



Katalin Varga Kiss

Széchenyi István University
Centre of Foreign Languages
kathykis@sze.hu

THE EFFECT OF INSTITUTIONAL SUPPORT ON SMES' APPROACH TO SUSTAINABLE FINANCE: THE CASE OF HUNGARY¹

Summary: Embedding the Hungarian SME sector into EU's financing objectives the paper highlights what stages SMEs have gone through with the help of governmental and EU support to be involved in sustainable finance. It also points out that financial sustainability is regarded as a prerequisite for sustainable finance. By focusing on analysing institutional support for SMEs at national and EU level, the study reveals different approaches to sustainable investment underlining the fact that while the objectives of European Structural Investment Funds (ESIF) are in compliance with the principle of sustainable development, this may only be regarded as an indirect consequence of government support.

Keywords: SMEs, financial sustainability, sustainable finance, Funding for Growth Scheme, EU funds.

JEL Classification: G, E5.

Introduction

The European Parliament regards “the role of SMEs as the backbone of EU industry and stresses the need to reinforce strong value-chains between SMEs, mid-caps and larger enterprises, and the need to pursue an EU industrial policy in an SME-compatible way that addresses the challenges they face; underlines the need to support the creation of a business-friendly environment by establishing a level playing field for all EU SMEs, start-ups and scale-ups, young entre-

¹ Research was carried out within the framework of EFOP-3.6.1-16-2016-00017.

preneurship, in particular in the most innovative areas, and social economy enterprises” [www 1].

In line with the EU’s industrial policy, support to small and medium-sized enterprises is a key aspect of the Hungarian industrial policy, as well. In 2013 the Ministry of National Economy prepared its Small and Medium-Sized Enterprise Development Strategy for 2014-2020 (hereinafter referred to as SME Strategy) [Irinyi Plan, 2016, p. 16] the measures of which may also directly contribute to the Hungarian industrial development objectives. The SME Strategy defined three key areas in the field of required interventions: improving the growth potential, developing the entrepreneurial environment and making access to external sources of financing easier [Irinyi Plan, 2016, p. 16]. In Hungary there are relatively few small and medium-sized enterprises suitable for growth and exports. In the years following the outbreak of the crisis, enterprises faced serious financing constraints and failed to implement their planned investments. The introduction of the Funding for Growth Scheme (FGS) by the Hungarian government aimed at mitigating these unfavourable impacts by ensuring the financial sustainability of the sector.

Several studies [Csubák, Fejes, 2014; Csiszárík, Kocsir, 2017; Parragh, 2017; Matolcsy, Palotai, 2018] indicate that this institutional support may be regarded as a unique phenomenon, because it is the result of the of the government’s and the central bank’s unorthodox economic policy, an unconventional monetary policy tool, the Hungarian way, which has enhanced results as opposed to the traditional fiscal policy built on austerity measures. While these studies mainly elucidate the theoretical background of monetary and fiscal coordination in Hungary with FGS as a tangible tool, the present paper embeds institutional support into the context of Hungarian SMEs, as they were more severely hit by the 2008-2009 financial crisis than their peers in the CEE region.

Sustainable finance has been in the focus of attention of scientific research [Sun, Louche, Perez, eds., 2011; Silver, 2017] recently, but studies mainly aim at corporations, in the case of which environmental, social and governance issues belong to the CSR activities and are integrated into the corporate strategy. For the majority of SMEs’ owners and managers, environmental, social and governance (ESG) issues are considered to be of low importance due to the lack of resources and high costs [www 2].

While the majority of SMEs regard financial sustainability as a priority for being profitable and competitive on the market, they seem to disregard the fact that profitability and competitiveness should serve long-term objectives to be

able to sustain in the long run. For this, however, they have to consider the social and environmental impacts of their business.

In contrast with large companies [www 3] SMEs are not required to disclose environmental and social information by non-financial reporting. Therefore, corporate reports cannot be used as the means to gather information and raise awareness about the impact on key societal concerns, for example sustainability [EFAA, 2018, p. 9].

An in-depth analysis of institutional supports at national and EU level may give some insight into how SME are encouraged to get involved in sustainable investments.

The paper is structured as follows: the theoretical part deals with the concepts of 'sustainability', 'financial sustainability' and 'sustainable finance'. Then it describes the secondary sources which served as a basis for research. The results and discussion part investigates how institutional support in the form of subsidised financing schemes (Funding for Growth Scheme and European Structural Investment Funds) seem to have contributed to a better performance of the Hungarian SME sector and also seeks to find an answer whether and if yes how the presented schemes may encourage investments in sustainability agendas.

1. Literature review

For the interpretation of sustainable finance, first the paper highlights the concepts of 'sustainability' and 'financial sustainability'. The most often cited definition of 'sustainability' is based on the Brundtland Report [1987, p. 15], which associates sustainability with 'sustainable development' stating that "it meets the needs of the present without compromising the ability of future generations to meet their own needs". Sustainable development is also viewed as "a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs" [Brundtland Report, 1987, p. 15]. The Report also points out that sustainable development should be a global objective despite the economic, social and ecological differences among countries.

Asheim [1994, p. 1] associates sustainability with resource management in such a way that "the average quality of life we ensure ourselves can potentially be shared by all future generations".

Financial sustainability may be related to issues how an organisation manages its assets, equity and liabilities for success. This involves financial and strategic planning, income diversification, sound administration and finance, as well as, income generation [León, 2001, p. 15]. An organisation is financially sustainable if its core work will not collapse, even if external funding is withdrawn.

Business organisations maintaining financial sustainability are assumed to ensure access to working capital in transition and beyond, adjust to a drop in demand for goods and services by their customers leading to decreased revenue, have efficient financial management systems and processes, including debt and cash collection strategies and processes and policies for bad debts [www 4].

Financial sustainability refers to the financial viability of a company indicating that the company is able to continue to achieve its operating objectives and fulfil its mission over the long term.

While financial sustainability may be associated with traditional finance, significant changes in the financial practices over the past decades have led first to the emergence of responsible finance and then to that of sustainable finance. After the global financial crisis, it was necessary to rethink the role of modern finance, the impact of finance on the society, and the sustainability of the financial system. As a result, sustainable finance is concerned with the close connection of business/ finance and ethics and social responsibility, an alignment of business/ financial performance (outcomes) and social/ environmental performance (outcomes) and the optimisation of the firm's total performance on a long-term perspective [Sun, Louche, Perez, eds., 2011].

There are different approaches to the interpretation of the connection between sustainability and finance. In the view of Sun, Louche and Perez [eds., 2011, p. 7] taking into account the relationship between sustainability and finance requires considering 'contextualisation', 'conceptualisation' and 'operationalisation', where the first one refers to sustainability challenges such as water shortage, biodiversity, the second one may involve the economic interpretation of sustainability expressed in terms of externalities, while the third one should offer responses through rules and guidelines.

