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United Nations Industrial Development Organization

**A Comparative Analysis of
SME Strategies, Policies and Programmes
in Central European Initiative Countries**

A stylized map of Europe with thick black outlines. The country of Hungary is highlighted in white, while the rest of the map is black. The text "Part III Hungary" is centered over the highlighted area.

**Part III
Hungary**

**A COMPARATIVE ANALYSIS OF
SME STRATEGIES, POLICIES AND PROGRAMMES IN
CENTRAL EUROPEAN INITIATIVE COUNTRIES**

PART III

HUNGARY

This country report represents the basic background material covering policy, institutions, assistance and perceived needs relating to SME development. It has been compiled by the Institute for Small Business Development within a framework produced by the UNIDO project. Together with the results of follow-up discussions, interviews and workshops involving key institutions and personnel, this report has provided the basis for the comparative analysis in Part I.

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SUMMARY

The first section of the study examines how small business policies feature in the government and legislation documents covering the whole economic policy, the industrial policy, the regional development policy and specific policies to support small business development.

The Hungarian SME policy is dealt with at different depths and different levels of elaboration in various government documents. The references are found in comprehensive economic policy documents. Neither the (economic) stabilization programme nor the latest versions of the three-year economic policy programme determine precisely what role the SME sector is to play in the programmes and what special means are intended to be applied in making an impact on the activities of the sector. The relative size and scale of the small enterprise sector is not clarified, nor is there sectoral analysis, nor an indication as how the sector will continue the battle against the so-called black economy. The conclusion can be drawn that SME policies have not yet received appropriate emphasis within the whole economic policy, and that the specific features of the sector and the specific tools of economic policy by which sustainable growth can be implemented within a range of small businesses are not identified.

The small enterprise policy of the government is defined in a separate document. This document identifies the ends to which means are assigned. It would be necessary for the government to review on a regular basis, in the quickly changing economic policy environment, which parts of this policy have been realized and whether modifications are necessary. This mechanism does not yet work on a regular basis.

The industrial policy determines what role small businesses should play in the conversion of the industry. However, this declaration is not coordinated with the whole economic policy or with economic policy components such as the small business policy proper or regional development policy.

In the regional development policy, the role of small businesses is not clearly defined although, according to international practice, this is an area which influences the development of SME in several ways. Without such clarification there is a risk that in creating the organizational basis for regional development, there will be overlap and duplication with existing organizations.

The second section analyses the regulatory environment of small businesses. Almost all elements of the legal and institutional environment of the economy influence the operations of small businesses. It is a general experience that the regulations involving SMEs constitute excessively strict conditions. The regulations change too often and are difficult to follow and the specific problems of SMEs are very frequently

overlooked. A significant change in this respect could be brought about by introducing an approach by which legislators would be obliged to evaluate the impact made on small enterprise. This could also reduce the number of statutory regulations that are dysfunctional and should not be enforced.

It is an important task to strengthen the information base of SME policy, because decisions are frequently made in a situation when information is scarce and therefore such decisions may not always be appropriately well founded.

In the third section the current set of tools for the development of SMEs are reviewed. It is important to note that nationally gaps are now almost non-existent because almost all kinds of support known in international practice are available in Hungary. The picture is not as bright concerning the availability of different types of support in various regions of the country. In this respect there are numerous areas where development in earnest is necessary. The coordination of systems, currently functioning separately, could substantially improve the efficiency of support tools. This could also ease the situation for supported small businesses, because the system of preferences in support policies would become less ambiguous, less questionnaires and forms would have to be completed.

The financing of institutions that support small enterprise requires external support on a prolonged basis. It may not be expected that the systems will become self-supporting. It is a strategy issue as to how the reduction of foreign financing can be compensated for. SME policy must find the answer to this question within a few years.

The fourth and fifth sections of the study deal with the organizations supporting small businesses. In Hungary a network of agencies exists, which offers a wide range of support facilities and has a network covering the whole country. In addition to the network of local enterprise centres and branch offices established under this arrangement, and with the support of the Hungarian Enterprise Development Foundation (MVA), the local organizations of Chambers now also offer their services. One of the most important duties for the future is coordinating the activities of various types of organizations and creating the mechanisms that would foster the close cooperation.

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ECONOMIC AND SOCIAL POLICIES

The declared economic policy of the Government

In March 1995, a short-term economic stabilization programme 1023/1995 [III.22] was published. The target is to maintain equilibrium and sustain growth. The programme focuses upon public finance. The concern is not only the extent of budget deficit, but also its method of financing. The Government decided to reduce the deficit of the state budget by approximately 170 billion forints by the following major measures:

- Boosting exports by improving the conditions of financing, strengthening the opportunities for entrepreneurs to develop and to have access to foreign markets;
- Privatization to be accelerated in order to increase privatization revenues and to ensure that the imports of foreign working capital reaches 2.5 billion dollars in 1995;
- Ownership motivation and management incentives should be made more intensive for the companies in majority state ownership;
- The government believes that it is desirable to enforce a strict wage policy in the whole economy;
- Certain measures of public finance reform must be introduced thereby cutting certain expenses and increasing the burdens of primarily people with a high income;
- State debt is to be handled more efficiently;
- A more rational flow of budget expenses must be ensured thereby saving money;
- The black economy is to be curbed.

On 31 August 1995 the Government approved and disseminated the draft of the 'Medium-term Economic Policy Strategy of the Hungarian Government'. The most significant goal of the programme is to establish a sustainable economic growth, which can be financed on an ongoing and secure basis.

The policy covers enterprise, economic restructuring, the reform of the welfare systems, human resource development, employment, rationalizing of government activities, crisis regions and environment protection.

Economic policy and SMEs

The medium-term economic policy concept deals with the strengthening and development of enterprises and with reducing levies and taxes. Fostering the creation of up-to-date risk capital companies, the protection of the domestic market and the establishment of a sound entrepreneurial support structure are priorities. Important tasks are seen to be the provision of special training, the creation of an information system, facilitating the availability of loans and wider opportunities for state procurement from SMEs. In association with the multinationals settling in Hungary, stimulating the subcontractor and supplier systems is declared to be of fundamental importance. Tourism development will also be stimulated.

The burden of social insurance contributions is to be reduced in 1996. The target is to bring stability to the tax system in the medium term. Widening the tax base will be achieved by narrowing down unjustified benefits and by taking drastic steps against the black economy.

Under the Public Procurement Act provision is made to increase the participation chances of SMEs. The Act allows the inviters of the bid to decide whether to give preference to small firms.

The strategic goals for SME development policy appear partly on their own and partly as components of a broader economic strategy.

Reducing the burdens on SMEs

Attempts were made in 1995 to substantially reduce the tax burden on some small businesses; due to subsequent difficulties, the Act was amended to narrow the scope of tax reduction. It is presently hardly possible to further reduce tax burdens because of the size of the budget deficit. In the near future, no tax cuts involving SMEs are to be expected.

Expanding the credit and guarantee system

Within the Hungarian credit guarantee system, the State's role is limited to the activities of Hitelgarancia Rt (Credit Guarantee Co.) Other institutions offering a guarantee cover their capital needs from other resources. Hitelgarancia Rt has its aval re-guaranteed by the Guarantee Fund for Small Businesses (a state fund). The government risk on guarantees approved by Hitelgarancia Rt may reach 56%.

