

GRANT AND FI COMBINATION AT FINAL RECIPIENT LEVEL

In 2021-2027 programming period

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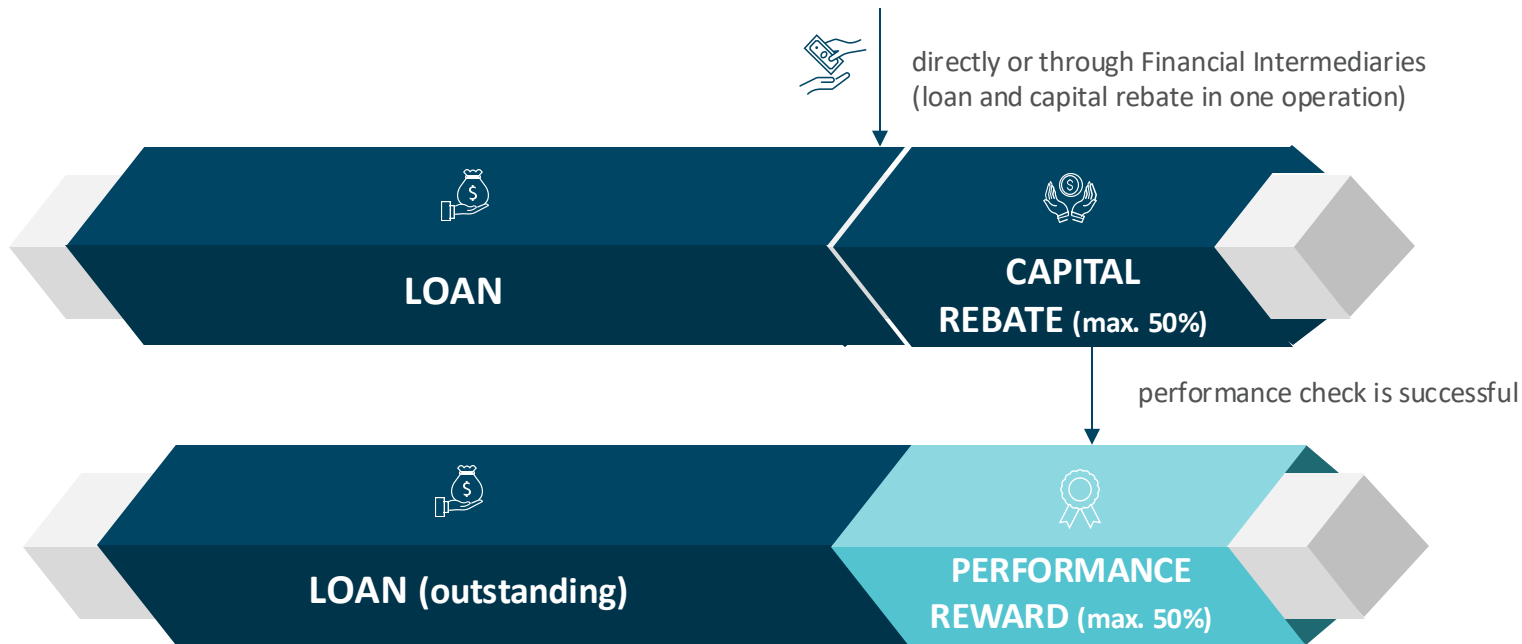
National Development Centre, ESIF Regulatory Department



FORM OF COMBINATION

1. OPTION CAPITAL REBATE- **NOT CHOSEN IN HUNGARY**

MFB IMPLEMENTING BODY



Due to Hungarian law and accounting regulations its implementation is challenging (*law authorisation is required for capital rebate*) - it is not chosen in Hungary as general implementing option.

FORM OF COMBINATION

2. OPTION: CAPITAL GRANT- CHOOSEN IN HUNGARY

MFB
IMPLEMENTING BODY



directly or through Financial Intermediaries
(loan and grant in one operation)

LOAN

UPFRONT GRANT

(performance based, max. 50%)

successful

performance check

unsuccessful

LOAN (outstanding)

UPFRONT GRANT

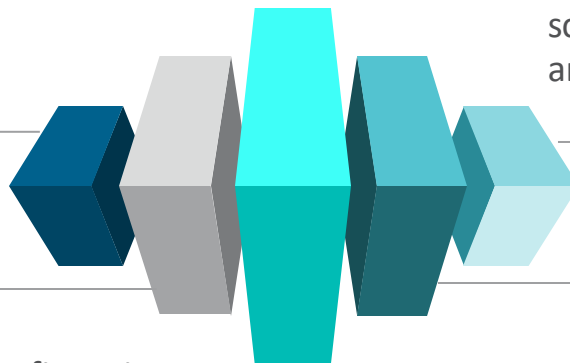
(max. 50%)

