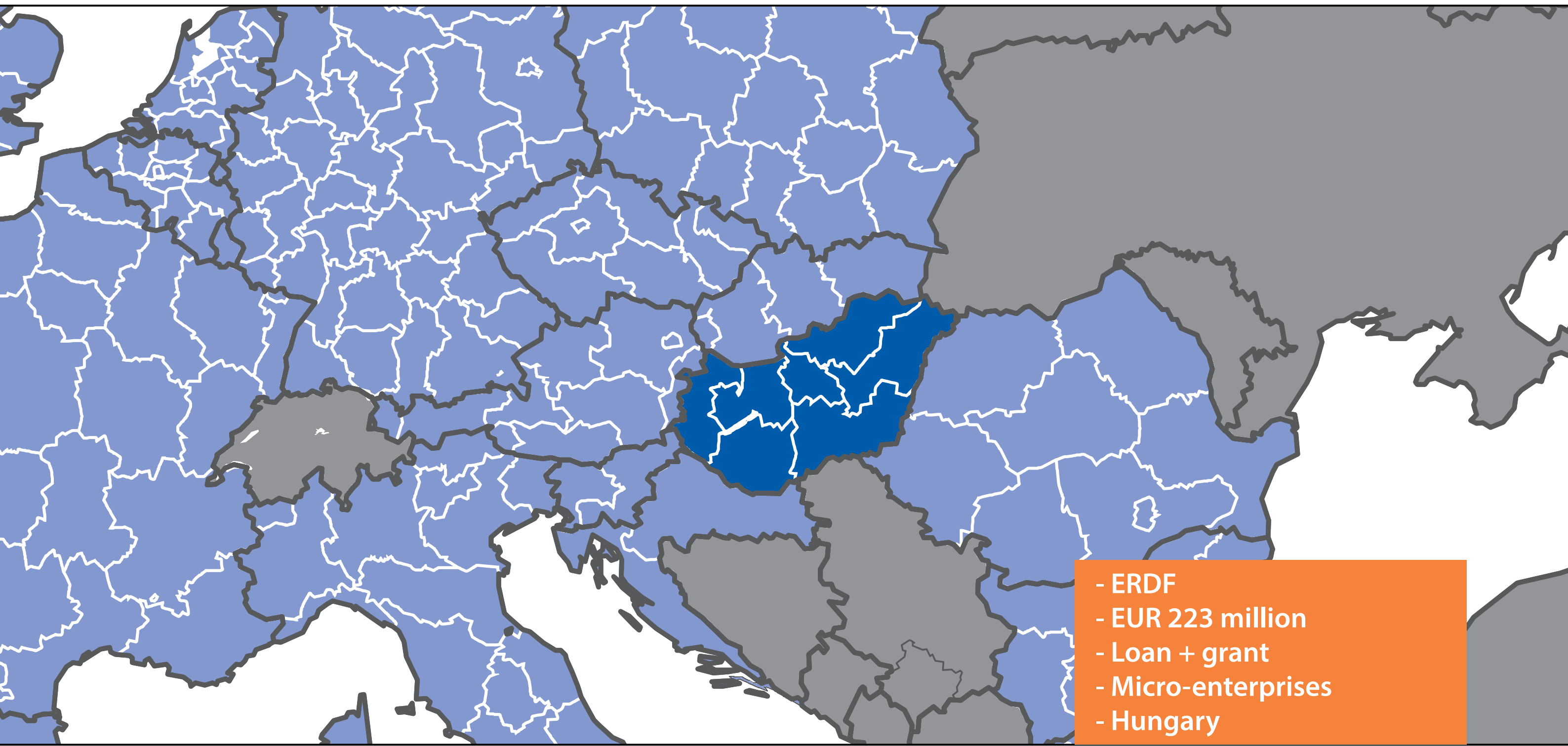

- ERDF
- EUR 223 million
- Loan + grant
- Micro-enterprises
- Hungary

… fostering a business mentality among micro-enterprises with a loan/grant combination …

Combined Micro Credit and Grant scheme

Case Study

European Commission

European Investment Bank
The EU bank

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The case projects can in no way be taken to reflect projects that will actually be financed using Financial Instruments. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information on this document or correct any inaccuracies contained therein.

The authors of this study are a consortium of three companies: t33 (lead), University of Strathclyde – EPRC and Spatial Foresight.

Abbreviations

CHOP	Central Hungary Region Operational Programme
CMCG	Combined Micro Credit and Grant
EDOP	Economic Development Operational Programme
EIF	European Investment Fund
ERDF	European Regional Development Fund
EU15	EU Member States prior to the 2004 enlargement
JEREMIE	Joint European Resources for Micro to Medium Enterprises
NDA	National Development Agency
NSP	New Széchenyi Plan
OP	Operational Programme
SME	Small and Medium Enterprise
VFH	Venture Finance Hungary Plc (Holding Fund Manager)

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1 Summary

The case study of the "New Széchenyi" Combined Micro Credit and Grant (CMCG) describes the elaboration and implementation of a Hungarian ERDF-funded financial instrument. The instrument managed to reduce the market gap in SME finance addressed by two Operational Programmes. It provided micro financing opportunities to those micro enterprises that did not make use of credit or had limited access to financial resources, and made them capable of growing their businesses. Using this scheme, Péter Báno, co-founder of a Hungarian family-controlled plant nursery, bought an excavator for his company, enabling his firm to apply for larger projects with larger turnover.

