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Targeting and efficiency of JEREMIE-type financial instruments in Hungary – preliminary results

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EDOP 2007-2013

- = Gazdaságfejlesztési Operatív Program (GOP)
- Priority 4 – Financial Instruments (JEREMIE-type instruments)
  - 727 million EUR = 204 billion HUF
  - 21.6% of all EDOP sources
- Priority 2 – Complex development of enterprises (primarily SMEs)
  - Same targets, different means

Mapping FIs of the EDOP in Hungary, 2007-2013

<table>
<tr><th>Average amount of support</th><th>Seed</th><th>Start-up</th><th>Growth stage</th><th>Established firms</th></tr>
<tr><td rowspan="2">Ca. EUR 20.000</td><td></td><td colspan="2">New Hungary Micro Credit</td><td></td></tr>
<tr><td></td><td colspan="2">Combined Micro Credit</td><td></td></tr>
<tr><td rowspan="2">EUR 70-80.000</td><td></td><td colspan="2">New Széchenyi Credit</td><td></td></tr>
<tr><td></td><td colspan="2">New Széchenyi Portfolio Guarantee</td><td>New Széchenyi Credit Guarantee</td></tr>
<tr><td rowspan="3">EUR 130-160.000</td><td colspan="2">New Szechenyi Venture Capital – Joint Seed</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>New Hungary SME Credit</td></tr>
<tr><td></td><td></td><td></td><td>New Hungary Working Capital Loan</td></tr>
<tr><td rowspan="2">EUR 1.3-1.4 million</td><td></td><td colspan="2">New Hungary Venture Capital – Joint Fund</td><td></td></tr>
<tr><td colspan="3">New Széchenyi Venture Capital – Joint Growth</td><td></td></tr>
</table>

Source: VFH Fontium (2015)

Theory of Change

Figure 3: Stylised theory of change: FIs in the EDOP

Context: Credit supply targeted at SMEs had been drastically growing since 2000 both on the private market and through public schemes. However, Hungary still lagged behind Europe at the beginning of 2007-2013 in the extent of available financing opportunities for SMEs especially in the venture capital market – that virtually did not exists – and microcrediting. The publicly run programmes were not operating in an efficient way.
Needs: The development of a market for SME financing was needed in order to supply creditworthy SMEs that otherwise could not get loans with resources. It was also important to cover a wide range of financial instruments and to improve efficiency.

Indicators
Decrease in the number of SMEs without access to financing sources (target: 12.8%points)
Access to financial mediation in the SME sector (loans outstanding / GVA) (target: 10%points)

Indicators
Change of e-business index (target: 70%)
Private investments related to the interventions of the programme (induced investment) (target: 170%)
The outlaid capital outstanding by institutional investors operating fully or partly with private capital in the ratio of GVA produced by the SME sector (target: 1.4%%points)

Indicators
Growth of Gross Value Added (GVA) created by the corporate sector as a result of the programme (target: 4%)
Gross number of new jobs created (target: 66.000)

Input & Activities
Easing access to finance for SMEs through microcredit, guarantee and equity schemes (11 in total)

Focus area: whole Hungary except Central Hungary region (Central Hungary is covered in a separate OP)

Outputs of activities
SMEs getting access to FIs (most of them did not have any credit transactions previously)

SMEs benefiting from partial compensation of interest

Short term results for the target group / sector

Private investment attracted through FIs, leverage effect, multiplier effect.

Market facilitation in the venture capital market and microcrediting – a new institutional system of financial intermediaries was set up.

Longer term results for the target group / sector (broad policy objectives)

Promoting growth and job creation to help Hungary catch up to Europe

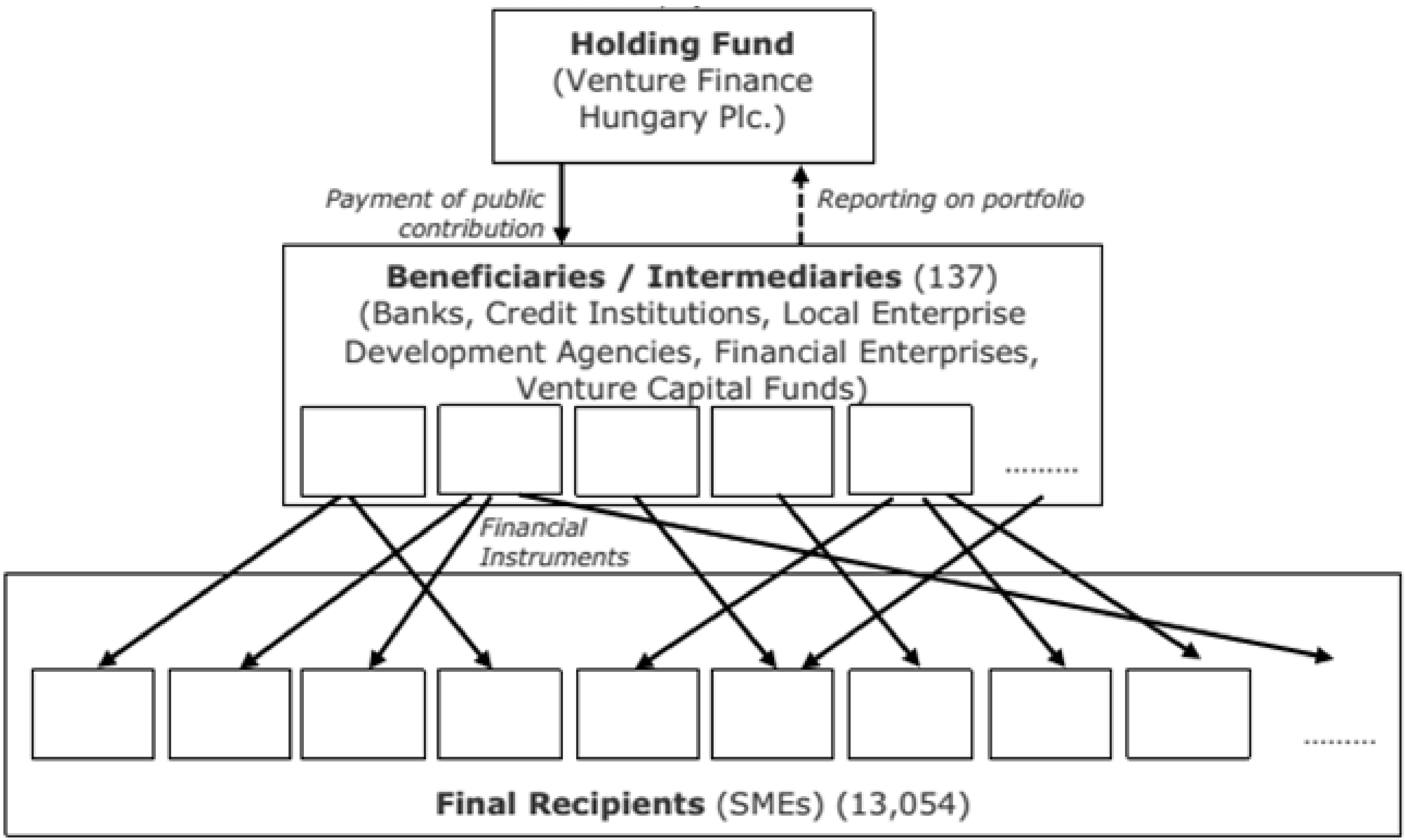
Strengthening regional position of the domestic capital

Assumptions
Simple requirements and favourable specification would make FEIs popular among SMEs.
Private intermediaries are interested in providing the instruments, they are also interested in creating a well performing portfolio.

Assumptions
Involving a large number of private fund managers (intermediaries) creates competition and thus leads to more efficient instruments and better portfolios.
Attracting private money brings higher growth potential.
Involving local actors – e.g. business development centres – improves the outreach of FEIs utilizing their knowledge of local conditions.

Assumptions
Giving finance to SMEs that are creditworthy but cannot get loans from private banks leads to increased growth potential
Revolving funds promote growth

Organisational structure



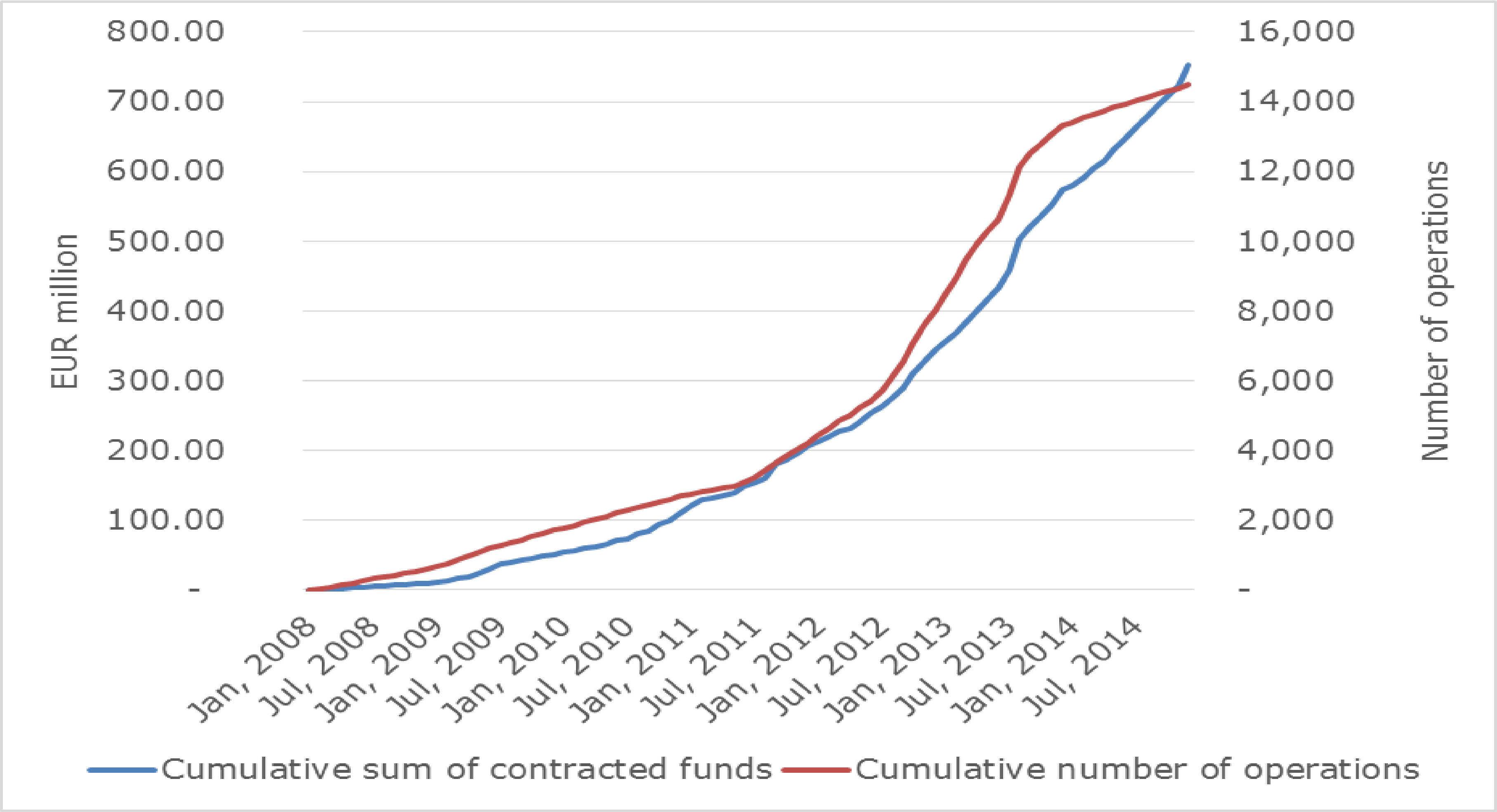
Different intermediaries

Table 7: Mean and median amount of loans by types of intermediaries (December 31, 2014)

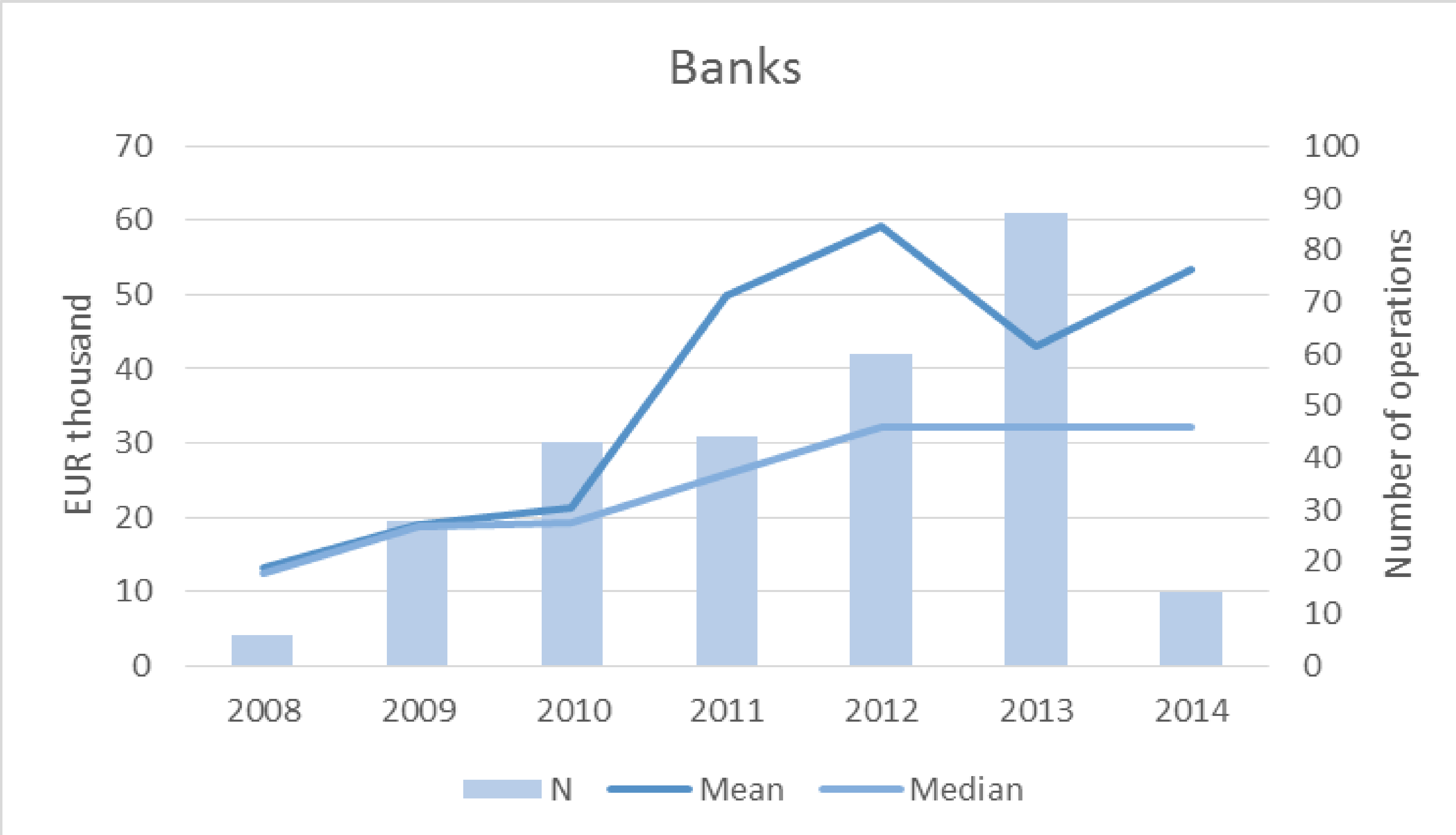
	Number of Intermediaries	**Number of Operations**	**Mean Loan Value** EUR thousand	**Median Loan Value** EUR thousand	**Max. Loan Value** EUR thousand
Bank	20	676	83.67	42.17	1 610.9
Savings co-operatives (SC)	34	1,008	41.46	25.23	1 610.9
Financial Enterprise (FE)	34	5,191	46.02	26.75	161.1
Local Enterprise Development Agency (LEDA)	16	6,554	20.06	19.33	32.2
Total	*104*	*13,429*	34.90	22.55	

Source: VFH Fontium (2015)

Accelerated take up (invested funds), 2008-2014



Slow take up in microcredit & small loans, 2008-2014



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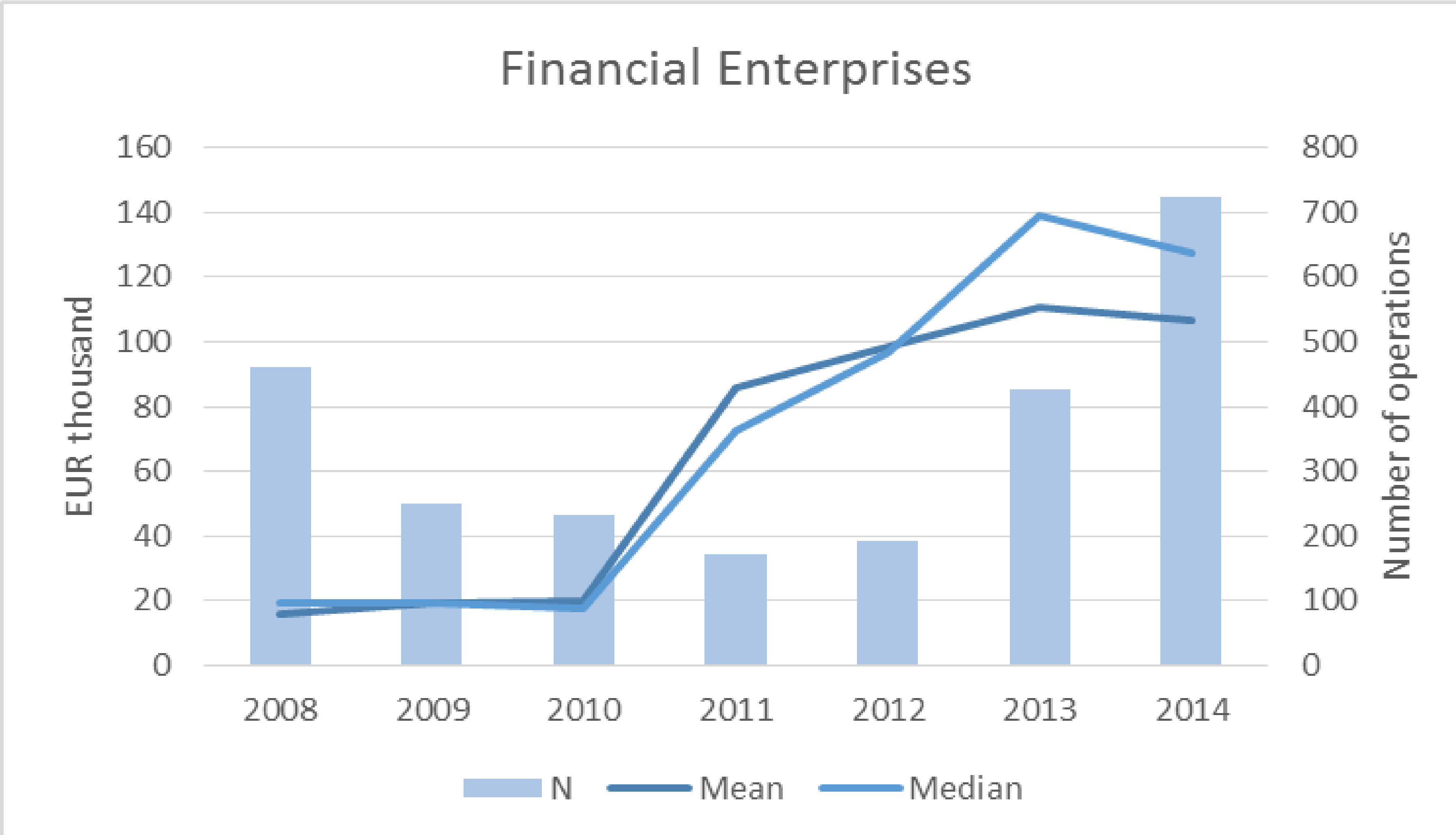
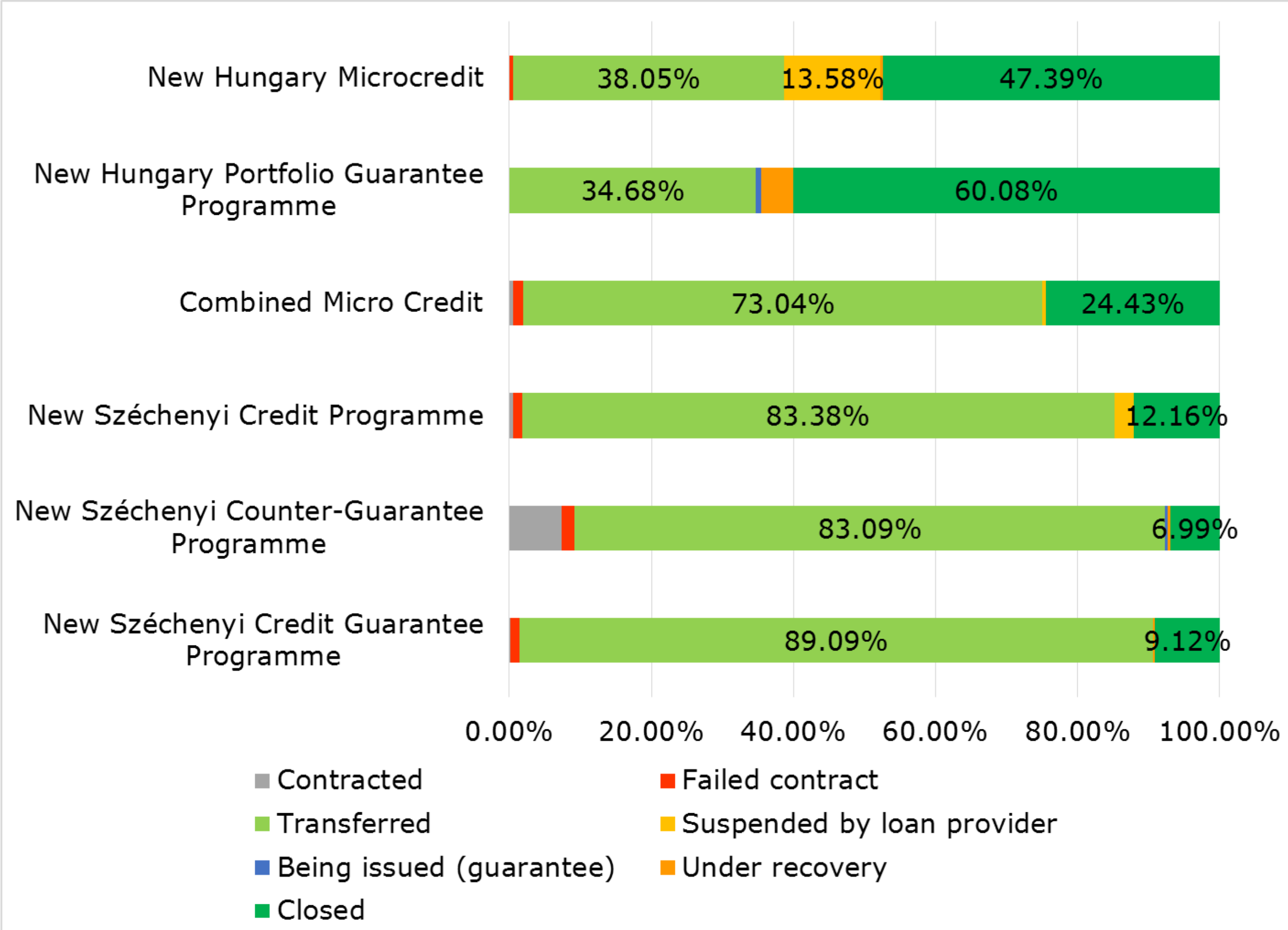
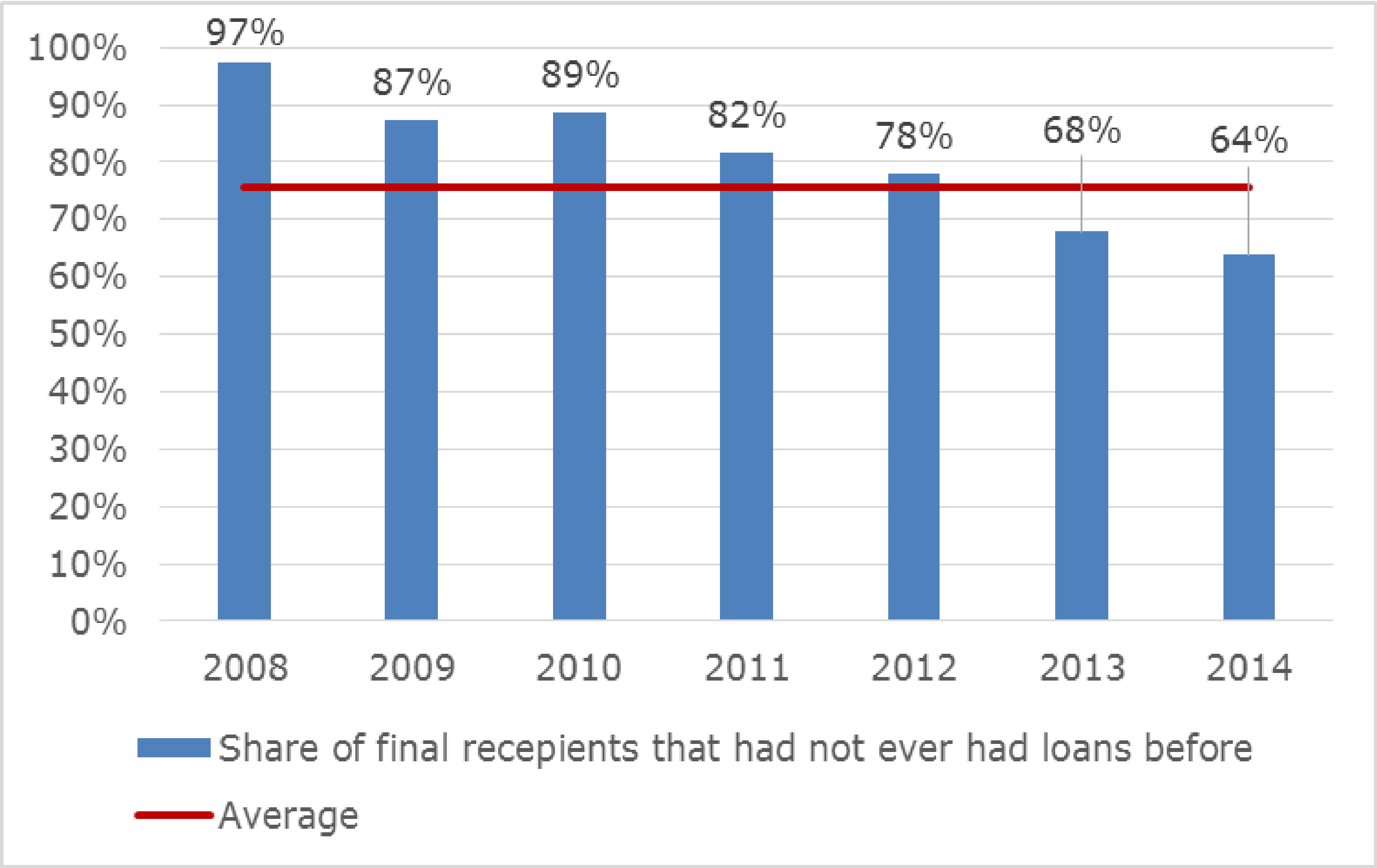


Financial Enterprises
EUR thousand
Number of operations
160
140
120
100
80
60
40
20
0
800
700
600
500
400
300
200
100
0
2008
2009
2010
2011
2012
2013
2014
N
Mean
Median

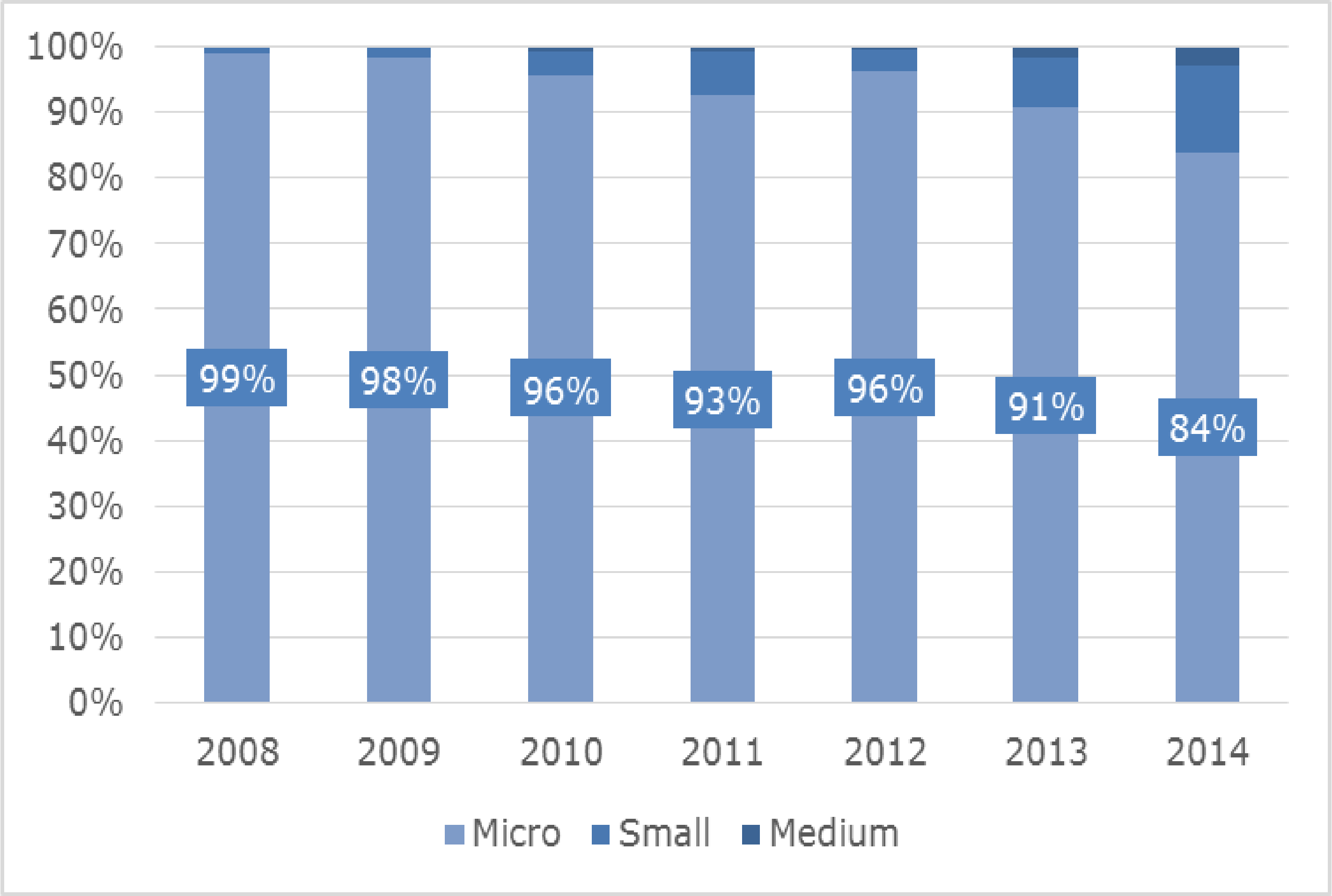
Repayments


New Hungary Microcredit
38.05%
13.58%
47.39%
New Hungary Portfolio Guarantee Programme
34.68%
60.08%
Combined Micro Credit
73.04%
24.43%
New Széchenyi Credit Programme
83.38%
12.16%
New Széchenyi Counter-Guarantee Programme
83.09%
6.99%
New Széchenyi Credit Guarantee Programme
89.09%
9.12%
0.00%
20.00%
40.00%
60.00%
80.00%
100.00%
Contracted
Failed contract
Transferred
Suspended by loan provider
Being issued (guarantee)
Under recovery
Closed

Reaching out to SMEs in need *versus* absorption



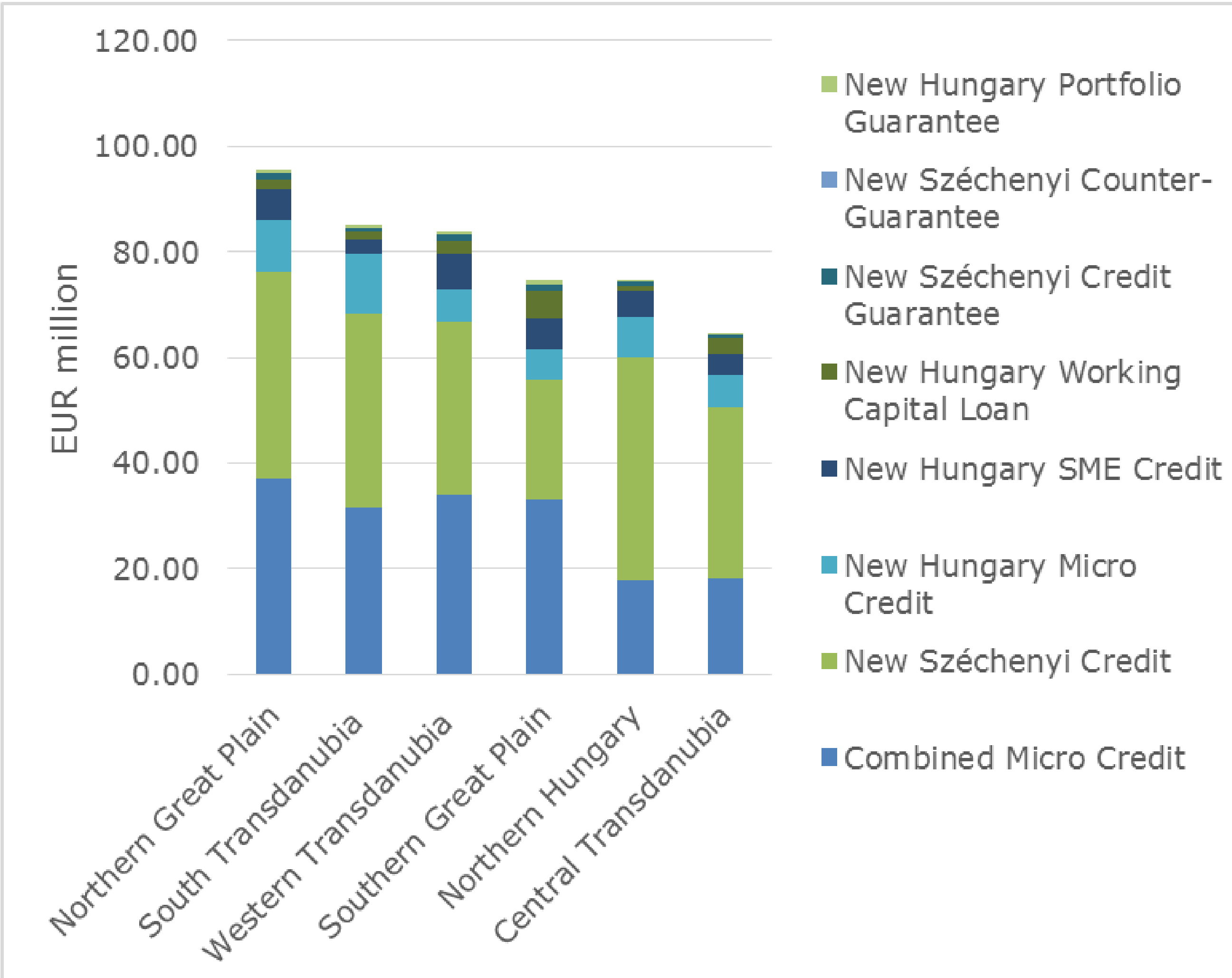
SMEs in focus



Differences in risk-taking behavior

Assessed quality	A	B	C	D	E
Banks	95.75%	1.56%	0.34%	0.78%	1.56%
Financial Enterprises	89.38%	1.90%	1.00%	2.60%	5.12%
Saving Co-operatives	93.30%	1.10%	0.55%	3.00%	2.05%
LEDAs	89.06%	3.34%	1.34%	2.32%	3.94%
Total	90.20%	2.44%	1.06%	2.34%	3.96%

Suprisingly balanced geographic ditribution



Preliminary Cost-Benefit calculation

	Benefit-to-cost ratio
EDOP FIs	**1.29**
EDOP Grants (R&D&I, SME development, networks & clusters – EDOP 1, 2, 3)	**0.44**
EDOP Grants (SME development – EDOP 2.1.1.)	**0.15**

FIs at first glance

- Stocktaking: 3 MSs w/out FIs, rest with high variance w/in ERDF/SME supports (3-25%), EUR5,2billion invested/ EUR 11,2billion committed
- Loans/microloans predominate (92%)
- High variance in fund size (EUR9000 – EUR300million), small funds (<50mill) overperform large ones in investment

- Policy justification: access to finance (little geo/sectoral targeting) *versus* project quality/sustainability, alternative to „grant culture”

- M&E: poor data quality, few indicators

- Results: limited evidence, very small private co-funding, small revolving funds, still time to run (n+2, 2015)

Stars & wishes – little quiz

Stars and wishes

Working capital

Reduce administrative burden

Stars and wishes

Designing in flexibility to allocate and reallocate across funds, to incentivise them

Ensure local presence of fund managers, even at sub-region level. 'Boots on the ground'

Stars and wishes

Flexibility of design to be able to modify programmes with experience

More detailed and specific rules

Stars and wishes

Great investments that would not happen with grants

Monitoring

Thank you for your attention!

Appendix – Cost-benefit calculation

Table 25: Simple cost effectiveness calculation and comparison for EDOP PA 4.1., EDOP PA 1-2-3 and EDOP 2.1.1

		a	b	c
		EDOP PA 4.1	**EDOP PA 1, 2 & 3**	**EDOP PA 2.1.1**
		Costs		
1	Setup cost of Intermediary Body (Own capital invested in VFH Plc.)	3,221,857	-	-
2	Operating cost of Intermediary Body	11,467,449	57,349,056	19,398,622
3	Management fee for beneficiaries (PA 4)	31,334,642	-	-
4	Amounts paid to final recepients	-	5,790,840,000	537,963,320
5	Losses due to failure in repayment	20,039,951	-	-
6	***TOTAL COSTS***	***66,063,899***	***5,848,189,056***	***557,361,942***
		Benefits		
7	Induced investment	85,386,850	2,547,969,600	85,690,625.89
8	***TOTAL BENEFITS***	***85,386,850***	***2,547,969,600***	***85,690,626***
9	**NET BENEFIT (Total benefits - Total costs)**	**19,322,951**	**-3,300,219,456**	**-471,671,316**
10	**-BENEFIT TO COST RATIO (Total benefits / Total costs)**	**1.29**	**0.44**	**0.15**