

ACT .... OF 1999  
ON SMALL AND MEDIUM-SIZED ENTERPRISES AND  
SUPPORT FOR THEIR DEVELOPMENT

Parliament, having recognised the role played by small and medium-sized businesses in economic growth and the creation of new jobs, with a view to laying down the foundations for balanced economic and social development, enacts the following Act.

CHAPTER I

INTRODUCTORY PROVISIONS

The goal of the Act

Section 1

The goal of the Act is to define micro, small and medium-sized enterprises, to summarise state subsidies designed to facilitate their development and the establishment of economic conditions which guarantee the improvement of competitiveness and employment capability, the reduction of competitive disadvantage and gradual compliance by businesses with the requirements of the European Union in the long term.

Definition of small and medium-sized enterprises

Section 2

(1) Businesses

- (a) in which the total number of employees is below 250,
  - (b) whose annual net sales amount, at most, to Ft4,000 million or the balance sheet total does not exceed Ft2,700 million, and
  - (c) which meet the conditions specified in subsection (4)
- qualify as small and medium-sized businesses.

(2) Businesses

- (a) in which the total number of employees is below 50,
  - (b) whose the net sales amount, at most, to Ft700 million or the balance sheet total does not exceed Ft500 million, and
  - (c) which meets the conditions specified in subsection (4)
- qualify as small enterprises.

- (3) A micro enterprise is a small business where the total number of employees is less than 10.

(4) A business shall qualify as small and medium-sized enterprise if the holding of the state, the municipality or any business other than those according to Subsection (1) therein (based on capital or voting rights) separately and jointly does not exceed 25%.

(5) The limitation according to Subsection (4) need not be applied when the owners of the business according to Subsections (1)-(3) are institutional investors which do not have an influence guaranteeing majority control.

(6) The parameters stated in Subsections (1)-(2) shall be determined on the basis of the headcount and net sales or balance sheet total of the last annual report. If the period of operation of the business is less than one year, the data shall be projected to an annual level.

(7) Proprietary businesses shall be qualified on the basis of the statement of the individual entrepreneur as prescribed in the Act on personal income taxation pursuant to the provisions of Subsection (1) (a), Subsection (2) (a) and Subsection (3).

(8) In case of a newly founded business, instead of the provisions of Subsection (6), the business plan for the given year shall be taken into account.

### Section 3

Unless otherwise provided by law, any reference to "small and medium-sized business or enterprises", "micro enterprise", "small enterprise" or "medium-sized enterprise" shall mean the small and medium-sized enterprise according to the provisions of present Act.

## CHAPTER II

### SUBSIDISATION OF SMALL AND MEDIUM-SIZED ENTERPRISES

#### Targeted estimate for small and medium-sized enterprises

### Section 4

(1) The financing of subsidies earmarked exclusively for the development of small and medium-sized enterprises shall come from the targeted estimate for small and medium-sized enterprises (hereinafter the "targeted estimate"), included in the budgetary chapter of the Ministry for Economic Affairs (hereinafter the "Ministry").

(2) The amount of the funding for the targeted estimate allocated in the central budget shall be determined therein annually.

(3) The Minister for Economic Affairs shall determine the schedule of implementation of the targeted estimate as well as the detailed rules of its use, management and control by a decree.

## Section 5

(1) Micro, small and medium-sized enterprises (hereinafter jointly referred to as "small businesses") and the organisations participating in the implementation of programs specified in Subsection (2) may benefit from support to be financed from the targeted estimate.

(2) The programs whose purpose is to

- (a) establish the conditions necessary for setting up a business,
- (b) acquire business management skills and learn about the regulations of the European Community, the development of entrepreneurial culture including the organisation and administration of relevant training programs and the preparation of methodological and training materials,
- (c) acquire and spread methods aimed at the improvement of the management standards and economic activities of small and medium-sized businesses,
- (d) provide information on technical, economic, business and European Community rules, regulations and tenders and to collect, evaluate and disseminate information to be made available,
- (e) improve competitiveness through technology development and the improvement of the quality standard of products and services,
- (f) facilitate the establishment and reinforcement of supplier relations,
- (g) expand access to credit,
- (h) develop innovating capability,
- (i) explore external and domestic market opportunities, facilitate market entry and development of commercial networks,
- (j) facilitate co-operation in production, sales and procurement among businesses and joint action in the market,
- (k) perform research work by businesses in collaboration or jointly with research and development institutions and establish the conditions of embracing research findings and their implementation in practice,
- (l) reduce the administrative burden, and
- (m) ensure Hungarian participation in the programs of the European Community, may benefit from subsidisation.

## Section 6

(1) Subsidy may be extended from the targeted estimate in the following forms:

- (a) non-repayable subsidy,
- (b) interest subsidy,
- (c) back-to-back guarantee and guarantee fee preference,
- (d) loans with preferential interest and interest free loans, or
- (e) subscription to equity units in venture capital funds or acquisition of participation in venture capital companies.

(2) A small business may benefit from several forms of subsidy.

