframe of Phase 2 the action can be implemented with high certainty.

4.1.5 Costs

Costs related to the implementation of the action are primarily staff costs of all the players involved. In addition, event hosting and catering costs related to working group meetings will be incurred. Below we give a rough estimate on these two types of costs.

Table 4: Costs for Action 1

No.	Type of cost	Volume
1	Staff costs of the involved players. Number of personnel included from players with average number of working days: <ul style="list-style-type: none"> • MA – staff of 5, on average 1 month each • Policy maker – staff of 5, on average 1 month each • HDB – staff of 15, on average 0.5 months each • OFA – staff of 4, on average 0.5 months each • IFKA – staff of 4, on average 0.5 months each An average FTE for a month is calculated at EUR 2800.	EUR 67,200
2	Event hosting and catering of working group meetings:	EUR 6,000

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	<ul style="list-style-type: none"> • Calculation of 4 meetings with 25 people each. • Each meeting at EUR 1500 	
	Total	EUR 73,200

4.1.6 Funding sources

Each involved player is responsible for caring for its own staff costs. At the above magnitude this is workable from own resources or from running projects related to the subject.

Event hosting and catering will be provided for by the MA from own resources.

4.2 ACTION 2 - ENRICH SCOPE OF SERVICES OF EDIOP-8.8.1 INCENTIVE FOR EMPLOYMENT LOAN PROGRAMME

4.2.1 The background

The good practices from the ATM for SMEs project that form the basis for this action are as follows:

- Micro-credit fund for enterprise creation using ESF Funds (Sardinia, Italy)
- Various mentoring activities in lending activities (Norway)
- Network Group approach (Norway)

The Micro-credit fund for enterprise creation using ESF Funds from Sardinia, Italy supports individuals with difficulties in accessing traditional credit channels to start up a business. The Fund has the following characteristics: i) microloans of EUR 5,000-25,000 transferred to final beneficiaries through a unique solution; ii) reimbursable at 0% interest and without guarantees; iii) paid back in monthly instalments (no interest, except for delays); iv) payback period: 5 years with 6- or 12-month grace period. The loan is complemented with **non-financial services including training, assistance in the development of business ideas and drafting the business plan**. Moreover, entrepreneurs have access to start-up support and assistance in the medium and long term for financial, management, marketing, planning and operational support in the management of daily business activities, such as legal and fiscal advice. These non-financial services related to the microcredit are relevant for the Ministry of Finance for the addressed EDIOP loan programme.

As part of their microfinancing activities **Microfinance Norway runs an entrepreneurial training, offers start-up support/ mentoring, offers financial education courses, provides guidance to those wanting to start a business**. In their practice it is **the holistic approach** that is interesting for us, which is far beyond the pure financial service of offering a loan to a microenterprise or to a private entrepreneur.

Microfinance Norway presented also “The Network Group” approach, which is central feature in their lending practices. In their micro-financing programme network groups are used to build trust through collaboration. In this approach, borrowers organize themselves in network groups of 3-7 members. Each member gets support to carry out their projects and commitments. Group rules are decided at the outset by the whole group. The group creates business plans together, evaluates each other’s business ideas, and democratically decides who should receive a loan and on what conditions. Even though this approach is completely different to current practices in Hungary, **the embedded feature of this practice with regards to peer-based business plan development and nurturing of business ideas is relevant for the Hungarian case**.

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To sum up: the lesson learned from these good practices is that preferential target groups are in need of training and assistance even for submitting a loan application and/or they can be offered assistance after they received the loan on developing their business and management skills.

4.2.2 Action (please list and describe the actions to be implemented)

The lesson learnt is in line with the feedback of OFA and IFKA from Hungary. Particularly, the experience of IKFA suggests that potential applicants need more assistance than current with regards to business skills and specifically to financial skills. In related running programmes unemployed or inactive people, young would-be entrepreneurs are receiving training but social enterprises - one of the target groups of EDIOP-8.8.1 – could be offered comparable assistance, too. Since related programmes of EDIOP are in an advanced stage it would be difficult to include further activities in these programmes in this subject. Therefore, what seems feasible is amending EDIOP-8.8.1. in a way that a tranche of the loan that a social enterprise is earmarked for training, mentoring, coaching. Details of such an amendment shall be solved in Phase 2 including the size of loan volume dedicated to this issue, by whom the training service, mentoring service could be provided and what indicators these trainings shall fulfil.

The activities will be carried out by the actors involved in a working group, which is already established for the improvement of EDIOP-8.8.1.

