Pécsi Tudomány Egyetem
Földtudományok Doktori iskola

Changing intermediary system of the EU-s repayable funds in Hungary (2007-2013, 2014-2020)

Risks and predictable positive impacts on growth and local economies

Farkas Sára

Structure

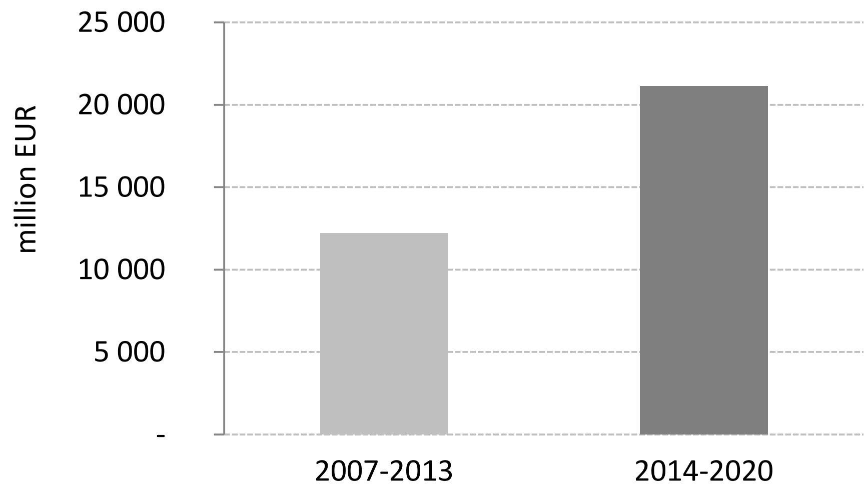
1. About the repayable funds of the EU (financial instruments) in general
2. Background points behind the structural changes of the institutional system
3. Institutional system for the implementation of financial instruments in Hungary 2007-2013, 2014-2020
4. Identified risks and challanges on local economic development

1. About the repayable funds of the EU (financial instruments, FI) in general

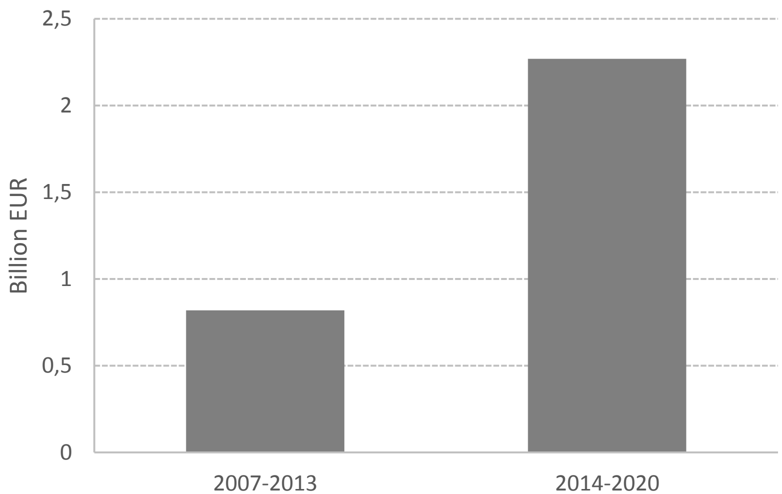
- Since 2010, FI-s have growing importance in the implementation of the EU-s cohesion policy (first FI-s since 1990) and in Hungary as well