This example describes how ESI Funds can contribute to the financing of micro-enterprises, which often have limited funding for covering their own contribution, which prevents them from applying for loans. The managing authority allocated EUR 202 million of ERDF (85%) and national (15%) funds into this instrument, which finances up to 45% of a project's costs through a grant, up to 45% through a loan, while SMEs finance at least 10% through their own contribution. The funds were available between January 2011 and February 2013, when the scheme ended since its funds were fully used. Over 140 micro-financing institutions, local enterprise development foundations, and saving cooperatives joined the scheme and spread the benefits of the financial instrument all over Hungary to encourage competitiveness, and long-term growth of the national economy. As long as the instrument was available, it helped 9,389 final recipients' projects bridge the gap in market finance revealed by the managing authority: SMEs did not make use of credit, and/or had limited access to financial resources.

The micro loan and grant scheme became popular and very useful for the recipients. It proved to be a good product for helping them develop. Its success factors were far-reaching: the scheme addressed a market gap in credit supply due to banks' relatively high levels of transaction costs for small loans and increased risk aversion, especially following the financial crisis. Its grant element made it very attractive for SMEs, which only had to contribute a minimum of 10% of their project's cost. The CMCG's clear organisational, governance and implementation structure streamlined the coordination between the involved private and public partners.

Name

"New Széchenyi" Combined Micro Credit and Grant scheme (CMCG), Hungary

Funding source

Operational programmes "Economic Development Operational Programme" and "Central Hungary Region Operational Programme", co-financed under ERDF

Type of FI

Combination of loans (micro credit) and grants

Financial size

EUR 222.9 million Total, of which EUR 172 million ERDF, EUR 30 million national contribution and EUR 20.9 million in private resources.

Absorption rate

100% (as at 07.11.2014)

EU leverage

1.3x (leverage effect of ERDF funds)

Leverage of public resources

1.1x (leverage effect of ERDF and other public funds)

Re-investment

Re-investment has started, but is not yet measurable

Thematic focus

SME support

Partners involved

Ministry of National Economy in Hungary (managing authority), Venture Finance Hungary Plc (Holding Fund), financial intermediaries such as financial enterprises, local business development centres and saving cooperatives, final recipients

Timing

March 2011 – February 2013

Main results

9,389 final recipients received combined micro credit to enhance their businesses

Exchange rate: 1 EUR = 300 Hungarian Forint

2 Objectives

In Hungary at the beginning of the 2007-2013 period, the micro finance sector for firms with fewer than 10 employees was under-developed: in 2005, 14% of SMEs in EU15 countries had problems accessing finance, while in Hungary the rate was 27%. Only 54% of Hungarian SMEs relied on banks for financing, while 79% did so in EU15 countries. The relatively high levels of transaction costs usually prevented the domestic banking system from handling the small credit requirements of micro enterprises. Micro loans were mostly accessible only through organisations specialised in micro financing. However, micro enterprises would often have limited funding to cover their own contribution for their projects so they could not apply for such loans.

These market gaps were identified by three analyses in 2007: a European Investment Fund (EIF) study concerning SME access to finance, a study from the Ministry of Economy and Transport in support of the use of financial instruments, and a strategy document of the same ministry on SME development. These highlighted the problems of economies of scale for financial intermediaries. There were simply too few SME-tailored financial products on the market. To tackle these market gaps in micro financing, the former National Development Agency (NDA), as managing authority, aimed at developing new methods of micro financing and increasing the amount of available resources. These objectives were set out in the Economic Development Operational Programme (EDOP) and the Central Hungary Region Operational Programme (CHOP).

Hungary was one of the first in using financial instruments with the support of Structural Funds, and the "New Széchenyi" Combined Micro Credit and Grant (CMCG) instrument became one of its most important achievements. It came alongside other forms of finance such as loans, guarantees and equity investments. These were implemented through the newly created Venture Finance Hungary Plc (VFH), the Holding Fund manager responsible for channelling EU and national resources to SMEs through financial intermediaries. Micro loans, through the CMCG scheme, were designed to overcome the difficulties of SMEs in obtaining credit.

Figure 1: The composition of CMCG

Own contribution	**Grant**	**Loan**
(min. 10%)	(45%)	(45%)
	EUR 3,000 to EUR 33,000	Max 66,000 EUR
	(initially EUR 3,000 to EUR 13,000)	(initial max 26,000 EUR)

Source: Spatial Foresight 2014, based on the information from VFH

The CMCG instrument was developed in 2011, and introduced in both the EDOP and CHOP, thus covering the whole country. The EDOP was designed to encourage the long-term growth of the Hungarian economy (and mainly of the six convergence regions that were eligible for it), and the CHOP aimed for regional competitiveness and employment-increase (in Central Hungary). This instrument offered a combination of credit and grants. For any eligible project, SMEs had to provide at least 10% of the project's value from their own resources, and they received up to 45% through a micro-credit and up to 45% through a grant. Before this instrument, VFH provided similar loans without a grant attached, e.g. the New Széchenyi Loan for micro companies, the New Hungary Loan for SMEs, and the New Hungary Working Capital Loan. They continued after the CMCG's introduction, serving as alternatives, or were focused on different target groups with different attributes.