## Other forms of support

### Section 7

- (1) Small businesses may benefit from subsidies from state funds earmarked for other purposes as well as from the targeted estimate specified in the central budget.
- (2) Separate law may prescribe the possibility of using tax and contribution preferences for small businesses.

## Evaluation of the use of the subsidies

### Section 8

- (1) The manager of the earmarked state fund and the targeted estimate specified in the central budget, the president of the State Money and Capital Market Supervision and the Council for Public Procurement shall report on the participation of small businesses in subsidies, corporate lending and public procurement based on the data of the preceding year by June 30 of each year. The government shall specify the range of reporting and the order of reporting under a separate decree.
- (2) The report according to Subsection (1) shall be sent to the Ministry.

## CHAPTER III

### CO-ORDINATION OF THE TASKS OF THE STATE AND THE PARTICIPATION OF SMALL BUSINESSES IN THE PREPARATION FOR DECISION-MAKING

#### Tasks of the government

### Section 9

The tasks of the state in relation to small businesses shall be co-ordinated by the Minister for Economic Affairs (hereinafter the "Minister"): Within this, involving the organisations representing the interests of small businesses and the national economic chambers, he shall

- (a) evaluate the efficiency of the state subsidisation of small businesses,
- (b) develop and submit to government for approval the strategy for small business development and the major goals of the business development policy and put forward recommendations concerning actions designed to enhance the development of small businesses, and
- (c) take action to perform the public tasks related to the preparation of small businesses, with a view to joining the processes of the single European market.

## Section 10

Every two years, the Government shall submit a report on the situation and the business conditions of operation of small businesses to Parliament. The report shall present the impact of earlier decisions on the economic position of small businesses and the efficiency of state subsidies.

## Section 11

When modifying individual elements of the system of economic regulators and in the case of amending legislation affecting small businesses, the submission shall present the impact of the planned changes on the economic position of small businesses.

## Enterprise Development Council

## Section 12

The Enterprise Development Council (hereinafter the "EDC") shall participate in the development of the small business development strategy and, within this, it shall

- (a) put forward recommendations with respect to the trade programs and measures aimed at laying the foundations for the small business development strategy,
- (b) provide an opinion on the trade programs developed with a view to developing small businesses,
- (c) put forward recommendations with respect to the goals to be supported from the targeted estimate and the proportions of distributing funds among the goals,
- (d) evaluate the efficiency of the programs of ministries, agencies of national authority and enterprise development organisations run by using budgetary funds and their accord with the small business development strategy,
- (e) evaluate the extent of the participation of small businesses in budgetary subsidies, corporate lending and public procurement, and
- (f) provide an opinion on legislation affecting small businesses.

## Section 13

(1) The president of the EDC shall be the Minister.

(2) The following shall be the members of the EDC:

- (a) a representative each of the Minister for Economic Affairs, the Minister for Agriculture and Regional Development, the Minister for Environment Protection, the Minister for Transport, Communication and Water Management, the Minister for Education, the Minister of Finance, the Minister of Welfare and Family Affairs, the Minister in Charge of Coordinating Phare Programs and the Prime Minister's Office,
- (b) presidents of the national economic chambers, and

(c) five representatives delegated by national organisations representing the interests of small businesses.

(3) The following shall participate in the work of the EDC with the right to be consulted:

(a) the Chairman of the National Technology Development Board, the President of the Board of the Hungarian Foundation for Enterprise Promotion, the President of the Hungarian Bank Association and the Director of the Hungarian Credit Guarantee Association, and

(b) the members of the professional advisory board set up on the basis of specific invitation by the Minister.

#### Section 14

(1) The EDC shall meet four times a year. The meetings shall be convened by the President of the EDC. The body shall be convened out of turn if at least a third of its members initiate this in writing while indicating the agenda.

(2) The EDC shall bring resolutions by simple majority of the votes. The EDC shall have a quorum if at least 50% of its members with voting rights are present.

(3) The EDC shall itself establish its own statutes.

(4) The organisation of the Ministry shall perform the functions of the EDC Secretariat.

### CHAPTER 4

#### Closing provisions

#### Section 15

(1) The present Act shall enter into force on the 1 January 2000.

(2) The report according to Section 8 (1) shall be submitted by the Council of Public Procurement in 2001 for the first time.

#### Section 16

For the purposes of the present Act,

(a) "business" or "enterprise" shall mean the business organisation, the state enterprise, the other state-owned business organisation, the co-operative, the association, the public utility company, the company of individual legal entities, the subsidiary, the water management association, the association of forest holders, the economic association and the economic association functioning under the responsibility of a legal entity, the Hungarian branch of a foreign business and the individual entrepreneur, and

(b) "institutional investor" shall mean the bank, the specialised credit institution, the investment company, the venture capital company, the insurance company limited by shares,

the investment fund, the venture capital fund, the voluntary mutual insurance fund and the private pension fund.

#### Section 17

(1) The Government is herewith authorised to establish the range and order of reporting related to subsidies and corporate loans by decree.