Aim of action

To enrich the scope of services so that the loan programme provides a comprehensive assistance for potential applicants particularly in business skills and financial skills.

Activities

The action requires a similar approach to Action 1. Below, we structure the activities needed to reach the aim of Action 2.

1. Working out proposals for enriching the current scope of services with developing business skill and financial skills including:

- Training for social enterprises
 - Customised consultancy
 - Mentoring, coaching
2. Approval of proposals as amendments to the loan programme
3. Publishing the amended loan programme

Expected results

The action is expected to equip final recipients (particularly social enterprises) with improved business and financial skills. As a direct consequence the action will contribute to improved project implementation quality, as well and so it will the absorption rate of the loan programme. **We set the target absorption rate of the loan programme to 80% as a result of our four actions planned in this action plan.** The deadline for reaching this absorption rate is 30 June 2020, when – according to current intentions – the loan programme is closed.

4.2.3 Players involved

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Managing Authority of the Economic Development and Innovation Operational Programme in the Deputy State Secretariat Responsible for Implementing Economic Development Programmes in the Ministry of Finance Hungary (Project Partner 2): The Managing Authority is the organization responsible for the implementation of the EDIOP-8.8.1 Loan Programme. As such it will initiate and facilitate the work process. It will invite all others players listed here and it will move players to come to an agreement on all issues. Following approvals at the Managing Authority, at the policy maker (see below) and the Hungarian Development Bank (see below), it will publish the amended loan programme.

State Secretariat Responsible for Employment Market and Training in the Ministry of Finance Hungary: The State Secretariat is responsible for designing the loan programme in terms of content (policy maker). To put it simple it provides input for the Managing Authority on what to implement. As such it is a very important stakeholder to the Managing Authority in defining the changes in the loan conditions. The State Secretariat is a permanent member of the working group.

Hungarian Development Bank (HDB): HDB acts as Fund of Funds in the Hungarian implementation system of financial instruments under ESIF. HDB conducted public procurement to select those financial intermediaries that offer the loan products to potential final recipients. HDB guides, supervises, monitors and controls the operation of the selected financial intermediaries with regards to the ESIF financial instruments. As such HDB has a role in providing feedback and comments on the feasibility of the planned changes, how it fits with banking experience and has also feedback from clients through the contracted financial intermediaries. HDB is a permanent member of the working group.

OFA Hungarian Employment Public Benefit Non-Profit Limited Liability Company (OFA): OFA is a state-owned non-profit company aiming at increasing employment and maintaining jobs, supporting innovative forms of employment and implementing projects serving employment market integration. Among others it implements EDIOP funded employment programmes as beneficiary (EDIOP-5.1.2, EDIOP-5.1.7) related to social enterprises, unemployed and entrepreneurs (in cases together with IFKA). Since they are in direct contact with potential applicants and contracted final recipients, they provide valuable feedback on the needs of applicants. OFA is a permanent member of the working group.

IFKA Public Benefit Nonprofit Ltd (IFKA): IFKA is a state-owned non-profit company for the development of industry with a very broad portfolio of programmes and projects some of them funded from EDIOP and many of them co-funded from Interreg Europe and other international and transnational programmes. Among the EDIOP projects IFKA implements as beneficiary, some of them deal with social enterprises, unemployed and entrepreneurs. Therefore - similarly to OFA – IFKA has a strong understanding of the needs of potential applicants of the EDIOP-8.8.1 loan programme and so it is the voice of market in the working group. IFKA is a permanent member of the working group.

4.2.4 Timeframe

The action is implemented in 1 year until March 2020 according to the following schedule:

Table 5: Timeframe for Action 2

No.	Activity	Deadline
1	Working out concrete proposals for the improvement of loan conditions as amendments of the loan programme	1 April 2019 – 31 October 2019
2	Approval of amendments to the loan programme	1 November 2019 – 28 February 2020
3	Publishing the amended loan programme	March 2020

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Length of approval procedures is hard to schedule due to external factors. The working group would deal with this action parallel to Action 1. The current estimate is based on past experience. Nevertheless, divergence can occur and improved loan conditions may be effective earlier than planned but also delay is possible. Even so in the 2-year-long timeframe of Phase 2 the action can be implemented with high certainty.

4.2.5 Costs

Costs related to the implementation of the action are primarily staff costs of all the players involved. In addition, event hosting and catering costs related to working group meetings will be incurred but these are planned at Action 1. Below we give a rough estimate on the costs.

