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SZÉCHENYI 2020

European Union

MINISTRY FOR NATIONAL ECONOMY

ATM for SMEs
Interreg Europe

SOCIAL OUTREACH OF MICROFINANCE AND MITIGATING THE NEGATIVE EFFECTS OF FINANCIAL EXCLUSION

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

Financial exclusion in Hungary

Used sources of financing by Hungarian SMEs

	Hungary	EU28
Credit line, bank overdraft, credit cards overdraft	22%	37%
Bank loans	7%	19%
Leasing, hire-purchase	14%	23%
Trade credit	4%	20%
Grants or subsidised bank loans	9%	8%
Retained earnings or sale of assets	8%	15%
Other loans	8%	10%
Equity capital	<1%	2%
Factoring	1%	6%

Source: SAFE Analytical Report 2015

Main barriers of access to finance

- **Entrepreneurs/SMEs**
  - Attitude of entrepreneurs/SMEs to using external financing is still in its early stages
  - Lack of track record (newly established firms)
  - Lack of collateral (already involved)
- **Lending institutions:**
  - Exclusion of freshly established companies
  - Strict collateral requirements
  - High interest rates
- **Economic crises from 2008 autumn**

- **According to the gap analysis of the Economic Development Operational Programme 2007-2013, close to 80% of Hungarian companies did not rely on external financing in 2007**
- **Overall, access to finance is below EU average in Hungary**
- **Reducing financial exclusion has been long on the agenda**

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Economic Development Programmes touching on financial exclusion

Economic Development Operational Programme (EDOP) 2007 - 2013

- EDOP covered 6 convergence regions in Hungary (Central Hungary including Budapest was excluded from EDOP).
- **Dedicated priority axis** for financial instruments
- **22%** of total programme allocated for financial instruments (**EUR 727 million**)
- Supplementary allocation from the **Central Hungary Operational Programme** with similar measures to those in EDOP

Economic Development and Innovation Operational Programme 2014-2020

- EDIOP covers 6 convergence regions in Hungary (Central Hungary including Budapest is excluded from EDIOP
- Allocation of financial instruments is allocated to a separate priority axis, the **financial instruments measures serve the thematic priority axes of EDIOP**
- **29%** of total programme allocated for financial instruments (**EUR 2 235 million**)
- Supplementary allocation from the **Competitive Central Hungary Operational Programme** with similar measures to those in EDIOP

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Major tools for reducing financial exclusion and improving social outreach

1.

Broad involvement of financial institutions

2.

Loans on favourable terms

3.

Targeted loan products

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Major tools for reducing financial exclusion and improving social outreach

1. Broad involvement of financial institutions

2007-2013

- **A broad set of financial institutions** (in total 140) were selected by open calls as financial intermediaries including micro-financing organisations:
  - 29 banks
  - 55 saving co-operatives
  - 56 microfinance institutions (local enterprise agencies and other financial institutions)
- Financial intermediaries (particularly savings cooperatives and microfinance institutions had **profound local knowledge and knew well local SMEs)**

2014-2020

- A consortium including banks and saving co-operatives have been entrusted with financial intermediary role through public procurement
- Financial intermediaries are available all over the country including small settlements
- The broad financial intermediary network brings valuable knowledge of local SMEs and entrepreneurs

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Major tools for reducing financial exclusion and improving social outreach

2. Loans on favourable conditions

2007-2013

- Companies/entrepreneurs without track record (freshly established) were eligible applicants (in contrast with normal grants)
- Virtually no minimum limit for the loan volume
- Low own resources were required (20% »10%)
- **24-month-long grace period as a maximum**
- Low interest rates (interest rates far below that were offered by banks)

2014-2020

- Companies/entrepreneurs without track record (freshly established) are eligible applicants
- Virtually no minimum limit for the loan volume
- Low own resources were required (10% or less)
- **Products are free from interest rate and other fees**
- Reduced requirement on collaterals

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Major tools for reducing financial exclusion and improving social outreach

3. Targeted loan products

2007-2013

- In EDOP it was not possible to launch and run a purely social loan product

2014-2020

- Targeted loan product: EDIOP-8.8.1 – Incentive for employment – Loan programme
- Conditions:
  - Applicants: (1) micro companies of unemployed who intend to become entrepreneurs and of inactive people; (2) social micro-, small and medium-sized enterprises
  - Loan volume: minimum EUR 3 200, maximum EUR 161 300 (in the case of micro companies of unemployed who intend to become entrepreneurs and of inactive people maximum EUR 32 000)
  - Loan objective: purchase of real estate, construction, purchase of tangible assets (machinery, equipment), purchase of immaterial goods, first inventory linked to the investment
  - Expected rate of own resources: **min 5%** (de minimis aid) and min 25% (regional investment aid)
  - Fees: interest rate 0%, no other fees can be requested from applicants
  - Maturity: maximum 15 years
  - Length of time to fulfil loan conditions by applicants: maximum 12 months
  - Grace period: maximum 12 months
  - **Requirement on collaterals: 50% (total amount of the loan)**

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Experience & Conclusions I.

- Compared to non-refundable grants financial instruments are deemed as new and less favourable measures, „burden of repayment” makes financial instruments less attractive.
- In the previous period no purely social loan product could be launched due to the focus of the OP and ERDF conditions. Therefore we miss this type of experience.
- In the current period the „Incentive for employment loan programme” is intended to improve social outreach explicitly and the ESF part of the OP can finance priority target groups with grant type of assitances.
- With regards to management and implementation of loan programmes the Managing Authority makes every effort to be flexible to client feedbacks. Throughout the programming period, the conditions of our different programmes were modified several times in order to make these products more attractive for final recepients and financial intermediaries, as well.

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Experience & Conclusions II.

- Performed analyses show that we were and we are capable to provide loan to credible but non-bankable enterprises that is we successfully reach those SMEs and entrepreneurs that are not served by banks.
- The beginning of the financial crisis SMEs/entrepreneurs could rely only on our programmes.
- Under EDOP 2007-2013 we reached full absorption of funds allocated to loan products. In total, close to 14 600 loan contracts have been concluded with SMEs. 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.
- Given the ESIF frameworks we work with our presented major tools (broad involvement of financial intermediaries, preferential loan conditions, targeted loan products) that intend to reduce financial exclusion and improve social outreach as much as possible.

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Thank you for your kind attention!

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