(2) The Minister for Economic Affairs is herewith authorised to establish the detailed rules of the order of operation, use, management and control of the targeted estimate in agreement with the Minister of Finance by decree.

#### Section 18

(1) Section 15 (1) of Act XL of 1995 on public procurement (hereinafter the "Public Procurement Act") shall be supplemented with the following Point (n)

[*the Council*]

"(n) perform the tasks prescribed for it by other law."

(2) Section 61 of the Public Procurement Act shall be supplemented with the following Subsection (4); at the same time, the numbering of the present Subsections shall be changed from (4)-(8) to (5)-(9):

"(4) Upon the announcement of the results, the winner of the procedure shall issue a statement whether it qualifies as a micro, small or medium-sized business pursuant to the Act on small and medium-sized enterprises and support for their development (hereinafter the "Act on small enterprises")."

(3) The following text shall replace Item 5 of Annex 6 to the Act on public procurement:

"(5) (a) \*\* Name and address of the winning bidder:  
(b) \* Qualification of the winning bidder according to the Act on SMEs."

## Grounds

### concerning the Bill on small and medium-sized enterprises and support for their development

#### General

Small and medium-sized businesses have a specific role to play in the organisational structure of the economy in market economies the world over. Their specific features include a high degree and capability of rapid adjustment and flexibility whereby they can intensify competition and substantially contribute to employment.

The outstanding role of small and medium-sized enterprises in the generation of economic growth, job creation and the mitigation of regional inequalities is generally recognised in countries with advanced market economies. In a number of countries, the micro, small and medium-sized enterprises (hereinafter the "SMEs") constitute the main employment alternative for labour released in the economy for a long time. Having recognised the outstanding economic and social role of SMEs, governments assist in the development of the sector with diverse instruments of subsidisation.

SMEs had an essential role in the development of the organisational structure of the market economy, the rearrangement of ownership relations, the rapid and substantial transformation of the structure of dimensions of business in the Hungarian economy following the change in regimes.

Thanks to the transformation which has taken place, the structure of business sizes in today's Hungarian economy is similar to that of traditional market economies. Of the approximately three quarters million businesses currently in operation, 99.8% belong to the SME sector and they generate over half of the gross domestic product produced by businesses, including individual entrepreneurs, and they maintain about two thirds of all jobs.

With respect to economic results, however, the competitiveness of domestic SMEs in general lags behind international standards. In order that Hungarian small businesses be able to contribute to economic growth, the expansion of employment opportunities to an extent similar to the contribution of their counterparts functioning in the advanced market economies and their economic growth will have to speed up over the coming years which will have to be facilitated by instruments of the Government.

In line with what was stated above, the main goal of the Government's SME development strategy adopted in December 1998 was to guarantee economic conditions which would enable SMEs to play a major role in the dynamic development of the economy and society. This requires, inter alia, a stable subsidisation policy and legal regulations which will guarantee priority treatment for the sector within the set of goals and instruments of economic policy and the subsidisation of its development using central instruments in the long run.



Taking all this and international experience into account—bearing in mind the significance of the subject matter—regulation at law level is called for. It is within this that we have to enforce the requirements formulated both in Government Decree 1161/1998 (XII.17) on the medium-term strategy of the development of micro, small and medium-sized enterprises and those formulated in the course of the screening of the chapter entitled 'Small and medium-sized enterprises' of the *acquis communautaire*, namely,

- the definition of micro, small and medium-sized enterprises be harmonised with the recommendation of the European Commission (hereinafter the "Commission"),
- development of a system of subsidisation for micro, small and medium-sized enterprises to be enforced in the longer term as well as of a system of evaluation which will guarantee the continuous monitoring of the efficiency of subsidies and of the participation of SMEs in state subsidies, corporate lending and public procurement and, furthermore,
- ensuring better co-ordination of the Government's SME development tasks and the reinforcement of the role of the Enterprise Development Council, the supplementation of its tasks with a decision-support function making recommendations, facilitating increasing involvement of businesses or rather their organisations in the preparation for decision-making.

## Detailed Grounds

### Ad Section 1

The Act specified its goal on the basis of the provisions of the medium-term micro, small and medium-sized enterprise development strategy adopted by the Government in December 1998. To that end, the Government intends to establish predictable economic conditions for the businesses in the future which facilitate the improvement of the competitiveness, employment capability and professional standards of this range of business as well as their approximation to the requirements of the European Union.

### Ad Sections 2-3

Hungarian legislation in force fails to provide an accurate and identical definition of micro, small and medium-sized enterprises which hinders the unambiguous formulation of measures affecting this range of business as well as the evaluation of the efficiency of such measures.

In order to lay the foundations of measures supporting the Government's strategy, the uniform and sectorially neutral definition of SMEs is indispensable. The expedient point of departure for this is Commission Recommendation 96/280/EC in which the Commission set forth a uniform definition for small and medium-sized enterprises for the member states.