Table 6: Costs for Action 2

No.	Type of cost	Volume
1	Staff costs of the involved players. Number of personnel included from players with average number of working days: <ul style="list-style-type: none"> • MA – staff of 5, on average 0.5 month each • Policy maker – staff of 5, on average 0.5 month each • HDB – staff of 10, on average 0.5 months each • OFA – staff of 4, on average 0.25 months each • IFKA – staff of 4, on average 0.25 months each An average FTE for a month is calculated at EUR 2800.	EUR 33,600
2	Event hosting and catering of working group meetings: <ul style="list-style-type: none"> • Calculated at Action 1. 	EUR 0
	Total	EUR 33,600

4.2.6 Funding sources

Each involved player is responsible for caring for its own staff costs. At the above magnitude this is workable from own resources or from running projects related to the subject.

Event hosting and catering will be provided for by the MA from own resources.

4.3 ACTION 3 - IMPROVE MARKETING AND PROMOTION OF EDIOP-8.8.1 INCENTIVE FOR EMPLOYMENT LOAN PROGRAMME

4.3.1 The background

Compared to other grant calls or financial instrument programmes in EDIOP, our managing authority had done extra work already in promoting EDIOP-8.8.1 since its first launch together with concerned local actors. One of the topics of ATM for SMEs was “Promotion of local microfinance fund and entrepreneurship initiatives”. This topic was explored in the last study trip in Croatia in October 2018 and it proved to be very useful for us since we realised, we could do more in reaching potential applicants of EDIOP-8.8.1 through additional marketing tools or methods.

We have identified the following foreign practices as basis for our Action 3:

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- Promotion channels of local funds – UMWS, Poland
- Promotion through local embeddedness – Region of Sardinia, Italy

The Regional Policy Department in Marshal Office in Świętokrzyskie Region acts as the Managing Authority for the Regional Operational Programmes ('07-13, '14-20). Their product portfolio includes loans from local loan funds, guarantees from local guarantee funds, financial instruments covering objectives of credit access, urban development, R&D, energy efficiency. Their promotional activity is composed of participating in forums, B2B meetings, conferences, online tools (webpage, emailing), radio and TV campaign in local media, partnerships for example with regional labour office, co-operations for example with the National Economy Bank, national level promotion for ROP. Overall **the diversity of the promotional tools they used was impressive for us** and made us think about going into the same direction by designing and producing additional promotional material and launching extra campaigns.

Our Italian partner, **the Autonomous Region of Sardinia Regional - Department for Planning** acts as the Managing Authority for the Regional Operational Programmes ('07-13, '14-20). Their portfolio include loan, equity and guarantee products from EU co-financed sources (ERDF, ESF). In their promotional activity they rely on such local partners to a substantial extent that have strong local embeddedness with potential applicants to the programmes of the Managing Authority. Their partners include local banks, private investment funds and the cooperatives sector (COOPFIN, Acanta MAG COOP). In their practice, **partnering with locally embedded organisations is attractive to us**.

4.3.2 Action (please list and describe the actions to be implemented)

The presented good practices make good basis for our Action 3. Similarly to Action 1 and Action 2 the EDIOP-8.8.1 working group as a whole will have a determining role in implementing this Action but in this case the concrete design and production of the marketing materials and the execution of the campaign will be primarily the task of single members of the working group.

Aim of action

To improve marketing and promotion of the loan programme so that it is able to reach an increased number of potential applicants in the target groups.

Activities

1. Selection of additional marketing tools (for example social media, short video, joining related promotional events)
2. Working out details of a marketing campaign using these additional marketing tools
3. Approval of marketing campaign including the marketing tools
4. Design and production of marketing materials
5. Launch of the marketing campaign

In Phase 1 of ATM for SMEs we understood from the experience of our foreign partners that we can do more in terms of marketing and promotion than what we have done up until now. Consequently we have also decided in Phase 1 that we want to approach promotion activities in a more efficient way. that is why Action 3 is formulated.

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This does not mean however that we plan to introduce the same tools that our partners use. Therefore, we start our activities with collecting and selecting additional tools. After that we will continue with planning the upcoming marketing campaign that includes already the selected extra tools. After approvals the design and production of the marketing materials will take place and finally, we launch our campaign.

Expected results

From this action we expect an improved reach of the loan programme and increased number of loan applications from the target groups of the programme. Again it is difficult to detach the direct results of this action from the other actions **therefore we set the target absorption rate of the loan programme to 80% as a result of our four actions planned in this action plan**. The deadline for reaching this absorption rate is 30 June 2020, when – according to current intentions – the loan programme is closed.

