



## *JEREMIE in Hungary (experiences)*

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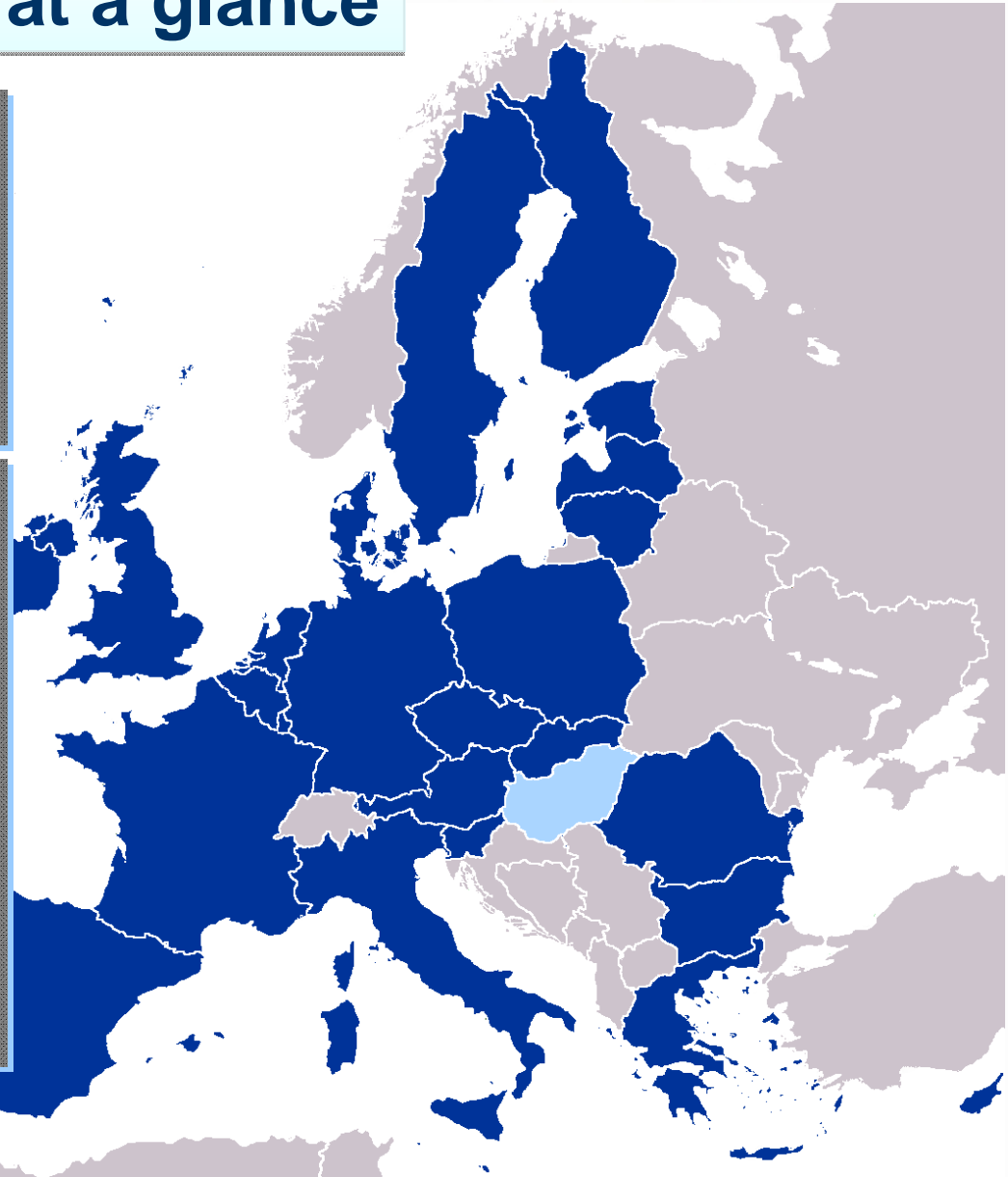
# General Overview



## Hungary at a glance

- § **Area:** 93,030 km<sup>2</sup>
- § **Population:** 10 million
- § **Density:** 108/km<sup>2</sup>
- § **EU accession:** 1 May 2004