Employment data and the so-called independence criterion should be taken over unaltered from the Commission recommendation, while value parameters (net sales and balance sheet total) should be adjusted to the realistic performance capability of Hungarian businesses. Changes in these parameters will be continuously monitored by the Government which will initiate their modification as economic circumstances change.

In view of the fact that the data in the definition are available in full about companies only according to accounting rules, a distinction had to be made between proprietary businesses and companies in the qualification.

At the same time, with a view to uniform interpretation and comparability of data and the evaluation of the impact of measures it is important that the concept of small and medium-sized enterprises be defined in the future together as well as by size category in all areas with the content according to the present Act.

### Ad Section 4

Making the subsidisation system for micro, small and medium-sized enterprises more efficient and transparent and the establishment of harmony between the individual areas and forms of subsidisation warrant—in accordance with the provisions of Item 4 of Government Decree 1161/1998 (XII.17), the concentration of the funds to be put towards the development of SMEs out of the central budget into a separate small and medium-sized enterprise targeted estimate within the chapter of the Ministry for Economic Affairs.

### Ad Sections 5-6

Specification of the programs to be financed from the targeted estimate for SMEs and the various forms of support

The goals to be supported must be defined so that the system of support provide assistance in resolving all the problems hindering the development of SMEs. The programs to be supported should cover all areas—from setting up a business to market entry or from reducing the

administrative burden to the development of innovating capability— where it is warranted to facilitate the development of SMEs by central instruments in order to reduce their natural competitive disadvantage arising from their size.

#### **Ad Section 7**

The targeted estimate for small and medium-sized enterprises plays a decisive role in the implementation of the Government's SME development strategy and subsidisation policy objectives but it cannot be the exclusive instrument for supporting SMEs. They may participate in programs designed to serve other economic policy objectives thus, in addition to the targeted estimate for small and medium-sized enterprises, they may benefit from targeted estimates financed from other budgetary funds as well as from extra-budgetary funds.

In addition tax preferences, which cannot be neglected in domestic regulation either, also represent an important instrument in the development of SMEs.

#### **Ad Section 8**

The uniform definition of SMEs establishes the possibility for continuously monitoring the participation of the sector in subsidisation, in corporate lending and public procurement. In order that a uniform system of evaluation may come into being on this basis, it is also necessary for the managers of the targeted estimates financed out of budgetary funds and the extra-budgetary funds as well as the President of the State Money and Capital Market Supervision and the Council for Public Procurement to provide appropriate reports to the Ministry for Economic Affairs in charge of the co-ordination of SME development tasks.

#### **Ad Sections 9-10-11**

Pursuant to the government decree on the functions and powers of the Minister, the co-ordination of the Government's responsibilities related to SME development is the task of the Ministry for Economic Affairs which, in the course of performing this function, shall cooperate with the national economic chambers and the organisations representing the interests of the SMEs.

In addition, the obligation to produce a report to be submitted to Parliament every two years and the performance of impact analysis to be presented when amending certain elements of the system of regulators are also included among the Government's responsibilities. The reason for this is that the economic impact of changing the various regulators cannot be evaluated without detailed knowledge of the positive and negative impact on the micro, small and medium-sized enterprises making up 99.8% of companies in operation.

#### **Ad Sections 12-13-14**

By virtue of its composition, the Enterprise Development Council is suitable for co-ordinating interests between the organisations involved in SME development and it also provides a forum where the SMEs and their organisations may participate in the preparation of decisions which affect them. Modifications of the functions of the EDC and their supplementation with decision-support and the submission of recommendations as part of its task state its opinion serve to reinforce this, which is enabled and, at the same time, warranted by the establishment of the targeted estimate for small and medium-sized enterprises and the development of the uniform system of evaluation related to the subsidisation of SMEs.

#### **Ad Section 15**

The entry into effect of the Act on 1 January 2000 is of outstanding importance from the aspect of the implementation of the national SME development policy. The date of entry into force was specified in accordance with Hungary's position represented in the course of the negotiations on law harmonisation conducted with the European Commission.

#### **Ad Section 16**

Terms such as "business" or "enterprise" and "institutional investor" are not defined by other legislation of general force. Hence, it was necessary to make these terms unambiguous for the purposes of the present Act.

#### **Ad Section 17**

In line with the legislation on the protection of data, the Government is authorised to enact the detailed rules on reporting and, in accordance with the Act on public finance, the Minister for Economic Affairs is authorised to specify the detailed rules concerning the targeted estimate for small and medium-sized enterprises by decree.

#### **Ad Section 18**

The Act on public procurement is amended so as to establish the conditions of meeting the reporting obligation concerning the participation of micro, small and medium-sized enterprises in public procurement.

## HUNGARIAN FOUNDATION FOR ENTERPRISE PROMOTION

The Hungarian Foundation for Enterprise Promotion (MVA) was established in 1990 to assist in the promotion of the small and medium-sized enterprise (SME) sector in Hungary. MVA was set up as an independent organisation with founding capital of 4.2 billion HUF supplied by, inter alia, the Hungarian Government, major banks and business associations.