4.3.3 Players involved

Managing Authority of the Economic Development and Innovation Operational Programme in the Deputy State Secretariat Responsible for Implementing Economic Development Programmes in the Ministry of Finance Hungary (Project Partner 2): The Managing Authority is the organization responsible for the implementation of the EDIOP-8.8.1 Loan Programme. As such it will initiate and facilitate the work process. It will invite all others players listed here and it will move players to come to an agreement on all issues. Following approvals and depending on the specific marketing tools and nature of the campaign, the Managing Authority may be responsible for designing and producing the marketing materials (most probably through contracting) and also for executing (modules of) the campaign.

State Secretariat Responsible for Employment Market and Training in the Ministry of Finance Hungary: The State Secretariat is responsible for designing the loan programme in terms of content (policy maker). To put it simple it provides input for the Managing Authority on what to implement. The State Secretariat is a permanent member of the working group. Concerning this specific action the State Secretariat will have a commenting role on the marketing tools and planned campaign.

Hungarian Development Bank (HDB): HDB acts as Fund of Funds in the Hungarian implementation system of financial instruments under ESIF. HDB conducted public procurement to select those financial intermediaries that offer the loan products to potential final recipients. HDB guides, supervises, monitors and controls the operation of the selected financial intermediaries with regards to the ESIF financial instruments. Following approvals and depending on the specific marketing tools and nature of the campaign, HDB may be responsible for designing and producing the marketing materials (most probably through contracting) and also for executing (modules of) the campaign. HDB is a permanent member of the working group.

OFA Hungarian Employment Public Benefit Non-Profit Limited Liability Company (OFA): OFA is a state-owned non-profit company aiming at increasing employment and maintaining jobs, supporting innovative forms of employment and implementing projects serving employment market integration. Among others it implements EDIOP funded employment programmes as beneficiary (EDIOP-5.1.2, EDIOP-5.1.7) related to social enterprises, unemployed and entrepreneurs (in cases together with IFKA). Since they are in direct contact with potential applicants and contracted final recipients, they provide valuable feedback on the needs of applicants. Depending on the specific marketing tools and nature of the campaign, OFA may be a contributing partner in executing (modules of) the campaign. OFA is a permanent member of the working group.

IFKA Public Benefit Nonprofit Ltd (IFKA): IFKA is a state-owned non-profit company for the development of industry with a very broad portfolio of programmes and projects some of them funded from EDIOP and many of them co-funded from Interreg Europe and other international and transnational programmes. Among the EDIOP projects IFKA implements as beneficiary, some of them deal with social enterprises, unemployed and entrepreneurs. Therefore - similarly to OFA – IFKA has a strong understanding of

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the needs of potential applicants of the EDIOP-8.8.1 loan programme and so it is the voice of market in the working group. Depending on the specific marketing tools and nature of the campaign, IFKA may be a contributing partner in executing (modules of) the campaign. IFKA is a permanent member of the working group.

4.3.4 Timeframe

The action is implemented in 6 months until September 2019 (with the campaign launched in October 2019). It is important to start with the marketing campaign as early as possible so that it can have an impact on potential applicants before the loan programme is closed.

Table 7: Timeframe for Action 3

No.	Activity	Deadline
1	Selection of additional marketing tools	1 April 2019 – 15 May 2019
2	Working out details of a marketing campaign using these additional marketing tools	16 May 2019 – 30 June 2019
3	Approval of marketing campaign including the marketing tools	1 July 2019 – 31 July 2019
4	Design and production of marketing materials	1 August 2019 – 30 September 2019
5	Launch of the marketing campaign	1 October 2019 -

4.3.5 Costs

Costs related to the implementation of the action are staff costs of all the players involved, production costs of marketing materials and execution costs related to the marketing campaign. Here we provide an estimate on these costs but these are largely dependent on the exact type of tools to be developed and the type of marketing campaign to be launched

Table 8: Costs for Action 3

No.	Type of cost	Volume
1	Staff costs of the involved players. Number of personnel included from players with average number of working days: <ul style="list-style-type: none"> • MA – staff of 5, on average 0.5 month each • Policy maker – staff of 5, on average 0.5 month each • HDB – staff of 10, on average 0.5 months each • OFA – staff of 3, on average 0.5 months each • IFKA – staff of 3, on average 0.5 months each An average FTE for a month is calculated at EUR 2800.	EUR 36,400
2	Design and production of marketing tools through expert contract: <ul style="list-style-type: none"> • EUR 15,000 	EUR 15,000
3	Execution of marketing campaign through expert contract: <ul style="list-style-type: none"> • EUR 30,000 	EUR 30,000
	Total	EUR 81,400

4.3.6 Funding sources

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Each involved actor is responsible for caring for its own staff costs. At the above magnitude this is workable from own resources or from running projects related to the subject.

