1. Title: Promotion and development of SMEs in Hungary

2. Sub-programme: Economic Reform

3. Location: Hungarian Foundation for Enterprise Promotion and the Local Enterprise Agency Network throughout Hungary

3. Objectives

The wider objective is the creation of new business activities and the diversification of the economic structure of Hungary via the development of a strong and growing sector of micro, small and medium-scale enterprises (SME). The need of pursuing the objective by special promotion efforts was first identified in the Commission Opinion on Hungary’s Application for Membership in the European Union. It was confirmed in the Accession Partnership. The programme’s immediate objective is to provide a wide range of support services for SME development.

4. Description of activities

4.1. Extension of the micro-credit scheme:
Micro-scale funding will be delivered through a revised micro-credit scheme. The upper limit of the scheme will be increased from EUR 5,000 to EUR 12,000 to react the changes which have been taken place in the macroeconomic environment since the launch of the scheme in 1992. The raise of the upper ceiling will open up the scheme for technology oriented start-up and micro-enterprises, too. The scheme shall assist enterprises who have projects demonstrating viability and sustainability but who are not eligible for commercial bank finance. Phare funding will finance approximately 180-200 micro loans.

4.2. Technical assistance (TA) for SMEs:
TA for SMEs is aiming to deliver services for start-up SMEs, specific assistance for growth enterprises and special target groups comprising youth or women enterprises. Services will be delivered through the Local Enterprise Agency (LEA) network and will include start-up training, business information and advisory services, business conferences and seminars, studies preceding the establishment of companies, internationalisation projects and other development projects such as market research and feasibility studies. Phare funding will co-finance the promotion of appr. 10,000-15,000 SMEs.

4.3. Development of workspace units:
Workspace units will be established to provide a modestly priced, favourable physical infrastructure for micro and start-up enterprises. Central support services of the new business facilities will be developed to decrease the administrative burden and central cost of establishing and running a small business. Phare funding will co-finance the renovation or contribution of 5-7 buildings, providing accommodation for 150-200 SMEs.

4.4. Development of a centre of excellence of SME promotion at the Hungarian Foundation for Enterprise Promotion (HFEP):
The development, implementation and monitoring of the above mentioned components is assisted by the HFEP as the central agency. HFEP will review and develop manuals, quality standards, provide networking and training opportunities for LEA staff and advisors, encourage the introduction of chargeable services thus increasing the self-sustainability of the LEAs, develop and implement a
strategy for SME promotion. Establishment of quantitative and qualitative indicators and monitoring is an HFEP role, too.

5. Institutional Framework

The programme will be implemented by the HFEP with the involvement of the LEAs and banks. HFEP is a non-profit organisation, acting as the SME development agency of the Government. LEAs are independent foundations, established and controlled by local private-public partnerships. Banks are financial intermediaries of the micro credit scheme selected through tendering.

The micro-credit scheme will be provided via the existing LEA network with the involvement of selected banks in compliance with a revised micro-credit manual. Ownership of the revolving fund will be discussed and agreed beforehand.

TA for SMEs will be delivered through the LEA network within the framework of LEA business plans, on a competitive basis or through centrally initiated programmes based on criteria for differentiation such as size and development of the area, local needs, delivering capacity and readiness. Planning mechanism of LEAs will be revised and updated. The current LEA operational manual will be revised, further standards will be developed to cover a wider range of LEA services. LEAs will be encouraged to become more involved in the provision of services primarily basic services for micro and start-up businesses, rather than rely on external service providers.

Workspace units will be established under the conditions that demand exists for the provision of workspace and services, the LEA has the management capability to provide the workspace and services and local contribution as land or building for renovation is available. Projects will be selected on a competitive basis.

HFEP, the central SME agency of the Hungarian Government will act as the umbrella organisation, focusing on development and monitoring, organisations of tenders, design and implementation of the programme. HFEP’s responsibility is to initiate and implement all the above mentioned revision, redesign and updating with the involvement of selected experts, if necessary.

