CASE STUDY

December 2016

SUPPORTING "GENERATION START-UP": OPPORTUNITIES FOR HUNGARIAN MFIs

This case note presents our initial research findings and analysis on the start-up enterprise landscape in Europe (in particular: Romania, Hungary, and Bulgaria). This initial exploratory research was designed to identify current good practice among microfinance service providers serving start-ups; understand the future potential role of microfinance vis-a-vis start-ups; and propose concrete and practical steps to bring about more support for start-ups. This project is being implemented within the four-year Framework Partnership Agreement of MFC and the European Commission within the EaSI Programme. MFC plans to continue the research in additional countries of in Eastern and Western Europe in 2017.

THE BIG PICTURE

Hungary boasts a high-income mixed economy with a skilled labour force and reasonably low levels of income inequality. It has, in recent years, been one of the top destinations of choice for foreign direct investment in Central and Eastern Europe ($119.8 billion in 2015). Its major industries include food processing, pharmaceuticals, cars, IT, chemicals, and machinery. Hungary is the largest electronics producer in the region, a sector which plays a huge role in driving innovation and economic growth in the country. In particular, in recent decades Hungary has become a major centre for mobile technology, information security, and related hardware research. In 2015, Hugary's employment rate was 65%, 63% of whom worked in the service sector. In 2016, Hungary ranked 40th (out of 190 countries) in the World Bank's Ease of Doing Business survey, but in the "Starting a Business" sub-index (see Box 1), it scored significantly lower (71st).

Box 1: Ease of Doing Business Survey: Indices and indicators

Starting a business – Procedures, time, cost and minimum capital to open a new business
Dealing with construction permits – Procedures, time and cost to build a warehouse
Getting electricity – Procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse
Registering property – Procedures, time and cost to register commercial real estate
Getting credit – Strength of legal rights index, depth of credit information index
Protecting investors – Indices on the extent of disclosure, extent of director liability and ease of shareholder suits
Paying taxes – Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit
Trading across borders – Number of documents, cost and time necessary to export and import
Enforcing contracts – Procedures, time and cost to enforce a debt contract
Resolving insolvency – The time, cost and recovery rate (%) under bankruptcy proceeding

Box 2: About FIVOSZ

Operating from regional branches across the country, FIVOSZ is a membership-based outfit whose mission is to create and sustain enterprises, offering a mix of free and fee-based services. It members average 25 years of age and typically work in the service sector, rather than trading or manufacturing. It provides free business plan feedback for under 30s (or parents under 40). It delivers a 100-hour "how to become an entrepreneur" training (reaching 2,300 people to date); those that complete the entire course receive grants from the European Social Fund ranging between €10-20,000. It's also launched a youth guarantee programme for under-24s (or unemployed under 30s), reaching 1,500 people to date (and another 3,500 with training). FIVOSZ does not provide a business incubation service, due to the cost involved in doing so.

THE START-UP LANDSCAPE

According to the Young Entrepreneurs Associations (FIVOSZ – see Box 2), Hungarian start-ups can be classed in three different categories. Tech start-ups tend to be high-growth ICT firms, typically attracting venture capital (and the attention of incubators) as they grow (and are typically located in the capital). Traditional SME start-ups tend to be served by commercial banks or microfinance institutions—and operate across the country. A third group of "solo-preneur" start-ups are new ventures that began out of necessity, rather than entrepreneurial spirit (for example, after being laid off by a formal employer). This third type of start-up often begins small and stays small — and often lacks access to financing due to their size and/or risk profile.

In 2013, the Hungarian government began looking at how best to support the start-up sector, which by then had already churned out a small number of successful companies (such as Prezi). A private-public taskforce called BudapestHUB was convened to explore and report back on the challenges and opportunities for transforming Budapest into the tech start-up capital of Central and Eastern Europe by 2020 (with key recommendations captured in the Start-up Credo report). The groundwork for this ambitious vision seems to be there: according to Digital Factory (a business incubator), the Hungarian start-up sector is in "fast growth" mode, supported by a range of venture capital options (for emerging enterprises clustered in the tech sector) and a number of for-profit incubators/accelerators (including Kitchen Budapest, Colabs, iCatapult, Oxo Labs, WS Labs, iGen and Traction Tribe). Hungarian start-ups are typically strong on technology and technical development, reflecting trends in the broader economy (as innovators within major tech companies strike out on their own). That having been said, it's important to bear in mind that landscape looks vastly different once you leave Budapest, which has become the centre of operations for the thinkers, the doers, and the funders of the start-up scene.

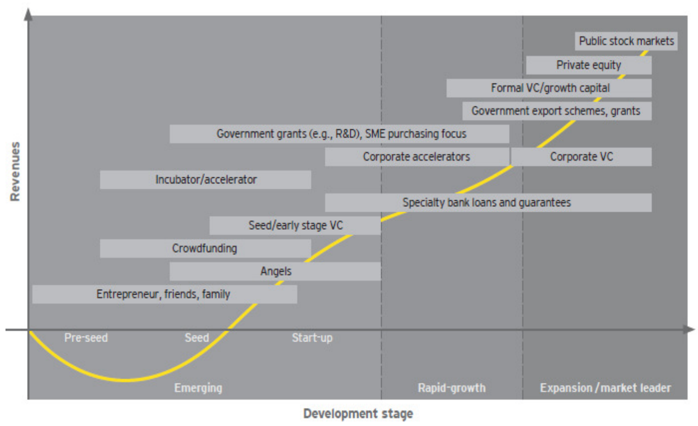
THE SURROUNDING ECOSYSTEM

The Start-up Credo report takes stock of the general start-up ecosystem in Hungary, highlighting the following challenges:

- **Education:** Critical bottlenecks in translating cutting-edge university research into practical business applications; lack of post-school training opportunities for entrepreneurs to gain the necessary business management skills.
- **Funding:** Greater availability of the right amount and right type of funding in the early stages of the life cycle (including pre-seed, seed and start-up capital).
- **Regulation:** Creating a legal definition of "start-up"; reducing the tax burden on start-ups; reducing administrative barriers to entry ("red tape") to launch a start-up (thus freeing up the entrepreneurs' time to focus on idea/product generation).
- **Enabling environment:** Connecting Hungarian start-up entrepreneurs to each other (creating a community of ideas and support); connecting them to the global marketplace of ideas and resources, and connecting them to local mentors/investors.

Local Enterprise Agencies play a huge role in delivering support to start-ups. Specifically, they provide much-needed business development services, using funds obtained primarily from the government for that purpose. However, the lending portfolios of LEAs are limited by the fact that they are unable to mobilise more capital than they obtained through historical programmes such as PHARE and JEREMIE. All current microfinance funding is available only to commercial banking institutions.

The EY guide to funding entrepreneurial businesses



Source: The Power of Three. The EY Entrepreneurship Barometer 2013

NEEDS OF ENTREPRENEURS

Our initial discussions with local support organisations, financial service providers, and entrepreneurs themselves revealed a range of ways in which start-ups need support. These include:

- **Financial support:** Start-up capital is essential, especially for young or poorer entrepreneurs who might not be able to draw down savings in the pre-seed and seed phase. Typically start-ups seek investors rather than loans (as banks don't offer patient capital); EU/national grants are also usually only available to profitable businesses; neither is crowdfunding a part of the start-up culture.

- **Tailored funding solutions:** It's important to match the amount and type of funding to the start-up in particular. For example, heavy external investment in the early stages is dangerous if the enterprise isn't going to be profitable within 24 months; grants in the early days might be more appropriate.

- **Business planning support:** According to FIVOSZ, there are more funds available than good business ideas to fund. Addressing a lack of business and technical skills at the outset will go some way towards addressing this–either through post-school training programmes or integrating business management training into the national school curriculum.