Bano Rhododendron – SME financed through the CMCG scheme

A good example of the combined micro credit and grant scheme at micro-enterprise level is the 'Technological development of Bánó Rhododendron Ornamental Horticulture Ltd'. The company has an annual turnover below EUR 100,000 and is considered a micro enterprise. It deals with plant cultivation, and also functions as a plant nursery.

The company had limited options to grow as an organisation and take on larger projects due to its lower rate of mechanisation. Mr Péter Bánó, co-founder and CEO, decided to establish a project to obtain an excavator and take advantage of economies of scale. This investment, making use of the CMCG scheme, allowed the company to apply for bigger projects with larger budgets. It also improved worker efficiency.

3 Set up of the financial instrument

In accordance with the targets, the two OPs planned to improve SME access to external resources through financial instruments such as the CMCG scheme. The implementation system includes a holding fund manager who launches open calls for proposals and signs agreements with selected financial intermediaries, and then transfers resources according to the market needs.

3.1 Preceding events

The CMCG instrument became available in January 2011 within the EDOP framework. It was meant to provide grants and credit in line with market requirements. A mirror programme was launched within CHOP to extend the advantage of this financial instrument to the whole country. The growing demand for the CMCG shows that there is still room to expand the financial instrument, and there are still SMEs which are excluded from the credit market despite their creditworthiness.

During implementation, the NDA was initially responsible for the smooth running of the activities. It served as the managing authority of EDOP and CHOP from August 2006 until the end of 2013. The management tasks were then transferred to the respective departments of the Ministry for National Economy due to the restructuring and closure of the NDA. The managing authority implemented the financial instrument through a Holding Fund spreading resources across several financial intermediaries to reach the final recipients. The Holding Fund manager was a newly created public entity, VFH, a firm established in May 2007 to develop and run financial programmes that would expand the financing options of Hungary's micro-, small- and medium-sized companies.

VFH was responsible for the implementation of the entire scheme, which included the CMCG and ERDF-funded instruments for loans, guarantees and equity investments. The procurement of financial intermediaries for CMCG was conducted via open tenders and provided equal opportunities for financial intermediaries interested in micro financing. Financial enterprises, local business development centres, and savings cooperatives were selected through an open call launched by VFH, and they became responsible for providing micro loans to firms using the EU and national public funds allocated to the instrument. Market assessments were continuously conducted during implementation, leading to changes in the instrument's strategy at a later date.

3.2 Funding and partners

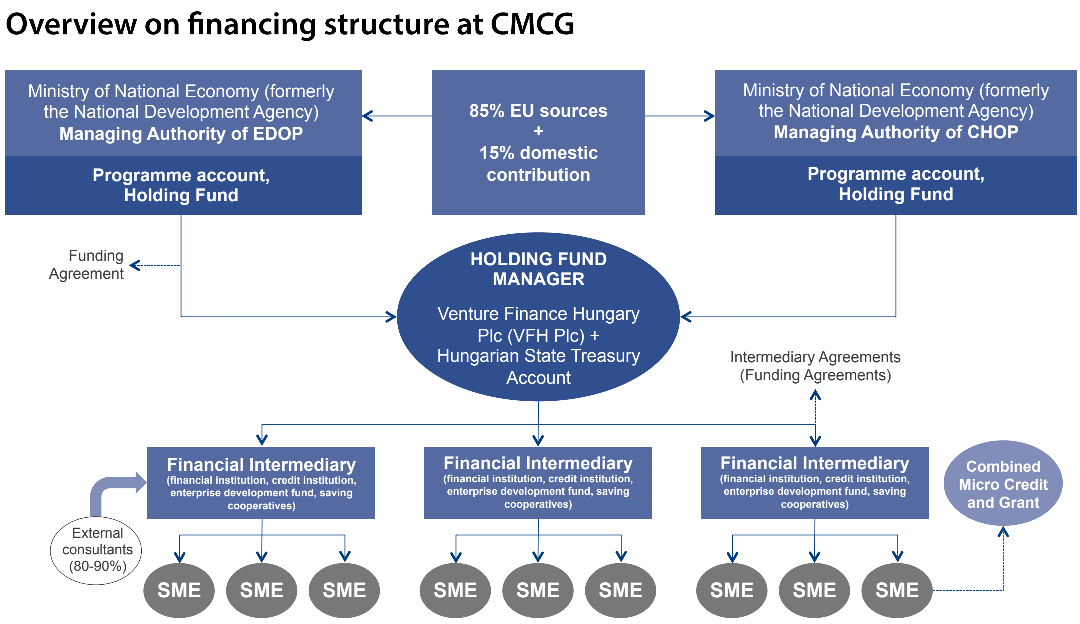
In this financial instrument there are three main types of partners: the **managing authority** (the National Development Agency and, since the end of 2013, the Ministry of the Economy); the **holding fund manager** Venture Finance Hungary; **financial intermediaries** such as financial institutions, local business development centres, and savings cooperatives. There are more than 140 financial intermediaries involved, while **commercial banks were not involved in the distribution of the CMCG**.

