GOOD PRACTICES - **CASE IDENTIFICATION** /1ST LEVEL ANALYSIS

GOOD PRACTICE No. 3.

1. **Good Practice title:**

Building up a broad financial intermediary level in the financial instruments institutional structure in the 2007-2013 programming period

Category: 2. social outreach of microfinance and mitigating the negative effects of financial exclusion

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: the operational programme for Central Hungary (Central Hungary OP) used the same institutional structure with numerous financial intermediaries as the 6 OP for the 6 convergence regions

3. **Timeframe:**

year of introduction: 2007 . 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:**

Financial instruments in EDOP targeted SMEs that had difficulties in getting access to finance. Due to high level of transaction costs, high risks (lack of track records and/or collateral) and low profitability the banking system did not serve SMEs at an adequate level even if SMEs had viable projects. The market inadequacy was further extended by the severe financial crisis from 2008 on. Beyond financial instrument schemes with favourable conditions the distribution network for these schemes was crucial in reaching targeted SMEs. Therefore the managing authority decided to set up a broad financial intermediary level involving different types of intermediaries.

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

Financial instruments in EDOP were implemented through a holding fund structure. The Managing Authority entered into a funding agreement with a holding fund manager that was responsible for the daily management of the revolving funds in EDOP. The holding fund manager entered into intermediary agreements with financial intermediaries concerning the three products groups: loans, guarantees, equity-type products. Alone in the loan product group 140 financial institutions were involved: 29 banks, 55 savings cooperatives and 56 microfinance institutions. Financial intermediaries were selected through open calls run by the Managing Authority and the Holding Fund Manager.

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

Target group of financial instruments in EDOP were SMEs that could not receive financing from markets due market inadequacies. Rate of SMEs with problems in getting access to finance was higher than the EU average (27% HU, 14% EU average, 2005) whereas rate of SMEs relying on banks for financing was lower (54% HU, 79% EU average, 2005). Market failures were identified by gap analyses (ex-ante assessments) before launching refundable schemes including loan products.

8. **Innovativeness:**

Relying on a broad financial intermediary base was an important factor in the success of the implementation of EDOP programmes between 2007 and2013. The large number and the various type of financial intermediaries secured broad outreach both in geographic and social terms. The Managing Authority made possible the involvement of savings cooperatives, financial enterprises and enterprise development foundations, as well. Financial enterprises and enterprise development foundations brought the most number of contracts for the loan products under EDOP. Financial intermediaries received their own refinancing financial frame that was calculated based on their financial strength. The large number of intermediaries might have added to the administrative workload and needed close monitoring and good underlying IT but the results justified the approach.

9. **Outcomes:**

The broad financial intermediary level contributed to the full absorption of funds allocated to loan products under EDOP 2007-2013. In total close to 14 000 loan contracts have been concluded with SMEs (including the micro-loan contracts under the combined grant and micro-loan scheme). This result remarkably reduced the access-to-finance barrier of SMEs and eased the shortage of credit facilities during the years of the financial crisis.