Compared with traditional finance and behavioural finance, sustainable corporate finance (SCF) may be regarded as "a multi-attribute approach in which financial, social and environmental elements are interrelated and integrated" [Soppe, 2004, p. 213]. As SCF focuses on long-term financial goals by providing a credible view of the underlying company, it may be interpreted as "a reintegration of social values into economic theory" [Soppe, 2004, p. 221]. In a simi-

lar vein, Thiele [2013] also draws on the ethical components of sustainability highlighting the fact that it is based on moral claims about the responsibilities and obligations of individuals and organisations.

Silver [2017, p. 4] defines the sustainability of a system as the “ability to maintain itself indefinitely without a high risk of dropping to a lower level of complexity”. In terms of finance Silver [2017, p. 5] suggests splitting up sustainability into three levels, where ‘self-sustainability’ designates whether the financial system may keep going indefinitely; ‘economic sustainability’ refers to the sustainability of the economy; and ‘ecological’ and ‘societal sustainability’ denotes impacts on resource use, environmental damage, and social wealth. The financial crisis served as an evidence for the failure of self-sustainability, as the financial system could only be rescued by the concerted efforts of the governments. At the second level the financial system may lead to sustainable real economy or undermine its sustainability. At the third level sustainable investment may avoid ecological damage. Where capital is directed directly either through market-based lending or subsidised loan schemes, it may result in shaping the structure and the future course of the economy.

Sustainable agendas have become a priority for the EU. According to the European Commission [www 5] ‘sustainable finance’ means the provision of finance to investments taking environmental, social and governance considerations into account. It includes a strong green finance component that aims to support economic growth while reducing pressures on the environment, addressing green-house gas emissions and tackling pollution, minimising waste and improving efficiency in the use of natural resources. In addition, it also encompasses the increasing awareness of the risks which may have an impact on the sustainability of the financial system, as well as, the need for financial and corporate actors to mitigate those risks through appropriate governance.

To develop a comprehensive EU roadmap on sustainable finance, the European Commission established a High-Level Group on Sustainable Finance (HLEG) in late 2016. According to the Group sustainable finance is about two urgent imperatives: (1) improving the contribution of finance to sustainable and inclusive growth by funding the society's long-term needs; (2) strengthening financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making [www 6].

The Action Plan on Financing Sustainable Growth [www 7] launched by the Commission in March 2018 aims to further connect finance with the specific needs of the European and global economy for the benefit of the planet and the

society. The plan aims to redirect capital flows towards sustainable investments to achieve sustainable and inclusive growth; manage financial risks stemming from climate change, natural disasters, environmental degradation and social issues; and foster transparency and a long-term outlook for financial and economic activity [www 8].

As sustainability aims to make economic prosperity long-lasting, more socially inclusive and less dependent on exploitation of finite resources and the natural environment, besides large corporations also SMEs should incorporate sustainability initiatives into their business strategy to save energy, to improve efficiency. To sustain for an indefinite period, SMEs should balance economic, social and environmental impacts [www 2]. In this view financial sustainability and sustainable finance are approaches complementing each other. Sustainability issues cannot be implemented without smooth financial operation of a company; thus financial sustainability serves as a prerequisite for sustainable finance.

There has been an ongoing debate on the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP). The majority of studies rather argue for a positive relationship [Mikołajek-Gocejna, 2016] emphasising the fact that sustainability practices may, first of all, be related to the efficient use of resources, responsiveness with respect to the demands of various stakeholders, to the context of measuring the implementation of corporate objectives, as well as, the exploitation and improvement of existing sustainability competencies.

Galant and Cadez [2017] explain the equivocal empirical findings on the correlation of CSR and CFP by the fact how the two concepts are applied and measured. Their findings reveal that the measurement of CFP is relatively standardised, that of CSR is not, therefore the standardisation of how to measure CSR and the mandatory disclosure of CSR policies appear to be the solution. Cho, Chung and Young [2019] suggest that in addition to the use of single financial indicators such as ROA and Tobin's Q, analysing the growth rate of sales revenue would also reflect how CSR outcomes increase or decrease ROA. However, this method may only be applied to large companies that have to fulfil the obligations of mandatory CSR or sustainability reporting.

SMEs' relation to sustainable finance is a complex issue. They constitute a heterogeneous group in terms of size and sector diversity, build a large group internationally, contribute to a large share of pollution, their innovation activities greatly differ from those of large corporations [Hillary, ed., 2000 after Klewitz, Hansen, 2014, p. 59]. Size is controversially judged by literature. While it is

regarded as a disadvantage with reference to access to finance to implement innovation, their lean organizational structure enables them to flexibly make decisions and compete in niche markets with sustainability oriented innovations. Compared with large companies, Loucks, Martens and Cho [2010, p. 16] argue that the owner-operated structure, the less formal business culture, the increased influence of the key role players, the high reliability on external relationships may be seem beneficial for SMEs when they decide on the implementation of sustainable investments.

In the context of SMEs financing gaps usually account for reason why they are less involved in sustainability issues. According a study by the OECD [2006, p. 130] the existence of a financing gap may be due to three factors: “the financial sector, as suppliers of funds, SMEs, as demanders of funds; and general economic and/or infrastructure conditions in a country”. The most common reasons include “asymmetric information, the lack of trust between entrepreneurs and investors, the lack of management skills and poor business plans from the SMEs, the lack of a track record and collateral in SMEs, limited margins for banks on small loan amounts and the conservative nature of financial markets” [OECD, 2006, p. 130].

2. Research methodology

The paper is based on the use and analysis of secondary sources. The Hungarian SME sector's typical features are described using the data of the Hungarian Central Statistical Office (KSH). For comparative illustrations data for EU-28 were retrieved from the Eurostat. The data on the government's monetary stimulus with regard to the Funding for Growth Scheme derive from the publications of the Hungarian National Bank (MNB), while data on the allocation of the European Structural Investment Funds were gathered from the publications of the European Commission and from the Single Monitoring and Information System (EMIR) [www 9]. The data retrieved from the secondary sources were systematically combined and critically analysed to reveal how governmental support contributed to the financial sustainability of the Hungarian SME sector and in what way companies are encouraged by the EU to implement sustainable investments.

The performance of Hungarian SMEs is demonstrated over a four-year period in compliance with the time horizon of the FGS (2013-2017). This time series analysis demonstrates the development of the sector during the targeted

monetary stimulus. A comparison with the EU-28 in terms of distribution of persons employed and value added at factor cost by size class is made for the year 2017. This static visualisation supports a broader view of the sector focusing on similarities and differences with respect to the EU average.