Local support structures

The business information and training system is supported by the EC within the framework of the PHARE programme.

As counterpart funding to the PHARE programme, the Hungarian Government provides subsidies of Ft 1 billion.

SME policy

In August 1992 the Government passed a resolution on the development of enterprises which expressly focused upon the development of SMEs.

The following points featured in the resolution:

- The development of a comprehensive framework for encouraging small businesses;
- Revision of social insurance benefits and the contributions system of small businesses;
- Developing the institutional monetary and credit system to facilitate the development of enterprises including the terms of provision of government loans;
- The elaboration of the chamber act;
- Setting up a nation-wide enterprise information system;
- Setting out the organizational and operational framework for a nation-wide innovation management consultancy network;
- Reviewing and modifying the regulations covering business enterprises;
- Expanding statistical data to cover the self-employed;
- Creating a support system for the education and training of entrepreneurs outside the school system;
- Reviewing the personal and infrastructure conditions for the development of enterprise.

Government resolution 2040/1994 [V.3] Korm. is also concerned with the development of SMEs (May 1994).

This resolution deemed it important to give priority treatment to the sector because of its role in economic growth and employment. The following goals were identified: stability, the strengthening of quality SMEs and support for sector development. Emphasis was also placed upon growth-oriented enterprises.

The main points of the resolution were:

- The Statistical Office to come up with a uniform definition of SMEs - in line with the European Community - and to take measures necessary for setting up an information system suitable for the observation of small business;
- Proposals to be made to reduce tax burdens;
- Recognition of the need to expand the sector;
- Further development of the SME support infrastructure, primarily the business information and training system. The resolution stated that the domestic resources necessary for the co-financing of EC support available in the framework of the PHARE programme must be ensured and furthermore that efforts must be made to obtain other foreign aid and support;
- Strengthening and expansion of the role of chambers and trade federations and relying more on the advocacy organizations in the future, in shaping and executing the SME policies of the government;
- Setting up of an Enterprise Development Council with members from the Ministry of Finance, the Ministry of Interior, the Ministry of Labour, the Ministry of Culture and Public Education, the Ministry of Agriculture, the Ministry of International Economic Relations, the Ministry of Welfare, the Ministry of Environment and Regional Policy, the Ministry of Transport, Communications and Water Conservation, the National Committee for Technological Development, the Minister without a portfolio responsible for privatization and representatives of economic advocacy organizations and trade organizations;
- Proposed amendments to the scope of authority, organization and operations of Országos Kisvállalkozás-Fejlesztési Iroda (National Office for the Development of Small Businesses).

Industrial development policy and the role of SMEs

The industrial policy of 1993 noted the role of SMEs in boosting the competitiveness of industry. It noted also that many small businesses were not growing in employment or in invested capital. The technical standard was low, and their technical facilities were not up-to-date. Few enterprises were seen to have innovative products and technology and competitive internationally. To meet these problems the policy calls for the system of support institutions (consultancy networks, advocacy organizations, industrial parks) to be further developed including the establishment of innovative financial institutions, investment companies and risk capital companies. The policy also provides a framework for selective support, for example, for export and innovation. In privatization processes special provision for small business is made, for example the renting of a state enterprise or transferring to partial ownership.

SMEs are seen to play a role in the development of supplier networks. Support for the partner intermediation is to be improved as is the supplier capacity. Attention is called to the improvement of technical standards and the introduction of quality systems.

Regional development policy

The Regional Development Fund aims to strengthen the economy of backward areas, to create jobs, help in restructuring, assist the reorganization of social conditions, and develop infrastructure. The resources of the Fund come from the central budget, privatization revenues and repayments. The Fund is supervised and administered by the Minister of Environment and Regional Policy. (Government decree 19/1993 (XII.3) Korm covers the use of the Regional Development Fund).

The Fund provides supports for economic and social backward areas; areas where the unemployment is 1.5 times the national average; and for specific regional development objectives (creation of jobs, investment in infrastructure and response to crisis).

Subsidy can be obtained for the creation of jobs through competitive bidding (for amounts up to Ft 500,000), for interest support (max. 40%), for investment and for facilitating regional cooperation. A business plan must be drawn up with a specified internal rate of return of 12%. The investment must be implemented in two years, and six months after which the employment headcount promised must be reached.

The Bill on Regional Development under debate will consolidate the regulation of regional development and the establishment of institutional arrangements under the Bill. A National Regional Development Council with membership drawn from county area development and regional development councils is foreseen.

The County Regional Development Councils will coordinate the development efforts of government, local authorities and other organizations. The local authority of the county will approve the long-term and medium-term regional development plans. The responsibilities of the local authorities and of a proposed regional development council structure are also set out.

Although SMEs are not referred to in the text of the proposed Act, it is a generally accepted opinion that part of the available resources will serve developments associated with SMEs.

Government departments with small business development roles

In the Government, the Ministry of Industry and Trade (IKM) is responsible for SME policy. Policy is set out in the government resolution 'The medium-term SME development concept of the Government' (2040/1994). The Institute for the Development of Small Businesses was founded by this Ministry. The duties of the Institute include research on and evaluation of the basic conditions for setting up and running SMEs, their market situation and development of systems to monitor the health of the SME community.

The Hungarian Enterprise Development Foundation was created with a significant budget support to establish local enterprise development centres (HVK). It now supports a nationwide network of agencies and is financed both by PHARE Programme and from domestic budget resources.

Other important organizations with development programmes for SMEs are the various agencies of the Ministry of Industry and Trade, the National Committee for Technological Development (innovation) and the Department of Technical Development and Environment Protection (industrial parks).

The main Department of the Regional Development lies within the Ministry of Environment and, as noted above, supports the creation of jobs, industry restructuring and infrastructure development.

The Employment Programmes of the Department of the Ministry of Labour provide grants for SME training.

Cooperation between government organizations in the execution of policy

There is official provision for interdepartmental cooperation on SME policies. The Enterprise and Reorganization Department of the Ministry of Industry is the main coordinating partner. The Institute for the Development of Small Businesses has a regular working relationship with the managers of several main departments of the Ministry of Industry and Trade. Four ministries (Ministry of Industry and Trade, Ministry of Finance, Ministry of Agriculture, Ministry of Welfare) are represented on the board of trustees of the Hungarian Foundation for Enterprise promotion as are the banks and other advocacy and entrepreneur organizations.

Information on the health of the SME sector

The development of an information system suitable for monitoring the SME sector is in progress. Once this is established, the Institute for the Development of Small Businesses will provide annual reports. The Central Statistical Office currently provides data broken down by sectors, areas, types of organizations and headcount.

The needs of SMEs perceived by policy makers

According to the Government resolution 2040/1994 [V.3] Korm, policy makers believe that the following are the main problems and requirements of SMEs:

- The mitigation of tax and administration burdens and improving the conditions of financing;
- Training of entrepreneurs and the development of entrepreneur ethics and culture;
- Establishing the new government organization of coordination;
- Fostering SME expansion and ability to compete;
- Addressing issues related to shortage of capital;
- Stability in key sectors and developing quality, innovation and competitiveness;
- Flexible handling of the different problems of SMEs;
- Development of special sectoral policies and target programmes.

According to the responses to an internal questionnaire sent to the ministries, there is unanimous agreement that easing the credit conditions is most important. Forty per cent of ministry respondents think improving information supply, is important; 30% believe that it is important to have a stable economic environment, and a further 30% would like to see improved relations with the sector. The reduction of tax and the development of consultancy were also mentioned.

The responses in part coincide with the views of entrepreneurs. They primarily want, for example, the reduction of capital costs, labour costs (social insurance contribution), taxes (income, turnover) and reduced interest levels.

The vision of the long-term sustainability

In the Government resolution 3277/1993 (JSZJ22) setting out medium-term industrial policy, there is a commitment for "setting up and disseminating indirect forms of support, for establishing a consultancy and information network, for technical and marketing assistance and for the requirements of training entrepreneurs".

The proposal details technical assistance and loan guarantee support and covers the creation of a two-tier consultancy (advisory) network. The basic level consultancy, mainly of an informative character, is to be free of charge to newly launched enterprises and to be carried out by state offices (local authorities). The second level yet to be consolidated, is to be carried out by officially designated consultants, for which the customer pays.

The recommended information system is also of the two-tier type. The task of the first tier will focus on the needs of the entrepreneurs. The second tier will process information to meet Government's requirements and will feed into the overall Government's information system.

Market assistance is also recommended in terms of ensuring that small firms benefit proportionately from state purchases and the procurements of enterprises mostly in state ownership (MÁV, MVRT, etc.). The aim is also to ensure that SMEs obtain a fair share of technical assistance, development funds and support for the organization of subcontracting.

The strategy proposal also recognizes the training needs of SMEs and makes provision for state support including the nationwide coordination of this activity.

REGULATORY POLICY

Priorities in the regulatory environment

An overall key aim is to harmonize legislation with EU regulations. This is expected to be achieved over five years.

Currently everybody is entitled to launch an enterprise; the entrepreneurship certificates are issued by the local authority. It is the entrepreneur's responsibility to have or to employ a person who has the necessary qualifications. For some specific ventures, for example in the case of a physician, obtaining of a licence is much more bureaucratic.

Under the provisions for public law status, Chambers will insist on issuing entrepreneurship certificates. They will be able to supply advice to newly launched ventures, to train in the preparation of a business plan and tax returns and to assist in marketing.

All in all, the transaction costs of launching an enterprise are not regarded as high, only one or two per cent of the capital value of the enterprise. Registration of a company (incorporation) and obtaining a licence do not represent a serious obstacle of launching a venture. Actual registration generally takes several months, but this only partially limits the operations of the company because once the Articles of Association are submitted, the company may immediately start its operations.

The tax situation is recognized as a problem, particularly constant changes in direct taxation. There is a general tendency in Hungary, as in other countries, for the ratio of income taxes to total tax revenues to fall, while the indirect tax burden rises. Currently, however, the total tax load is regarded as excessively high as against the capacity of the economy. Many say that a stage has been reached where it is practically impossible to carry out fair tax-paying entrepreneurial activities with a long-term horizon.

Social insurance according to the uniform opinion of entrepreneurs is the heaviest current burden on the entrepreneurs. Under the present system, the contribution from the entrepreneurs is a tax tied to wages. Enterprises were hit very hard by the regulation that employers must cover the sick pay for the first ten days of the employee's sick leave. The current rate of pension and health insurance contribution to be paid by the employees is together 10%.

These extremely high wage/social contributions currently encourage the flourishing informal labour market, which has now reached proportions never before seen in Hungary.

In the medium-term economic policy of the Government, one of the most important objectives is therefore reducing the public levies and taxes on enterprises. The current programme specifies that the social insurance contribution burden on enterprises must be reduced by 1996, while the contribution rate of employees is to increase at a lower rate than earlier.

One of the most serious perceived policy problems in the development of the Hungarian economy is that of the financing of SMEs. In Hungarian enterprises, the average ratio of external to internal resources is considerably lower than in the Western European countries and bank procedures are very stringent.

SME advocacy and communication with small business

The most important new institutions in the economy are the chambers of commerce, the establishment of which was approved by the Parliament in 1994. All entrepreneurs and all business organizations are members on a compulsory basis; however, the functioning of the chambers relies on employer advocacy organizations. These organizations were given a key role in organizing the chambers. The Chamber Act prescribed setting up three chambers: the Chamber of Trade and Industry, the Chamber of Agriculture and the Chamber of Craftsmen.

As public law organizations the chambers are entitled to perform public duties related to the management and organization of the economy, for example business registrations.

SMEs play a role in all the three chambers. However, they will only have a decisive say in the Chamber of Craftsmen, which organizes artisans. The chambers have been in existence since January 1995 and the scope of their activities is not yet fully clarified. However, it is expected that within a few years they will be the major communication link between business and government. A key role in reconciling business and institutional interest is played by the Interest Reconciliation Council (Érdekegyeztető Tanács ÉT). This is a forum consisting of government, employers and the employees. It is basically a counselling forum but has decision making rights in some labour matters (minimum wages, maximum working hours per day, decisions on holidays etc.). The employer organizations include the advocacy organizations of entrepreneurs, artisans and retailers.

The employer and the employee advocacy organizations are not, however, satisfied with the Interest Reconciliation Council for several reasons. Firstly, the operations of ÉT are legally not regulated. It is basically up to the Government as to what the

Council discusses. Since it is mainly a consultation and not a decision-making forum, the opinion of the social partners does not oblige the Government to anything. The Council only has decision-making rights related to labour issues, which advocacy organizations consider to be insufficient.

Monitoring through research

Research on SMEs comes from a variety of contributors including Budapest University of Economic Sciences, ELTE Institute of Sociology, GKI Economy Research Rt., Kopint-Datorg Prosperity, Market Research and Computer Technology Rt, Hungarian Academy of Sciences, Industry and Corporate Economy Research Institute, HAS Institute of Political Sciences, HAS Center for the Research of Social Conflicts, HAS Institute of Sociology, HAS World Economy Research Institute, Labour Research Institute, Company for Financial Research, Market Economy Foundation, Cooperative Institute TÁRKI, Institute for Privatization Research.

There is a wide variety of information available covering privatization and organizational decentralization entailed by privatization; ownership structures and their economic and social consequences; the process of becoming an entrepreneur and the characteristics, efforts, motives and economic behaviour patterns of entrepreneurs; and the favourable and unfavourable influences on the operations of ventures.

Major problems with regulations

The deregulation process has solved a number of problems relating to the founding of a company. The major problems are those of survival and growth within the regulatory environment. Tax evasion, black labour and failure to pay the social insurance contribution are widely evident. Cash transactions without invoice are widespread and the authorities can do little. There are a significant number of companies which are in existence legally, but are not active and represent a means of tax evasion. Several researchers have found a correlation between the substantial black economy (25-30% of the GDP) and excessively strict regulations. While the government's policy aims to reduce the tax burdens on entrepreneurs, due to the difficult budget situation, progress has been slow.