Fifth Report on Economic, Social and Territorial Cohesion

Growing allocations to financial instruments in the EU,



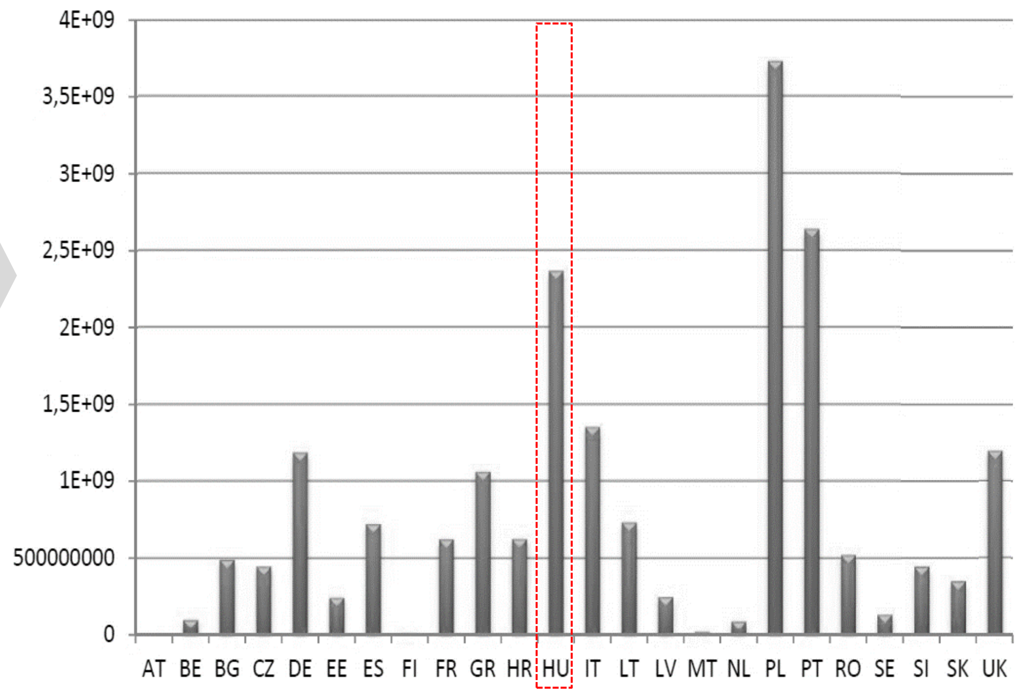
Data source: European Commission (EC) 2016



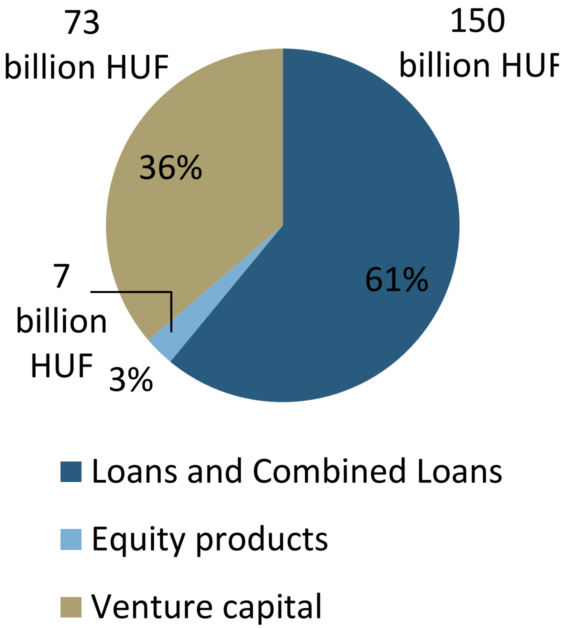
Data source: Hungarian Partnership Agreement, 2014

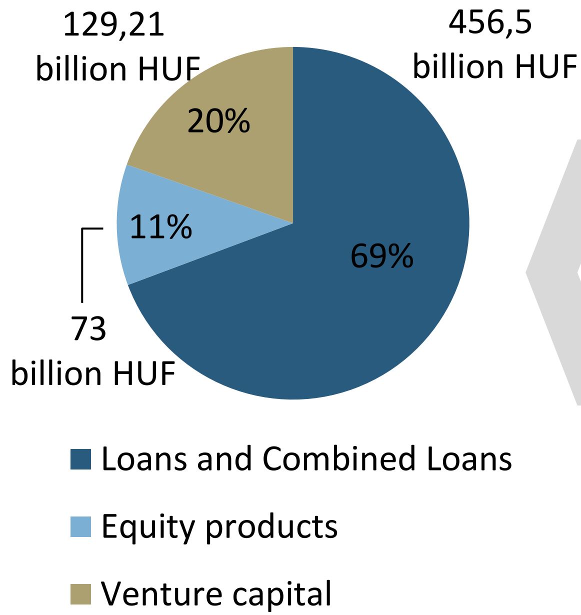
Repayable EU funds in Hungary almost tripled