3. Research findings and discussion

This part investigates the performance of Hungarian SMEs illustrating their structural characteristics compared with those of the EU-28. As the sector's enhancement of competitiveness required serious economic and monetary adjustments on behalf of the government and the central bank regarding access to funds after the crisis, the paper analyses how the Funding for Growth Scheme (FGS) contributed to the sector's financial sustainability and encouraged investments. As SMEs also play a pivotal role in the EU's economic policy, they may also be eligible for a large amount of EU funds through their home countries' Partnership Agreements, whose operational programmes should comply with sustainable investment issues.

3.1. The SME sector in Hungary

In Hungary the enterprise sector is dominated by micro, small and medium-sized enterprises², with micro enterprises prevailing (94.9%), followed by small and medium-sized companies, 4.3% and 0.7% respectively. The number of corporations employing more than 250 workers is only 920, which does not even reach 1% (0.14%) of the total number of active companies³.

In spite of the fact that SMEs account for 99.8% of the non-financial corporate sector in Hungary, its percentage distribution of net turnover does not reach 60% of the whole corporate sector. Companies employing 250 persons or more represent slightly more than 40% of the sector's net turnover. All this underpins the fact that SMEs' productivity and efficiency is lower than that of large companies; therefore they require quick and easily accessible financial support⁴.

² The size categories of SMEs are based on the SME definition of the European Commission. See: [www 10].

³ Hungarian Central Statistical Office (KSH) 2017 data.

⁴ The author's calculations based on data by KSH.

Over the past decade the economic status of SMEs has increased as a result of outsourcing business activities by large companies to smaller ones.

At the time of the financial crisis, Hungarian SMEs did not only face a drastic drop in demand for the goods they produce, but their borrowing activities were also restrained by the financial sector. Recognising the economic and social significance of SMEs – their contribution to the GDP, investments and job creation – several measures have been taken to improve the situation of this sector. In order to overcome the difficulty that especially smaller companies face due to asymmetric information when applying for external funding, initiatives were taken both by the Hungarian State and the EU to support SMEs' access to finance [Szöllősi, Pogácsás, 2014, p. 17].

To give an account of the Hungarian SME sector, research was carried out into the macroeconomic indicators based on the major data collected by Hungarian Central Statistical Office (KSH). Accordingly, SMEs are examined by the percentage distribution of the number of workforce employed, the proportion of net turnover, the value added by class and their turnover from exports by size.

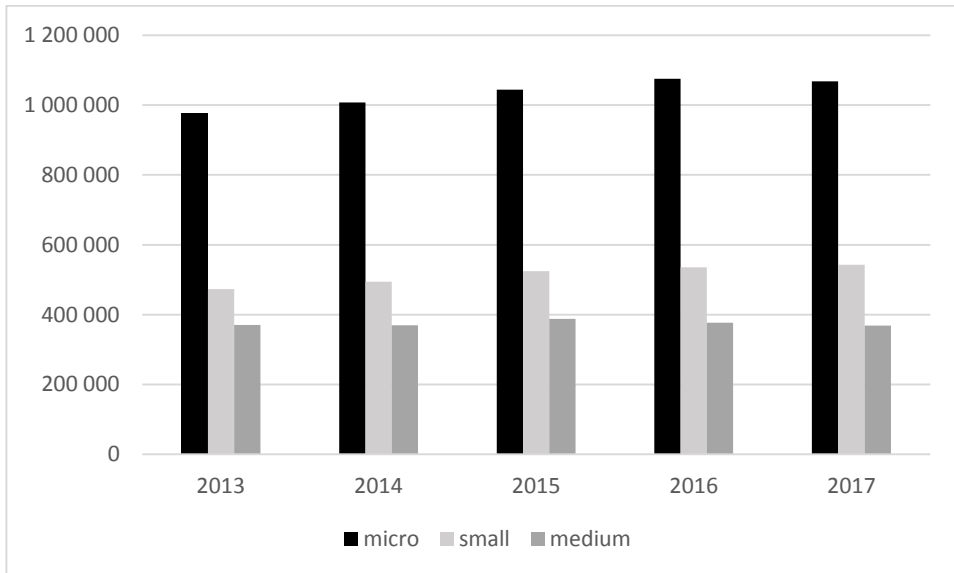


Figure 1. The number of people employed by the SME sector (2013-2017)

Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH).

During the 2013-2017 period the number of people employed by the sector rose by 9%, with micro companies increasing the number of staff by more than 90.000 workers (9%). The number of employed workers by medium-sized companies remained relatively stable, while that by small companies also grew significantly (15%), in spite of the fact that they only account for 36% of the overall SME sector (Figure 1).

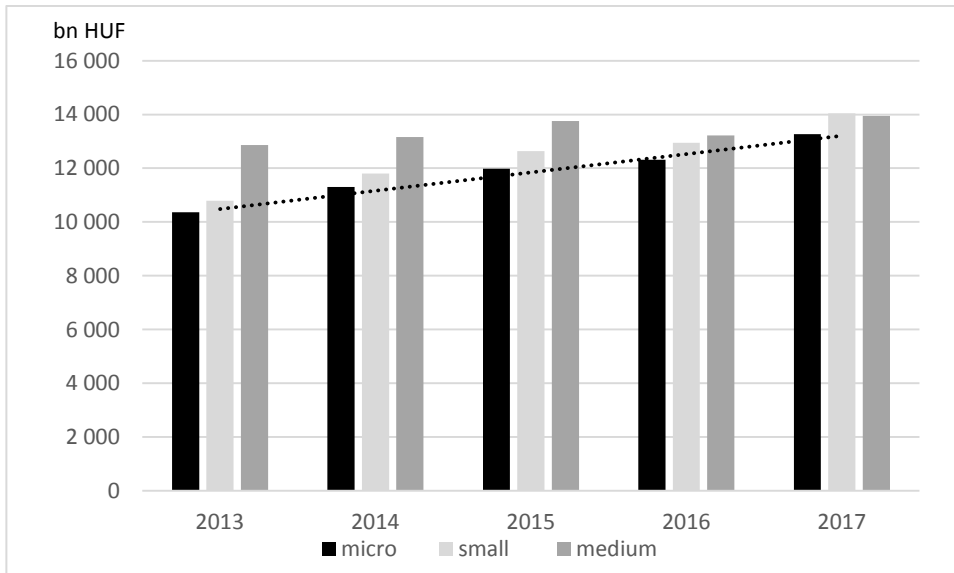


Figure 2. Net turnover by the SME sector in bn HUF (2013-2017)

Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH).

In the investigated period the SMEs' net turnover also showed an overall 21% improvement, out of which the increase by the small enterprises exceeded 31%, it was followed by a 28% rise by micro enterprises, while in the case of medium-sized enterprises there was only an 8.5% growth. In spite of the fact that in 2013 there was an apparent gap between the different size categories in terms of turnover, by 2017 micro and small companies seem to have caught up with medium-sized enterprises (Figure 2).