Benefiting from guidance from relevant EU bodies, the **managing authority** (NDA) worked out the CMCG concept and scheme. In order to reach nation-wide coverage for the instrument, since CMCG would have not been available for the Central Hungarian Region (which was not eligible for support from the EDOP), the CHOP managing authority created a mirror scheme to extend the model to Central Hungary.

The **holding fund manager**, Venture Finance Hungary Private Limited Company, spreads out the resources allocated by the managing authority to final recipients through financial intermediaries. This institutional set-up had a clear and detailed regulatory framework, and it allowed for a faster and more flexible implementation.

Financial intermediaries were selected by VFH through procurement procedures open to credit institutions, financial institutions, and, since 2012, savings cooperatives. This was a substantial decision, since commercial banks that had little interest in micro financing at that time could be excluded from the call. Hence, the focus was on smaller financial institutions. The VFH took special care in selecting financial intermediaries to make the CMCG scheme available in all regions. This created a very cooperative process, and since VFH had relevant market experience and good relations with financial intermediaries, it became easier to involve them in the delivery structure. The reason why so many intermediaries were used is that commercial banks were the only institutions to have a nation-wide network suitable for implementing the CMCG scheme, but they were not interested in implementing it due to the high transaction costs. The managing authority decided to go around the problem and to find financial institutions in all corners of the country in order to ensure national coverage.

Figure 2: Organisational set-up of the Combined Micro credit and grants instrument



Source: Spatial Foresight 2014, based on the information from VFH and the Ministry of National Economy

The main sources of funding for the financial instrument (Ministry for National Economy, 2014):

Funding sources	EUR
ERDF	172 million
Public	
- national	30 million
- regional	-
- local	-
Private	20.91 million
Total	222.91 million

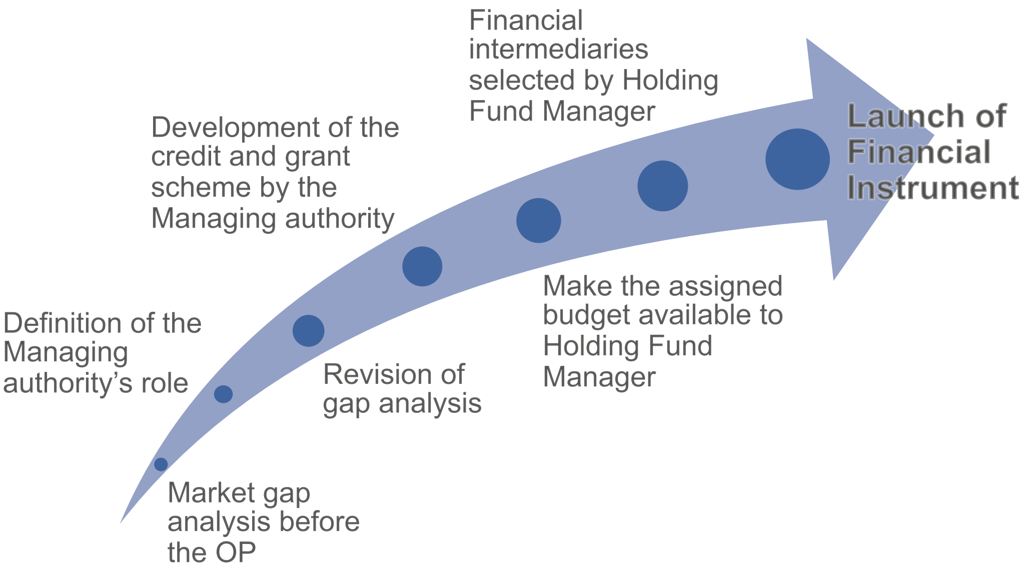
The effect of attracting additional private funds was not directly measured since most of the loans were 100% financed by the Holding Fund. Although the savings cooperatives had to provide 25% of the total amount of loan from their own funds, the lower use of this co-financing made private involvement less noticeable, i.e. a total of EUR 20.914 million.

3.3 Implementation

As shown in Figure 1, the managing authority of EDOP was responsible for the OP implementation, and thus also for that of the financial instrument. The managing authority of the CHOP was also involved in a framework of a mirror scheme (see section 3.2) to provide full coverage for the financial instrument within the Central Hungarian region. They both handled their programme accounts and were responsible for setting up the Holding Fund. They entrusted the management of the Holding Fund to the newly created legal entity VFH, whose role is to distribute the programme allocation to the financial intermediaries. Involving these intermediaries via open tenders paved the way to build up a nation-wide allocating system in the financial market. They were responsible for offering the product to final recipients. External consultants and guides helped the applicants submit their projects to financial intermediaries for funding. Among others, this technical assistance included advisory services on business plans, information about other financial products or filling out documents. Their role was substantial since the enterprises had no, or limited experience with ERDF-supported financial instruments, and the financial intermediaries had only limited capacity for providing such detailed assistance to stakeholders.