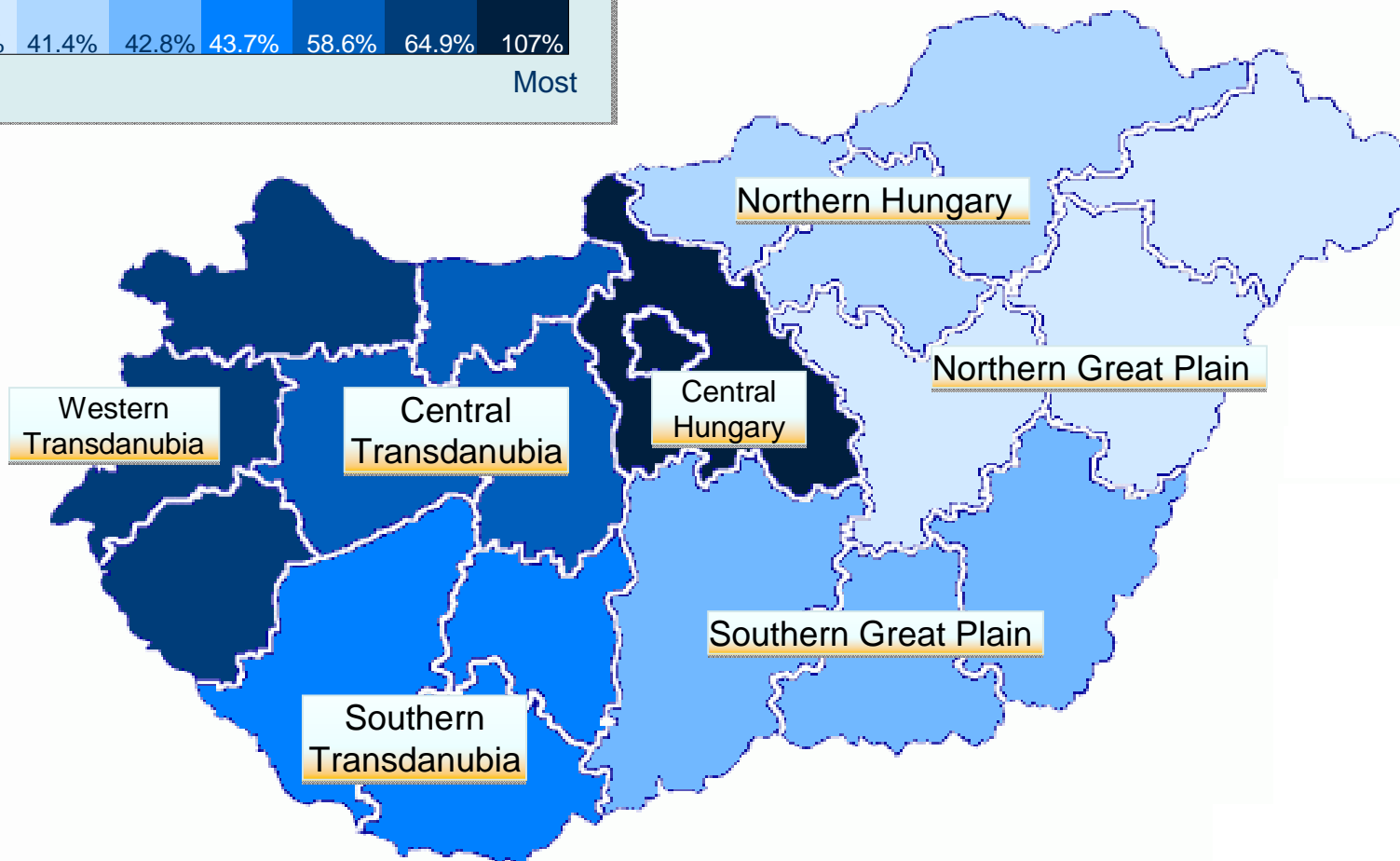
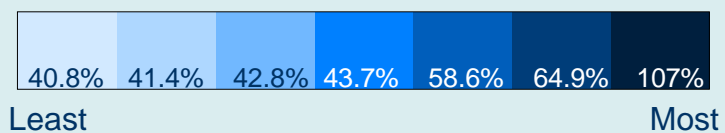
- § **GDP (2007):** EUR 101 billion
- § **GDP/cap. (2007):** EUR 15,700  
[63% of EU-27 average]
- § **No of SMEs:** cca. 700 th. (over 99% of total companies)
- § **SMEs produce 50% of GDP**
- § **70% of workers employed by SMEs**





# Regions of Hungary

Development based on GDP/capita  
(% of EU average in 2006)





# New Hungary Enterprise Promotion Program



## § Financial programs:

§ Low-cost Micro Loan and SME Loans

§ Credit guarantee

§ Venture capital

§ Allocated funds: HUF 200 bn (92% planned to be spend outside the Central Hungarian Region)