6. Budget (in Euro)

<table>
<thead>
<tr>
<th>Component</th>
<th>Investment (I)</th>
<th>Institution Building (IB)</th>
<th>Total Phare (=I+IB)</th>
<th>Recipient</th>
<th>IFI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension of the micro-credit scheme</td>
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<td>-</td>
<td>2,500,000</td>
<td>2,500,000</td>
<td>-</td>
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<tr>
<td>TA for SMEs</td>
<td>-</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>-</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Workspace units</td>
<td>2,500,000</td>
<td>-</td>
<td>2,500,000</td>
<td>2,500,000</td>
<td>-</td>
<td>5,000,000</td>
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<tr>
<td>Centre of excellence</td>
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<td>500,000</td>
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<td>1,000,000</td>
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<td><strong>Total</strong></td>
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<td><strong>2,500,000</strong></td>
<td><strong>7,500,000</strong></td>
<td><strong>7,500,000</strong></td>
<td>-</td>
<td><strong>15,000,000</strong></td>
</tr>
</tbody>
</table>
7. Implementation Arrangements

All aspects of the programme shall be the responsibility of the HFEP as the representative of the Hungarian Government. HFEP shall operate the monitoring mechanism of the programme and revise or develop guidelines or operating manuals. Funding shall be provided on a contractual basis for the LEAs. The micro credit scheme will be delivered in accordance with a revised and updated manual, LEA projects will be delivered against a revised LEA operating manual, development of workspace units and HFEP service will be implemented under the DIS procedures.

8. Implementation Schedule

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of Tendering</th>
<th>Start of Project Activity</th>
<th>Completion</th>
</tr>
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<td>04/2000</td>
<td>06/2001</td>
</tr>
<tr>
<td>Workspace units</td>
<td>01/2000</td>
<td>04/2000</td>
<td>06/2001</td>
</tr>
</tbody>
</table>

9. Equal Opportunity

Particular projects will be developed and selected for SMEs owned and operated by women and young people.

10. Environment

SME projects for which material environmental problems may arise will not receive support under the scheme.

11. Rates of Return

Current average default rate of the micro-credit scheme is 15%, which is envisaged to stay on the same level in the future.

12. Investment Criteria

**Catalytic Effect**

SMEs are facing with a lack of start-up and small scale funding, so micro credit is a basic and successful tool for the provision of funding for SMEs. TA and workspace units for micro and small enterprises are essential to generate new jobs to diversify the economic structure of Hungary and reduce the failure rate of start-up businesses.

**Co-finance:**

The Hungarian Government will contribute with about 50% of the total project cost. Salaries, office space and local co-funding will be provided by HFEP and the LEAs.

**Additionality**

The Programme will not generate competition with any private service providers, and no other financiers will be displaced by the Phare intervention.

**Readiness**

Main manuals are available and will be developed continuously. A new strategy of the HFEP will specify further adjustments.
Sustainability

Relevant SME Policy of the Hungarian Government ensure sustainability of the SME promotion programme on a long run as the development of SMEs is a medium and long term government priority. Services of both HFEP and the LEAs will be funded by the Government continuously. Sustainability of the LEA shall be strengthened with the introduction of a charging policy for some services, development of workspace units and encouragement and preparation of LEA staff for direct service delivery.

Competition

Phare funded equipment and services will be procured in line with the regulations of the DIS.

13. Conditionality and Sequencing

- Ownership of the micro credit fund shall be cleared by the Hungarian Government.
- Microcredit manual shall be revised and updated.
- Strategic study shall be completed and approved by the Government, HFEP and the representatives of the Delegation.
- Local co-funding shall be provided for workspace unit development.
- The co-funding by the Government is a precondition to the effective operation of the programme.
#### Annex 1

<table>
<thead>
<tr>
<th>Inputs</th>
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<tbody>
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</table>

(13)
Annex 2a

CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE  
(7.0 MEURO)  

<table>
<thead>
<tr>
<th></th>
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</tbody>
</table>

NB.: all contracting must be completed within 24 months, all disbursements must be completed within 36 months of signature of FM
## SME Promotion
### Project No. HU 9906-01

### Annex 2/B.

#### DETAILED IMPLEMENTATION CHART

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
</tr>
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<tr>
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<tr>
<td>A. TA for SMEs</td>
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<tr>
<td>B. Centre of excellence</td>
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</tr>
<tr>
<td>A. Extension of the Micro-credit scheme</td>
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<td></td>
</tr>
<tr>
<td>B. Workspace units</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This chart illustrates the detailed implementation plan for the SME Promotion project. The table details the implementation timeline for different activities, specifically focusing on TA for SMEs, Centre of excellence, extension of the Micro-credit scheme, and workspace units. The months are marked with varying levels of implementation intensity, indicating the progress and allocation of resources throughout the years 2000 and 2001.
## DETAILED COST BREAKDOWN

<table>
<thead>
<tr>
<th>Component</th>
<th>Investment (I)</th>
<th>Institution Building (IB)</th>
<th>Total Phare (=I+IB)</th>
<th>Recipient</th>
<th>IFI</th>
<th>Total</th>
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</thead>
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<td></td>
<td></td>
<td></td>
<td>Government</td>
<td>Local</td>
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<tr>
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<td>4,500,000</td>
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<tr>
<td>Centre of excellence</td>
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<td>200,000</td>
<td>200,000</td>
<td></td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,000,000</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>6,200,000</strong></td>
<td><strong>6,200,000</strong></td>
<td><strong>1,150,000</strong></td>
<td><strong>13,550,000</strong></td>
</tr>
</tbody>
</table>
SME Promotion  
Project No. HU 9906-01

RELATION OF THE PROJECT WITH PREVIOUS PHARE ACTIVITIES AND WITH ONGOING PROJECTS FINANCED FROM OTHER SOURCES INCLUDING THE CENTRAL BUDGET

Both the Hungarian Government and the Phare programme have provided funding for the promotion of SMEs in Hungary previously. Various activities have been supported under previous Phare programmes since FM 1990. As a result of the previous activities a network of SME support agencies were established and provide both TA and financial support for enterprises. Loan schemes were developed and launched such as the Phare loan and microcredit and the activities and services of business associations were strengthened.

The SME programme was launched in the framework of HU9006 with a budget of ECU 21 million. The programme had two main elements, the launch of financial schemes for SMEs and the establishment of SME support agencies in selected counties. As a result of the programme two financial schemes were established, the network of SME development institution was set up in six counties of Hungary and programmes were supported on central and local level.

An ECU 4 million programme was financed in the framework of the HU9108 programme which provided a limited additional funding for the LEA network and the establishment and three-year funding of a Business and Innovation Centre.

In the framework of the HU 9206 with a budget of ECU 11m the microcredit and the Phare loan was extended to cover the whole of Hungary (excluding Budapest), the six original LEAs received additional funding for local SME support programmes, while the institutional development programme was continued with the establishment of further 13 LEAs. Additional activities such as the EICC, PR campaign, research and support services for LEAs received funding, too.

In the framework of the HU 9303 a total of ECU 23m was allocated, covering a range of central support programmes for the LEAs, a development programme for business associations, a comprehensive research programme on the status of the SME sector, development of the EICC, participation on Europartenariats, part-funding of the activities of 19 LEAs including training, advise, business counselling, organisation of trade fairs and business conferences, preparation of development studies and the development of incubator house projects. An LEA was launched in the capital of Hungary, Budapest. Funding was allocated for the further extension of the Phare loan programme.

In the framework of the currently running HU 9605 ECU 8,5 million was originally allocated for a National Support Services component including study missions and training programmes, development of business associations, the EICC and Europartenariats, development and implementation of new SME support services both for start-ups and existing enterprises through the LEA network, the establishment of the Pest county LEA, a comprehensive evaluation of the SME programme, and the continuation of the microcredit scheme.

In the framework of the COP 97 a limited budget of ECU 2m was allocated mainly for the LEA network component and microcredit.
Total yearly number of client of the LEA network achieve 50-60,000, the revolving Phare loan scheme has provided funding for more than 1,000 enterprises (including the co-funding of the National Bank of Hungary and the commercial banks) while more than 11,000 received funding from the revolving microcredit fund (including HEFP and government co-funding).

The Hungarian Government provided co-funding directly or via HFEP for the operation of the Phare programme. Both the currently running 1996 and 1997 programmes have received a co-funding of 50 percent from the Government. SME development as part of the structural reforms in Hungary is a continuous priority of Government policies.

Funding has been provided from local resources for the operation of the LEA network and as co-funding for several projects. Bilateral donors, primarily of EU Members States provided development funding for HFEP or directly for the LEA network in previous years.