Timing-wise, the instrument was set to operate from March 2011 until the end of the programming period. High demand for the scheme in both the CHOP and the EDOP meant that the available sources ran out already in April 2012 and February 2013 respectively.

Figure 3: Illustration of the steps taken to implement the CMCG



Source: Spatial Foresight 2014, based on information from the managing authority

Prior to launching the OP and before the CMCG's implementation, a gap-analysis was conducted. A second market gap analysis was carried out during implementation to better position the financial instruments on the market. The managing authority took the leading role in developing the instruments with EU guidance. The Holding Fund manager detailed the investment strategy in accordance with and linked to market demand. Following these actions, financial intermediaries were chosen and they offered the product to recipients. Monitoring the activities was a common task at all organisational levels (managing authority, Holding Fund manager, financial intermediaries). Financial intermediaries provided reports to the Holding Fund, which provided monthly progress reports to the managing authority, while the managing authority provided annual reports towards the European Commission.

3.4 Governance

Appropriate management arrangements ensured that all levels of programme implementation were properly conducted. The arrangements developed by the managing authority provided the administrative capacity to carry out these tasks, and delegated overall coordination of the activities including monitoring, coordination and communication. In compliance with national and EU legislation, the managing authority was responsible for communication and publicity. Carrying out these activities involved both the managing authority and the Holding Fund. A funding agreement gave the Holding Fund management duties. It also detailed the steps to be taken to facilitate the successful implementation. The Holding Fund manager kept in contact with the financial intermediaries, and was responsible for monitoring and reporting to the managing authority. The Holding Fund made intermediary agreements with the financial intermediaries to involve them as project co-financers.

Bano Rhododendron – SME financed through the CMCG scheme

Mr Péter Bánó, CEO, has always based his developments on his own available finance sources. In the past, his micro-company did not make use of loans or other financial products because it would have exposed the company to unacceptable risk levels. However, the company's financial circumstances highlighted the fact that without involving external financing sources it would have suffered even more from the lack of continuous development. He made a decision on finding external sources but came to the realisation that banks did not consider his company creditworthy.

He first heard about the CMCG scheme from business partners, and immediately liked the concept due to the low interest rate combined with the grant. The only problem was that the financial intermediary requested a property in Budapest as collateral. After resolving this issue, external consultants helped him through the application process and that turned out well from all aspects. After a successful tender, the company bought an excavator and extended its work portfolio.

4. Strategy

The ERDF-supported financial instruments in Hungary were designed to close the gap in access to finance that Hungarian SMEs experienced. This was done through loan, guarantee and equity instruments, all aimed at addressing certain aspects of this financing gap. The CMCG, with its combination of 45% grant, 45% loan and 10% the SME's own contribution, addressed the lack of availability of SMEs' own resources.

4.1 Investment strategy

The CMCG, and Hungarian financial instruments for SME support in general, have no explicit targets, sectorial or other policy goals. Their aim is to develop the general business environment for SMEs, and focus on financial segments where the supply of financing is low. Since the CMCG concept was first developed by Hungary, continuous monitoring was needed to analyse market and management trends. During implementation, several analyses – such as the 2013 HÉTFA (HÉTFA Research Institute and Center for Economic and Social Analysis) analysis on the performance of Cohesion policy 2007-2013 - financial engineering, or the analysis on the EDOP financial instruments conducted by KPMG in 2013 – provided information on how to change the structure to better reach the OP targets.

The process was very new and needed minor but continuous modifications. After collecting responses from final and potential recipients, the managing authority decided to fine-tune the CMCG's scope in 2012 by increasing the amounts and easing the criteria. Expanded credit and grants delivered the expected results, thus the number of signed contracts started to grow, and SMEs could access more and more funding. From the Holding Fund manager's point of view, the main strategy was to increase the interest of financial intermediaries and potential recipients in the financial instrument via workshops and events. Tackling the barrier of high transaction cost for micro loans for banks, the VFH and the managing authority decided that instead of involving commercial banks, they would use smaller financial mediators who were more willing to provide micro loans, and where the CMCG could become an important, if not the most important, part of their portfolio.

4.2 State aid

Given the different levels of stakeholders involved in this instrument, the aspect of state aid needs to be checked several times: at Holding Fund level, at financial intermediary level and at final recipient level.

The Holding Fund, VFH, is a newly-created entity within the Hungarian Development Bank Group (MFB) controlled and regulated by the Hungarian Financial Supervisory Authority. Its scope of activities and obligations are determined by the National Development Agency. VFH was established with the purpose of implementing the ERDF-supported financial instruments scheme in Hungary. Although VFH was not selected through a public procurement procedure, it is remunerated at a market rate: up to 2% of the total allocated funds can be used as management fees, in line with ERDF regulations. According to VFH, the actual rate is around 1%.