# Milestones



## Key events:

- § Oct 2006: First GAP Analysis
- § Q1 2007: First product term-sheets
- § Aug 2007: Foundation of Venture Finance Hungary
- § Oct-Nov 2007: First call for tenders (Micro Loan, Portfolio Guarantee)
- § Dec 2007: First contract with financial intermediaries
- § Jan 2008: First Micro Loan granted
- § Oct 2008: Modification of Micro Loan conditions
- § Nov 2008: Launch of SME Loan Program
- § Dec 2008: Brussels notification of Venture Capital Program
- § Jan 2009: Launch of SME Working Capital Loan Program
- § Feb 2009: Call for tenders – Venture Capital Program



## 1.a. Micro Loan

- § **Type of fund:** refinancing fund for financial intermediaries
- § **Allocated funds:** cca. HUF 57 bn [*~EUR 195 mn*]
- § **Fin. intermediaries:** Credit institutions, financial enterprises, local microfinance institutions
- § **Contribution by financial intermediaries:**
  - § Credit institutions, bank-owned financial enterprises: min. 25% (**earlier: 50%**)
  - § Micro-finance institutions, other financial enterprises: min. 10% (**earlier: 20%**)

### Main conditions of micro loan

- § **Size:** *Investment loan:* max. HUF 10 mn [*EUR 35 th.*] (**earlier: HUF 6 mn**); *Working capital loan:* max. HUF 6 mn [*EUR 20 th.*]
- § **Purpose of loan:** capital expenditures and/or current assets
- § **Interest rate:**
  - § *Micro-finance institutions:* freely determined
  - § *Credit institutions:* max. 0.3\*3m BUBOR+6% (**=currently max. ~8.9% p.a.**)
- § **Loan period:** *Investment loan:* max. 10 years (**earlier: 5 years**); *Working capital loan:* Max. 3 years (**earlier: 1 year**)
- § Loan guarantee is available for intermediaries as an option



## 1.a. Micro Loan - results and status

- § **Contracted financial intermediaries:** 40 (of which 28 credit institutions /mainly saving-cooperatives/)
- § **First Micro Loan contract:** January 2008
- § **No. and volume of Micro Loan contracts (signed with micro enterprises):** 1300 / HUF 7 billion [~EUR 25 mn]
- § **Average loan size:** HUF 5 million [EUR 17 th.]
- § **Average interest rate:** 7% p.a.





## 1.b. SME Loan

- § **Joint program of Venture Finance Hungary (MV) and Hungarian Development Bank (MFB)**
- § **MV and MFB provide refinancing to credit institutions (HUF 25-25 bn) [EUR 85-85 million]**
- § **Program launched:** Dec 2008
- § **Main conditons of SME Loan:**
  - § **Beneficiaries:** micro-, small- and medium enterprises
  - § **Size:** HUF 10-100 million [EUR 35 th. – 350 th.]
  - § **Purpose:** capex and directly related current assets (only outside the Central-Hungarian region)
  - § **Loan period:** max. 10 years
  - § **Interest rate:** 3m EURIBOR\*0.75 + 0.75% + max 5% (=currently max. ~6.7% p.a.)
- § **Current status (mid-May 2009):**
  - § **No. of contracted intermediaries:** 19
  - § **No. and volume of loan contracts:** 29 / HUF 1bn [EUR 3.5 mn]



## 1.c. SME Working Capital Loan

- § **Joint program of Venture Finance Hungary (MV) and Hungarian Development Bank (MFB)**
- § **MV (HUF 50bn) and MFB (HUF 90bn) provide refinancing to credit institutions [EUR 172 mn and EUR 310 mn]**
- § **Tenders announced: 23rd January 2009**
- § **Main conditons of SME Working Capital Loan:**
  - § **Beneficiaries:** micro-, small- and medium enterprises
  - § **Size:** HUF 1-200 million [EUR 3.5 th. – 690 th.]
  - § **Purpose:** working capital financing serving for expansion of business activity
  - § **Loan period:** 1 year + 1 day
  - § **Interest rate:** 9/14 \* 1m BUBOR + 1.464 % + max 4% p.a. (=currently max ~11.6% p.a.)
- § **Current status (mid-May 2009):**
  - § **No. of contracted intermediaries:** 17
  - § **No. and volume of loan contracts:** 20 / HUF 700 mn [EUR 2.4 mn]



# SME Working Capital Loan: Experiences

§ **Usability of the loan is too restricted:** it has to serve for the start-up or expansion of business activity due to EU regulations



No clear definition, hard to control...



