



Regional Action Plan – Hungary

September 2019

Part I – General information

Project: **REBORN – Embracing failure to encourage entrepreneurship and competitiveness**

Partner organisation: **IFKA Public Benefit Non-Profit Ltd. for the Development of Industry**

Country: **Hungary**

NUTS2 region: **Budapest**

Contact person: **Edina Kálmán – Head of Organizational Development Department**

email address: kalman@ifka.hu

phone number: +36 20 581 2822

Part II – Policy context

The Action Plan aims to impact: **Investment for Growth and Jobs programme**

Name of the policy instrument addressed:

Economic Development and Innovation Operational programme (EDIOP 1.1.10):

- EDIOP-1. “Improving the competitiveness of businesses and promoting employment, employment growth and job creation” (29% of EDIOP resources for Hungary);
- EDIOP-1.1. Developing a supportive business environment:
 - o Development of business and entrepreneurial infrastructure (incubators, industrial and science and technology parks, industrial sites and logistics centres)
 - o Encouraging business partnerships (domestic and cross-border clusters, supplier networks, tourism destination management organizations and other business partnerships)
 - o Development of business and entrepreneurship skills (development of basic entrepreneurship and business skills, development of general and specific management knowledge and skills of SME managers, promotion of entrepreneurial experience through trainings, consulting, mentoring)
- EDIOP-1.1.10 Improving the competitiveness of micro, small and medium-sized enterprises by improving entrepreneurship.

Part III – Details of the actions envisaged

ACTION 1: Early Warning Mechanism

1. The background

(this chapter includes the lessons learnt during the Phase 1 of REBORN project that constitute the basis for the development of the present Action Plan)

Small and medium-sized enterprises (SMEs) are the backbone of Hungary's and the European economy. They represent 99% of all businesses in the European Union. In the past five years, they have created 85% of new jobs and provided two-thirds of the total private sector employment in the EU. As a result, the economic growth depends on the sector's development ability. Nearly all European SMEs (93%) are organizations employing less than 10 employees. Almost three-quarters of SMEs are active in the five key sectors: wholesale and retail trade, manufacturing, construction, business services and accommodation & food services. Hungarian SMEs are facing the following challenges:

- o Lack of adequate and up-to-date knowledge in education for those who want to be self-employed;
- o Access to finance and markets entry are difficult;
- o Difficulties in the area of transfers of undertakings;
- o Fear of penal sanctions in case of failure;
- o Complex administrative procedures.

As the status quo analysis later shows, Hungary is in a tough situation when speaking about second-chance entrepreneurship (honest re-starters).

According to the 2018 SBA Fact Sheet Second Chance - published by the European Commission - Hungary is at a low level in European Union comparison, government intends to develop and improve. There are some measures that can be taken to improve the SBA index, rescue companies and support start-ups. Such measures include eg. deregulating the bankruptcy framework, embracing entrepreneurs in crisis, preventing the crisis or increasing the incentive for re-start-ups.

The situation in Hungary is well illustrated by the fact that the Hungarian bankruptcy proceedings - under the current Hungarian bankruptcy law - are almost always closed with liquidation proceedings: meaning an unsuccessful ending! The goal is to avoid this since - according to the German or American models - much of the bankrupt companies could be rescued by appropriate intervention.

Rescuing means holding the company's staff together partly or fully, preserving the already established and operational corporate processes, know-how, markets, values, which is overall more profitable than eliminating and partly "selling out" the created values.

There were a number of Hungarian programmes adapting the EU policies of re-starting entrepreneurs, such as:

- The Enterprise Europe Network's local actions for helping entrepreneurs with restarting their businesses. The Network provides information and advice to entrepreneurs and micro, small and medium-sized businesses on EU bankruptcy and resumption issues, as well as assistance in international entry and business access;
- The Europe 2020 strategy had local programmes for microcredit and microfinancing small, restarting businesses, available in Hungary as well;
- On the other hand, the EDIOP Operational Programme includes calls for supporting young entrepreneurs, however this methodology is rather for start-ups and first timers, than restarters. The EDIOP calls addressing such needs were:
 - o EDIOP 5.2.7-17 "To support young people becoming entrepreneurs"
 - o EDIOP 5.2.1-14 "Youth guarantee programme"

- Also there were calls for starting up businesses on territorial bases (ROP- Regional Operative Programme) for all convergence regions;
- There are other programmes as well, promoted by OFA's (Hungarian Employment Public Benefit Non-Profit LLC.) "Start a business in Hungary programme".