The **general mission** of MVA is to promote economic development and by so doing create the right conditions for EU accession by supporting the competitiveness of SMEs. MVA plays a significant role in encouraging the development of SMEs by means of offering a wide range of technical and financial programmes.

To date, in 19 counties and in Budapest a country-wide network of Local Enterprise Agencies (LEAs) is in operation.

Each of the LEAs established a network of sub-offices at the main county settlements. The local governments, chambers and business associations supported them with infrastructure, experts and financial facilities. The total number of sub-offices is more than 150 which ensures an easy access to the services of the LEAs.

### About the services

LEAs offer entrepreneurs the following subsidised or free of charge services:

- Provision of technical assistance: including the funding of consultancy and business information services
- Provision of training: organising special training seminars
- Development funding: primarily in the form of Micro-credit loans to entrepreneurs and SMEs who do not qualify for bank loans having sound business plans or ideas.
- Provision of property: through the establishment of managed work-spaces or incubator-houses, or provision of information on locally available property.
- Provision of advice and information: including counselling services, access to expert opinion and access to databases and reference materials.
- Development planning: including the funding of studies to identify local business opportunities and the implementation of development plans.

### About the financial programmes

Besides technical assistance MVA believes that the promotion of access to funds for entrepreneurs is of overriding importance. The following financial facilities can be utilised through contracted bank branches: Micro-credit loan, Phare loan, Start Guarantee Fund, Start II loan, Energy Rationalising loan, and National Building Insulation Programme.

## MENTOR-SUBCONTRACTING PROGRAM

### Main Objective

The main objective of the supply chain program is to design a suitable model to prepare continuously wide range of Hungarian small and medium size enterprises (SMEs) for integration into the European and international labor market.

### Background information

The development of supplier companies is one of the priorities of the Hungarian industrial policy for a long time. As a consequence of improvement of many macroeconomic factors, the influx of foreign working capital and the settlement of multinational companies wide vistas opened up for the development of branch organizations.

Many Hungarian companies are subcontractors of multinational firms and have adequate business experiences in this field. However, it is well known that the possibilities are not utilized completely. The Hungarian subcontractors are representing a small proportion of input suppliers of multinational companies.

On the basis of international experiences the development of branch organizations is favourable for the main contractors and the supplier companies as well. However it must not take no notice of the fact that such kind of developments are quite complex in terms of technical, financing and management aspects. The bilaterally organized and financed projects may result in prosperous and long-lasting business co-operations that can facilitate sustainable changes on macroeconomic terms (development of regional employment, promotion of regional economic development, etc.)

### Role of Hungarian Foundation for Enterprise Promotion (MVA)

The Minister of the Ministry of Industry, Trade and Tourism (MITT) and the president of MVA Board of Trustees on April 16, 1998 signed the contract on the co-ordination of National Subcontracting Program for the year 1998. The main tasks of the program are:

- training, retraining, advisory assistance for subcontracting firms (on the basis of Call for Tender issued in 18 November, 1998);
- provision of practical information for suppliers (publishing compact disc containing legal, technical, economic and market information for building supplier relationships);
- the provision of information for customer companies (e.g. database of suppliers);
- matching the partners (on the company level and by organizing fairs and conferences for suppliers etc.);
- promotion of supplier networks, preparation of potential suppliers to meet buyers criteria.
- supporting supplier companies to raise subsidised loans, to apply for grants, credit guarantee and export guarantee facilities extended by government agencies, banks or through foundations;

## FUNCTIONS OF THE HUNGARIAN SUBCONTRACTING PROGRAMME

### Buyer Recruitment

1. The success of the supplier strengthening programme requires the recruitment of a core of buyer companies that would be willing to support and participate in it for their own benefits. This means that the buyers would be willing to take an initial risk in allocating some of their resources to work with the programme to help enhance the capabilities of selected Hungarian-owned potential suppliers, with the view that they would eventually negotiate purchase orders with these suppliers. Of course, one of the ways to get such participation is to give the buyer companies a voice in selecting the supplier companies that will benefit from the programme.
2. Recruitment of participant buyer companies is of the essential initial activities of the supplier strengthening programme. The process of recruitment could be accomplished in a variety of ways. The MENTOR supplier strengthening programme invites the senior executives of the buyer companies most likely to be interested in the supplier strengthening programme to a meeting with high-level government officials to explain the objectives of the programme, highlight the government's commitment to its implementation, and request their commitment and support. This is done with adequate publicity and high-level government participation, so as to maximise the motivation of the companies to participate.

### Market Research

3. Market research involves collecting, maintaining, and disseminating information on both sides of the market for domestic suppliers: the demand for local procurement on the part of buyer companies, and on the identity and capability of potential suppliers. Because this information must be accurate and up-to-date, market research is iterative in nature throughout the course of the supplier strengthening programme.
4. Once this consolidation and initial updating is completed, the supplier strengthening programme will continue its effort with more advanced surveys, such as a "purchases survey." This survey requires the programme staff to obtain more detailed purchase information from the buyers about their annual requirements of materials, components and assemblies. The purchase survey will also help the supplier strengthening programme identify the trends in purchasing by buyers, i.e., whether or not their requirements for particular kinds of parts or commodities are increasing or decreasing.
5. Market research efforts like this will lead to the establishment of a more comprehensive and confidential statistical database. Such a database would provide the supplier strengthening programme a valuable base for initiating various promotion and development activities. The combined data from all the buyers involved would enable a detailed market analysis to be undertaken, which would facilitate the further targeting of supply firms and the tailoring of appropriate developmental programmes.