§ Contracted credit institutions are not willing to take the responsibility for the compliance with the rules è many of them suspended the sale of the loans



## 2. Portfolio Guarantee

- § **Facility:** automatic portfolio guarantee behind SME loans
- § **Allocated funds:** HUF 27 billion [*EUR 93 mn*] (without leverage effect)
- § **Financial intermediaries:** Credit institutions, financial enterprises
- § **Extent of guarantee:** max. 80% of the guaranteed part of the loans
- § **Guaranteed SME loans:**
  - § **Size:** max. HUF 100 million [*EUR 345 th.*]
  - § **Loan period:** max. 10 years
  - § **Purpose:** capex and current assets
- § **Current status (mid-May 2009):**
  - § **No. of contracted intermediaries:** 17 credit institutions (mainly saving-cooperatives)
  - § **First loan granted:** October 2008
  - § **No. and vol. of guaranteed SME loans:** 75 / HUF 1bn [*EUR 3.5 mn*]
  - § **Average loan size:** HUF 14 million [*EUR 48 th.*]

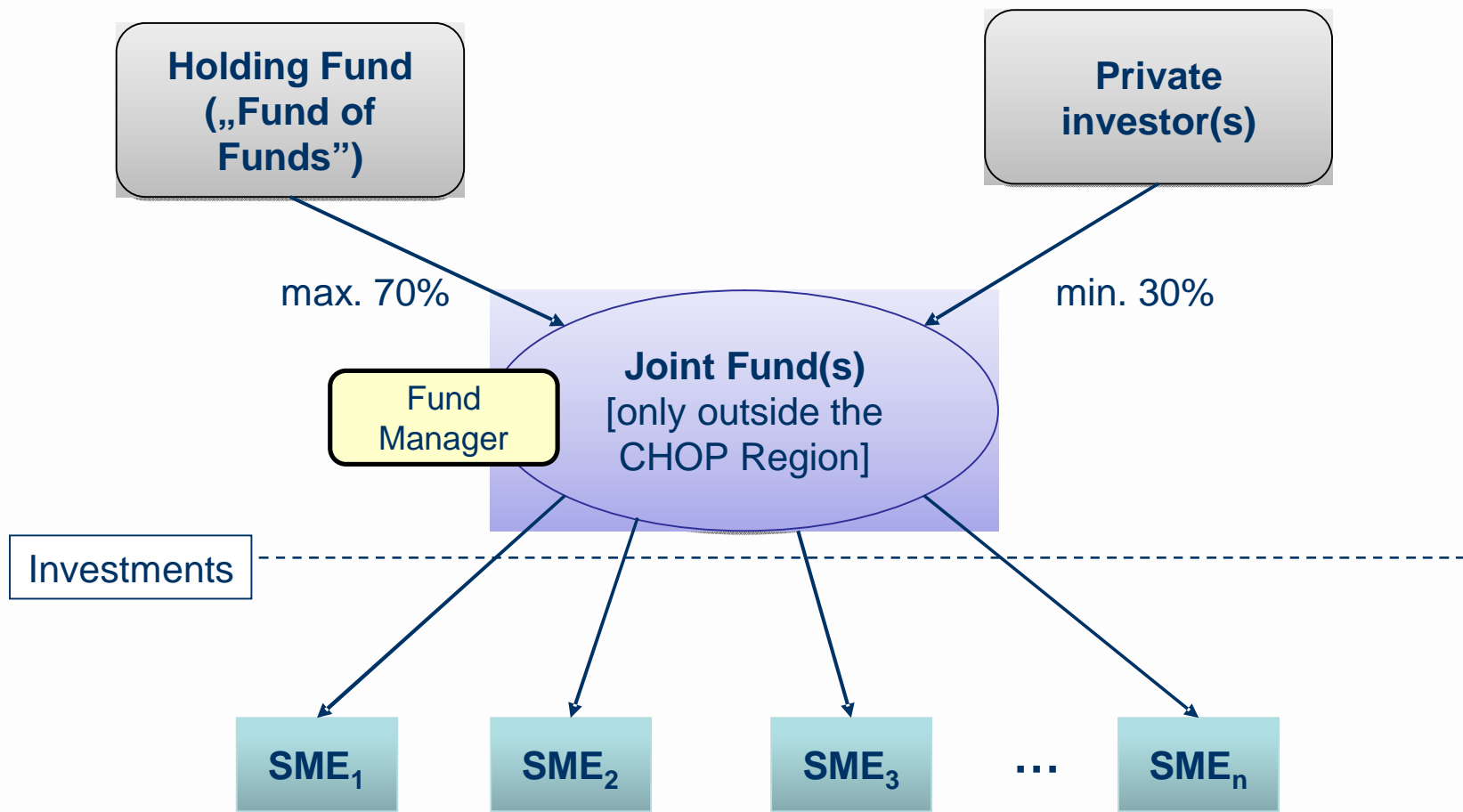


## 3. Venture Capital

- § **Aim:** to improve the capital status of the Hungarian SMEs in the early (“seed” and startup) and growth stage.
- § **Facility:** financial resources for venture capital funds (HUF 35bn allocated [EUR 120 mn])