SPECIFIC SUPPORT POLICIES FOR SME DEVELOPMENT AND THEIR RATIONALE

The definition of SMEs

There is no definition of SMEs that would be generally accepted in Hungary. There are different definitions for statistical purposes, for various support structures and still other definitions are used by the banks. The Ministry of Industry and Trade and the Institute for the Development of Small Businesses have, however, proposed the following classification.

Micro-enterprise: The number of employees is 0-10.

Small enterprise: The number of employees is 11-50, the net sales are up to Ft 500 million a year, the consolidated balance sheet is Ft 200 million a year and external ownership is up to 25%.

Medium enterprise: The number of employees is 51-250, the net sales are up to Ft 2,500 million a year, the consolidated balance sheet is up to Ft 1,250 million a year and the possible external ownership ratio is up to 25%.

It is expected that the practice of various organizations using different definitions will prevail for a long time.

Specific policies and programmes focused upon SMEs

The following grants are available for SMEs:

Regional Development Fund The purpose is to facilitate the strengthening of the economy in the country's backward areas (from a socio-economic aspect), to expand the number and variety of job opportunities and to assist restructuring in areas where the environment is unfavourable;

Economic Development Fund The purpose is to provide investment incentives, assist in the application of up-to-date techniques and technology, introduce infrastructural improvements in association with other programmes, set up industrial parks, establish quality assurance and certification systems for introducing products into the foreign

market, develop trade, introduce intellectual properties into foreign markets and support the founding of Hungarian enterprises abroad;

Central Technical Development Fund The purpose is to support technical development, promote the application of research and improve the infrastructure of research and development;

Employment Fund The areas for utilizing the fund are retraining support, wages support, support for the work carried out for community purposes, for the creation of jobs and support for mobility;

Central Environment Protection Fund The general purpose is the protection of the environment and funds can be used for the following: investments and technical measures directly fostering the protection of the environment, commercial approaches in the distribution of environmentally friendly products, and the implementation of measures and actions aimed at strengthening environment protection.

The following special loans are available for SMEs:

Start loans (German) This can be utilized by Hungarian natural entities and full-time self-employed people. The purpose of the loan is to assist in setting up SMEs. The interest is 75% of the prime rate of the bank of issue, with a maturity of up to 15 years and a grace period of 2 years, with the amount of the loan not exceeding DM 250,000;

Credit from Japanese sources This can be utilized by enterprises employing up to 200 people and generating a production value of up to Ft 2500 million. The purpose of the credit is to support new investments, to expand enterprises and to improve productivity and efficiency. The interest is 75% of the prime rate plus up to 3% of the prime rate charged by the bank of issue. The maturity is 15 years and the grace period is 5 years. The amount of the loan may not be lower than Ft 1 million and it may not exceed 1.3 billion Japanese yen;

Bank of issue loan associated with the credit from Japanese sources This can be utilized by enterprises employing less than 10 persons or less than 60 persons and having sales of less than Ft 500 million a year, with the same purpose as that of the credit from Japanese resources above. The interest is 75% + 2% of the prime rate charged by the bank of issue, and the maturity, depending on the amount of the loan, is up to 15 years;

The '25% structure' This supports small businesses employing less than 60 persons. The entity must have 75% of its own shareholding. The interest is the same as the prime rate of the bank of issue plus 1.5%. The maturity is up to 7 years and the grace period is 2 years;

Micro-credit This can be utilized by enterprises which have been functioning for less than 2 years, employing less than 10 persons, with its own assets not exceeding Ft 2

million and with the annual sales not exceeding Ft 6 million. It can be used for the purchasing of fixed assets. The interest is the same as the prime rate charged by the bank of issue. The maturity may range from 6 months to 3 years, and the grace period is 6 months. The amount of the credit is up to Ft 500,000;

PHARE credit Medium- and long-term loans for SMEs. A precondition is a minimum own shareholding of 15%. The interest rate is 2-3% below the current market interest rate. The maturity may range from 2 to 7 years, with a grace period of up to 2 years. The amount of credit may not be higher than Ft 10 million, of which up to 25% may be used for the financing of current assets;

Privatization loans The purpose is the purchase of state property, or state shares;

Existence loan This can be utilized by domestic private individuals and business organizations consisting of domestic private individuals, currently with an own shareholding of 2% up to Ft 5 million and 15% above. The interest is 3% plus (maximum) with 4% bank interest margin. The maturity is up to 15 years, with a grace period of 3 years. According to the new Privatization Act approved in May 1995, the upper limit of the existence loan is Ft 50 million per asset;

Beneficial loan of employee share organizations The conditions are the same as that of the existence loan;

Privatization loan of the National Bank of Hungary This can be utilized by business organizations operating with the majority shareholding of domestic private individuals. From this loan as much as 75% of the purchase price can be financed. The interest is the prime rate charged by the bank of issue plus the bank interest margin, with the maturity being up to 10 years and the grace period 2 years;

Loans associated with liquidation and winding up procedure This loan is granted for purchase of properties from companies that are under liquidation and winding up;

Special reorganization loan for the food sector This can be utilized by domestic private individuals and business organizations consisting of domestic private individuals. The extent of interest support is 70% on the average, as much as 25% of the value of the property to be purchased may be financed;

Liquidation loan This can be utilized by domestic private individuals and legal entities employing up to 300 persons. As much as 15% must be provided from own resources. The rate of interest support in the first year is 70%, then gradually decreasing. It would reach 14% by the fifth year, with a maturity of 15 years and a grace period of 3 years. The loan amount is up to Ft 100 million and may be associated with a current assets loan to a maximum value of 20%;

Reorganization Start loan The range of potential users is the same as those described for the Start loan. Up to 70% of the loan received for purchases can be refinanced, but 10% cash must be available. The interest is 75% of the prime rate charged by the bank of issue, plus maximum 2% bank interest margin, with up to 15 years maturity and 2 years grace period. The limit amount of the loan is Ft 15 million and up to 25% can be used for renovations and 25% for current assets;

World Bank loans The interest is the same as the prime rate charged by the bank of issue, to which the bank interest margin will be added. The potential users are subjected to very strict review, where in addition to the financial standing of the utilizing entity the assessment also covers the cost of implementation;

Product Market Development Programme The loan can be utilized for the marketing and trade of consumer articles and for the associated new activities provided that this results in a growing output. The limit amount of the loan is US\$ 100 million, with a maturity of 10 years and a grace period of 3 years;

Integrated Agricultural Export Programme The purpose is to promote plant growing and animal husbandry, and launching and developing of small-scale food industry activity. The maturity of the loan is 10 years with a grace period of 2 years;

Industrial Restructuring Programme III The purpose of the loan is to support the growth, development and upgrading of small businesses, with a maturity of 10 years and a grace period of 2 years;

Agricultural Upgrading Programme This is aimed at improving the quality and evaluating the exports of processed agricultural and forestry products. The maturity is 10 years with a grace period of up to 3 years.