3. highest allocation for FI-s among EU member states (2014-2020, EUR)



Source: EP 2016





EU subsidized financial products in Hungary, 2007-2013, 2014-2020, %

Data source: Fontium, GINOP (MFB tájékoztatás) alapján Deloitte, 2016

Allocations:

- 2007-2013 (Jeremie programme):
  - Focus on (Micro)credit products

- 2007-2013 -> 2014-2020:
  - Increasing combined microcredit, as the most popular product (!)
  - Decreasing share of venture capital *(+reinvested funds from 2007-2013)*

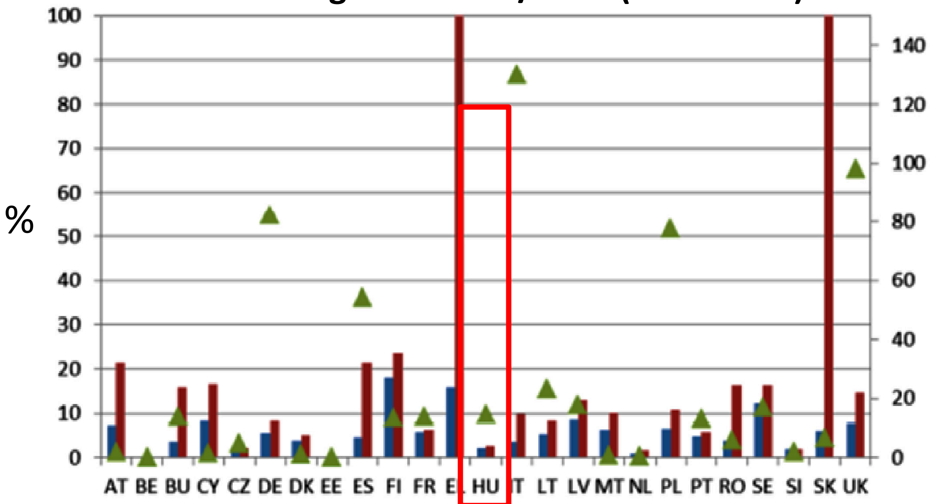
More money - More objectives

Obejctives of the financial instruments in Hungary 2007-2013, 2014-2020

2007-2013 (246 Mrd HUF)	2014-2020 (730+10 Mrd HUF)
Improve regional competitiveness >> Regional Operational Programmes	**R+D** (TO1): Fostering research, development and innovation
SME Development – JEREMIE programme >> Economic Development Operational Programme	ICT (TO2): Better access to information and communication technologies, promoting usage and quality of these technologies
	SME (TO3): Enhancing the competitiveness of small and medium-sized enterprises (SMEs)
	Energy (TO4): Supporting the shift towards a low-carbon economy in all sectors.
	Employment (TO8): Sustainable and quality employment and support for employee mobility.

Financial intermediation in Hungary, 2007-2013

Low management fees/costs (2007-2013)