- **Market access support:** Often times, start-up enterprises lack the skills needed to effectively market their products (either online, via social media, or on the high street), especially in towns outside of Budapest (such as Eger), where markets are less dynamic and the appetite for risk-taking and change is lower.

- **Administrative support:** New entrepreneurs need guidance and support to navigate the complex regulations around business registration, health and safety laws, insurance and taxation.

- **Support to develop an "entrepreneurial spirit":** One legacy of the communist era is an over-reliance on the state to provide for the needs of its citizens–thus the ambition to take risks in business is lacking within society.

CURRENT MICROFINANCE INITIATIVES

Against this backdrop of needs, opportunities, and challenges — we wanted to understand efforts currently underway to encourage new entrepreneurs and accompany them (financially and otherwise) through their first vulnerable few years. For this initial landscape mapping exercise, we began with our members and partners. We identified those who had experience (or interest) in the start-up sector, and used semi-structured qualitative interviews to explore their insights around their own work, and their perspective on other actors in the start-up sector.

National Enterprise Development Consortium of Hungary

The microfinance sector in Hungary is represented mostly by local enterprise agencies, associated in the National Enterprise Development Consortium of Hungary, a professional association which was founded in 1995. Since 2013, it has focused its activities on pro-actively creating a positive enabling environment for its members. Its 18 members provide funding and mentoring to an estimated 80 per cent of start-ups across the country (EU funding and other investment); together the members have channeled[1] nearly €160 million to over 8,500 microentrepreneurs (of which 5,500 received grant-loan combination products). The Consortium sees its role in the marketplace as one of leveraging and innovating. That is, it leverages its members' current outreach and capacity to collaborate on providing innovative new services for end-users (such an innovation hubs, etc). The Consortium is currently chaired by HMVTA.

HMVTA from Heves and BVK from Budapest are the two LEAs we visited, which shared their experience of work with start-ups.

> **Box 3: JEREMIE Programme**
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> The Joint European Resources for Micro to Medium Enterprises (JEREMIE) is an initiative of the European Commission developed together with the European Investment Fund. It promotes the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds interventions. EU countries can use part of their European structural fund allocations to invest in revolving instruments such as venture capital, loan or guarantee funds. These funds can support: the creation of new business or expansion of existing ones; access to investment capital by enterprises (particularly SMEs) to modernise and diversify their activities, develop new products, secure and expand market access; business oriented research and development, technology transfer, innovation and entrepreneurship; technological modernisation of productive structures to help reach low carbon economy targets; productive investments which create and safeguard sustainable jobs.

[1] LEAs (because they themselves are not financial institutions) do not directly manage their own funds, rather they onlend former Phare and JEREMIE funding, held by the MVA (see box 4), or funding from other sources, held in commercial banks.

Heves County Local Enterprise Agency (HMVTA)

The Eger-based HMVTA was the first Local Enterprise Agency established outside of Budapest. Run as a foundation, its mission is to provide high-level, easily-accessible financial, consultancy and training services to local start-up ventures and existing micro and small enterprises. It offers free (or low-cost) non-financial services including:

- Business plan review and advice, including how to use a business model canvas
- How to access EU match funding (of up to €9,000) to purchase new equipment, renovate business premises, manufacture prototypes, and purchase fixed assets.
- Office space for its training course graduates (free of charge for a set amount of time, and at a low cost thereafter).
- Training workshops: entrepreneurial skills, pitching investors, start-up management, and others.
- Awareness raising competitions, such as their recent “Why I like Eger”, which among other things explored the reasons that people couldn’t find jobs
- Youth entrepreneurship education (in coordination with local schools)
- Start-up competitions, whereby winners receive mentoring, legal advice, crowdfunding support or support to identify an investor.
- Funding for local start-ups to attend international start-up events and competitions

Its microfinance program reaches 600 clients, 2 per cent of which is invested in start-ups. Its funding comes from old funds from the PHARE (see Box 5) and JEREMIE (see Box 3) programme and a small amount of its own funds. However, recent years have seen a slow-down in new clients owing to a delay in the decision on the allocation of the new EU funding for microfinance. In HMVTA's view, funding is not as readily available as it was during 2012-13; with most of it being directed to commercial banks.

