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

GOOD PRACTICE No. 4.

1. **Good Practice title:**

Tailor-made requirements for financial intermediaries involved in loan programmes in the 2007-2013 programming period

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: for loan products under the operational programme for Central Hungary (Central Hungary OP) the same customised requirements were introduced for financial intermediaries

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 intermediaries involved in loan products included banks, savings cooperatives, non-banking financial enterprises and enterprise development foundations (local enterprise agencies). The Managing Authority applied tailor-made requirements for the intermediaries so that each of these were motivated to participate actively in the programme. The two main conditions at which differential treatment was used: 1) Co-financing rate expected from financial intermediaries, 2) capped single loan volumes offered for final recipient SMEs.

6. Brief explanation of the initiative:

The rate of co-financing required from financial intermediaries that took part in the implementation of loan products depended on the type of the financial intermediary. For example at the combined product and the New Szechenyi Loan Programme in the case of local enterprise agencies and financial enterprises the whole amount of loan provided to the final recipient was refinanced by the operational programme. Capital intensive credit institutions had to complete OP resources by 25% of co-financing (moreover banks were excluded from the combined product). The latter were mainly motivated by the opportunity of getting new clients while local enterprise development agencies usually financed their operational cost by mediating loans – particularly such loans that were supported by the state. On the other hand volume of loans offered for SMEs was set lower in the case of enterprises development foundations and higher in the case of non-banking financial enterprises and savings coops (at the combined product: max loan volume for enterprise development foundations EUR 33 000 and EUR 67 000 for financial enterprises and savings coops).

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

Target group of loan-type 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:

The tailor made requirements for financial enterprises made it possible that all the various intermediaries find the participation in the loan programmes attractive. Moderate or even 0% co-financing of enterprise development foundations and financial enterprises eased their perceived lack of capital, whereas low single loan caps helped building a healthy portfolio.

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

9. **Outcomes:**

The customised requirements for financial intermediaries helped build a broad and active financial intermediary level which in turn 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.