LOAN (outstanding)

FINANCING AMOUNT

Financing amount is **the sum of the loan and the grant part**

Final recipient give an **expected performance result in the application**, according to that the funding agreement contains the relevant scenario of loan and grant part of the financing amount and the relevant repayment schedule



The **final composition** of the financing amount **depends on the result** of the performance measurement

The loan and the grant part is contracted in **one single agreement**

*„The Bank provides to the Final Recipient **HUF [.....] Financing Amount**, out of which the Final Recipient may withdraw proportionately from Grant Part and Loan Part on the basis of the Withdrawal Plan...”*

LEGAL STRUCTURE



Different scenarios of the loan and grant part, parameterised text fields in the contract, the one that will be automatically filled

SCENARIO 1

when the Final Recipient undertakes the minimum performance:

„The amount of the Grant is [.....],- HUF, the amount of the Loan is [.....].”

SCENARIO 2

when the Final Recipient undertakes higher performance than the minimum:

„The amount of the Grant is [.....] HUF, the amount of the Loan is [.....] HUF, with the proviso that if the performance committed by the final recipient does not reach the higher value at the time of the performance measurement, but reaches the minimum performance criteria, the amount of the Grant will be changed to [.....],- HUF, and the amount of the Loan will be changed to [.....],- HUF at the time of the successful performance measurement, without formal contract amendment.”



Repayment scenarios

Repayment Schedule		
Levels of performance	Scenario 2	Scenario 1
Loan amount	Scenario 2	Scenario 1
Due date for loan instalment	Capital	
15.01.2025	40 000 HUF	49 000 HUF
15.02.2025	40 000 HUF	49 000 HUF
15.03.2025	40 000 HUF	49 000 HUF

PERFORMANCE CRITERIA



Product design element - linked to the achieve a policy objective



In Products where the expected performance criteria is also an eligibility criteria (e.g. digital level increase), if the minimum performance is not reached, the whole project will be irregular



Grant is a performance reward of the successful criteria achieving, it has an incentive to achieve investment and result



The earliest time for the performance measurement is the time for project closure, but it is possible to specify a criteria that can be measured even 1-2 years after project closure
(e.g. increase in gross added value)



Grace period is fixed – the repayment starts when the loan/grand ratio is definitively known, after the performance measurement. No interest charged during the grace period.

PERFORMANCE CRITERIA

Examples of performance criterias



- Increase level of the SME digitalisation
- Level of energy savings (e.g. X %; X+10 %; X+20 %)
- Increase in productivity (e.g. export; gross added value)
- Participation in a professional training

Performance checking



- Certificate is submitted by the final recipient to FI's implementing body
- Certificate is issued by an independent body
- Performance checking is made by FI's implementing body
- Scope of check at the level of FI's implementing body is only: yes/no

REPAYMENT – IRREGULARITY VS. DEFAULT

IRREGULARITY



Both the outstanding loan and the grant part may be recovered, before the performance measurement (during grace period) and after the performance measurement as well, when it has been successfully completed



The loan and grant parts are connected – the grant support is used as a fixed percentage of the overall investment cost → there are **no irregularities which would only affect the grant** or the loan part separately, as they are inherently linked

DEFAULT

Cases of default

- The final recipient becomes insolvent
- Activity of the final recipient is finished
- Bankruptcy, liquidation, forced cancellation of the final recipient










Default after successful performance measurement – the outstanding loan has to be repayed



Default after successful project closure, but before performance measurement - the entire outstanding loan amount and the amount of the VNT be reclaimed



CHALLENGES OF THE IMPLEMENTATION

-  Objectively measurable performance criteria – for the results that are not questionable or subjective
-  Performance criteria is also an eligibility criteria -> not possible to provide only loan if the performance does not reach the minimum level
-  More grant rate scenarios -> it is challenging to calculate the repayment schedules, clearly define them in the automatically generated contract and avoid the too complicated agreements
-  The Gross Grant Equivalent (GGE) has to be calculated on the maximum amount of grant expected, and at the moment, when the aid is granted. There is no possibility to recalculate the GGE if there are subsequent changes to the contractual terms that would lead to a lower GGE. (Not beneficial to the final recipient)
-  Technical accounting challenges -> the Bank accounts the grant and loan part separately, for easier monitoring and reporting (extra administrative burden)
-  Different reporting structure before and after the performance measurement time – there is no practical experience yet
-  No audit experience yet, it is difficult to prepare for this during implementation

THANK YOU FOR YOUR ATTENTION!