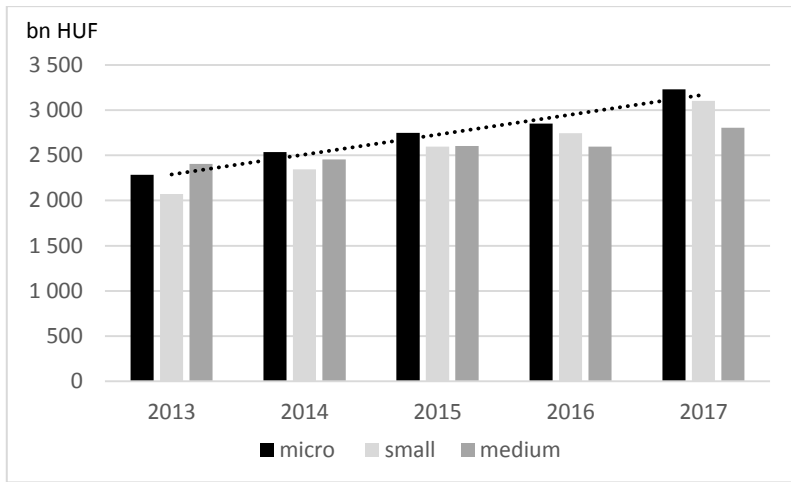


Figure 3. Value added at factor cost by the SME sector in bn HUF (2013-2017)

Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH).

The value added at factor cost by the overall SME sector showed a 35% increase during the 2013-2017 period with small enterprises generating the highest increase 49%, followed a 41% hike by small companies. In contrast to them, 16% the rise by medium-sized companies was rather moderate. It is also noteworthy to add that within the overall corporate sector SMEs distribution of value added levels off at approx. 44% ranging between 13% and 15% in case of the different size classes (Figure 3).

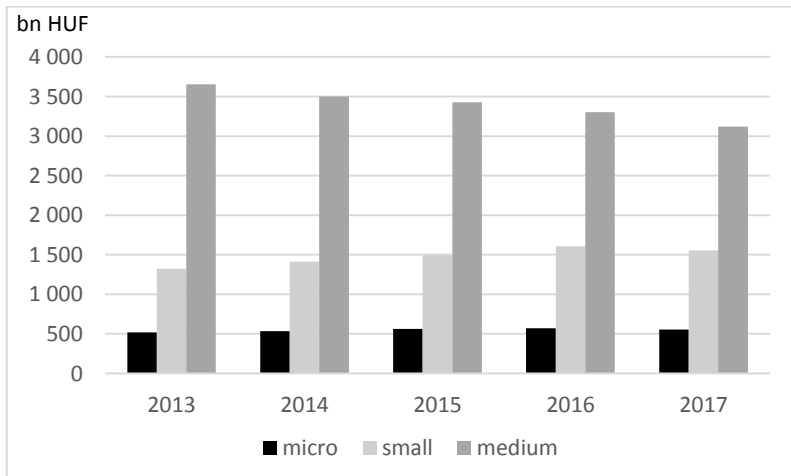


Figure 4. SMEs' turnover from exports in bn HUF (2013-2017)

Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH).

As opposed to a noticeable improvement in employment, net turnover, value added at factor cost, SME's turnover from exports slightly declined (5%) in the given period. There was a moderate increase of 6% in case of micro enterprises and a 17.4% hike in case of small enterprises, while medium-sized companies suffered from a 15% setback (Figure 4).

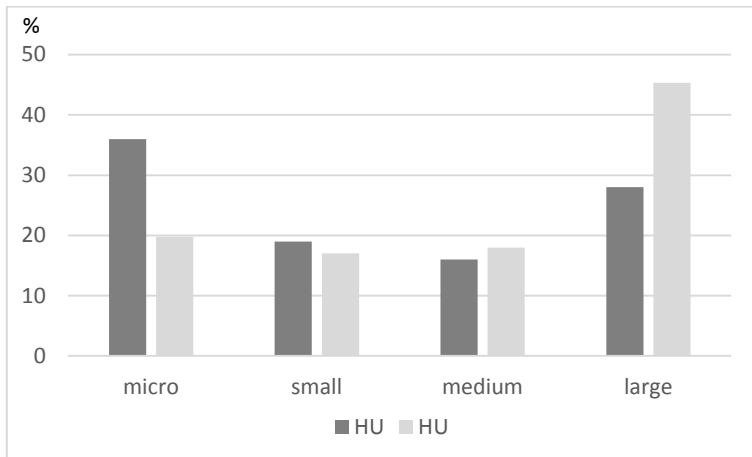


Figure 5. Distribution of persons employed and distribution of value added by factor cost by size class in the Hungarian non-financial business sector in 2017

Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH) and Annual Report on European SMEs 2017/18 [2018].

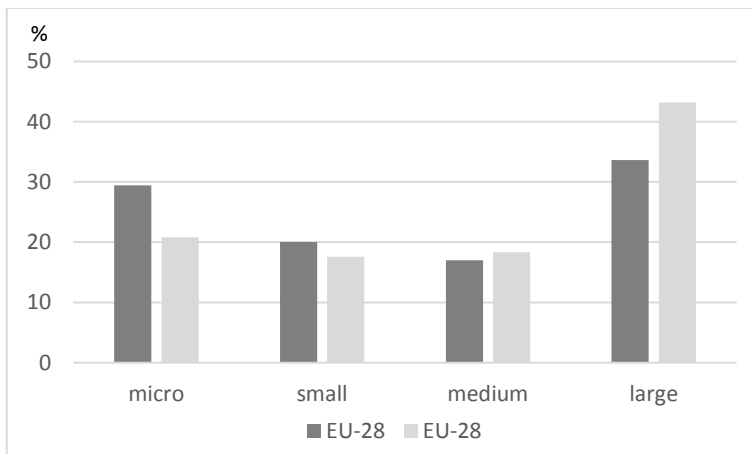


Figure 6. Distribution of persons employed and distribution of value added by factor cost by size class in the EU-28 non-financial business sector in 2017

Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH) and Annual Report on European SMEs 2017/18 [2018].

Based on 2017 data the distribution of persons employed and the distribution of value added at factor cost between Hungary and the EU-28 show similarities in case of small and medium-sized companies. In case of Hungarian micro enterprises, however, the percentage proportion of employment is significantly higher (36%) than in the EU-28 (29.4%) with almost no difference in the distribution of value added (19.8% and 20.8%, respectively) indicating the fact that in spite of their significant role in employment their contribution to economic growth lags behind the EU average. In contrast with Hungarian micro enterprises, large companies in Hungary with a relative small distribution of employment (28.7%) account for a higher proportion of value added (45.3%) than the EU-28 (43.2%) with larger proportion of employment (33.6%) – Figure 5 and Figure 6.