Venture or seed capital

According to the February 1995 figures of the Magyar Kockázati Tőke Szövetség (Hungarian Venture Capital Association) the Hungarian venture capital market amounts to approximately US\$ 300 million. The first two funds in the list are with foreign participation. The third largest (with an investment resource of US\$ 2 million) is the Regional Development Companies; state-owned and founded in 1994. The founders are Magyar Befektetési és Fejlesztési Bank (Hungarian Investments and Developments Bank), the local authorities and other organizations. Currently four such companies exist and the negotiations for setting up the fifth are in a very advanced stage. In the placement of venture capital, the focus is heavily upon new ventures.

Loan guarantee

The Hungarian credit guarantee system can be utilized through banks and not directly; it attempts to address the credit coverage problems of SMEs. There are, however, efforts to expand the range of users of the service. The following table summarizes the position at the end of 1994.

Summary figures of small business guarantee institutions from the time of launching until the end of 1994

Description	Hitelgarancia Rt. (Credit Guarantee Co)	Start Garancia Alap (Start Guarantee Fund) (MVA supported)	Agrár Vállalkozási Hitelgarancia Alapítvány (Agricultural Enterprise Credit Guarantee Foundation) (PHARE supported)
Date of foundation	December 1992	August 1991	November 1991
Number of applications filed	721	514	1,343
Of which, accepted	435	399	1,343
Guarantee amount Ft (million)	6,345.3	725.4	5,977.5
Extent of actual average guarantee	54	54.6	50
Default rate on accepted projects	1.3%	3.8%	0.8%

Source: Mrs. J. Révész. The credit and credit guarantee system of SMEs in Hungary. MVA, May 1995.

To re-guarantee the aval - up to 80% - provided by Hitelgarancia Rt, the Government established Kisvállalkozói Garancia Alap (Small Businesses Guarantee Fund). The rate of re-guarantee could reach 70% of the guarantee amount, so the role undertaken by the state could even be 56% in these cases.

The identical number of submitted and approved applications in the case of the Agricultural Enterprise Credit Guarantee Foundation stems from the type of cooperation between the Foundation and the banks, which is different from the other two cases. The Foundation does not separately qualify each transaction from a business aspect.

Due to the fact that the organizations have existed for two years only, examining the ratio of rejections as against the applications accepted, would not show a realistic picture yet because in many cases not even the grace period of the credit is over.

Special fiscal tax incentives

In the Hungarian tax system, tax benefits have not remained steady as tax rates have changed continuously.

The 1995 Corporate Tax Act abolished the earlier benefits including among others the tax holiday for business organizations operating with foreign participation; the one-time investment benefit; and the tax deducted in respect of association fees paid to the chambers. Only one new tax benefit was introduced, according to which, in the so-called labour market regions where the unemployment rate exceeds 15%, as much as 6% of the investments in machinery can be taken into account as a tax benefit.

Incubators

There has been a proliferation of the venture-supporting incubation activities in Hungary. The SEED Foundation for the Development of Small Businesses has played a leading role in the transfer of American experience to Hungary in this respect.

Within the framework of the Flemish development support of ECU 180,000, an incubator house to help newly starting entrepreneurs in Somogy county is being built in Kaposvár, at the value of Ft 300 million. The local authorities assist in this process by providing real estate, while national and international organizations have helped by giving financial and investment support. The incubator houses established to date have founded the Federation of Enterprise Incubators (Vállalkozói Inkubátorok Szövetsége).

Science parks and innovation support schemes

There are a number of industrial/innovation parks. Associated with the Budapest Technical University, the innovation park called Innotech has been in operation since 1987. Its 1994 sales approaching 12 million dollars. An industrial park for small businesses in Győr is currently being built. New parks are envisaged in Debrecen, Miskolc, Pécs, Oroszlány and Ózd and feasibility studies have already been undertaken.

The Union of Industrial Parks (Ipari Parkok Egyesülete) has prepared a programme for further development. This programme features in the medium term economic policy and programme of the Government.

Special training programmes

According to KSH (Central Statistical Office) figures, there are more than 2000 companies in the country which are registered as specialized in training, of which about 1400 are limited partnerships.

Re-training and training activities especially providing entrepreneurial skills are mostly carried out outside the school system. The activities of MVA - and the HVK network are of major importance. Up to 1994 about 5,000 people received support for acquiring entrepreneurial skills. This training support covers a wide range of know-how necessary for launching and successfully running the venture. For example, courses organized by MVA include:

- Training of enterprise consultants;
- Credit evaluation and credit management;
- Training of enterprising instructors;
- Project management and bidding procedures;
- Portfolio management;
- Organizing of training programmes for entrepreneurs;
- Investment incentives and export development;
- Cooperation among entrepreneurs;
- Public relations;
- Obtaining outside sources;
- Customer service;
- PHARE credit seminar;
- Financial management;
- Running the boards of trustees;
- Development of human resources.

Within the field of training separate mention must be made of labour market training, focused on re-training the unemployed and assisting in their employment. Labour offices organize this type of training on a contractual basis with training institutions.

Special counselling/consulting schemes

For the newly launched ventures, in addition to the private consultancy enterprises, organized counselling is provided by the consultancy network run by the Local Enterprise Agencies. Until 1994, about 15,000 consultancies were recorded. The Budapesti Vállalkozói Központ (Budapest Enterprise Center) opened this year registered 1500 consultancies. In addition to the MVA network of about 150 offices, there are consulting offices in chambers and trade federations (there are 60 chambers and about 130 technical federations now operating in the country). The Association of

Hungarian Organization for National Sciences and Technology (MTESZ) has also built up a network, which has currently 14 locations with about 60 stations envisaged ultimately.

According to the KSH (Central Statistical Office), several thousand self-employed persons and companies also provide consultancy services. Although there is no accurate information as to the quality, it is obvious that a full range of consultancy services are available in the market. It is the general experience, however, that the overwhelming majority of small businesses do not make use of consultancy services at a market price.

In addition to the above there are two further services to be mentioned. The law offices provide legal counselling on registration and on modifications to the articles of association. There are also several hundred accounting and tax consultancy companies in the country. Book keeping services are utilized by the overwhelming majority of smallest enterprises.

Specialist advice and information schemes

The Local Enterprise Agencies (of which there are 19) carry out a range of advice and promotion activities. In their promotional activity they organize exhibitions and business meetings and support a focus on foreign markets. They are also equipped to provide a range of advisory and information services.

Resources and powers of regional and local authorities

Under the new legislation the very significant and valuable real estate property portfolio is being transferred to the local authorities.

A long debate has been carried out about whether local authorities should start ventures themselves or merely help others. The debate is not yet closed but generally local authorities play the role of a public service agent.

The most general way they support ventures in larger cities is via the construction of industrial parks with railway and road connections. The city provides utilities and ensures city transport adapted to the requirements of the work force. The investing entrepreneurs get the required land free of charge or at a token cost. The service infrastructure is adapted to the market created by the investors.

The local authorities may obtain cash for development through competitive bidding from the state funds. In most cases they receive cash from the Regional Development Fund and utilize the Environment Protection Fund.

In addition to local authorities, the role played by the regional investment companies is also very important. The founders of the companies are Magyar Befektetési és Fejlesztési Bank (Hungarian Investment and Development Bank), Állami Vagyonkezelő Rt (Hungarian Privatization and State Holding Co.), the local authorities and entrepreneurs. The founding capital of the companies is high, generally between 500 and 1000 million Ft. The share of the bank is always higher than 55% so that it has control.