- § **Financial intermediaries:** Independent entities licensed to manage registered venture capital funds according to Act CXX of 2001 on the Capital Market.
- § **Alternatives for co-operation:** Joint Fund; Co-Investment Fund
- § **Private contribution required:** min. 30%
- § **Investment size:** Max. EUR 1.5 million investment per 12 months per target company (max. in 3 consecutive years)
- § **Target companies:** Max. 5-year-old SMEs with less than HUF 1.5 bn turnover
- § **Status, results, and expected schedule:**
  - § **Program notified by European Commission:** 11th December 2008
  - § **Announcement of tender:** 23rd January 2009
  - § **Announcement of the 2nd tender:** until 15th July 2009
  - § **First venture capital funds set up:** Q1 2010

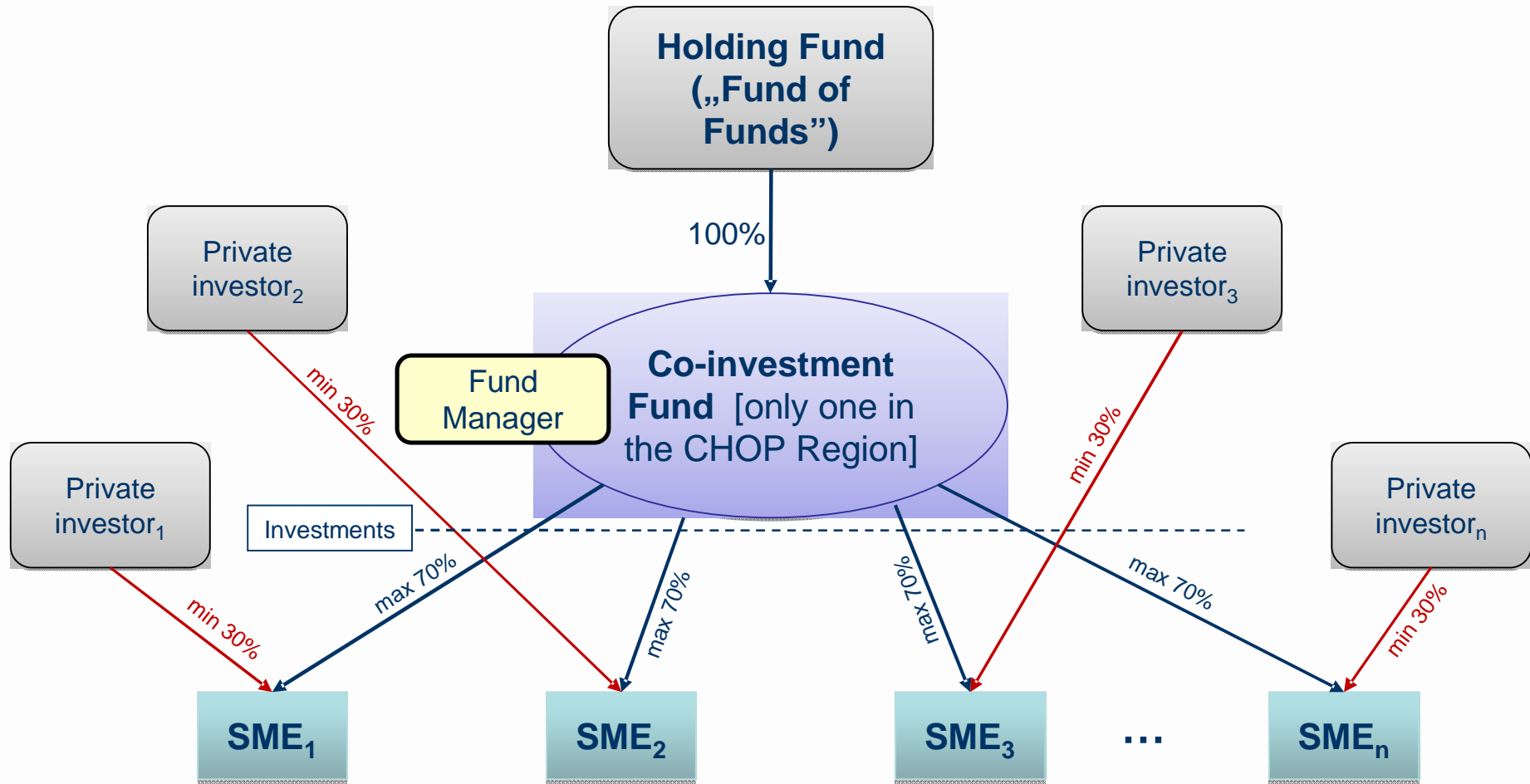


# Join-Fund Structure





# Co-investment Structure





## **New financial programs planned and other developments**



- § **Refinancing loans to factoring companies (Q4 2009)**
- § **New or revised guarantee instrument (Q1 2010)**
- § **Continuous simplification of tender procedures and reporting requirements (evaluation of financial intermediaries based on their past performance)**