Expert contracting will be financed either by the MA or by HDB from earmarked resources for marketing.

4.4 ACTION 4 - ADJUST PRE-SCREENING AND LOAN APPROVAL OF EDIOP-8.8.1 INCENTIVE FOR EMPLOYMENT LOAN PROGRAMME

4.4.1 The background

The good practices that form the basis for this action are as follows:

- Risk management in microfinance (Germany)
- Sodebur – micro credit facility (Burgos Spain)
- Network Group approach (Norway)

The trust-based partnership model used by KIZ Sinnova from Germany introduces the QRN-Manager (Quality, Risk, Network) beyond the regular actors (microfinance institution, bank, client, fund). In addition to that, **the risk prognosis tool at KIZ SINNOVA** identifies five risk types with repayment probabilities and characteristics for each type. This tool may serve as an example for the financial intermediaries in Hungary involved in the implementation of EDIOP-8.8.1.

The Network Group approach used by Microfinance Norway is interesting also for this action. In this respect **the decision-making system of the Network Group approach is relevant** to us. In this approach, borrowers organize themselves in network groups of 3-7 members. Each member gets support to carry out their projects and commitments. Group rules are decided at the outset by the whole group. The group creates business plans together, evaluate each other's business ideas, and democratically decide who should receive a loan. The application of such a direct participatory approach in the loan approval is not possible in Hungary but this example highlights the importance of getting to know the client well before the application is submitted and this is why the practice is relevant to us.

The Sodebur micro credit facility from Spain promoted social and economic development in the Province of Burgos, helping medium-low sized investments. The financial help focused on start-ups, unemployed people and rural development with maximum EUR 25,000, 4 years term without fees, guarantees or collaterals. This product provided an opportunity for those enterprises that suffer from the shortage of resources and possess insufficient collateral. This practice is relevant for our Action 1 because of the lack of collateral requirements but also for this action because of the loan approval process. After receiving the loan application, CEEI Burgos loan officers analyse the proposal and schedule an on-site visit to entrepreneurs. Once the assessment of the client's project is complete, the file is presented to the credit committee, which is composed of SODEBUR representatives, Burgos Chamber of Commerce, Burgos Young Managers Association, Burgos Federation of Business Associations and the Provincial Government of Burgos to ensure that social objectives set by the partners are met. In the Hungarian practice neither the preliminary on-the-spot checks nor the inclusive composition of the credit committee is in use even though they are known practices from past. Still, **these features of the practice are relevant for us because they contribute to an improved and holistic assessment of the loan applicant.**

4.4.2 Action (please list and describe the actions to be implemented)

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Currently the loan approval includes a pre-screening of the applicants but the practice could be refined so that it allows the simplification of the procedure and at the same time offers a better assessment of the client before the loan application. The activities will be carried out by the players involved in a working group, which is already established for the improvement of EDIOP-8.8.1.

Aim of action

To adjust pre-screening and loan approval of the loan programme for improved quality of selected projects and simplified loan application procedures.

In this action we want to make changes that allow:

- Getting to know the client better than current before application
- Recurring pre-screening with simplified procedure
- Extended validity length of pre-screening

Activities

The action requires a similar approach to the previous actions. Below, we structure the activities needed to reach the aim of Action 4.

1. Analysis of current loan application procedures and identifying improvement opportunities
2. Working out details of proposals for changing the pre-screening and loan approval
3. Approval of proposed changes
4. Introducing the adjusted pre-screening and loan approval procedures

Expected results

The action is expected to improve the quality of selected projects and to attract an increased number of applicants through simplified loan application procedures. **We set the target absorption rate of the loan programme to 80% as a result of our four actions planned in this action plan.** The deadline for reaching this absorption rate is 30 June 2020, when – according to current intentions – the loan programme is closed.