The companies deal with small placements of 5 to 50 million Ft. Their share in the founder's property of enterprises does not exceed 50% and they continuously monitor the business undertaking. The caution with which they proceed has led to the fact that out of 2500 investigated proposals, 180 reached the investment plan stage and only 10 were actually implemented.

In the questionnaire used to collect data for this report the chambers and enterprise development centres were asked about local authority initiatives that help their work. As high as 39% did not know about such initiatives or failed to respond to this question. Fifty per cent of the responses mentioned cooperation without identifying the programme (local authority-chamber, local authority-regional federation). As few as 11% described initiatives between the local authority and the entrepreneurs (provision of incubator house, site and office).

Among the local initiatives supporting small businesses, the most widely spread are associations (partnerships) of local authorities. A partnership is established to meet a common objective. In one city there are often several of these and usually entrepreneurs are members of many partnerships which include tourism and development.

INSTITUTIONS

In this section the organizations with activities fully or partly aimed at supporting small businesses will be described.

The Hungarian Enterprise Development Foundation (Magyar Vállalkozás-fejlesztési Alapítvány)

This Foundation facilitates the establishment and development of privately owned SMEs, by means of utilizing PHARE resources. The foundation was established in 1990 with an initial capital of Ft 4.2 billion, two thirds of which came from state resources, and one third from financial institutions and advocacy organization contributions. Since 1991, the foundation has been the implementing organization of the PHARE programmes assisting the development of SMEs in Hungary. Fifty per cent of the programme financing comes from PHARE resources and 50% from foundation resources.

To execute its programmes, the Foundation has built up a nationwide network of Local Enterprise Agencies. The usual network is of a two-tier type: in each county there is an enterprise centre responsible for the county coordination, organization and running of MVA projects and in large cities (and in some cases also in smaller settlements) there are so-called branch offices which provide easily accessible services to the enterprises in their area which are adapted to the requirements of the local communities.

The Foundation promotes the creation and development of domestic SMEs through training programmes, trade publications, research projects, supporting enterprise federations and advocacy organizations, setting up information technology systems and last but not least through preferential credits.

The activities for 1993 are set out below.

MVA expenses related to the 1993 programmes

Programmes (support projects)	Ft (in millions)	Proportion (in percent)
HVK network support	1,035.0	44.5
Financial support programmes	875.0	37.6
- Micro-credit	350.0	
Non-financial support services	179.0	7.7
- Training	63.3	
- Publications, proceedings	17.7	
- Information system	41.0	
- Research	21.0	
- PR	20.0	
Supporting of bids and interest representations	238.0	10.2
- Enterprise Development Office	119.0	
- Advocacy organizations	115.0	
Total	2,327.0	100.0

Source: Dr. J. Révész: Magyar Vállalkozásfejlesztési Alapítvány (MVA, Hungarian Enterprise Development Foundation) 1994.

Note: HVK = local enterprise centres.

The budget in 1994 was Ft 5,300 million, the breakdown according to funding sources was as follows:

- PHARE Ft 2,800 million;
- MVA Ft 2,500 million.

The main areas of activities in 1994 were the following:

- Financial programmes: 67.3%;
- Direct support for the Local Enterprise Centres: 21.5%;
- Development of enterprise culture and institutions: 11.2%

Hitelgarancia Rt. (Credit Guarantee Co.)

With this company acting as the first guarantor and with the counterguarantee of Kisvállalkozói Garancia Alap (Small Business Guarantee Fund) it is possible for banks to grant a credit to viable ventures which do not have sufficient collateral for the loan. The fundamental principles related to its operations are the following:

- help the widest possible range of enterprises in obtaining a credit;
- ensure that the available guarantee possibility is utilized as efficiently as possible;
- ensure through the institution of share capital and counter guarantee, the protection of budget resources.

Magyar Exporthitel Biztosító Rt. (MEHIB) - (Hungarian Export Credit Insurance Co)

This is a company limited by shares, founded in 1994, which provides export credit insurance on risks related to the credit for goods to be exported. The scope of activities covers insurance against commercial as well as political risks. Behind this activity there are leading West European reinsurance companies.

Eximbank

The Eximbank was established in 1995, and supports export financing and the provision of guarantees. In large projects it offers medium-and long-term export credits, but also finances the manufacture of products intended for exports. It obtains information about the future client, and provides credit for the foreign buyer in order to purchase Hungarian products. In order to boost the export activities of SMEs, it provides a refinancing credit allocation through financial institutions.

Magyar Befektetési és Kereskedelemfejlesztési Rt. (ITD Hungary), (Hungarian Investments and Trade Development Co.)

This company was founded by the Ministry of International Economic Relations in September 1993, with the fundamental task of supporting foreign economic efforts to help develop the Hungarian economy. A major role was played by the PHARE programme. The company facilitates information exchange among government bodies, foreign investors and the domestic business partners. In its activities it identifies markets and products suitable for export and supports sectoral and regional export promotion programmes. Business services provided include: investment and trade technology consultancy, preparation of publications and data bank operations. ITD also runs the Euro Info Centre assisted by a computer network.

SEED Foundation for the Development of Small Businesses

This Foundation was jointly established at the end of 1989 by Hungarian ministries, enterprise advocacy organizations and training institutions with the purpose of supporting the creation and development of SMEs. The field of activities includes free-of-charge consultancy, support for training and seminars, publications and incubation programmes.

BB (Business Basics) Foundation

This Foundation was established with a 25 million Pound Know-How Fund share capital from the British Government. It is primarily aimed at supporting existing SMEs which intend to participate in international trade either as buyers or sellers. The services include business consultancy, business library, seminars, business trips and consultant intermediation.

Hungarian-American Enterprise Fund

This Fund is registered in the United States and started its operations in July 1990. The purpose of the Fund is to assist the development of private enterprise, implement agricultural projects and promote the founding of joint venture companies by Hungarian and American companies and entrepreneurs in Hungary through capital investments, feasibility studies, special training, insurance, guarantees and other means.

Centre for the Development of Private Enterprise Foundation (SUNY)

This Foundation was established by the New York State University in 1990. It was created to support the building up of a strong Hungarian private sector. The organization offers management training programmes, courses on the functioning of market economy and research as well as consultancy services to private enterprises. It is the coordinator of scientific support programmes (Eureka, Copernikus etc.) in Hungary. Quite recently, the SMEs have also been involved in its activities.

