European Union
European Regional Development Fund

ATM for SMEs
Interreg Europe

Ministry for National Economy

BUILDING UP A BROAD FINANCIAL INTERMEDIARY LEVEL IN CHANNELING FINANCIAL INSTRUMENTS

Managing Authority for the Economic Development Operational Programme at the National Development Agency of Hungary

Objective of Good Practice:

Set up of an extensive distribution network of financial intermediaries that offers financial instruments at favorable conditions to a wide range of businesses including microenterprises.

Timeframe of Good Practice:

2007-2013

Keywords:

Structural funds

Overview of Good Practice

The financial instruments in the Economic Development Operational Programme (EDOP) 2007-2013 targeted Hungarian micro and small-medium enterprises (SMEs), which had difficulties accessing finance. Due to the 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 although SMEs had many viable projects. The market inadequacy was further extended by the severe financial crisis from 2008. Beyond the financial instrument schemes with favorable conditions, the distribution network for these schemes was crucial in reaching targeted SMEs. Therefore, the Managing Authority set up a broad financial intermediary level involving different types of intermediaries.

The Managing Authority (MA) for the Economic Development Operational Programme at the National Development Agency, Hungary was responsible for the overall management of the EDOP 2007-2013. EDOP was financed from structural funds (ERDF) and co-financed by the Hungarian state budget. 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 made agreements with financial intermediaries concerning the three products groups: loans, guarantees, and equity-type products. In the loan product group, 140 financial institutions were involved: 29 banks, 55 savings cooperatives and 56 microfinance institutions. These institutions were selected through open calls run by the Managing Authority and the holding fund manager.

Innovativeness

Relying on a broad financial intermediary base was an important factor in the success of the EDOP programmes between 2007 and 2013. The large number and the various types of financial intermediaries secured broad outreach in both geographic and social terms. The Managing Authority made it possible to involve savings cooperatives, financial enterprises and enterprise development foundations. These last two organsations brought in the highest number of contracts for the loan products under EDOP.

Outcomes

The broad financial intermediary contributed to the full absorption of funds allocated to loan products under EDOP 2007-2013. In total, close to 14,000 loan contracts were issued to SMEs (including the microloan contracts under the combined grant and microloan scheme). This result drastically reduced the access-to-finance barrier of SMEs and eased the shortage of credit facilities during the years of the financial crisis.

Institutional profile

Managing Authority (MA) for the Economic Development Operational Programme at the National Development Agency, Hungary was responsible for the overall programme management of the Economic Development Operational Programme 2007-2013 (EDOP). EDOP was one of the sectorial operational programmes in Hungary co-funded by ERDF and the Hungarian government. EDOP included non-refundable and refundable assistance.

Type of Organization

Government Body

Country

Hungary

Products & Services provided

- Financial: Business microloans, Personal microloans, Business loans (>25,000), non-refundable financial assistance (grants).
- Non-financial: None.

Gross Loan Portfolio

Combined product EUR 173.4 Million; Loan products EUR 353.7 Million. EUR 527 Million for entire project

Number of clients

7,820 clients in the combined scheme; 6,122 clients in the loan products. Altogether 13,942 clients.

Target Audience

People excluded from mainstream financial services.

Organization Website

https://www.palyazat.gov.hu/program_szechenyi_2020

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

Efficiency and Sustainability

Financial intermediaries received funds based on the calculation of their financial strength. They could make loan decisions up to the volume of what was financially received. If the financial intermediaries were successful in disbursing their full financial allotment, they could receive new allocations for distribution.

The large number of intermediaries added to the administrative workload and also needed close monitoring and good underlying IT on behalf of the Managing Authority and the holding fund manager. However, the programme results, in terms of the number of reached microenterprises and SMEs, justified this approach. The system contributed to efficiency in the sense that the involved non-banking institutions were embedded into their local and regional communities and could therefore easily reach non-bankable but creditable clients.

Lessons Learned

The broad financial intermediary base included non-banking financial institutions (particularly enterprise development foundations and some financial enterprises) that had a long track-record dealing with local business actors, specifically micro- and small enterprises that were not served by banks. These intermediaries used their experience to reach these enterprises with the loan products of the Managing Authority. On the other hand, it is important to note that the IT and reporting systems of the 140 financial institutions varied to a large extent and made reporting standardized data on the loan products to the Managing Authority a major challenge.

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