Source: Nyikos 2016

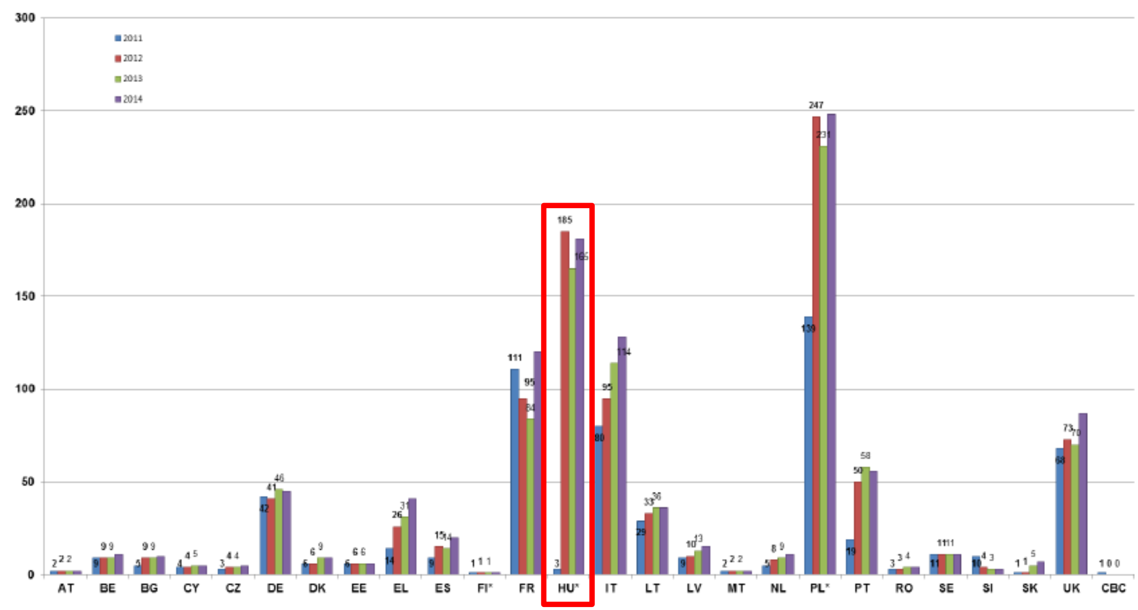
Management fees/costs as a % of OP payments to FI

Management fees/costs as a % of amounts reaching final recipients

Management fees/costs EUR million

- **High number of FI-s**
- **Low costs and management fees** in the credit intermediary system (expensive & less effective intermed. of VC)
- Intermediation via **diverse institution system**: Credit institutions (inl. local cooperatives), Local foundations for enterprise promotion, VC Funds
- **Delayed investments** – late implementation time pressure on fund agreements and

Increasing number of financial intermediaries in EU member states (2011,2012,2013,2014)



Source: EU COM, 2015

Higher diversity – Better serving of SME needs (EC 2016)

Credit institutions
(Commercial banks and Cooperatives)

VC Funds

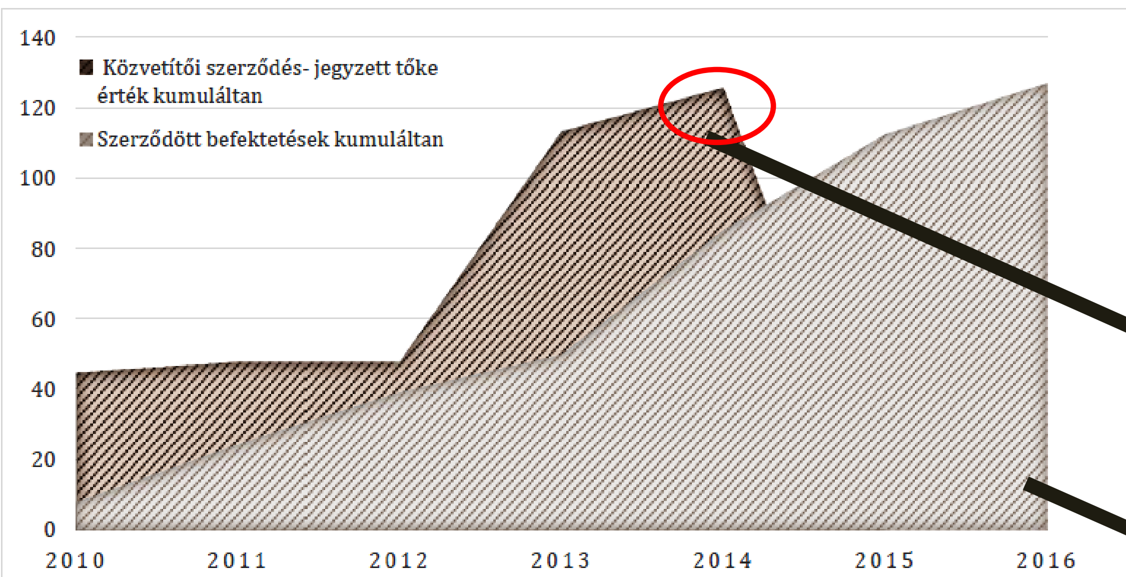
Financial
Intermediaries

Local foundations for entreprise
enterprise promotion

Financial enterprises

Relies of capital resources in Jeremie Programme (2007-2013)

