GOOD PRACTICES - CASE IDENTIFICATION /1ST LEVEL ANALYSIS

GOOD PRACTIVE NO. 1

1. **Good Practice title:**

Combined grant and micro-credit scheme structure (ratio of grant and micro-credit, required own source) in the Economic Development Operational Programme (EDOP) 2007-2013

Category: 1. sustainability and efficiency of local microfinance programs

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

6 convergence regions of Hungary: North Great Plain, South Great Plain, Western Transdanubia, Central Transdanubia, South Transdanubia, North Hungary. Excluded: Central Hungary

Note: from a different operational programme (Central Hungary OP) an equivalent scheme was available for SME projects in Central Hungary

3. **Timeframe:**

year of introduction: 2011 . year of termination: 2013 *(leave 0000 if ongoing)*

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

Promoting organisation: Managing Authority for the Economic Development Operational Programme at the National Development Agency, Hungary. The Managing Authority (MA) was responsible for the overall management of the Economic Development Operational Programme 2007-2013 in Hungary (EDOP). EDOP was financed from ERDF and co-financed by the Hungarian state budget. Total financial frame was EUR 3 363 million. EDOP included four thematic priorities: 1. R&D and innovation for competitiveness; 2. Complex development of enterprises (focusing on SMEs); 3. Improvement of modern business environment; 4. Financial instruments including loan, guarantee and equity products. Total volume of financial instruments was EUR 727 million. Financial instruments were managed through a holding fund system. The EDOP MA contracted the holding fund manager, which in turn contracted financial intermediaries that were in direct contact with SMEs.

5. Main objective of the initiative:

Based on targeted analyses there were too few SME-tailored financial products on the market in Hungary. The combined grant and micro-credit scheme was intended specifically for micro enterprises. The scheme included non-refundable and refundable financial assistance. The financial assistance could be used for technology modernisation, purchase of machinery, IT development, business infrastructure (real estate) purchase and development. The scope of financial intermediaries was limited to enterprise development foundations, non-banking type financial enterprises and savings cooperatives. One of the objectives of the combined scheme was to make microenterprises used to financial instruments gaining ground in the succeeding years.

6. Brief explanation of the initiative:

Scheme structure: Total eligible costs of funded projects had to include own resources (min. 10%) AND micro-loan (max 60%) AND non-refundable grant (max 45%). Own resources could not go below 10%, the non-refundable grant cannot exceeded 45% and the micro-loan had to exceed the non-refundable grant. Concerning project sizes the non-refundable grant could range from EUR 3 300 to EUR 33 000, whereas the micro-loan could range from EUR 3 300 to EUR 65 400.

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

Primary target group was those micro enterprises that had difficulties in getting access to finance and had limited funding to cover their own contribution for their projects. Small and medium sized enterprises were excluded from applying for the scheme. Banks were not allowed to act as financial intermediaries, the scope was limited to enterprise development foundations, non-banking type financial enterprises and savings cooperatives. These intermediaries were able to involve the target group extensively.

8. Innovativeness:

This was the first scheme in Hungary to combine non-refundable and refundable financial assistance for projects funded from ERDF. Implementation was preceded by long preparation since the complexity of the scheme and the number of involved actors set challenges for the managing authority. The scheme was funded from two priority axes of EDOP: the grant component had funding from Priority Axis 2, whereas the loan component was funded from Priority Axis 4. Projects had to fulfil requirements set by the managing authority and by the involved financial intermediaries, too.

9. **Outcomes:**

The combined scheme proved highly successful. Total number of contracts reached 7820 and the contracted micro-loan volume amounted to 173.4 million. The original financial frame was increased multiple times before the scheme was suspended. The scheme showed that grants could be effectively combined with loans.

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