6. The information thus collected might be highly sensitive to the companies involved. The need for the security and full confidentiality of the process and the output (the database) must be emphasised. The implementation of the supplier strengthening programme requires frequent involvement by staff from both the customers and the suppliers. However, at no stage should the supplier strengthening programme disclose any sensitive information to either side or to any other party.

### **Match-Making Activities**

7. Activities such as the development of publicly available data bases on both the supply and demand sides, supplier-buyer conferences or fairs, etc. are normal complementary activities that a supplier strengthening programme are expected to perform. They have proven to be of some limited use in Hungary and elsewhere. It would be a great mistake, however, to rely heavily on them for increasing backward linkages and helping Hungarian suppliers succeed; they can supplement the kinds of activities discussed in this report but they will not be particularly effective without them. One additional word: supplier-buyer conferences are more likely to be useful when they are focused on one or a few genuinely interested buyer companies. Just bringing a lot of aspiring supplier companies together with some representatives of potential buyers is usually not very effective.

### **Establishing Benchmarks for Supplier Performance**

8. Like the market research that would provide solid ground for promotion, the establishment of performance benchmarks will provide milestones against which supply company upgrading activities could be tailored and their results could be measured. Such benchmarks must be based on international competitive standards, if the goal is to create internationally competitive suppliers.
9. To establish such benchmarks, the MENTOR supplier strengthening programme would need inputs from the buyers and other published and unpublished sources. Like the supplier strengthening programme as a whole, the benchmarks must be demand driven, i.e., they must reflect the needs of the customers. Simple measures such as sales per employee, fixed assets to sales, working capital turnover, and quality and delivery indices are to be used. Based on these benchmarks, performance targets would be agreed upon for participating suppliers, with a realistic view of what can be achieved in a reasonable time period. Broad targets and goals for supplier growth, and the amount of buyer business to be converted to local supply over the targeted time period should be established as well.

### **Promotion -- i.e., Selling the Programme**

10. Promotion would be carried out at three equally important levels, i.e., to promote buyer-supplier relations at the company level, to promote the linkage concept and system at broader industrial levels, and to promote the supplier strengthening programme to the public in general.



11. At the first level, the supplier strengthening programme is actively engaged in matchmaking between buyers and local subcontractors. With a well-established database, the supplier strengthening programme is able to identify relevant purchasing needs from the buyers and match them with promising local suppliers. The supplier strengthening programme is also facilitating negotiations between vendors and buyers, by helping remove possible obstacles to reaching a subcontracting arrangement.
12. At the second level, the supplier strengthening programme will prepare industry-specific promotional materials (e.g., newsletters, directories, etc.) that would help heighten the awareness of backward linkages among industries and disseminate useful information. The supplier strengthening programme is also going to organise seminars with speakers from buyers, suppliers, and government agencies to enable all sides to learn about each other's views and concerns, and discuss other important issues related to supplier strengthening.
13. At the third level, the supplier strengthening programme will engage in a number of public relations activities to gain and maintain social and political support for the supplier strengthening programme itself. There will be some formal recognition of the buyer participants in the national media, to highlight their "Good Corporate Citizenship." The supplier strengthening programme will also give buyer executives annual dinners to be hosted by senior government officials to honour their support for the supplier strengthening programme. In addition, the supplier strengthening programme in 1999 will establish a supply company award system (e.g., "Supply Company Of The Month" or "Supply Company Of the Year") to help stimulate interest in the supplier strengthening programme and competitive rivalry among suppliers.

#### **Assistance to Selected Supplier Companies**

14. This is of course the core function of the programme.
15. While some of the assistance is given directly by the staff of the supplier strengthening programme, most of it comes from other specialised private companies, government agencies, or individual consultants with the staff of the programme serving a facilitating role. This function therefore involve comprehensive networking of the buyer and supply company participants, government and non-government agencies providing various support services, and the core team of the supplier strengthening programme.
16. Supply company candidates are carefully selected. Once selected, the supplier strengthening programme (or some designated consultant) works with the management of each selected supply company to conduct a rigorous diagnosis to assess their current capabilities and deficiencies. It is very valuable to have someone from a potential buyer company also participate in this diagnosis. The process is done through a series of working meetings and factory visits. The diagnosis covers a range of aspects of the company, its existing systems for financial management, quality control, and productivity performance. The company's personnel policies are also evaluated in the context of training and the degree of employee involvement. Finally, the company's investment policies are examined against relevant benchmarks for technological adequacy.
17. The assistance of experts from the buyers, particularly in technical areas, are very valuable at this stage, as they have knowledge of best practice in competing companies overseas - this knowledge will form the basis for successful benchmarking. Government agencies and

private institutions (e.g., banks, accounting firms, international consulting firms) also assist in this process.

