



# GOOD PRACTICE in Hungary

## - Combined Microcredit Program -

**Viktor Tóth**  
*Expert of ZMVA*  
**HUNGARY**

**20.03.17.**  
**Oslo**

## Main challenges of SME financing in Hungary

- ▶ 75% of SMEs operate without loans or credits.
- ▶ Big potential, wide target group vs. low activity
- ▶ Most SMEs are unable to involve loans, because of
  - Micro size, high risk
  - Low profitability
  - High interest rate (3-6%) of micro-financing
  - Lack of collaterals
  - Rather focusing on grants
- ▶ Too high additional cost regarding the size of loans

## JEREMIE Program

(Joint European Resources for Micro to Medium Enterprises)



Private Equity market is relatively underdeveloped  
in Hungary

Commercial banks dominate the market

Micro and Small Credit  
Programs  
New Széchenyi

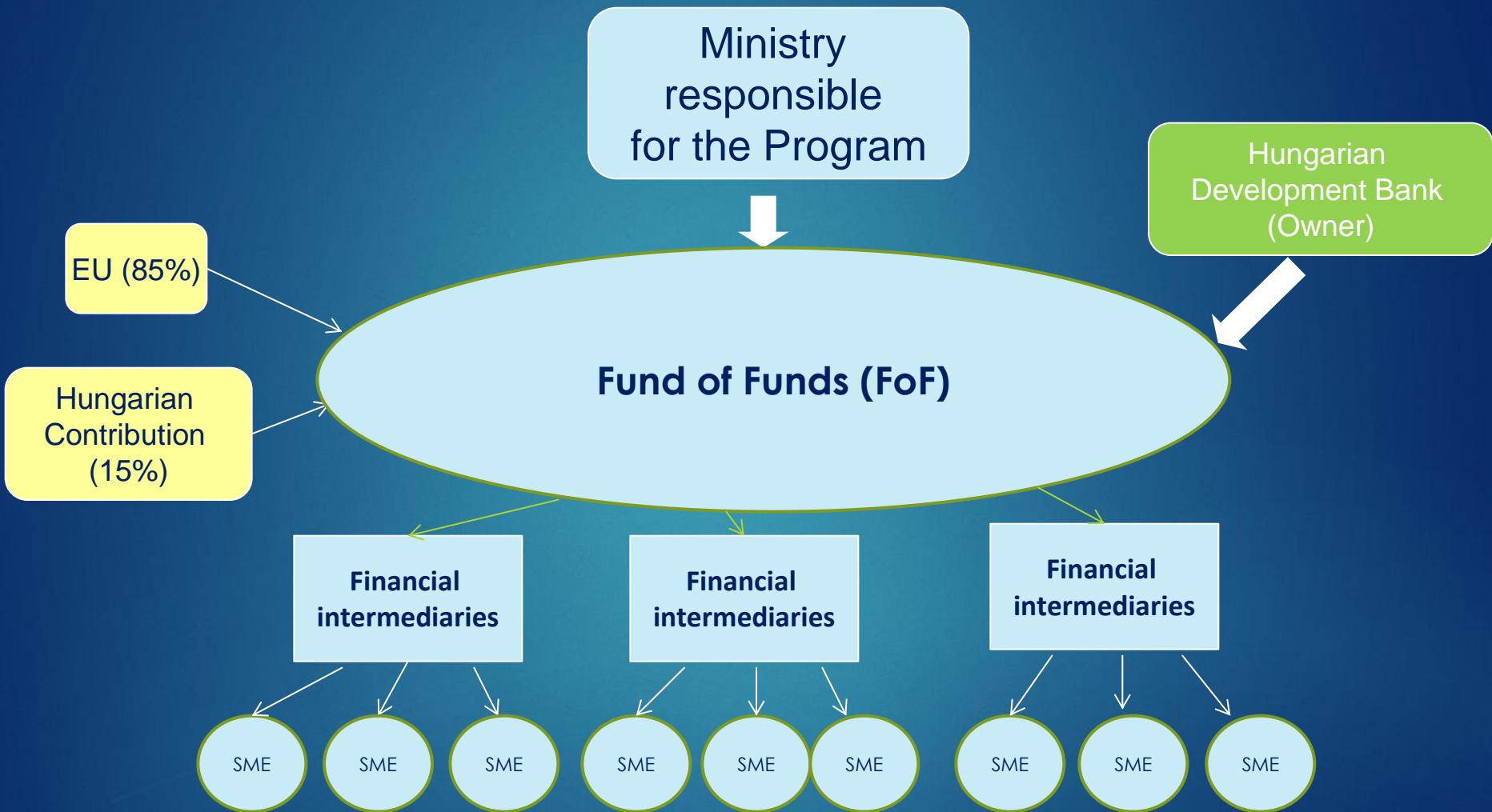
**Combined Microcredit Program**

Portfolio guarantee for credit  
financers

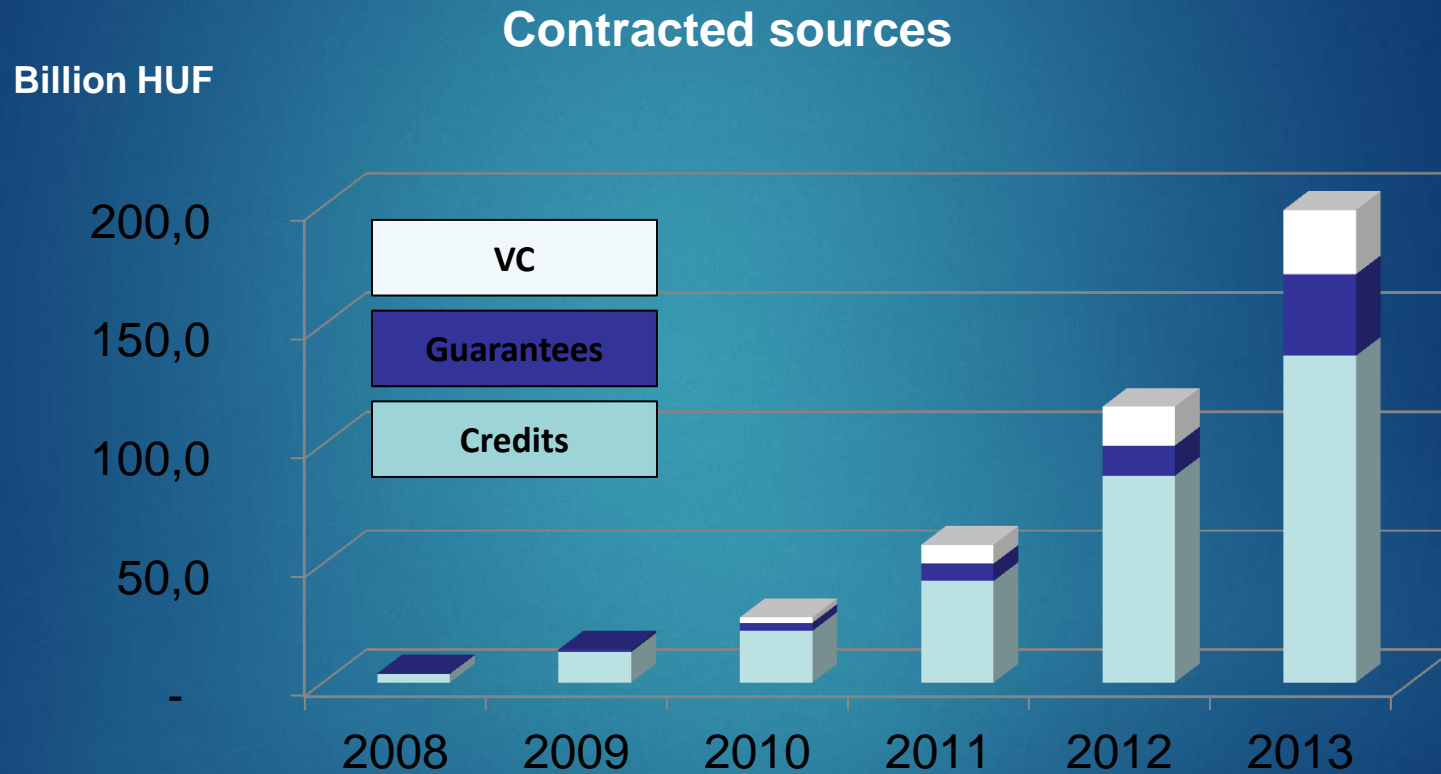
Venture Capital  
Programs

- **Financial sources** : 820M EUR (at present 85% covered)
- **Professional and for profit financial intermediaries are involved**
- **Revolving funds are expected**
- **Nearly 18 thousand SME beneficiaries**