Whilst commercial banks will in theory serve start-ups from day one, their lower risk appetite leads to many more rejected applications amongst the newest businesses. Whilst HMVTA cannot compete with banks in terms of pricing, they do offer the advantage of a more personal, and more holistic, service offering. For example, its small size, market knowledge and close relationships with clients means that it can disburse funds on those cases when a clients’ financial position isn’t strong enough to tempt a commercial bank. That said, HMVTA acknowledges that serving start-ups is costly in terms of time and effort. In particular, the assessment process needs to be thorough (owing to a lack of historical business performance data), a co-signatory (the managing director of the company) is essential, and a higher guarantee is required (up to 2.5x the value of the loan, compared to 1.5x for a more mature company). On the other hand, in the view of the HMVTA, commercial banks cannot hope to satisfy all the demand for start-up financing present in the market.

In terms of the value that LEAs add to the start-up landscape, it’s important to bear in mind the following:

- LEAs are well-positioned to provide business support services and facilitate access to funding, because they have close relationships with clients. Immediately following the transition to a market economy, the shortage of entrepreneurial skills among the population was particularly acute – and LEAs played an important role in tackling this challenge.
- The key challenge facing LEAs is to offer more competitive services, and also to diversify their offering to deliver more niche services—such as offering access to markets, study tour for businesses (peer exchange), and incubator services.
- The competitive advantage of LEAs continues to be the close relationship and develop with clients, inasmuch as they have a deeper understanding of their needs and are able to provide more tailored services.

In future – HMVTA plans to expand its support to start-ups by:

- Establishing an innovation hub: A space for co-working (where clients can rent a desk in an open-plan space), a prototype production space, an entrepreneurship skills “bootcamp”, and an innovation ecosystem (which nurtures start-ups with both financial and non-financial support).
- Expanding outreach: Not just its current client base, but also reaching secondary and university students.
- Cross-sector cooperation: to set up a private equity fund, a venture capital fund, and a seed capital fund.

Box 4: Hungarian Foundation for Enterprise Promotion (MVA)

Founded in 1990, the MVA is Hungary's oldest foundation that supports the development, promotion and financing of SMEs. It disburses funds through local enterprise agencies (LEAs), who manage the client interface (assessment, support, repayment). It has participated in national government programmes (such as PHARE) designed to support the transition to a market economy, as well as EU programs (such as JEREMIE). It also runs its own training and advocacy activities, including computer literacy training, innovation management workshops, research scholarships on business innovation, and entrepreneurship competitions for high school students. Since 1992, MVA has also offered microloans to start-ups; and has reached over 13 thousand Hungarian small businesses with over €150 million. In 2006 it established a subsidiary guarantee company to assist Hungarian SMEs acquiring equity financing and EU grants.

MVA's current portfolio totals €40 million, and reaches 2,700 clients. Though LEAs are responsible for assessment and disbursement of loans, MVA deals with formal delinquency follow-up. Clients can borrow up to 50% of their working capital needs (or more with a shorter maturity) for up to 3 loan cycles. At the present time, it has no more portfolio to disburse (owing to its reserve requirements), and notes that competition from banks is high (who tend to take the low-hanging fruit, leaving those they've rejected to the MVA).

MVA clearly sees its role in providing microfinance loans to start-ups. However, it also operates in the face in a number of key challenges, including:

- Collateral: Start-ups can rarely put up collateral other than property (which is a relatively illiquid asset). Using guarantees, however, would involve more time and increase the cost of the loan. One potential solution would be to agree write-off thresholds with the board (e.g. 10%), or use EU funding to cover a portion of their write-offs.
- Non-financial services: Not all clients have the necessary legal and accounting skills needed to run a successful enterprise. Nor do they know how to pitch investors or develop solid business plans. It's prohibitively expensive for MVA to offer all these services directly (free of charge), and make the case for partnership with other organisations or national funding for these activities.
- Profitability: In all, financial sustainability is a challenge for MVA. It is not a profitable organisation, lacking support from the government and the leeway to raise interest rates without haemorrhaging clients to commercial banks.