Activities of organizations supporting SMEs according to the areas of support

Start-up and survival

Institutions	Information data monitoring	Founding	Lobbying	Advice, consultancy	Training, education	Real estate Incubator	Financing Loan Share capital Guarantee	Others
MVA	+	+		+		+	+	+
IPOSZ	+		+	+				
VOSZ	+		+	+				
Association of SMEs	+	+	+	+	+	+		+
Bács-Kiskun County Chamber of Trade and Industry	+			+				+
Békés County Enterprise Development Foundation	+	+	+	+			+	+
Csongrád County Chamber of Trade and Industry	+		+	+				
"Kisalföld" Enterprise Development Foundation	+	+	+	+	+	+	+	+
Győr-Moson-Sopron Chamber of Trade and Industry	+		+	+				
Jász-Nagykun-Szolnok Chamber of Trade and Industry	+		+	+				
Jász-Nagykun-Szolnok Enterprise Development Foundation	+	+	+	+	+	+	+	+
Komárom-Esztergom Regional Enterprise Development Foundation	+	+	+	+	+	+	+	
Nógrád County Enterprise Development Foundation	+			+		+	+	+
Somogy County Enterprise Centre	+		+	+		+		
Székésv. Regional Enterprise Development Foundation	+			+		+	+	+
Vas County Enterprise Development Foundation	+			+	+	+	+	+
Zala County Chamber of Trade and Industry	+		+	+				
Zala County Enterprise Development Foundation	+			+		+	+	+

• Source: On the basis of questionnaire responses.

Activities of organizations supporting SMEs according to the areas of support

Growth

Institutions	Information data monitoring	Founding	Lobbying	Advice Consultancy	Training Education	Real estate Incubator	Financing Loan Share capital Guarantee	Others
MVA	+	+		+		+	+	+
IPOSZ	+		+	+				
VOSZ	+		+	+				
Association of SMEs	+	+	+	+	+	+		+
Bács-Kiskun County Chamber of Trade and Industry	+			+				+
Békés County Enterprise Development Foundation	+	+	+	+			+	+
Csongrád County Chamber of Trade and Industry	+		+	+				
"Kisalföld" Enterprise Development Foundation	+	+	+	+	+	+	+	+
Győr-Moson-Sopron Chamber of Trade and Industry	+		+	+				
Jász-Nagykun-Szolnok Chamber of Trade and Industry	+		+	+				
Jász-Nagykun-Szolnok Enterprise Development Foundation	+	+	+	+	+	+	+	+
Komárom-Esztergom Regional Enterprise Development Foundation	+	+	+	+	+	+	+	
Nógrád County Enterprise Development Foundation	+			+		+	+	+
Somogy County Enterprise Centre	+		+	+		+		
Székely Regional Enterprise Development Foundation	+			+		+	+	+
Zala County Enterprise Development Foundation	+			+		+	+	+

• Source: On the basis of questionnaire responses

Activities of organizations supporting SMEs according to the areas of support

Exports

Institutions	Information data monitoring	Founding	Lobbying	Advice consultancy	Training Education	Real Incubator	estate	Financing Loan Share capital Guarantee	Others
MVA	+	+		+		+		+	+
IPOSZ	+		+	+					
Association of SMEs	+	+	+	+	+	+			+
Bács-Kiskun County Chamber of Trade and Industry	+			+					+
Békés County Enterprise Development Foundation	+	+	+	+				+	+
Csongrád County Chamber of Trade and Industry	+		+	+					
"Kisalföld" Enterprise Development Foundation	+	+	+	+	+	+		+	+
Győr-Moson-Sopron Chamber of Trade and Industry	+		+	+					
Jász-Nagykun-Szolnok Chamber of Trade and Industry	+		+	+					
Jász-Nagykun-Szolnok Enterprise Development Foundation	+	+	+	+	+	+		+	+
Komárom-Esztergom Regional Enterprise Development Foundation	+	+	+	+	+	+		+	
Nógrád County Enterprise Development Foundation	+			+		+		+	+
Zala County Chamber of Trade and Industry	+		+	+					
Zala County Enterprise Development Foundation	+			+		+		+	+

• Source: On the basis of questionnaire responses

Activities of organizations supporting SMEs according to the areas of support

Innovation

Institutions	Information Data monitoring	Founding	Lobbying	Advice Consultancy	Training Education	Real Incubator	estate	Financing Loan Share capital Guarantee	Others
MVA	+	+		+		+		+	+
Bács-Kiskun County Chamber of Trade and Industry	+			+					+
Békés County Enterprise Development Foundation	+	+	+	+				+	+
Csongrád County Chamber of Trade and Industry	+		+	+					
"Kisalföld" Enterprise Development Foundation	+	+	+	+	+	+		+	+
Győr-Moson-Sopron Chamber of Trade and Industry	+		+	+					
Jász-Nagykun-Szolnok Chamber of Trade and Industry	+		+	+					
Jász-Nagykun-Szolnok Enterprise Development Foundation	+	+	+	+	+	+		+	+
Komárom-Esztergom Regional Enterprise Development Foundation	+	+	+	+	+	+		+	
Nógrád County Enterprise Development Foundation	+			+		+		+	+
Somogy County Enterprise Centre	+		+	+		+			
Zala County Chamber of Trade and Industry	+		+	+					

• Source: On the basis of questionnaire responses

The SME representative organizations

In addition to the Local Enterprise Agencies noted above, the chambers have also set up their county organizations. The services provided by the Chamber include *inter alia* participation in special and craftsman training and examinations; helping the members in matters related to the protection of industrial rights, standardization and quality assurance; issuing certificates of origin, attestation and documents; compiling and disseminating commercial standards; information services; PR activities and organizing fairs, exhibitions and conferences. The chambers of commerce may assist by providing information and submitting proposals to help the official elaboration of statutory regulations and economic projects. They may also initiate amendments to statutory regulations.

The duties of national chambers include coordination of special training, the compilation of trade requirements, the identification of the system of special examinations, international relations, the compiling of lists of activities needing permission from the authorities, the compiling of a market ethics code, cooperation in state administrative matters and compiling membership registration information based on local data centres. The National Chambers perform a supervising and reconciliatory role to ensure that the stipulations and conditions of the chambers are identical across the country.

The Chamber Act entered into force in the early part of 1995, and the organization of county and nationwide chambers started recently. Members are being registered, information offices opened and the issuing of certification documents has started. Launching operations on a full scale will take several years.

Advocacy organizations and trade federations are primarily classified according to sectors and company size as well as traditions. Membership is voluntary. Their objectives are generally the following: promoting general business management and specific trade interests of members; and professional assistance, information, training and consultancy. In the field of industry and trade, the representation of SMEs is mostly ensured by the following organizations.

The National Federation of Trade Associations (Ipartestületek Országos Szövetsége, IPOSZ) has more than 300 member organizations. These are professional (trade) associations and membership is voluntary. The structure is regional. The total number of members is 125,000. The main service activities are information and data monitoring, lobbying, advisory and consultancy activities.

The National Interest Promoting Federation of Trade and Catering (Kereskedők és Vendéglátók Országos Érdekképviseleti Szövetsége, KISOSZ) promotes the interests

of entrepreneurs (80% self employed, 20% partnership) in the fields of trade, catering and tourism. In 1996, the number of members was approximately 24,000.

The Hungarian Industrial Federation (Magyar Iparszövetség, OKISZ) consists of 22 regional and 8 associated trade federations, with the members being primarily industrial cooperatives.

A separate interest promoting group is represented by trade federations and trade associations. The membership is around 100. Most of the major organizations are associated with two large organizations, Magyar Munkaadói Szövetség (the Hungarian Federation of Employers) and IPOSZ, but there are a number of organizations which are totally independent.

In relation to the Regional Development Bill noted above a potential problem is that the organizations of regional development carry out activities which are to a certain extent similar to those of local enterprise centres, and thereby another nationwide network could develop. Therefore, in the course of preparing the Bill there have been attempts to coordinate the regional development network with the already existing organizations.