Phare Regional Development programmes have provided limited funding for SME development programmes, in the field of business infrastructure development projects such as trade centres, industrial parks, logistic centres or innovation centres, mainly under the Phare 97 Regional Development Programme.
Annex 5.

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LIST OF RELEVANT LAWS AND REGULATIONS

1. Government Resolution No. 1040/1999 on the ownership of Phare funded loan schemes in Hungary

2. Governmental Resolution No. 1161/1998. (XII. 17.) on governmental medium-term strategy for the promotion of micro, small and medium enterprises

3. Government Resolution No. 1045/1997. (IV. 29.) on governmental actions necessary for the promotion of SMEs, April, 1997

REFERENCE TO FEASIBILITY/PRE-FEASIBILITY STUDIES

Development of Self-Sustainability Report for the Local Enterprise Agency Network, May, 1997, RIPA International
The report emphasises the self-sustainability capabilities of the LEA network. According to the report the comparative advantages of the LEAs are the following:
• network coverage
• professionalism
• management
• programmes, products and services
• trained and committed staff
The LEAs are characterised by commitment to local communities, a clear understanding of enterprise promotion, structures, standards and services, apparent customer satisfaction and an impressive overall level of performance. The LEA network this way represents a “very powerful model to leverage the success of individual LEAs to others” and to establish clusters of expertise and centres of excellence where the network can operate as one entity.

The main forms of this assessment were placed upon national and regional SME support services and lending programmes. The report stated that at a national level, the Phare programme supported the institutional network (LEAs), provided trained experts and encouraged the sector to be innovative, use high technology and be fast growing. It confirmed that the microcredit scheme has been a major success limited only by the availability of funds and in recent years, the maximum loan size. This scheme offers the only accessible source of credit to most start-up enterprises and SME and should be continued in the future.

Quick Scan Report
The comprehensive Quick Scan Report points out the need for solving the ownership issue of the funds of the Lending Programmes (both the Phare Loan and the Micro Credit Schemes). The study also confirmed the need for such small loans and also recommended to raise the upper limit to 3 million HUF due to the inflation, changes in the economy and the legal environment.

EU-Phare Evaluation of the SME Sector Programme in Hungary, November, 1998, IMK Advies
The report recommends and confirms LEAs' efforts towards preparing themselves for the reduction of automated and equal funding by offering additional services against payment. It also suggests that a subsidy system should be created for services, considered important but for which the market cannot pay.
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REFERENCE TO RELEVANT GOVERNMENT STRATEGIC PLANS AND STUDIES

1. National Programme for the Adoption of the Acquis (NPAA), draft version of December, 1998

The SME Chapter of the NPAA aims to increase the competitiveness of the SME sector with special regard to productivity and quality assurance, prepare the institutional and financial methods for the usage and distribution of EU support structures. It emphasises the importance of the dissemination of community regulations, standards, requirements, market opportunities and programmes to the widest possible range of SMEs. It also lists some possible promotional tools such as training programmes, electronic commerce, basic entrepreneurial skill development where the LEAs have already achieved significant results. With a national network of LEAs these tasks can easily be implemented in the future.

The document emphasises the importance of specific actions in favour of innovative and employment creating SMEs, in which incubator houses can play a vital role. The incubator house initiative can be a transparent and effective method for the direct support of such SMEs.

The improvement of the accession of SMEs to funding is a priority which could be served with a revised and extended microcredit facility.

2. Medium-Term National Governmental Programme for the Promotion of SMEs (Government Resolution No. 1161/1998)

The SME promotion policy of the national governmental programme places special emphasis on the enhancement of the innovative ability and technical/professional renewal of SMEs. In favour of technology-oriented enterprises it aims to establish technology transfer/diffusion institutions, innovation centres, innovation parks and technology incubator demonstration centres also with regional development functions.

The government wishes to promote an entrepreneurial culture based on a professional approach. It also specifies training and educational programmes, counselling services, information technology services and advisory services on available SME support schemes and funds for the development of managed workspaces.

The implementation of the SME Policy relies on both the HFEP and the LEA network, TA and small scale funding are the main elements of the government policy and shall be continued in the future.