As the above figures demonstrate, even if the structural indicators of Hungarian SMEs do not show a large deviation from those of the EU-28, the sector still needs improvement in many fields, which can only be implemented by maintaining financial sustainability that may be transformed later into sustainable finance.

All this underpins the fact that even if the financial constraints of the sector have been relieved by the FGS resulting in a positive trend of SMEs' development, the sector still requires further support to enhance exports activities that cannot be implemented without R&D investments resulting in competitive products.

The share of SMEs taking resource-efficiency measures remains below the EU average, as does the proportion of SMEs offering green products and services. Moreover, only 15% of SMEs have benefited from public support measures for the production of their green products, compared to 23% at EU level. Although Hungary has realised the importance of eco-innovation and green technologies, more measures and efforts are needed to make significant progress in this area [SBA Fact Sheet Hungary, 2017, p. 14].

3.2. Governmental support for the financial sustainability of the SME sector

Hungary has implemented a range of schemes to support SME finance in various ways including financing under the Funding for Growth Scheme (FGS), as well as the disbursement of EU funds. This section gives an overview of the results of the FGS.

The Hungarian National Bank (MNB) announced the Funding for Growth Scheme (FGS) in April 2013 with a view to ease SME lending and to strengthen

financial stability and reduce external vulnerability. Until its gradual phase out in March 2017, the scheme offered the most favourable conditions in terms of loan costs, the wide scope of its utilisation, the highest available loan amount, and its long tenor.

The scheme was available in three phases with different objectives to support SMEs to have access to forint-denominated loans. Within the framework of Pillar 1 of the first phase (from June to August 2013), the MNB provided refinancing loans at 0% interest to the participating credit institutions, which lent further these loans to SMEs at an interest margin capped at 2.5%. The loans disbursed in this way could be exclusively used for investment, working capital financing, pre-financing EU funds, or for the redemption of existing forint loans for such purposes. SME customers could use loans received under Pillar II for the redemption of foreign currency loans [MNB, 2014].

During the first phase, the ratio of refinancing loans was extremely high: these loans accounted for all the disbursements of Pillar 2 and 40% of Pillar 1 [László, 2016].

In the second phase from October 2013 to the end of 2015, new loans accounted for around 95% of the loans granted, and nearly 60% – HUF 815 bln – was intended to finance new investment directly. The participating credit institutions provided loans to nearly 27.000 micro, small and medium-sized Hungarian enterprises, amounting to a total of HUF 1.4021 bln. In the second phase of the FGS most loans were taken out by micro enterprises mainly for investment purposes. Under Pillar 1 of the second phase new investment loans, working capital loans and EU loans were disbursed, while under Pillar 2, SMEs could still take out loans for the redemption of forint and foreign currency loans [MNB, 2016].

During the third phase from January 2016 to March 2017 the scheme offered only new investment loans and leasing transactions both in forint and foreign currency, while working capital financing and redemption of existing loans were not possible. Within the HUF 684.9 bln contracted loan amount, the share of new investment loans was 78%, whereas that of new leasing transactions amounted to 22% [MNB, 2017].

Table 1. Overview of the FGS's objectives

Duration	Pillar 1	Pillar 2	Total amount of loans
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
1 st phase 2013 June-August	new investment loan	refinancing of FX loans or FX-based loans with HUF loans	HUF 701 bln
	working capital financing		
	pre-financing EU funds		
	refinancing of HUF loans		

Table 1 cont.

1	2	3	4
2 nd phase 2013 October – 2015 December	new investment loans	refinancing of HUF loans	HUF 1425 bln
	working capital loans	refinancing of FX loans	
	pre-financing EU funds		
3 rd phase 2016 January – 2017 March	new investment loans in HUF	new investment loans in FX	HUF 685 bln
	new leasing in HUF	new leasing in FX	

Source: Compiled by the author based on MNB data [MNB, 2014, 2016, 2017].

Table 1 clearly illustrates that during the availability of the FGS the loan objectives have undergone a significant change with a shift to new investment loans. However, it may seem noteworthy to add that there are no data available whether these investment loans targeted sustainable agendas.

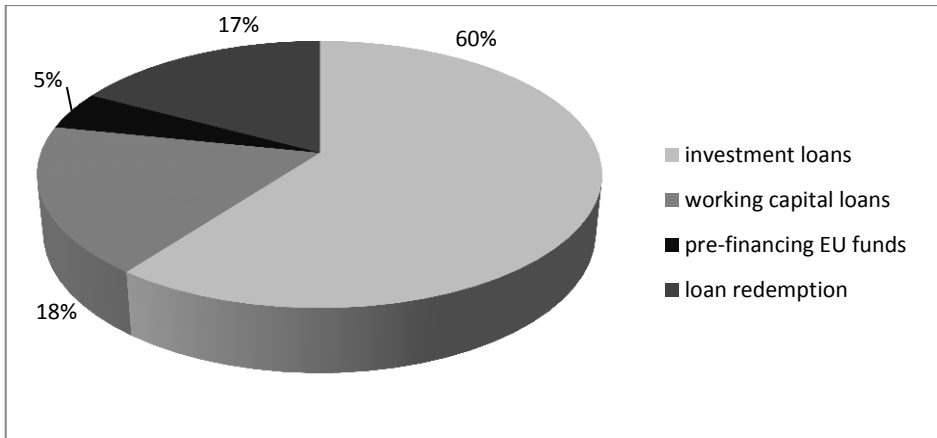


Figure 7. Distribution of loans in the three phases of the FGS by purpose

Source: Compiled by the author based on MNB [2018, p. 4].

Figure 7 presents that the highest loan amount (HUF 1.695 bln – 60%) was disbursed for investments, while loan redemption and working capital financing show a similar proportion 18% (HUF 505 bln) and 17% (HUF 482 bln), respectively. Pre-financing EU funds accounted only for 5% (HUF 129 bln) of the overall loan amount.

The launch of the FGS, constituting a part of the monetary policy instruments, managed to hinder this negative spiral in Hungary, reduce interest costs to reasonable levels, stop the decline in lending and establish credit conditions that increased the willingness of companies to invest, hence improve monetary

transmission. As a secondary effect of the FGS, investments generated additional demand for working capital loans [www 11].

During the whole implementation period of the Scheme (from June 2013 until March 2017) approximately 40.000 SMEs were granted favourable loans in the total value of HUF 2.800 bln. As a result, from its decline SME lending was brought to a growth path contributing to the country's economic growth by 2% from 2013 to 2016 and increasing employment by 20.000 people. Due to the favourable credit conditions, enterprises were able to implement deferred investments, reduce their exchange rate risk and improve their financial position [Fábián, Pulai, 2018].