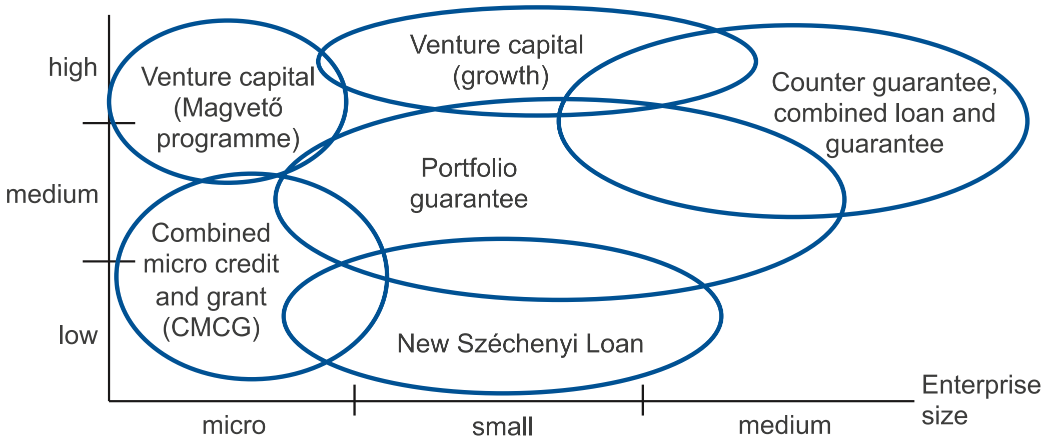
Financial intermediaries in the CMCG scheme are selected through an open call for interest: banks that are interested in participating in the scheme are allocated funds from VFH at a rate of 0.4% and can loan them to final recipients for a maximum interest rate of up to 9%. Financial intermediaries were responsible for handling all the necessary paperwork and saving cooperatives had to cover 25% of loans' amount with own funds at pari passu (referring to "equal footing" where two or more assets, securities, creditors or obligations are equally managed without any display of preference).

Final recipients can only receive grants of up to EUR 66,000, a value that cannot exceed the amount of the credit or 45% of the project's costs within the same financing operation. This and further restrictions related to the types of recipients make the instrument compliant under EU de minimis regulation. The managing authority bears the responsibility for the compliance of the OPs with state aid rules, and the State Aid Monitoring Office (SAMO) ensures professional control over this compliance.

4.3 Financial products and terms

In the CMCG scheme, SMEs could receive, for a certain project, up to 45% as a grant, up to 45% as a micro credit (though if the grant were lower the micro credit could be up to 60%) and would contribute a minimum of 10% of the total investment from their own resources. This scheme was for the smallest enterprises, e.g. with less than 10 employees and less than EUR 660,000 turnover, so initially the maximum grant was HUF 4 million, or EUR 13,000 and the maximum credit was HUF 8 million, or EUR 26,000. In 2012, these amounts were significantly increased due to an increased market demand: loans were thereafter possible up to 20 million HUF, or EUR 66,000 and grants' ceiling was increased to 10 million HUF, or EUR 33,000. This instrument supplemented the previous micro credit programme in 2011. Before the CMCG, the EDOP loan scheme did not provide a grant. Although many SMEs needed loans to finance their own part of the investment, they were unable to obtain them.

Figure 4: CMCG within the source map of ERDF-supported financial instruments, Hungary



Source: Spatial Foresight 2014, based on information from VFH

As stated above, one of the most important criteria was the SMEs' own contribution of a minimum of 10% of the project value, availability of which had to be demonstrated to the financial intermediary. The maximum interest rate for the credit was 9%, but overall the average rate in 2013 stood at around 7%, which meant companies had access to low-cost financing that probably would have not been obtained otherwise. The interest rate was the same or even lower than the best available on the open market, which was on average 8 to 10%. This also contributed to the managing authority's objective of providing larger new loans to SMEs. The grace period was no longer than the time from signing the contract until the project began, but this timeframe could not exceed 12 months. This time limit was also applied to the project finalisation. The scheme had a maturity of up to 10 years.

Potential recipients could turn to financial intermediaries for advice or consultancy, which helped them to better understand the financial instrument's rules, criteria and application process. In addition to using these services, they also obtained this information from external consultants, most likely for practical reasons.

Looking at the administrative burden in the institutional system, the loan/grant combination increased the paperwork and legal burden at all levels. Applications from potential recipients were free of charge. Nevertheless, those who found the paperwork process difficult involved external consultants. The financial intermediaries reviewed the application and awarded the credit and the grant. According to the implementation structure, the CMCG scheme became a 'one-stop-shop' in which micro-enterprises applied through private financial intermediaries, which financed the micro credit part. The state-owned Holding Fund acted as a 'back-office' paying the grant. The two institutions had to evaluate different aspects of the project, and share the risks.

Since the CMCG is a relatively young instrument, the funds that were loaned are just starting to be repaid. It is still too early to draw a conclusion on the number of non-performing loans. According to the financial institutions, the CMCG is the product most preferred by SMEs on the market. This was the instrument through which most financing contracts were concluded. SMEs increasingly rely on CMCG loans and less on commercial ones, which is due to the decreasing interest of commercial banks in micro financing. In the upcoming years, the managing authority plans to help reduce this tendency by stimulating the banks' willingness to finance SMEs. Furthermore, the economic crisis of 2008 also resulted in a reduction of credit sources to SMEs and therefore the CMCG scheme offered a financing opportunity for companies to develop or invest during this period.