Late setup of institution system
-> time pressure on funding agreements with final recipients -> **delayed capital investments**



- Setup period of VC Funds (2012-2013)
Contract on mediation – cumulative value of registered capital

- Uprising VC capital investments from 2013
Cumulative value of contracts with final recipients

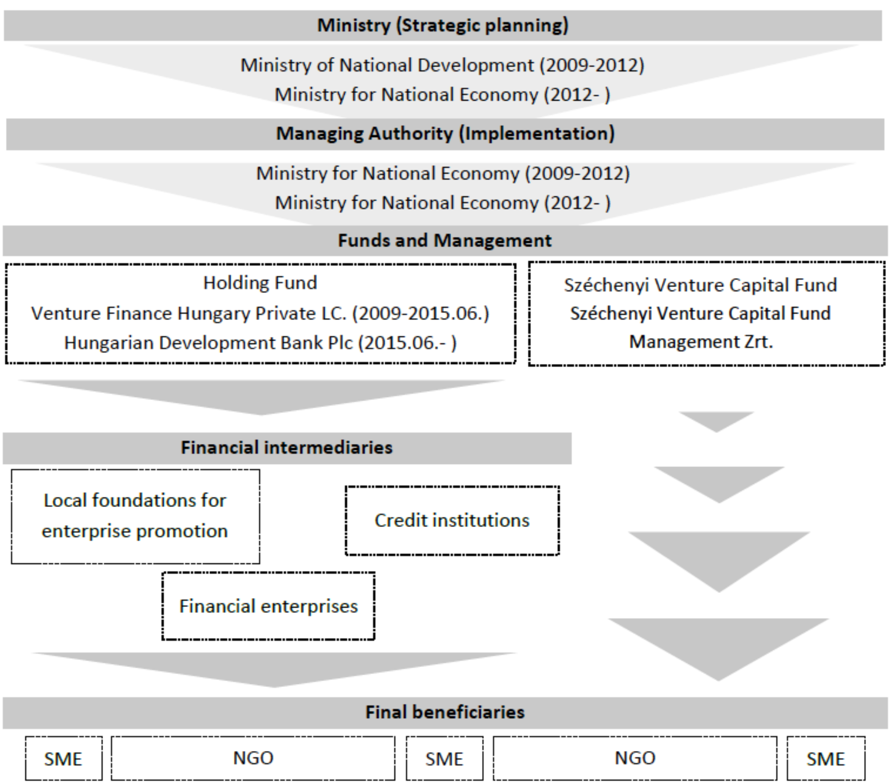
Forrás: Fontium

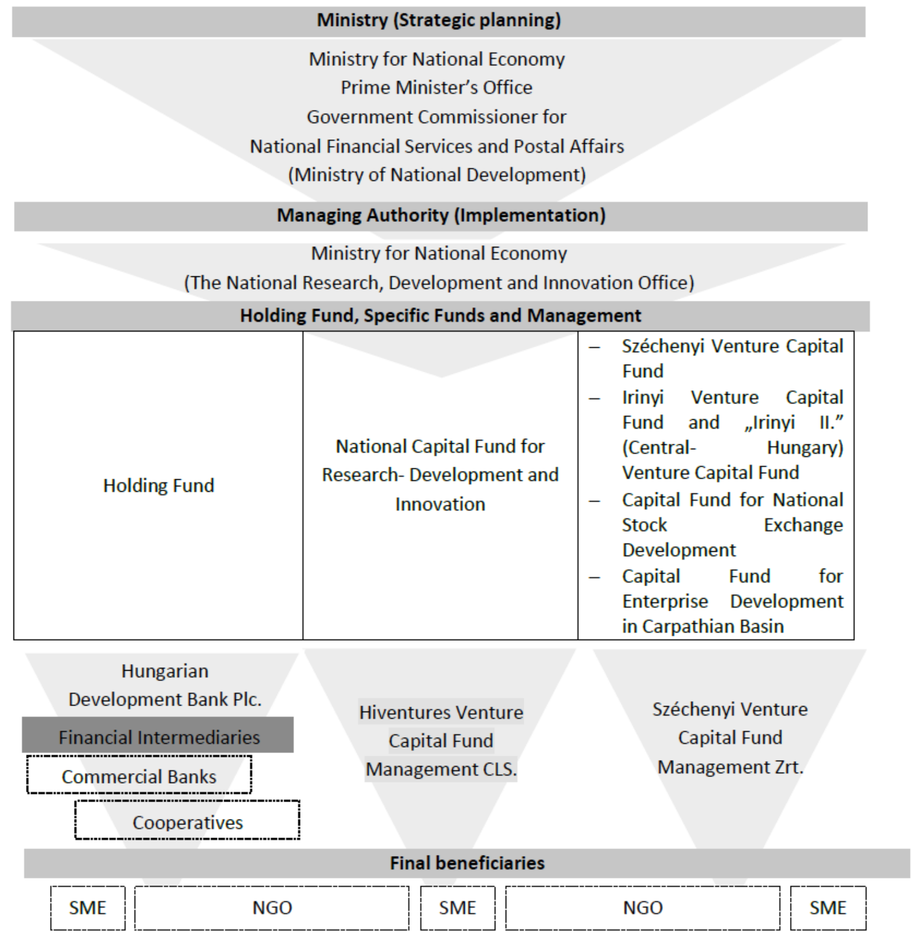
Source: Századvég 2016, based on Fontium

2. Background behind the structural changes of the institutional system

- **Regulatory** changes (EU Commission)
- Slow implementation of venture capital programme in 2007-2013 > **National policy objective to speed up the implementation** and the outsourcing of these financial products (contract with beneficiaries ASAP)
- National policy decision – repayable **FI-s are the main tool of** promoting **SME development** in Hungary (!) in 2014-2020

3. Simplified Institutional system for the implementation of financial instruments in Hungary 2007-2013, 2014-2020





Source: Edited by the author

4. Identified risks and challanges on local economic development

- **Hit the disadvantaged target groups and local needs and sustain the low price of intermediation**
  - Reduced number and diversity (2 types of credit institutions) of financial intermediaries, the most active institutions (local foundations for enterprise development) in microcrediting are ‘ruled out’ of intermediation
  - Reduced professional capacity involvment of credit institutions – risks on the financial education of the final recipients and on customized solutions
  - Simplification, but less focus on disadvantaged subregions and on young, talented entrepreneurs – risks on social and territorial cohesion effects
  - Simple and cost efficient product offering and sales (less time and admin.capacity for the recipients) – Expectation: faster implementation

- **Guarantee the institutions' growth promoting and positive territorial cohesion impacts**

  – Risk – The excluded local foundations for enterprises had the best **local social network**
  – In practice there is no possibility, to create **regional specific financial products**
  – The credit institutions can't use their **expertise** - In the new credit offering system the call for applications are mainly judged by a central, statistic info. based scouring model, but in the early (seed or startup) phase the most important factors (financial awareness, motivation, personality traits, payment discipline of the entrepreneur) can only be **evaluate**d efficiently **on a qualitative way**.
  – Additional private funds can't be involved – at VC finance, especially in R&D sectors, **market knowledge** is a crucial requirement

Thank you for the attention!

- **Field of application**: where the supported activites generate income - business development, support for business operation, infrastructure development, investments in research&development and in intellectual property rights (in particular: transport, environmental protection, energy efficiency).
- **Main target group**: business units (incl.NGO-s), which try to enter into business but due to commercial banks' lending condition they face obstacles in accessing traditional banking services (correcting market insufficiencies).
- **Financial instruments**: interest rate subsidized **loan**, (venture) **capital, guarentee** with collateral reduction purposes and counter-guarantee for financial intermediaries, and combined products with non-refundable (grant) resources (eg combined microcredit)
- **Obejctives of the EC**: more efficient use of funds, more effective project implementations.
- **Motivations of the member states**: not necessary to reimburse these funds to the EC, these resources can be reinvested several times, preferencial access –only 15% national co-finance is needed.