Statistics overview in Hungary

Today costs of insolvency are almost 50% higher in Hungary than in the EU and infrastructure ready to facilitate a re-start for 'Second chance' entrepreneurs and bring them back into the productive economy is not prepared. Hungary performs below the EU average in terms of degree of support of second-chance. In general, second-chance entrepreneurship is underestimated and underexploited in Hungary.

Since the onset of the crisis in 2008, a sharp rise in the fear of failure rate from the pre-crisis level of 17% in 2007 to almost 42% in 2014 has been experienced. The incidence of bankruptcies has substantially increased during that period. The level of support in society for 'second chance' is still the second lowest in the EU.

Policy frameworks in Hungary

In policy terms, since 2012, the insolvency procedures still take more than one year to conclude, there are no country-wide information campaigns to reduce the stigma of failure, nor have there been dedicated support programmes for businesses in difficulties to help them avoid bankruptcy in the first place. On 31 June 2015 the Hungarian Parliament adopted the Act on the debt settlement of natural persons. This Act introduces a new legal framework into Hungarian law in order to address the issue of personal over-indebtedness and to protect the home of indebted persons from enforcement.

For the moment, two policy intervention areas support preventive restructuring and second-chance entrepreneurship, namely policy instruments addressed to the establishment of start-ups by young entrepreneurs and policy instruments dealing with the development of entrepreneurial competences financed under EDIOP.

Preliminary research on exchange of experiences

REBORN partners have elaborated the REBORN recommendation paper, a synthesis of the best practices developed by each partner's region and to be shared with the other regions in the domain of "Embracing failure to encourage entrepreneurship and competitiveness: Second-chance entrepreneurship". One unique objective of this recommendation was to aid and optimize the process of sharing experience.

Based on lessons learned from the good practice analyses as well as from individual assessment of good practices involving the members of the Regional Stakeholder Group, the following ranking of improvement necessities have been identified for Hungary:

Table 1 – State-of-the-art analysis of second chance entrepreneurship measures

		SITUATION TODAY ¹	IMPROVEMENT NECESSITY ²
Prevention	Early warning system	Uncomfortable	High
	Early restructuring	Uncomfortable	High
Crisis Management	Crisis management procedure/tool	Uncomfortable	High

Out-of-court settlements	Breathing space before enforcement	Risky	Critical
	Mediation procedure	Risky	Critical
In-court procedures	Minority creditors	Risky	Critical
	Access to financing	Risky	Critical
Treatment of the entrepreneur post-bankruptcy and conditions for a second chance	Court proceedings	Uncomfortable	High
	Discharge period	Uncomfortable	High

Source: *Own edition*

1 Convenient – Uncomfortable – Risky

2 Low – High – Critical

Between the 1 January 2017 and 30 June 2018, REBORN partnership has identified a total of 14 good practices available at the INTERREG EUROPE Programme Policy Learning Platform in three thematic fields as follows:

- a) “Solution to finance in second opportunities”: Recovering Club & Workshop (BE), Socamut’s automatic combined product (BE), EDIOP 8.3.1.-16 Programme to increase the competitiveness of SMEs (HU), Fail Fast for innovative start up - Decreto Legge n. 179/2012 Law n. 179/2012 (IT), Start&Growth Liguria (IT);
- b) “Positive image of the restarters”: No Fail No Gain Conferences (BE), RENACE (IT), MODERA (IT), Failure Management Course (SP), Development Fund of Western Macedonia – TADYM (EL);
- c) “Capacity building for entrepreneurs”: Enhancing competitiveness of businesses by implementing the project “Marketing for Economy” (PL), Bankruptcy School of Modena (IT), Portal for Entrepreneurs (HU), European Network for Early Warning and for Support to Enterprises and Second Starters (EL);

Throughout the implementation of REBORN, IFKA Public Benefit Non-Profit Ltd. for the Development of the Industry has ranked the above good practices in terms of their relevance, durability, sustainability and financial resources needed in order to define the core set of activities to be integrated into the Regional Action Plan matching the policy improvements proposed.

In May 2018 there was a change of the Ministry, which is managing the Policy Instrument (EDIOP) in Hungary. Ministry of Economy was split into 2 parts: one of which was merged with Ministry of Finance and a second one with Ministry of Innovation and Technology (ITM).