Budapest Enterprise Agency (BVK)

BVK is a Local Enterprise Agency (LEA) that uses old Phare funds to underwrite its microfinance programme, serving 100 clients (ten per cent of the entire outreach of 20 LEAs nationally). It targets entrepreneurs excluded from the traditional banking sector, offering fixed-rate, fee-free loans for up to 10 years. While its products are available to firms with less than 12 months of credit history, in practice only 40 per cent of its loans go to the youngest of companies. Importantly, its financial services are bundled together with a range of non-financial services, including business planning advice, mentoring and business performance monitoring, and free workshops and talks on useful topics (such as finding US trade partners, EU funding sources availability, and product branding).

BVK also undertakes a number of broader awareness-raising campaigns and activities, such as:

- Start-up competitions
- National conferences and workshops–over 400 events to date
- Media relations to promote entrepreneurship good practice
- Roundtables to bring together NGOs, local chambers of commerce, and local government bodies that support entrepreneurship
- International start-up showcase events

Box 5: Phare Programme

The Poland-Hungary Aid for the Reconstruction of the Economy (Phare) is the European Union's (EU) financial instrument designed to assist the Central European countries (CECs) in their transition from an economically and politically centralised system to a decentralised market economy and democratic society based on individual rights, and to support the reintegration of their economies and societies with the rest of the world and especially with the European Union. It was established in 1989, covering at that time only Poland and Hungary. Phare's main objective has been to help CECs to build up a fully-fledged market economy. Against this background, SME development programmes have been an integral component of Phare assistance since the programme began. Phare SME programmes focus on a two-tier approach to solve specific SME problems. They aim at (a) making financial markets more accessible for SMEs and (b) creating the institutional set-up required to help SMEs overcome information, risk and transaction cost disadvantages.

Kiutprogram

The Kiutprogram is a local agriculture extension project that encourages unemployed people to take up cucumber production using an intensive, water-based growing method. It is located in Sobolcs county (on the border with Ukraine and Slovakia), which is a traditional cucumber-growing area that boasts good cucumber processing infrastructure (for making preserves). The area is heavily populated with landless Roma, and typically the only source of non-farm income is public work projects organised by the government.

The primary mission of Kiútprogram is to facilitate social mobility and integration of the Roma. The objective of Kiútprogram is to enable people living in deep poverty – primarily the Roma – to become self-employed by providing them with social support, financial services and information; and as a result, help them improve their social status and make a living for themselves and their families.

Kiutprogram uses its capital to buy clients the means of production (seeds, materials, fertilizers), and acts as a buyer (in advance) for its clients' produce (on-selling to local processing facilities). Clients then pay back the "investment capital" (typically equal to €50) from future profits. Along the way, field staff (who are specialist agriculturalists) support clients at every step–even helping with other problems at home (such as family problems) when needed. The Kiutprogram pilot launched in 2012, and since then it has converted €150,000 of private investment (from individuals and local companies) into a 15-village outreach programme staffed by five employees. In future, it is considering franchising its model to other regions and sectors.

Kiutprogram staff note a number of positive outcomes of its work:

- Successful clients generate enough income to cover school fees and winter fuel costs.
- Some clients feel sufficiently empowered by the experience to seek out formal employment
- Other clients maintain and expand their cucumber business, taking on other daily labourers.

It also recognizes a number of ongoing challenges, including:

- The difficulty of identifying clients with the ambition to take on such a demanding business
- Lack of existing knowledge of gardening skills among younger people
- Lack of literacy and business skills among target clients
- Regulatory burdens mean that businesses are often not sustainable until their second year
- Although Kiutprogram is more cost-effective than public works projects, it does not cover its own costs and relies on grant funding
- Lack of funds to scale up the programme, and lack of fundraising acumen among staff
- The seasonal nature of cucumber production leads to a question around what support to provide in the off-season (September-March).

SEED Foundation

Founded in the early nineties, the SEED Foundation business development services (BDS) to vulnerable groups and ethnic minorities. They were subsequently invited to join the Women's World Banking network, but the regulatory environment barred such a move (neither did it allow them to subsequently convert to a cooperative). In 2000, SEED received a grant of $40,000, and used it establish a partnership with a local cooperative bank, who could manage the money as a revolving fund. In doing do, SEED now facilitates small low-interest unsecured loans to female entrepreneurs. Clients are required to present a draft business plan, and evidence that they will be able to repay the loan within 24 months.

SEED provides one-on-one mentoring to each of its BDS graduates. First, however, its beneficiaries complete its standard BDS training package, delivered in six two-day sessions:

- Confidence, risk-taking
- Business modelling
- Value proposition and product/service development
- Presentation/pitching skills, business administration, accounting, cost-effectiveness, budgeting
- Business management

SEED identifies a number of key challenges for start-ups:

- Business failure often caused by a lack of market stability and predictability
- A lack of business skills is exacerbated by a lack of confidence and risk-taking attitudes.
- Research shows that social capital levels among women is lower than among men. However, being embedded in supportive vertical and horizontal networks is important for the support and information-sharing that can help a business succeed.
- The "red tape" that a new business must navigate before launch is onerous and daunting, and the shadow economy is thriving as a result

- Technical training programmes (such as design school) do not offer the business skills students need to launch their own ventures
- High VAT and income tax rates dampen growth levels, and a complex taxation regime means companies don't break even as soon as their banks or investors require
- The geographic nature of economic performance hasn't changed since the Soviet era: the centre is affluent, the east is poor, and the west of the country is middle-income. This could be overcome to a certain extent with effective training on how to export goods to other countries.

NEXT STEPS

For reasons that are well-documented, start-ups are risky. They are risky for the entrepreneur, for their funders, and for the economy as a whole. The question is: given the potential opportunity they represent in terms of income and employment generation — how can that risk be spread between stakeholders as equitably as possible? Fundamentally, the risk of failure can not, and should not, be borne solely by the entrepreneur. In theory — shared risk can potentially lead to decreased overall risk — as higher risk exposure leads to higher-quality investment decisions on the part of investors, and leads them to take a more active part in the development of the business. Patient and flexible capital from investors goes a long way towards solving this problem — but a greater shift on a cultural level is needed, specifically in terms of the way that we prepare for, deal with, and embrace business failure.

And how can the various actors in the broader start-up ecosystem play their roles as effectively and efficiently as possible? In Hungary – there is a fundamental misalignment between the demand and the supply of support for start-ups. That is: funding for microfinance and start-ups is channelled through those actors in the system (commercial banks) that have the least interest and capacity for working with the youngest start-ups. MFIs, on the other hand, cannot access EU microfinance funding, but they are designed to provide the support and accompaniment that start-ups need (including a personal relationship, practical advice, coaching/mentoring, incubator and business development services).

Clearly, a cross-sector dialogue is needed to establish the unique role of each actor in the start-up ecosystem and ensure that 1) everyone is playing to their strengths, and 2) the whole of the demand for support is being met as efficiently and effectively as possible. To this point: our general reflection in each country we visited was that MFIs act as quite an effective filtering mechanism to identify those start-ups that show promise from the outset. The importance of this is underlined by the fact that failure rates in the early stages are quite high (insert graph), leading to a high destruction rate of those jobs they initially created. Inasmuch as MFIs tend to work with the newest of the start-ups, then weak performers would be culled before they failed. In theory— if the start-up market had a smaller number of higher-quality players, then competition for market share would be less intense for everyone in those fragile first few years of existence.