As after phasing out the scheme the ratio of long-term loans with fixed interest rate declined, in September 2018 the central bank initiated the launch of the *FGS fix*, which is provided for SMEs with the same key parameters as in case of the FGS: 2.5% interest rate with the maximum maturity of 10 years. The FGS fix seems to be more targeted compared to the previous phases of FGS, because loans may only be provided for maturities longer than 3 years, they may exclusively be used for investment purposes with a narrower range of utilisation [MNB, 2018, p. 4].

The detailed analysis of the Scheme suggests that it primarily aimed at easing the financing burden of SMEs by providing subsidised loans. In this way the financial sustainability of the sector opened the way for companies to turn to sustainable finance.

3.3. Funding for SMEs by the EU

The EU has several funding programmes based on the nature of the projects to be implemented. They fall into two categories: direct and indirect funding. While the allocation of the former one is managed by the EU institutions in the form of grants and contracts, the latter one is allocated by the national or regional authorities through the European Structural and Investment Funds (ESIF).

The paper focuses on indirect funding through ESIF in the form of both non-refundable subsidies (grants) and refundable assistance (financial instruments), which aim at creating jobs and investing in a sustainable and healthy European economy and environment.

The ESI Funds target the following areas: (1) research and innovation, (2) digital technologies, (3) supporting the low-carbon economy, (4) sustainable management of natural resources, and (5) small businesses. All these funds are

managed by the EU countries themselves, by means of partnership agreements. Each country prepares an agreement, in collaboration with the European Commission, setting out how the funds will be used during the current funding period 2014-2020 [www 12].

The Partnership Agreement (PA) for Hungary [www 13] focuses on the following five main national development priorities as already identified in the Hungarian National Development and Territorial Development Concept [National Development 2030, 2014]. These include:

- improving the competitiveness and global performance of the business sector,
- promoting employment through economic development, employment, education and social inclusion policies, taking account territorial disparities,
- enhancing energy and resource efficiency,
- tackling social inclusion and demographic challenges,
- implementing local and territorial development in order to promote economic growth [www 13, p. 1].

Investments focus on enhancing innovation activity and competitiveness of enterprises in order to increase their added value and integration into the international value chain through better access to financing. They stimulate growth, create jobs and improve the performance of the research, development and innovation system. One further feature of Hungary's development goals is its shift to a low carbon economy, which means improving energy efficiency in buildings and enterprises, sustainable management of natural resources and an increasing share of renewable energy sources in the overall energy structure.

Through 9 national programmes, over the period 2014-2020 Hungary benefits from a total EU budget of EUR 29.6 bln, which is divided into 84% ESIF financing (EUR 25 bln) and 16% national co-financing (EUR 4.6 bln) [www 14].

From the Operational Programmes adopted by the European Commission only those are highlighted which are closely related to ESG factors in SMEs' investment-decisions. They are characterized below.

The Economic Development and Innovation Operational Programme (GINOP) [www 15] aims to stimulate the economies of the less developed regions in Hungary. The most important priorities are the competitiveness of small and medium-sized enterprises, research and innovation, and employment. In addition, it also aims to develop enterprises' energy efficiency, and information and communication technologies. A further benefit may include the creation of 300.000 jobs, the provision of financial/advisory support for 12.500 companies including 1.500 start-ups. Almost 1.400 enterprises are expected to benefit from

improved energy and resource efficiency, and SMEs' innovation activities will be encouraged by 3.000 research jobs.

Table 2. The results of the Operative Programme GINOP until 29th March, 2019

	Number of received applications	Supported by the managing authority	Grant awarded in HUF	Valid contracts	Value of valid contracts in HUF
GINOP	30.320	17.268	2.522.323.283.494	17.072	2.449.243.916.140
Total	212.481	124.092	9.178.363.491.198	123.088	8.924.381.253.779

Source: Compiled by the author based on data retrieved from the Single Monitoring Information System [www 9].

The Environmental and Energy Efficiency Operational Programme (KEHOP) [www 16] aims to support sustainable growth and contribute to achieving the Europe 2020 targets for smart, sustainable and inclusive growth. In addition to flood based on, better waste and wastewater management, natural habitat protection, it is also expected to improve energy efficiency and the use of renewable energy resources. Accordingly, the solid waste recycling capacity will increase by 60.000 tonnes/year additionally; and greenhouse gas emissions will decrease by over 1.544.000 tonnes CO₂eq.

Table 3. The results of the Operative Programme GINOP until 29th March, 2019

	Number of received applications	Supported by the managing authority	Grant awarded in HUF	Valid contracts	Value of valid contracts in HUF
KEHOP	2.664	1.382	1.188.679.275.147	1.120	1.138.670.275.622
Total	21.2481	12.4092	9.178.363.491.198	123.088	8.924.381.253.779

Source: Compiled by the author based on data retrieved from the Single Monitoring Information System [www 9].

Of the total grants awarded until 29th March 2019 more than 40% of the funds were allocated to GINOP (27.5%) and KEHOP (13%) Operational Programmes indicating that SMEs can have access to non-refundable subsidies if they target sustainable investments.

Conclusions

The paper has attempted to give a comprehensive overview of the financing opportunities of Hungarian SME sector with a hint to embed it into the EU's financing objectives. It has revealed that in the post-crisis period the sector's development to maintain financial sustainability through access to financing

could largely be attributed to the concerted efforts of the government and the central bank. It has also explored that the comprehensive institutional support on behalf of the government and the central bank in the form of the Funding for Growth Scheme only indirectly targeted sustainable investments, since access to funds have not been explicitly linked to sustainability issues. Although sustainability endeavours of SMEs in Hungary may rather seem reactive than proactive, following certain guidelines and regulations instead of taking own initiatives to influence sustainable development. This attitude can also be traced by comparing government support with a focus on financial sustainability rather than sustainable financing as in the case of the ESI Funds.

The two types of institutional support illustrated by the paper confirm the view of McDaniels and Robins [2017] stating that to date, SME financing and sustainable finance agendas have been operating largely in parallel, with no substantial actions made to bring them together.

Although the findings of the current study are broadly in line with those of previous researchers on sustainable finance [Sun, Louche, Perez, eds., 2011; Silver, 2017] and SMEs' approach to sustainability issues [Loucks, Martens, Cho, 2010; Klewitz, Hansen, 2013], it draws attention to the fact the SMEs' involvement in sustainable development may only be encouraged by setting sustainability objectives to the allocation of institutional support at national level.

Limitations of research: Due to the relatively short period between access to funds and the implementation of investments the current study was limited by the lack of information on reliable data underpinning to what extent the presented government support measures and EU funding have served and successfully contributed to sustainability issues.

Recommendations for policy-makers: In order to make business owners and managers highly aware of the importance of ESG issues as a long-term objective, policy-makers are highly recommended to set sustainable agendas as implementation requirement for SMEs in the case of subsidized financing schemes. At the same time SMEs disclosing non-financial information including their contribution to sustainable finance on a voluntary basis may also be awarded extra scores when applying for funds.

Recommendations for researchers: Sustainable finance objectives seem to provide new approaches to allocating a wide range of financial resources for SMEs. The way whether and how the different financing opportunities may be aligned effectively with each other, as well as, whether and how the results of sustainable finance can be properly measured may be the scope of some further

research. In order to have a clear picture of what sustainability objectives have been implemented from any of the financing schemes (loans by commercial banks or subsidized government support), overarching empirical research should be carried out interviewing financial institutions, businesses, analysing non-financial reports.

Literature

- Annual Report on European SMEs 2017/18* (2018), European Commission, https://ec.europa.eu/growth/smes/sme-strategy/performance-review_en#annual-report (accessed: 25.09.2020).
- Asheim G.B. (1994), *Sustainability: Ethical Foundations and Economic Properties*, The World Bank, <http://documents.worldbank.org/curated/en/605011468739497097/pdf/multi0page.pdf> (accessed: 20.11.2018).
- [Brundtland Report] Report of the World Commission on Environment and Development. Our common Future. United Nations (1987), <https://www.are.admin.ch/are/en/home/sustainable-development/international-cooperation/2030agenda/un--milestones-in-sustainable-development/1987--brundtland-report.html> (accessed: 20.09.2020).
- Cho S.J., Chung C.Y., Young J. (2019), *Study on the Relationship between CSR and Financial Performance*, "Sustainability", Vol. 11(343), <https://www.mdpi.com/2071-1050/11/2/343> (accessed: 18.09.2020).
- Csiszárík-Kocsir Á. (2017), *Crisis and Financing – or the Practical Financing Decisions of Hungarian Small and Medium-sized Enterprises*, "Civic Review", Vol. 13, p. 199-215, http://real.mtak.hu/80141/1/PSZ%202017.%20angol.szam_beliv_12.pdf (accessed: 20.09.2020).
- Csubák T.K., Fejes J. (2014), *Bank Financing of Hungarian SMEs: Getting over to Credit Crisis by State Interventions*, "Research Journal of Finance and Accounting", Vol. 5(5), http://unipub.lib.uni-corvinus.hu/2015/1/Bank_financing_of_Hungarian_SMEs_u.pdf (accessed: 20.09.2020).
- [EFAA] European Federation of Accountants and Auditors for SMEs (2018), *Survey of Non-Financial Reporting Requirements for SMEs in Europe 19 November 2018*, http://www.efaa.com/cms/upload/efaa_files/pdf/News/20181119_NFRbySMEsReport-FINAL.pdf (accessed: 20.02.2019).
- Fábián G., Pulai G. (2018), *A Növekedési Hitelprogram reálgazdasági hatásainak áttekintése [An Overview of the Effects of the Funding for Growth Scheme on the Real Economy]*, <https://www.mnb.hu/letoltes/fabian-gergely-pulai-gyorgy-nhp-novekedesi-hatasajavmnbhonlapra.pdf> (accessed: 20.02.2019).

- Galant A., Cadez S. (2017), *Corporate Social Responsibility and Financial Performance Relationship: A Review of Measurement Approaches*, "Economic Research Ekonomska Istraživanja", Vol. 30(1), p. 676-693, <https://www.tandfonline.com/doi/full/10.1080/1331677X.2017.1313122> (accessed 20.09.2020).
- Hillary R., ed. (2000), *Small and Medium-sized Enterprises and the Environment*, Greenleaf Publishing, Sheffield.
- Hungarian Central Statistical Office (KSH), <http://www.ksh.hu/?lang=en> (accessed: 25.07.2018).
- Irinyi Plan. *The Directions of Innovative Industrial Development in Hungary*, February (2016), Ministry of National Economy, Budapest, <https://2015-2019.kormany.hu/download/b/fb/31000/IRINYI%20Plan.pdf> (accessed: 25.09.2018).
- Klewitz J., Hansen E.G. (2014), *Sustainability-oriented Innovation of SMEs: A Systematic Review*, "Journal of Cleaner Production", Vol. 65, p. 57-75, DOI: 10.1016/j.jclepro.2013.07.017 (accessed: 20.02.2019).
- László A. (2016), *Impact of the Funding for Growth Scheme on the Hungarian Economy*, "Financial and Economic Review", Vol. 15(4), p. 65-87, <http://english.hitelintezetiszemle.hu/letoltes/andras-laszlo.pdf> (accessed: 25.09.2018).
- León P. (2001), *Four Pillars of Financial Sustainability*, The Nature Conservancy, Arlington, <http://ve.vhjdvybz.vesrv.com/sites/default/files/documents/fundraising/four-pillars-financial-sustainability-tnc.pdf> (accessed: 20.02.2019).
- Loucks E.S., Martens L.M., Cho Ch.H. (2010), *Engaging small- and Medium-sized Businesses in Sustainability*, "Sustainability Accounting, Management and Policy Journal", Vol. 1(2), p. 178-200, DOI 10.1108/20408021011089239 (accessed: 25.09.2018).
- Matolcsy G., Palotai D. (2018), *The Hungarian Model: Hungarian Crisis Management in View of the Mediterranean Way*, "Financial and Economic Review", Vol. 17(2), p. 5-42, <https://en-hitelintezetiszemle.mnb.hu/letoltes/fer-17-2-st1-matolcsy-palotai.pdf> (accessed: 25.09.2020).
- McDaniels J., Robins N. (2017), *Mobilizing Sustainable Finance for Small- and Medium-Sized Enterprises. Reviewing Experience and Identifying Options in the G7*, <http://unepinquiry.org/publication/mobilizing-sustainable-finance-for-small-and-medium-sized-enterprises/> (accessed: 25.09.2018).
- Mikołajek-Gocejna M. (2016), *The Relationship Between Corporate Social Responsibility and Corporate Financial Performance – Evidence from Empirical Studies*, "Comparative Economic Research", 19(4), p. 67-84, DOI: 10.1515/cer-2016-0030 (accessed: 20.09.2020).
- MNB (2014), *Analysis of the First Phase of the Funding for Growth Scheme*, <https://www.mnb.hu/letoltes/fgs-analysis.pdf> (accessed: 25.07.2018).
- MNB (2016), *Press Release on the Loans Granted in the Second Phase of the Funding for Growth Scheme 6 January 2016*, <https://www.mnb.hu/letoltes/fgs2-utilization-05-01-2016-final.pdf> (accessed: 25.07.2018).