One year after the scheme's introduction, the increased market demand led the managing authority to adapt the instrument to the new conditions. The maximum amount for both the credit and the grant was increased, and in addition to the micro companies, SMEs became eligible to apply for the product. Credit conditions were eased in order to better fill the market gaps.

4.4 Final recipients targeted

The main target groups of the CMCG scheme were those enterprises that are below the banks' credit limit: businesses that need loans, but to whom commercial banks would not provide credit without a risk-sharing scheme. However, it is important to emphasise that the CMCG does not aim to provide self-employment opportunities through small-scale entrepreneurship supported by micro lending. It was introduced as SMEs were underfunded, and it aims to support those that are creditworthy but do not have access to traditional bank finance. Since 2012, certain narrowly-defined enterprises with annual revenue higher than EUR 660,000 were also eligible. A special criterion was imposed that applicants' activities must not fall within the sectors that are not covered by the EU de minimis condition.

The instrument's marketing was properly organised and conducted. At managing authority level, which was responsible for marketing, **the financial instruments products' publicity was built into the umbrella communication of the New Széchenyi Plan (NSP)**. In addition to NSP-related activities, it included coordinating the Holding Fund and financial intermediaries, as well as monitoring the success of the campaigns. This contained the following tools: leaflets, brochures, advertisements, press releases, billboards, city lights, pop-ups, rollups, websites, electronic newsletters, and the total planning of the NSP's brand identity.

The Holding Fund was responsible for OP communication to relevant target groups through specific publicity campaigns, workshops and information days for financial intermediaries and potential recipients. The aim was to promote and introduce the financial instruments including the CMCG, to give an update on the status of on-going actions and to network with stakeholders. As an example for such activities, the VFH launched a publicity campaign called the 'Source of pride' in December 2011, in which an advertising agency developed the communication and marketing functions related to financial instruments, including CMCG. They conducted the campaign in two rounds: in the first one, more than 1,000 billboards and city lights were designed in three different creative styles. In addition, the campaign comprised press releases and publicity articles. During the second wave of the campaign, nearly 2,000 billboards and city lights were placed in public areas and new advertisements were made. Radio advertisements contributed to wider media coverage.

On the other hand, financial intermediaries mostly communicated information about the CMCG scheme via their webpages and personal consultations.

4.5 Project types

Enterprises supported by the CMCG were predominantly engaged in scientific, technical commercial activities. These sectors absorbed nearly 50% of the contracted financial products. Recipients from twenty economic sectors were funded by the CMCG scheme, of which 10 accounted for 85% of the disbursed credit and grant funds.

4.6 Changes in Strategy

Experiencing a fast-growing demand for the CMCG products in 2011, the managing authority decided to review the structure of the instrument. Because of the continuous monitoring of market demand, major steps were taken in order to fine-tune the scheme, and the changes were introduced in January 2012. The range of intermediaries was extended to include savings cooperatives, which provided wider market coverage, and offered larger scale investments. The co-financing rate was set to a maximum of 75% at saving cooperatives, while at financial enterprises and local business development centres this was a maximum of 100%. The initial credit range of 1 to 8 million HUF, or EUR 3,000 to 26,000 was increased with a new maximum of 20 million HUF, or EUR 66,000. The grant of 1 million to 4 million HUF, or EUR 3,000 to EUR 13,000 was increased to a maximum of 10 million HUF, or EUR 33,000. Other criteria such as the 200 million HUF, or EUR 660,000 turnover limit was also removed in order to make the scheme available on a wider scale, since this limitation prevented the financial intermediaries to reach all types of micro enterprises.

Bano Rhododendron – SME financed through the CMCG scheme

After collecting the relevant information from the financial intermediary, BG Finance Plc, Mr Péter Bánó instructed his external consultant to apply for this financial product. Since his organisation is a micro-company with its own targets, and the project focused on investment in an asset, no other partners were needed. The company planned to obtain the excavator for EUR 40,000, of which the own contribution accounted for EUR 4,000, and both the grant and the loan amounted to EUR 18,000 each.

When the company fulfilled all the pre-requisites such as holding real estate collateral and providing financial background and a credit history, it submitted the application to BG Finance Plc. Both the intermediary and the Holding Fund approved the company's request, therefore it invested in an excavator using the CMCG scheme. After the investment was made, the financial intermediary conducted several on-the-spot checks to ensure the financial instrument was properly used, and that its investment would be completely repaid.

5. Achievements

Since it was introduced, the CMCG scheme has become the most used instrument within the seven ERDF-supported financial instruments in Hungary. The combination of loans and grant improved SME access to financial products, and changed the business mentality of micro-enterprises. The managing authority developed a new method of micro financing and increased the amount of available resources for micro-enterprises. Therefore, the addressed market gap was effectively reduced.

5.1 Output

A remarkable output of this instrument is that before the end of the programming period, 100% of the available sources had been used. In total, at November 2014, 9,389 final recipients had contracted projects, and about 500 were still implementing them. More than 30% of the programme's contracts were concluded within the framework of the CMCG. The financial instrument had a positive effect on stabilising the economic status of enterprises by making them able to make the necessary developments and investments. This positive effect often resulted in increased employment at the end of the projects.