ITM is the current owner of IFKA. The implementation of activities previously agreed with the Ministry of Economy (previous owner of IFKA) was first postponed and now need to be revised.

Currently IFKA in negotiations with with Ministry of Innovation and Technology has achieved 2 major results:

1) Re-starting entrepreneurs became a part of the target group of newly developed EDIOP-1.1.10 „ Improving the competitiveness of micro, small and medium-sized enterprises by improving entrepreneurship”. First call for proposal targeting re-starting entrepreneurs will be launched by the end of 2019. This call was planned to be launched by the Ministry of Economy back in 2018, but due to the institutional transformation it’s materials were not finalized and now IFKA is helping the Ministry of Innovation and Technology to finalize the call.

2) IFKA is developing a proposal to the Ministry of Innovation and Technology to implement a pilot action of Early Warning Mechanism in Hungary in 2020, using the good practices “European Network for Early Warning and for Support to Enterprises and Second Starters” from Greece as a basis.

On 19 June 2019 IFKA has organized a thematic capitalization workshop in Budapest, during which the different EU funded projects focused on re-starting entrepreneurs were presented. Early Warning Europe project <https://www.earlywarningeurope.eu/> raised high interest among conference participants, as it has developed a complex system of working with re-starting entrepreneurs.

The REBORN project good practice, which is selected by IFKA is “European Network for Early Warning and for Support to Enterprises and Second Starters” (Greece).

This good practice has a strong transferability potential as it is already implemented successfully in Greece and 4 other EUR countries, including Denmark, where it was first introduced in 2007. Organisation that implements EWE in Greece is IME GSEVEE (Small Enterprises’ Institute of the Hellenic Confederation of Professionals, Craftsmen, and Merchants), with which IFKA is had additional consultations and exchange of experience during September 2019.

2. Action

(this chapter includes the list and description of the actions to be implemented in Hungary)

The Hungarian policy instrument selected in the REBORN project for further enhancement is Economic Development and Innovation Operational Program 2014-20 (EDIOP), Investment Priority 1, SO1 “Dissemination of competitive entrepreneurial knowledge”. The core purpose of the Regional Action Plan is to support the implementation of the policy improvements through a set of actions that are addressed to improve SME competitiveness including services that help entrepreneurs assess their performance and identify problems to be solved.

Regional Action Plan is focused on enhancing the policy instrument in such dimensions:

- a) “Solution to finance in second opportunities”,
- b) “Positive image of the re-starters” and
- c) “Capacity building for re-starters”.

Who is the target group?

Second chance activities mainly affect the following business segments:

- companies that are already drifting towards the crisis but are not in bankruptcy,
- companies in bankruptcy proceedings,
- already liquidated companies whose former owners / managers are starting (or have started) a new company.

The three segments require very different diagnostics and opportunities for development and intervention, as:

- the U-turn from drifting towards crisis,
- at companies under bankruptcy protection the main issue is agreeing with creditors, avoiding liquidation, so a very quick reorganization (which can only succeed with interim/temporary management),
- the methodology how to treat failures and how to support the restart process most effectively.

Due to the three quite different corporate situations, intervention logic and toolbox the three target groups require separate assessment and management.

Helping those who are in crisis, but how?

According to the Válságmenedzserek Országos Egyesülete “VOE” (National Association of Crisis Managers) there are about 60 crisis managers operating in Hungary who are most knowledgeable in this topic, including about 10 people who can be called a top expert in the field. They have solved over 500 crisis management cases altogether, most of which have been successful and a small number of enterprises has been liquidated. Due to

the obligation of confidentiality and the sensitive nature of the crisis this experience is only recorded at an expert level.

We cannot make an effective suggestion of the intervention logic not even its content without proper background knowledge and diagnostics. However, it is certainly a problem that most companies drifting towards the crisis are driven by the executives themselves with one or more bad decisions that's why most of the causes of their downturn are not recognized in time or even not recognized at all.

So there is an information asymmetry - and even a gap between the manager's judgment and the realistic picture of the numbers and processes - that can be identified and giving a „push” to executives / owners to seek external consultancy assistance.

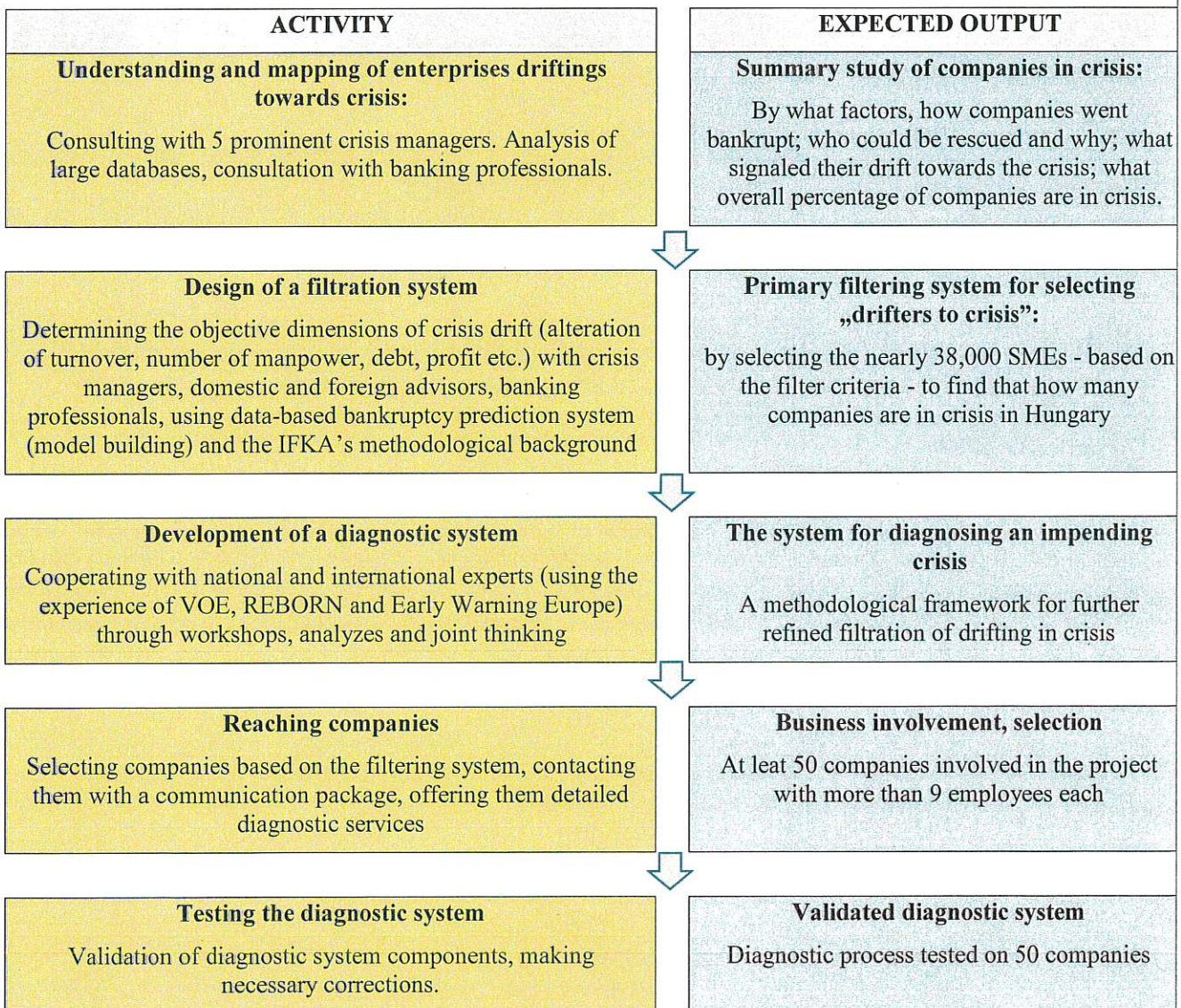
The goal of the program with fantasy name „Red triangle emergency stop” is to develop and disseminate a well-established methodological approach to companies drifting to crisis and provide an objective assessment of their situation giving them scope for interventions.