# Control of funds

## **Disbursement:**

- § Refinancing of intermediaries in tranches (Micro and SME Loan Programs)
- § „Pledge funds” (Venture Capital Program)
- § Preconditions:
  - § Intermediary’s own-contribution has to be deposited in advance
  - § Decent performance (both qualitative and quantitative shown in mid term business plan)
- § Provided funds have to be managed on a separate account

## **Main restrictions (differ by financial programs):**

- § Sectorial restrictions (e.g. „de minimis” regulations)
- § Company size (e.g. maximum turnover, staff, age, life-cycle stage etc.)
- § Purpose of loan or equity financing (e.g. loan redemption not allowed; expansion of business activity at working capital loan etc.)
- § Other conditions (e.g. promising future, elaborated business plan; no long credit history at Micro Loan)



## Update of the financial programs

- § Continuous communication with contracted and potential intermediaries
- § Feedbacks from beneficiaries (e.g. at conferences, workshops)
- § Performance analysis, monitoring
- § Changes in economic situation



- § Modification of program conditions...
  - § ...to final beneficiaries (e.g. increase of loan size and loan period of Micro Loan)
  - § ...to intermediaries (e.g. lower contribution; simplification of reporting requirements)
- § Frequent review of financial forecasts (estimated no. and volume of loans etc.)
- § Re-allocation of funds among programs on a yearly basis (action plan)
- § New financial programs (e.g. SME Loan as a quick response to credit crisis)



## Expected Economic Effects

1. **Elimination of credit market deficiencies**
2. **Helping both the existing and the newly established enterprises – cca. HUF 1000 bn (EUR 3.5bn) additional funding, Cca. 20 thousand transactions (enterprises).**
3. **Turn previously non-financed enterprises into „bankable” ones, i.e. getting access to standalone bank financing in the future**



# Legal background



# I. Introduction

- I. Introduction**
- II. EC Legal Framework**
- III. Implementation into the Hungarian Legal System**
- IV. Overview of the Program in Hungary**
- V. Venture Finance Hungary Plc**
- VI. How Does the Program Work?**
- VII. Concluding Remarks**



## II. EC Legal Framework

- The "Three Musketeers"

- § **Regulation (EC) No. 1083/2006**

providing for the general framework of the European Regional Development Fund, the European Social Fund and the Cohesion Fund

- § **Regulation (EC) No. 1080/2006**

establishing the tasks of the European Regional Development Fund and the scope of its assistance

- § **Regulation (EC) No. 1828/2006**

setting out rules for the implementation of Regulation (EC) No. 1083/2006 and Regulation (EC) No. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund



## II. EC Legal Framework

- The "COCOF Note" - 2007
  - *"...sets out the reading that the two Directorates-General will give to the relevant articles of the Regulations..."*
- § Most of the Hungarian framework predates the Note, however still conforms to it.



## III. Implementation into the Hungarian Legal System

### § Government Decree 255/2006 (XII. 8.)

- implements the *general rules* for the use of funds and appoints the institutions responsible for administering them

### § Government Decree 281/2006 (XII. 23.)

- provides for the framework of *financial execution and controlling* systems for the receipt of funds