Figure 5: Types of financial intermediaries and the number

	Number of agreements concluded with financial intermediaries			Type of products			
Financial intermediaries	**12 2011**	**12 2012**	**31 12 2013**	**Loan**	**CMCG**	**Guar-antee**	**Venture capital**
Venture Capital Fund Managers	7	17	27				X
Commercial banks	50	58	65	X		X	
Financial enterprises	25	42	56	X	X		
Saving cooperatives	69	109	126	X	X		
Microfinance institutions	29	29	29	X	X		
Total	**180**	**255**	**303**				

Source: Gy. Nyikos - Combined Microcredit in Hungary: a new type of financial instrument

It is also worth noting that the Holding Fund managed to conclude agreements with more than 140 financial intermediaries, which were not only involved in the CMCG, but also in the implementation of other instruments supported by EU funds. Thus, the synergies of the Holding Fund structure once again proved their value. The Holding Fund scheme became a viable organisational set-up and proved its success in reaching and managing the involved financial intermediaries.

A KPMG-led analysis showed that since 2011 the number and the volume of investments through the CMCG scheme have increased almost exponentially. This progress was further accelerated by modifications introduced at the beginning of 2012. As a result of the CMCG's implementation, the financing gap for micro enterprises was narrowed and SMEs can now find several financing products designed for them. Financial intermediaries in the SME lending sector acquired a more significant role in financing while the institutional investor capital, operating fully or partly with private capital, was well received and influential in the micro loan financial market. According to market analyses, the CMCG became one of the most successful products within the portfolios of the participating financial enterprises.

Smaller financial enterprises, local development institutions and savings cooperatives were able to successfully take over the role of banks in the micro financing area and to introduce the scheme throughout the country. The government and the managing authorities noticed that revolving instruments work well to deliver the objectives of OPs since they provide tailored solutions to reach economic aims. In a grant- and aid-dependent market environment, the CMCG scheme showed that a gradual shift away from grants through a loan/grant financial instrument helps final recipients to become long-term oriented and sustainable in business planning.

Bano Rhododendron – SME financed through the scheme

Due to the contribution of the CMCG, Bánó Rhododendron Ltd managed to obtain the new excavator. According to the CEO, the company experienced notable growth in terms of new projects and missions, as well as in revenues. Although it did not directly contribute to employment growth, the current jobs became more sustainable in financial terms. The company now has a bigger and more complex project portfolio.

6. Lessons

During the 2007-2013 programming period, public authorities as well as financial intermediaries and final recipients learned about the advantages of financial instruments. The CMCG product was a novelty on the EU scene. The regulations governing the CMCG scheme proved to be at times unclear or too broad, therefore there was a need for clearer and stronger regulations for such financial instruments.

6.1 Main success factors

The CMCG instrument has a complex structure, but for recipients it offered a good product to help them develop. Its achievements are far-reaching: the scheme **addressed a market gap in credit supply** which was due to banks' risk aversion and especially due to the crisis. Its loan/grant combination made it very attractive for SMEs, which had to contribute minimum 10% of their project's value.

The instrument's **'one-stop-shop' approach towards** recipients, i.e. the fact the financial intermediary was the only portal through which recipients applied and received the product, reduced administrative burden for SMEs. Furthermore, the fact that **start-ups became eligible** for this support greatly furthered their chances to obtain a head-start on the market.

The **Holding Fund approach** can also be considered as a positive experience, since it handled a large number of financial intermediaries and thus could better penetrate the market. It showed that **grants could be effectively combined with loans**.

The **financial culture of micro-enterprises significantly changed**, and became more long-term oriented and more sustainable. Both the managing authority and the Holding Fund manager emphasised that the potential recipients 'hesitation, inaccuracy and weak financial planning at the beginning of the programme has changed into a more complex, better prepared way of thinking and planning'.

6.2 Main challenges

The main difficulties of the financial instrument came during its **introduction and implementation**. The regulatory environment was at times too broad to handle specific legal issues, an issue that was also identified by the European Commission.

At the beginning of the implementation, the CMCG's absorption rate was slower than that of the non-refundable grants due to the **lack of experience in using refundable instruments** and the need to set up institutional cooperation with private intermediaries.

Application requirements could be broadly interpreted, making the format highly risky: opportunities existed in some cases for recipients to apply for the sole purpose of obtaining the grant part. In order to minimise the possibility of these abuses, clearer conditions and strict sanctions were necessary.

6.3 Outlook

The combination of grants and micro loan was an effective means of using financial instruments under the OPs of the 2007-2013 programming period, and since the market gap in SME financing still exists, there is still scope for using this tool in the 2014-2020 programming period.

According to the managing authority and the draft OP, this tool is envisaged to be further used within Hungarian OPs. The range of combined products is aimed to be further expanded because of its favourable results and responses. According to the ESI Funds regulations 2014-2020, the managing authority must first conduct an ex-ante assessment to justify the need for implementing such an instrument.

www.fi-compass.eu
contact@fi-compass.eu

European Commission
Directorate-General
Regional and Urban Policy
Unit B.3 "Financial Instruments and IFIs' Relations"
B-1049 Brussels

European Investment Bank
Advisory Services
fi-compass
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg