



GOOD PRACTICES - CASE IDENTIFICATION /1ST LEVEL ANALYSIS

GOOD PRACTICE No. 5.

1. Good Practice title:

Applying the already existing microfinance network for supporting micro, small and medium sized enterprises 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: the operational programme for Central Hungary (Central Hungary OP) used the same institutional structure including the microfinance network as the 6 OPs for the 6 convergence regions

3. Timeframe:

year of introduction: . year of termination: (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 instruments in EDOP targeted SMEs that had difficulties in getting access to finance. Due to 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 even if SMEs had viable projects. Before the EDOP programme microfinance activities had been conducted by local enterprise agencies. They were established in 1992 with the first micro-credit programmes in Hungary and so they had relevant operational experience, knowledge of local economy and local business network. Their involvement aimed at reaching non-bankable but still viable SMEs with good projects from all over Hungary including small settlements.

6. Brief explanation of the initiative:

The selection of financial intermediaries under EDOP 2007-2013 was done through open calls. Call requirements have been set so that local enterprise agencies with experience in microfinancing could apply to become intermediaries for the EDOP loan programmes. Once approved, the holding fund manager contracted them on behalf of the EDOP managing authority. Eventually all local enterprise agencies took part in the programme implementation.

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

Target group of 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:

Relying on a broad financial intermediary base including members of the existing microfinance network was an important factor in the success of the implementation of EDOP programmes between 2007 and 2013. Particularly, local enterprise agencies contributed to broad outreach of loan products both in geographic and social terms. Local enterprise agencies received their own refinancing financial frame that was calculated based on their financial strength.



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9. Outcomes:

The broad financial intermediary level including the local enterprise agencies 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.