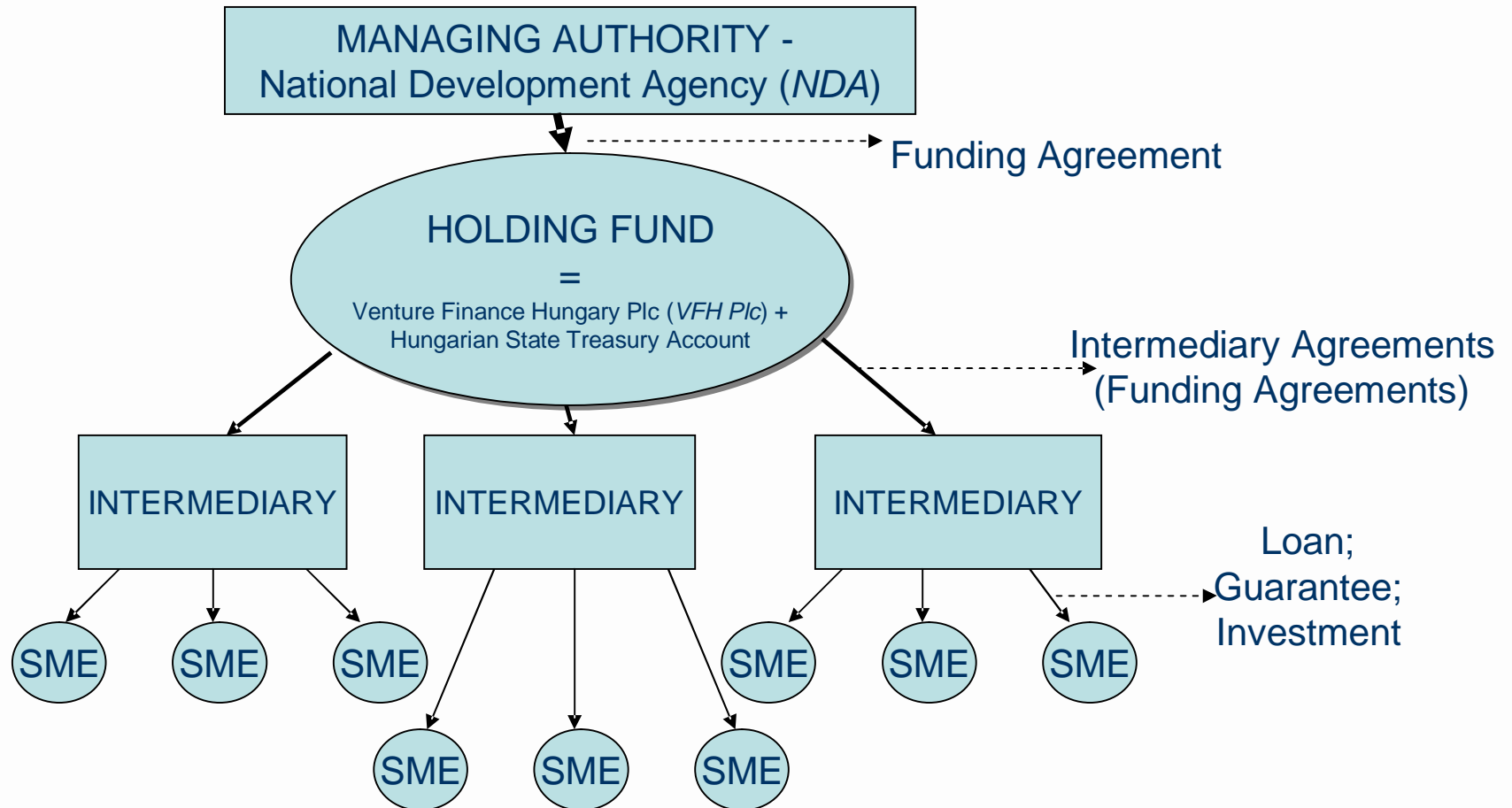
### § MNDE-MF Joint Decree 2/2008 (V. 29.)

- sets out the *specific rules* regarding the use of SME subsidies and the Holding Fund





# IV. Overview of the Program in Hungary





## V. Venture Finance Hungary Plc

- § Designated as the Holding Fund by Article 21 (4) of Government Decree 255/2006 (XII. 8.)
- § This designation is in line with the EC Treaty as the Decree:
  - presents the public policy objectives justifying the direct award of a grant to a financial institution (i.e. to VFH Plc.) as it:
    - » refers to the Holding Fund's objectives as determined by Regulation (EC) 1083/2006;
    - » lists the Holding Fund's main tasks with respect to the implementation of the JEREMIE Program;
    - » contains provisions regarding the compulsory content of the funding agreement to be entered into by and between the Holding Fund and the Managing Authority.



## V. Venture Finance Hungary Plc

- justifies the existence within this financial institution of the expertise necessary for the accomplishment of the aims of the holding fund when it:
  - » identifies the holding fund manager as a financial institution - i.e. as an entity licensed and regularly supervised by the Hungarian Financial Supervisory Authority - under the Hungarian Banking Act.
  - » The fact that the holding fund manager qualifies as a financial institution necessarily guarantees the existence of the expertise necessary as financial institutions must comply with specific personal requirements set out in the applicable legal provisions.



## V. Venture Finance Hungary Plc

- Core Competencies:
  - § Setting up programs in consultation with the Ministry for National Development and Economy (*Ministry*);
  - § Evaluation of Intermediaries;
  - § Execution and amendment of Intermediary Agreements;
  - § Drawing up and monitoring of risk assumption/investment policies, including the identification of potential beneficiaries, financial instruments and projects to be supported;
  - § Recommending the reallocation of resources allocated for individual programs within certain operative programs.