Funding

EU funds for microfinance are currently distributed through Takarekbank (a commercial bank a network of 90 affiliated savings and credit associations [SCAs]). Takarekbank plays a large role in directing the operations of its shareholding SCAs, and channels all EU microfinance funding through them. SCAs currently serve the small and medium enterprise (SME) sector, but not the micro-enterprise or start-up sector. Whilst LEAs do serve smaller and newer enterprises, they only have access to old funding sources (Phare, Jeremie) and have no access to fresh EU funding which would help them expand their loan portfolio. However, LEAs are able to access EU grants for implementing non-financial programs for entrepreneurs: applying for government tenders to conduct trainings, competitions, etc.

1. Create a regional funding mechanism

A regional incubator fund could pool money from the EU, national governments and regional/international investors, and disburse to local MFIs to support start-up small and medium enterprises. Among other benefits, this would expand the pool of potential funding bodies–as presently only banks are authorised to provide microfinance loans with funding from the EU.

2. Encourage microfinance providers to innovate their product and service offering

Microfinance providers typically offer loan products of up to €25,000 with a maturity of up to five years, yet to date uptake by the start-up SME sector has been low. Adapting the current offering to target this new market segment might include bolting on additional services, such as matched loans or mixed loan/grant products, or support to access markets (more feasible within more homogenous groups of start-ups, such as agriculture clients).

Microfinance providers could also fill a market gap in terms of operating business incubators to "graduate" entrepreneurs from start-ups to emerging companies. This might include providing physical work space, mentoring, networking opportunities and business support services (in addition to capital). Current regulations for setting up a business incubator are prohibitively complex, and the ideal sustainable business model (ie how the cost of those services is shared between the organisation and the entrepreneur) has not been identified. That having been said, the stakeholders we met with came up with a range of potential incubator options, including:

- facilitating access to investors
- directly investing in start-ups
- operating a guarantee scheme
- offering business development services and grants

Investors play a key role in encouraging microfinance providers to engage more with the start-up sector, and now is the right time to engage in smart advocacy with investors to make this happen. The key message is that they should treat an MFI's start-up portfolio as distinct from their main portfolio, especially in terms of its risk profile and delinquency rates.

3. Creating new partnerships

Within the current Hungarian legal framework, only commercial banks can access EU microfinance funding. Short of a complete overhaul of legislation (not least because MFIs are better positioned to accompany start-ups and microenterprises), then non-bank financial institutions can potentially develop partnerships with banks (whereby the MFIs identify potential clients and take them through the pre-loan screening process, and the banks disburse the funding). However, the working relationship would need to be defined carefully, in order to ensure that the partnership was aligned with the interests of everyone involved.

Government support

4. Taxation

Introduce tax-based for start-up entrepreneurs (which would require definitional consensus at a legal level). These might include a tax incentive for maintaining employee roles for two years, or lower tax rates for start-ups in the first 24 months, or even exemptions on employee social welfare contributions.

5. Challenging the Budapest monopoly

Budapest is undoubtedly the "capital" of start-ups in Hungary–as a result all of the intellectual and financial resources are concentrated there. However, the stakeholders we interviewed felt that the government had a role to play in developing a supportive enabling environment beyond the national capital. In Eger, for instance, one of our interviewees stated that "no one had heard of a start-up until 2016", and that some Eger residents went to conferences in Budapest but felt marginalised and excluded by the "many clever people there".

6. Policy

One key reflection that arose during our discussions was around the priorities of the government with regards to start-ups, as reflected in its current policy agenda. For example, current policy is strongly focused on supporting the production sector—but most start-ups are in the services sector.

Creating a community of practice

7. Study tours

It's important not to neglect the potential value of creating horizontal networks between start-ups—spaces where they can share common challenges and innovative solutions to the daily business of running a business. Formal study tours might be a good way to achieve this, as would be a "world café" approach that brings people together on an ad-hoc basis. Social media (such as Facebook) might even play a role in connecting start-ups together in virtual, real-time networks.

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Contact us to learn more:

Microfinance Centre (MFC)
Noakowskiego 10/38, 00-666 Warsaw, Poland
tel: + 48 22 622 34 65
microfinance@mfc.org.pl; www.mfc.org.pl

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