Integration of the various services

The services most frequently provided jointly are the following:

- Advice/consultation + finance + accounting + training/education;
- Information/data monitoring + advice/consultation + lobbying/establishing of relations;
- Founding/start-up assistance + advice/consultation + training/education.

Responses to the questionnaire regarding assistance to SMEs indicated that 38% of respondents were of the opinion that the integration of services had no strategy. Another 31% thought the strategy was complex.

Major areas of foreign donor support

The best known is the PHARE programme, which provides non-refundable grants for supporting the Government's reform projects. This includes the supporting of SMEs, with contributions of 21 million ECU in 1990, 11 million in 1992, and 23 million in 1993.

As noted earlier the support has mainly focused on the Hungarian Enterprise Development Foundation's programme of the building up of a nationwide network of regional enterprise development centres.

The Japanese funded start-up loan was also noted previously. The loan aims at the development of the private sector.

The Industrial Restructuring Programme III is financed by the World Bank. The purpose is helping the growth of small businesses. It can be used for the financing of commodity purchases, vocational training and consultant services as well as implementation activities.

In the framework of the BB (Business Basics) Foundation, the British Government established a fund of GB£ 25 million to support the creation of the market economy, and for transferring business methods, market experience and practical trade know-how. The Foundation provides mainly free-of-charge services generally to small businesses in the form of consultancy, business library, seminars, trade-related study tours and intermediation of consultants.

The Hungarian-American Enterprise Fund started its operations in 1990 with the purpose of devoting about US\$ 60 million in Hungary within a three-year period in the fields of infrastructure of business life, expanding and developing capital markets, strengthening and diversifying the economy and advocating know-how related to private enterprise. The fund only invests in profitable enterprises, buys a minority shareholding and after three to four years leaves the company in the hope of a price gain.

An important role in supporting small businesses was played by two American organizations, USAID (United States Agency for International Development) and CIPE (Centre for International Private Enterprise) an organization of the United States of America Chamber of Commerce. USAID established enterprise centres among other activities in several county towns, while CIPE financed research and proposal-making programmes as well as supported enterprise organizations. CIPE set up its first office abroad in Budapest.

A decrease in foreign support would adversely effect SME assistance. A reduction in PHARE support would for example substantially decrease the resources of the Hungarian Enterprise Development Foundation. This will impact in turn upon support for Local Enterprise Agencies although the local and county support would need to grow and cooperation with the chambers should be improved.

Integration, coherence and sustainability of support

Many of the institutions involved in SME support have concluded cooperation and research agreements. They are, however, at an institutional rather than on a national level. There are cooperation agreements between the county chambers and the Local

Enterprise Agencies in the regions. Most organizations however hope for an improvement in cooperation. Only 6% of the organizations contacted say that the cooperation between the institutions at a national level is good; 30% say it is satisfactory and 64% say it leaves much to be desired.

A major problem in respect of sustainability is that there are different financing methods for different organizations. The chambers should be self-sustaining. The Hungarian Enterprise Development Foundation receives foreign and central support. The Local Enterprise Agencies are partly financed by the central programmes of the Hungarian Enterprise Development Foundation and partly by local and other individually obtained resources. IPOSZ and the other interest promoting organizations cover the costs of their operations from the membership fees.

The future of Local Enterprise Agencies is particularly difficult. The annual budget of the local enterprise centres is between Ft 70 and 100 million. As much as 70% of this budget is provided by the central programmes of the Hungarian Enterprise Development Foundation and partly by foreign (primarily West European) support. The extent of local support is 11-21% and that of regional support is 3-6%.

The expected division of labour among the organizations

As a result of the Chamber Act and compulsory membership, the chambers with the widest enterprise basis will play the general role in supporting small businesses in the future (membership registration, representing and promoting interest in the society, internal settlement of problems between entrepreneurs, training and consultancy relating to launching and sustaining operations etc.).

The Local Enterprise Agencies in cooperation with the county chambers will provide a higher level and different service. There are already some efforts to cooperate, but there remains a great deal of parallelism in services.

There is less of a problem in support services for technical innovation. OMFB (the National Committee for Technological Development) seems to be willing to act as the managing agent of these activities, provided that appropriate records about the entrepreneurs are kept. Technological centres will support and elaborate ideas worthy of industrial implementation. Such centres are already in existence, linked with several universities. The establishment of industrial parks is supported by the Independent Technical Development and Environment Protection Department of the Ministry of Industry and Trade.

ASSISTANCE

Training of advisors

There are no national recommendations and specifications on the suitability and qualification of advisors. However, programmes for the training and education of advisors are frequently coordinated at a national or regional level. Many local agency personnel have taken part in domestic and some of them in international training, fora and presentations.

Manuals for SME training

The majority of agencies contacted believe that there is no 'official' manual incorporating the training of enterprise know-how (that is, a manual which is accepted nationwide). It is interesting to note that, at the same time that more than 40% say that the manual used by them is such an 'accredited' manual. Presumably this qualification applies to the series of publications entitled 'Booklets for Your Enterprise' published by the Hungarian Enterprise Development Foundation. Each publication deals with a major topic relating to small enterprise. These booklets are also used at the local enterprise development centres.

The publication 'Manual of Hungarian Enterprise Incubators' prepared by the SEED Foundation and supported by the United States Agency for International Development covers the establishment and operation of incubator houses.

Evaluation and monitoring systems

As much as 35% of those contacted use some kind of evaluation method (questionnaires, advisor's assessment, own monitoring and evaluation). Twenty-four per cent keep records but do not carry out assessment as 23% do not have such a system.

There are national analyses covering the experience of certain types of support or credit structures. A study of the Start loan programme showed that the self-employed numbered 606,000 in 1992, with 668,000 employees. This was 17% of active earners. The main groups fall into the categories of self-employed intellectuals (physicians,

designers, tax advisors etc., 28%), artisans (35%) and tradesmen (35%). The Start loan can only be utilized by beginners at a value up to 10 million Ft and up to Ft 15 million, provided that 30% is available from the applicant. High expectations were discouraged by the tight nature of the credit, the required individual investment from own resources, and the experience required in drawing up the business plan. "It is not primarily the money but a marketable product, idea or solvent demand which is the main obstacle in the way of creating new successful enterprises" was a major finding. The successful ventures are those that provide a high level of human services (physician, lawyer, dentist) and also industrial and general services (retail trade, carrier activities, catering).

A study of 'Existence loans' indicates that more than 60 billion forints worth of state property was privatized between 1990 and 1995. The size of properties available was usually below Ft 1 million, but there were also purchases above Ft 100 million. Privatization was carried out on the basis of loans, so principally the selection of bidders depended on the decision of the banks. The purchase intention stemmed from the desire to create and preserve jobs but also from the need to grasp a business opportunity. Sales grew steadily until 1993 but dropped in 1994. In spite of that, most respondents to the study believed that their property was more valuable than at the time of purchase. Nevertheless, reflecting the relatively short time since privatization and the quickly changing economic conditions, a significant number of owners are uncertain as to the future of their enterprises.