18. This diagnostic study of the supply company provides the basis for preparation of a company development action plan. This plan outlines all efforts required to improve the company, with particular focus on technology and capital equipment strengthening, management training and development, marketing training, and operational planning and improvements. Areas such as value engineering and analysis are also included as an important part of supplier development and training. The development activities range from focused developmental workshops to on-going assistance in developing long-term business relationships with buyer clients. Sources of financing for all this are analysed as well.

### **Continued Monitoring and Troubleshooting**

19. The supplier strengthening programme monitor on continuous basis the buyer/supplier relationship and the supplier capability building process after the initial stage of development. This requires the programme staff to keep in touch with the firms, both buyers and suppliers. With the express approval of the firms, programme specialists often act as trouble-shooters or mediators to help ensure the long-term viability of the business relationship. Such a function also helps the supplier strengthening programme gain more understanding and experience in terms of working with companies.

### **Policy and Strategic Feedback**

20. The MENTOR supplier strengthening programme plays an important role in identifying further policy and regulatory improvements or changes needed to facilitate the increased competitiveness of Hungarian enterprises. Such policy and regulatory issues include, for example, indirect exporters' access to the same treatment as direct exporters, the development and implementation of legislation for access to financing, such as leasing and venture capital, and reducing the administrative problems in the movement of goods in and out of free trade zones. The supplier strengthening programme acts as a feedback channel to convey this kind of information to the appropriate ministries and other authorities for action.
21. The MENTOR supplier strengthening programme also plays a strategic role in identifying deficiencies in critical technologies or skills which might inhibit the development of linkage business, or which might open up wide opportunities for a whole new set of linkages. Information on such gaps are communicated to the relevant agency for appropriate action.

### TEK (Economy, Health and Environment) Programme

The programme started in August 1997. It is a direct grant scheme for the insulation of blocks of flats. The support covers 30 % of the budget of heat insulation, to a maximum amount of 60.000 HUF per household. Some 232 professionally and financially qualified small and medium sized businesses joined to the programme as service providers for insulation. In terms of enterprise promotion this programme assured a safe market for these enterprises and as one result of the programme 12 businesses were created uniquely to participate in the programme and to become providers of insulation services.

The support was granted by the Central Environmental Protection Fund which was contracted out to MVA through a tender procedure.

Up to date some 50 million HUF have been used from the available 300 million HUF of the TEK programme.

The TEK programme serves as a good opportunity both in environmental protection and energy savings although the amount of support is limited.

### German Coal Aid

The programme is an energy savings loan fund aiming to support environmental protection and energy savings investments with favourable rates of interest.

The maximum available loan is 80 M HUF.

The programme started in 1992 with 700 million HUF, which increased to 1.4 billion HUF by today.

The German Coal Aid is one of the most successful programmes of MVA.

### START Loan

This is an investments loan programme together with a guarantee fund established from the funds of the German Governmental Aid with an amount of 500 million HUF. It was established in 1992 as the START LOAN I. The START LOAN II programme was launched in November 1997 utilising the remaining budget of the START Fund with the same conditions as START I. The total available fund is 800 million HUF.

Since the maximum amount of the available loan was 25 million HUF per application with only the 75% of the rate of interest of the Central Bank of Hungary and since this is the only loan scheme next to the one of the Hungarian Development Bank which can be used for funding in investments, the START LOAN is considered one of the most successful financial support instruments of in enterprise development. Approximately 70 clients have used this loan scheme up to date.

## Funds Co-ordination Programme

### Objectives

To *develop* and continuously *operate* an information system, a uniform database within the MVA Network on all available central, decentralised and local funds (schemes) for SMEs and on any other information for players of the SME sector in Hungary to develop projects.

On the basis of this information base to *establish* complex consultancy services in order to help utilise co-ordinated and harmonised use of such resources and funds and facilitate their combination for SMEs to enhance efficient economy and enterprise development.

### Key tasks of the programme

#### *Elaboration and maintenance of a resource map*

To *elaborate and maintain* a resource map on all available funds and support schemes for SMEs on an up-to-date basis. To *complement and complete* resource map on central governmental sources by the Ministry of Economy with local and decentralised financial resources, instruments and support schemes (e.g. local governmental, local regional development). Collection of local and regional complementary resources is managed by the Local Enterprise Agencies (LEAs) against a unified manual elaborated by LEA professionals.

### Achievements and results

#### *Ensure access to the resource map via MVA home page*

- Information on financial resources, instruments and support schemes is placed on the MVA home page. The home page is also inter-linked with other home pages containing information on other financial resources and is being kept up-to-date.