4.4.3 Players involved

Managing Authority of the Economic Development and Innovation Operational Programme in the Deputy State Secretariat Responsible for Implementing Economic Development Programmes in the Ministry of Finance Hungary (Project Partner 2): The Managing Authority is the organization responsible for the implementation of the EDIOP-8.8.1 Loan Programme. As such it will initiate and facilitate the work process. It will invite all others players listed here and it will move players to come to an agreement on all issues. Following approvals at the Managing Authority, at the policy maker (see below) and the Hungarian Development Bank (see below), it will introduce the adjusted pre-screening and loan approval procedures.

State Secretariat Responsible for Employment Market and Training in the Ministry of Finance Hungary: The State Secretariat is responsible for designing the loan programme in terms of content (policy maker). To put it simple it provides input for the Managing Authority on what to implement. As such it is a very important stakeholder to the Managing Authority also in this action. The State Secretariat is a permanent member of the working group.

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Hungarian Development Bank (HDB): HDB acts as Fund of Funds in the Hungarian implementation system of financial instruments under ESIF. HDB conducted public procurement to select those financial intermediaries that offer the loan products to potential final recipients. HDB guides, supervises, monitors and controls the operation of the selected financial intermediaries with regards to the ESIF financial instruments. As such HDB has a role in providing feedback and comments on the feasibility of the planned changes, how it fits with banking experience and has also feedback from clients through the contracted financial intermediaries. Depending on the specific changes determined by the actors involved, it will take part in applying the introduced changes. HDB is a permanent member of the working group.

OFA Hungarian Employment Public Benefit Non-Profit Limited Liability Company (OFA): OFA is a state-owned non-profit company aiming at increasing employment and maintaining jobs, supporting innovative forms of employment and implementing projects serving employment market integration. Among others it implements EDIOP funded employment programmes as beneficiary (EDIOP-5.1.2, EDIOP-5.1.7) related to social enterprises, unemployed and entrepreneurs (in cases together with IFKA). Since they are in direct contact with potential applicants and contracted final recipients, they provide valuable feedback on the needs of applicants. OFA is a permanent member of the working group.

IFKA Public Benefit Nonprofit Ltd (IFKA): IFKA is a state-owned non-profit company for the development of industry with a very broad portfolio of programmes and projects some of them funded from EDIOP and many of them co-funded from Interreg Europe and other international and transnational programmes. Among the EDIOP projects IFKA implements as beneficiary, some of them deal with social enterprises, unemployed and entrepreneurs. Therefore - similarly to OFA – IFKA has a strong understanding of the needs of potential applicants of the EDIOP-8.8.1 loan programme and so it is the voice of market in the working group. IFKA is a permanent member of the working group.

4.4.4 Timeframe

The action is implemented in 1 year until March 2020.

Table 9: Timeframe for Action 4

No.	Activity	Deadline
1	Analysis of current loan application procedures and identifying improvement opportunities	1 April 2019 - 31 May 2019
2	Working out details of proposals for changing the pre-screening and loan approval	1 June 2019 – 31 October 2019
3	Approval of proposed changes	1 November 2019 – 28 February 2020
4	Introducing the adjusted pre-screening and loan approval procedures	March 2020

Length of approval procedures is hard to schedule due to external factors. The current estimate is based on past experience. Nevertheless, divergence can occur and improved loan conditions may be effective earlier than planned but also delay is possible. Even so, in the 2-year-long timeframe of Phase 2 the action can be implemented with high certainty.

4.4.5 Costs

Costs related to the implementation of the action are primarily staff costs of all the players involved. In addition, event hosting and catering costs related to working group meetings will be incurred but these are planned at Action 1. Below we give a rough estimate on the costs.

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Table 10: Costs for Action 4

No.	Type of cost	Volume
1	Staff costs of the involved players. Number of personnel included from players with average number of working days: <ul style="list-style-type: none"> • MA – staff of 5, on average 0.5 month each • Policy maker – staff of 5, on average 0.5 month each • HDB – staff of 10, on average 0.5 months each • OFA – staff of 4, on average 0.25 months each • IFKA – staff of 4, on average 0.25 months each An average FTE for a month is calculated at EUR 2800.	EUR 33,600
2	Event hosting and catering of working group meetings: <ul style="list-style-type: none"> • Calculated at Action 1. 	EUR 0
	Total	EUR 33,600

4.4.6 Funding sources

Each involved player is responsible for caring for its own staff costs. At the above magnitude this is workable from own resources or from running projects related to the subject.

Event hosting and catering will be provided for by the MA from own resources.



Date: _____

Signature: _____

Stamp of the organisation (if available): _____