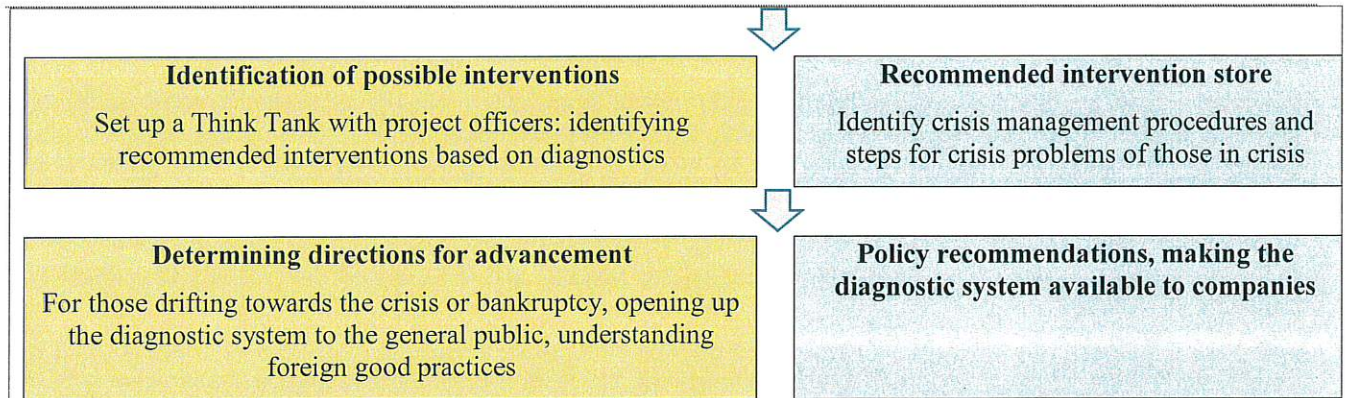
Proposed activities and expected outputs

EDIOP-1.1.10 “Improving the competitiveness of micro, small and medium-sized enterprises by improving entrepreneurship” is being developed by IFKA for Innovation and Technology Ministry and aims to help businesses in difficulty find out why they are going bankrupt and identify areas where action is needed.

The following activities will be implemented in Hungary by December 2020:

Proposed activity and output structure





What IFKA has done so far:

- 1) second-chance enterprises are now included in the target group in EDIOP programme for 2019-2020 and SME Development Strategy in Hungary for 2020-21;
- 2) first call for proposal targeting re-starting entrepreneurs will be launched by the end of 2019;
- 3) IFKA offered tools to ITM, which can be used to work with re-starting entrepreneurs (measurements tools, good practices. etc.);
- 4) ITM starts funding the development of methodology for self-assessment to prevent from failure;
- 5) a standard methodology for business revitalization will be elaborated with the 50 re-starting enterprises participating in the call;
- 6) network of mentors in different company consultancy fields will be created in order to help restarting entrepreneurs in Hungary.

Expected effect from the mentioned activities include:

- 1) 4000 companies will be analysed by the self-assessment tool and included into the Artificial Intelligence database, used by the Innovation and Technology Ministry of Hungary;
- 2) 50 entrepreneurs, who are drifting to crisis, will receive an evaluation report and individual consultation about their current status;
- 3) IFKA will develop an early warning tool for entrepreneurs evaluation to prevent them from crisis.

3. Players involved (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

Action leader: IFKA;

Funding institution: Innovation and Technology Ministry of Hungary;

Cooperation partners: experts of "VOE", consultants of "Early Warning Europe" program from Denmark, Poland, Italy and Greece, banking specialists, liquidators, representatives of connecting public administration institutions, thematical contact of NAV (National Tax and Customs Administration of Hungary), experts and project leaders of IFKA.

4. Timeframe

Till December 2019 EDIOP 1.1.10 will be accepted by the ITM and a call for proposal will be published.
EDIOP 1.1.10 implementation period: till 31 December 2022.

5. Costs (if relevant)

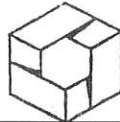
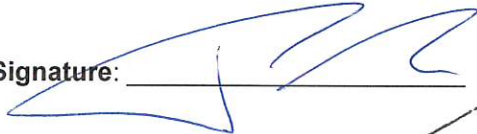
Planned budget: 100 million HUF (cca. 308 000 EUR).

6. Funding sources (if relevant):

Hungarian Economic Development and Innovation Operational programme (EDIOP 1.1.10).

Date: 20 September 2019

Signature: _____



IFKA

IPARFEJLESZTÉSI KÖZHASZNÚ NONPROFIT KFT.
1062 BP., Andrássy út 100.
1387 BP., Pf. 17.
Tel.: 312-2213

Stamp of the organisation: _____