#### *Active participation in financial (loan) schemes*

- Fast track loan applications and qualifications within the LEA Network
- Co-operation with the financial (banking) sector in design and management of new financial schemes for SMEs
- Elaboration of funding schemes (e.g. credit guarantee schemes, factoring)

#### *Consultancy (resource combination)*

- Consultancy on possible combination of funds and funds availability for the purpose of project financing.
- Special consultancy on Business Plans and loan applications.
- Consultancy on international tenders.

### *Project Generation*

- Generation and development of projects on the basis of available information and in the knowledge of development preferences, professional expertise, provision with capital and development demands of the Hungarian entrepreneurial sector on both local and regional levels.
- Organisation of professional regional consortia to make better use of domestic and international SME funding opportunities.

## SME Micro-Credit Scheme

### *The objective of the scheme*

The general objectives of the Micro-Credit Scheme (MCS) are to promote small enterprises through financial support and business counselling, considering at the same time their specific needs and requirements, which commercial banks are currently unable to service. The other objective of the Scheme is to support these enterprises that they would become clients of commercial banks as soon as possible.

- To obtain the micro-credit loan financial support, businesses will have to meet certain requirements.
- Loans may be used for the purchase of machines, equipment and other tangible assets. Up to 30 per cent of the loan may be used as working capital. The loan may not be utilised to replace existing facilities.
- The amount of loan shall not exceed HUF 1,000,000.
- Loan period may vary from 6 months to 3 years depending on the repayment capacity demonstrated in the cash-flow projections included in the business plan.
- It is necessary to provide some contribution to the business from your own resources in order to be eligible for a loan. This must be a minimum of ten per cent of the assets of the enterprise.
- The loan must be utilised within two months from the date of approval of the loan application. If the loan is not utilised within this period of time, the loan will lapse, unless the time period is extended by the LEA.
- The grace period of the repayment of a loan cannot exceed 6 months. There is no grace period for interest payments. The interest is 18 %.

### The progressing of Micro-Credit Scheme\*

Year	Amount disbursed to LEA	Application		Approvals		Disbursals	
		No.	Amount	No.	Amount	No.	Amount
Total	3.490.529	20.560	12.582.345	11.913	7.471.604	10.160	6.567.191

\*(in thousand HUF)

## LOCAL ENTERPRISE AGENCY NETWORK

		Adress	Phone
– Bács-Kiskun County Local Enterprise Agency .....	6000	Kecskemét Deák Ferenc tér 3.	+ 36-76/485-505
– Baranya County Local Enterprise Agency .....	7621	Pécs Felsőmalom u. 13.	+ 36-72/214-050
– Békés County Local Enterprise Agency .....	5600	Békéscsaba Kinizsi u. 5.	+ 36-66/442-520
– Borsod-Abaúj-Zemplén County Local Enterprise Agency .....	3530	Miskolc Mindszent tér 1.	+ 36-46/351-266
– Budapest Enterprise Agency .....	1840	Budapest Pf. 1	+ 36-1/ 269-6869
– PROGRESS - Csongrád County Local Enterprise Agency .....	6701	Szeged Pf. 1118	+ 36-62/423-053
– Fejér County Local Enterprise Agency .....	8000	Székesfehérvár Budai út 9-11.	+ 36-22/318-010
– Győr-Moson-Sopron County Local Enterprise Agency .....	9022	Győr Czuczor Gergely u. 30.	+ 36-96/316-188
– Hajdú-Bihar County Local Enterprise Agency .....	4029	Debrecen Csapó u. 26.	+ 36-52/500-330
– Heves County Local Enterprise Agency .....	3300	Eger Dobó tér 6/A.	+ 36-36/410-724
– Jász-Nagykun-Szolnok County Local Enterprise Agency .....	5000	Szolnok József Attila u. 83.	+ 36-56/423-134
– Komárom-Esztergom County Local Enterprise Agency .....	2800	Tatabánya Fő tér 4.	+ 36-34/311-662
– Nógrád County Local Enterprise Agency .....	3100	Salgótarján Rákóczi u. 36.	+ 36-32/ 314-641
– Pest County Local Enterprise Agency .....	2100	Gödöllő Pf. 108	+ 36-28/521-110
– Somogy County Local Enterprise Agency .....	7400	Kaposvár Ond Vezér u. 1.	+ 36-82/500-797
– Szabolcs-Szatmár-Bereg County Local Enterprise Agency .....	4400	Nyíregyháza Víz u. 21/B	+ 36-42/414-188
– Tolna County Local Enterprise Agency .....	7100	Szekszárd Augusz I. u. 1-3.	+ 36-74/319-707
– Vas County Local Enterprise Agency .....	9701	Szombathely Pf. 372	+ 36-94/326-048
– Veszprém County Local Enterprise Agency .....	8200	Veszprém Vár u. 21.	+ 36-88/424-033
– Zala Megyei County Local Enterprise Agency .....	8901	Zalaegerszeg Pf. 116	+ 36-92/316-033



HUNGARIAN FOUNDATION FOR ENTERPRISE PROMOTION

H-1062 Budapest, Bajza street 31.  
Tel.: +36 1 3423717 Fax: +36 1 3424122