## VI. How Does the Program Work?

- **A. The Program Accounts**

- § The NDA opens separate accounts for each program at the Hungarian State Treasury and provides VFH Plc with disposal rights over the accounts
- § VFH Plc may draw down resources from the Program Accounts to honor its obligations under the Intermediary Agreements in force by addressing a draw down notice to the NDA



## VI. How Does the Program Work?

- **B. Set - Up and Approval of Programs**

- § Set-up of programs is conducted by VFH Plc as the Holding Fund in consultation with the Ministry
- § Approval is done by the NDA



## VI. How Does the Program Work?

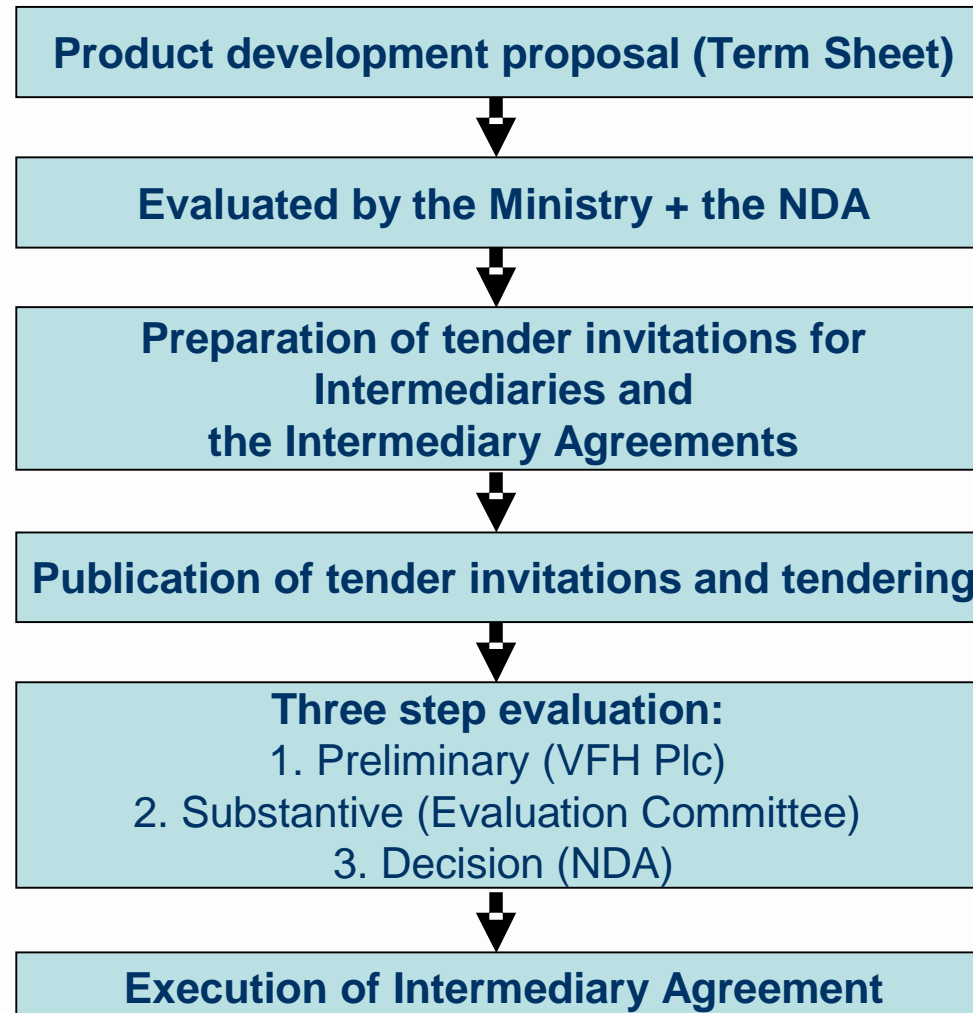
- **C. Selection of Intermediaries**

- § Done through public tendering



# VI. How Does the Program Work?

## C. Selection of Intermediaries







## VI. How Does the Program Work?



- **D. Monitoring Performance**

- § Daily online report by VFH Plc to the NDA
- § Monthly comprehensive report in writing by VFH Plc to the NDA
- § Monthly Certification Report by VFH Plc to the NDA about its observations in monitoring the operations of Intermediaries
- § The NDA may audit/supervise VFH Plc and Intermediaries at any time
- § VFH Plc may audit/supervise Intermediaries and Beneficiaries at any time



**Thank you for your kind attention!**