# Financing Structure of Jeremie Program



# Performance of Jeremie Program



# CMP co-financing structure

<b>Program Tender:</b>	2008
<b>Program aim:</b>	Financing SMEs in their seed, start-up, and early or growth stage
<b>Financial intermediaries (IM):</b>	Professional and mainly forprofit financing organisations

FoF provides 90% of sources at a very low rate 0,40% (at that time HUF prime rate was high, 6-10%)

**Private intermediaries** are expected to provide at least 10 % own contribution.  
(dozens of IMs joined the program)

**Allocated resources :** 135 million EUR

## Potential target enterprises

- ▶ Any SME enterprises, even start-ups
- ▶ With a registered head office in the Republic of Hungary.
- ▶ In the early (seed or start-up) or growth stage.

# MOTIVATING INTERMEDIARY PARTNERS

Hungarian Government aimed to encourage market participants to step into micro-financing market.

## Aspects of involving IMs:

**SOURCES** - 90% of sources comes from EU, rest is own contribution

**ACTIVITY** – sources were not limited, active IMs can build a bigger portfolio

**LOW COST** – FoF provide source at very low rate (0,40%)

**PROFIT-LOSS DIVISION** – profit remains at the IM

- ▶ in case of max. 5 % loss, FoF write off the loss on his own, the private investor gets back his nominal investment
- ▶ In case of 5-10% loss, the FOF and IM write off the loss in 30-70 ratio (major loss is on FoF)
- ▶ In case of 10-15% loss, the FOF and IM write off the loss in 70-30 ratio (major loss is on IM)
- ▶ in case of loss over 15%, the IM write off the loss

# COMBINED MICROCREDIT CONDITIONS

Two sources: Credit and non refundable grant

Conditions of credit:

- Amount of credit: **up to (EUR 33.000.-),**
- **amount of grant: same and equal**
- Maximum period of the loan:
  - in the case of investment credit 10 years
  - in the case of working capital 3 years
- Grace period:
  - in the case of investment credit 24 months
  - in the case of working capital 1 months
- Interest rate (variable, maximized)
- Expected own contribution: 10% of the project budget



# COMBINED MICROCREDIT PROGRAM GOALS

Basic program goals:

- ▶ Strengthening the local SME sector
- ▶ Creating new jobs (social aspect)
- ▶ Strengthening the self-employment (social aspect)
- ▶ Making access easier to microfinance and grants at the same time – one door service
- ▶ Development of the local business environment

Supportable projects:

- ▶ New assets, technologies
- ▶ Developing IT
- ▶ Development of the infrastructure or investment in property

Expectations:

- ▶ Creating new jobs (extra personal cost at least half of grant)

# LOCAL RESULTS

ZMVA, as intermediary of Combined Credit Program

- has run the Combined Credit Program mainly in Zala County.
- has doubled its micro credit portfolio due to this program
- has become the market leader in region
- has well-balanced portfolio (loss under 8 %)
- Has provided 2.5 Billion HUF (8.3 million EUR) loans and plus the same grant
- Has financed more than 300 SMEs
- Has helped SMEs to create more than 500 new jobs

# Advantages and disadvantages

## Advantages:

- ✓ Efficient structure (FoF, IMs)
- ✓ Motivated partners (IMs)
- ✓ Fast-growing program (IMs and SMEs)
- ✓ One door service (credit and grant with one application)
- ✓ Big volume of SMEs can be financed
- ✓ Special Profit-Loss Division
- ✓ Social effects
- ✓ Preferring innovation

## Disadvantages:

- ❑ The program has focused only on urban regions, not rural regions
- ❑ After a scale banks regarded the program as market competitive service
- ❑ The program could not provide enough source to attract innovative project

**Thank you  
for your attention!!**

**Viktor Tóth**  
Expert of ZMVA