- MNB (2017), *Közlemény a Növekedési Hitelprogram harmadik szakasza keretében nyújtott hitelekről. 2017. április 4. [Press Release on Loans Disbursed within the Third Phase of the Funding for Growth Scheme. 4th April, 2017]*, <https://www.mnb.hu/letoltes/nhp3-havi-kozlemeny-20170307.pdf> (accessed: 25.07.2018).
- MNB (2018), *Considerations Behind the Launch of the Funding for Growth Scheme fix (FGS FIX) and Main Features of the Programme*, <https://www.mnb.hu/letoltes/nhp-fix-eng-vegleges.pdf> (accessed: 20.02.2019).
- National Bank of Hungary (MNB), <https://www.mnb.hu/en> (accessed: 25.07.2018).
- National Development 2030 – National Development and Territorial Development Concept (2014), “Hungarian Official Journal”, 2014/1, https://regionalispolitika.kormany.hu/download/b/c9/e0000/OFTK_vegleges_EN.pdf (accessed: 25.07.2018).
- OECD (2006), *The SME Financing Gap (Vol. I): Theory and Evidence*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264029415-en>. (accessed: 20.09. 2020).
- Parragh B. (2017), *Innovatív monetáris politika és vállalati versenyképesség. Vállalkozásfejlesztés a XXI. században [Innovative Monetary Policy and Business Competitiveness. Enterprise Development in the 21st Century]*, Budapest 2017, p. 464-477, http://kgk.uni-obuda.hu/sites/default/files/33_ParraghBianka.pdf (accessed: 20.09.2020).
- SBA Fact Sheet Hungary (2017), European Commission, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_hu (accessed: 25.07.2018).
- Silver N. (2017), *Finance, Society and Sustainability: How to Make the Financial System Work*, MacMillan Publishers, London, 10.1057/978-1-137-56061-2 (accessed: 25.09.2018).
- Soppe A. (2004), *Sustainable Corporate Finance*, “Journal of Business Ethics”, Vol. 53(1-2), pp. 213-224, DOI: 10.1023/B:BUSI.0000039410.18373.12 (accessed: 15.09.2020).
- Sun W., Louche C., Perez R., eds. (2011), *Finance and Sustainability: Towards a New Paradigm? A Post-Crisis Agenda*, Emerald Group Publishing Limited, Bingley.
- Szöllösi L., Pogácsás P. (2014), *Preferential Financing Schemes for Hungarian SMEs and the FGS [in:] MNB (2014), The Funding for Growth Scheme. The First 18 Months. Essays and Studies on the Results of the Funding for Growth Scheme Achieved to Date*, p. 26-43, <https://www.mnb.hu/letoltes/nhp-tanulmanykotet-eng-b5-digit.pdf> (accessed: 25.09.2018).
- Thiele L.P. (2013), *Sustainability*, Polity Press, Cambridge.
- [www 1] European Parliament resolution of 5 July 2017 on building an ambitious EU industrial strategy as a strategic priority for growth, employment and innovation in Europe, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2017-0305+0+DOC+XML+V0//EN&language=EN> (accessed: 25.07.2018).

- [www 2] The SME's guide to benefitting from sustainability, <http://www.eco-business.com/news/the-smes-guide-to-benefitting-from-sustainability/> (accessed: 15.12.2020).
- [www 3] Directive 2014/95/EU on disclosure of non-financial and diversity information by large companies, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en (accessed: 20.11.2018).
- [www 4] Financial sustainability, <http://idfnsw.org.au/financial-sustainability> (accessed: 25.09.2018).
- [www 5] Sustainable finance, https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en (accessed: 25.09.2018).
- [www 6] Action Plan: Financing Sustainable Growth, European Commission, Brussels, 8th March, 2018, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN> (accessed: 25.07.2018).
- [www 7] Action Plan on Financing Sustainable Growth. Why an EU Strategy on Sustainable Finance? Brussels, 8 March 2018, http://europa.eu/rapid/press-release_MEMO-18-1424_en.htm (accessed: 25.07.2018).
- [www 8] Why is there a need for an EU-wide strategy on sustainable finance? Brussels, 24 May 2018, http://europa.eu/rapid/press-release_MEMO-18-3730_en.htm (accessed: 25.07.2018).
- [www 9] Single Monitoring Information System (EMIR), https://emir.palyazat.gov.hu/nd/kozvel/?link=eupr_eljarasrendi&lang=en (accessed: 05.04.2019).
- [www 10] What is an SME? <http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/> (accessed: 25.07.2018).
- [www 11] What are the reasons behind the launch of FGS+? Background analysis, <https://www.mnb.hu/letoltes/hatterelemzes-final-eng.pdf> (accessed: 25.09.2018).
- [www 12] European Structural and Investment Funds, https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes/european-structural-and-investment-funds_en (accessed: 25.09.2018).
- [www 13] European Commission: Summary of the Partnership Agreement for Hungary, 2014-2020, Brussels, 26th August 2014, https://ec.europa.eu/info/sites/info/files/partnership-agreement-hungary-summary-aug2014_en.pdf (accessed: 25.07.2018).
- [www 14] European Structural and Investment Funds. Country Data for: Hungary, <https://cohesiondata.ec.europa.eu/countries/HU#> (accessed: 25.07.2018).
- [www 15] Economic Development and Innovation Operational Programme Hungary, http://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/hungary/2014hu16m0op001 (accessed: 25.07.2018).
- [www 16] Environmental and Energy Efficiency OP Hungary, http://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/hungary/2014hu16m1op001 (accessed: 25.07.2018).

WPLYW WSPARCIA INSTYTUCJONALNEGO NA PODEJŚCIE UCZESTNIKÓW SEKTORA MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW DO ZRÓWNOWAŻONEGO FINANSOWANIA: PRZYPADEK WĘGIER

Streszczenie: W artykule przedstawiono analizę węgierskiego sektora małych i średnich przedsiębiorstw (MŚP) przez pryzmat celów pomocy finansowej z UE, identyfikując fazy, jakie przechodził ów sektor wykorzystując wsparcie rządowe oraz unijne w celu osiągnięcia stabilności finansowej. Wskazano również, że stabilność finansowa jest postrzegana jako niezbędny warunek dla zrównoważonych finansów. Artykuł, koncentrując się na analizie wsparcia instytucjonalnego dla MŚP na poziomie krajowym oraz wspólnotowym, pokazuje różne podejścia do zrównoważonych inwestycji. Jednocześnie podkreśla fakt, że o ile cele funduszy ESI pozostają w zgodności z zasadami zrównoważonego rozwoju, o tyle można go interpretować jedynie jako pośrednią konsekwencję wsparcia rządowego.

Słowa kluczowe: małe i średnie przedsiębiorstwa, stabilność finansowa, zrównoważone finanse, Program Finansowania na Rzecz Wzrostu, fundusze UE.