

REGIONAL ACTION PLAN

On improving the framework conditions for alternative finance
for start-ups and social enterprises

HUNGARY



Symbolic map

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Hungary

Regional Action Plan

(Output 3.1)

1. Introduction

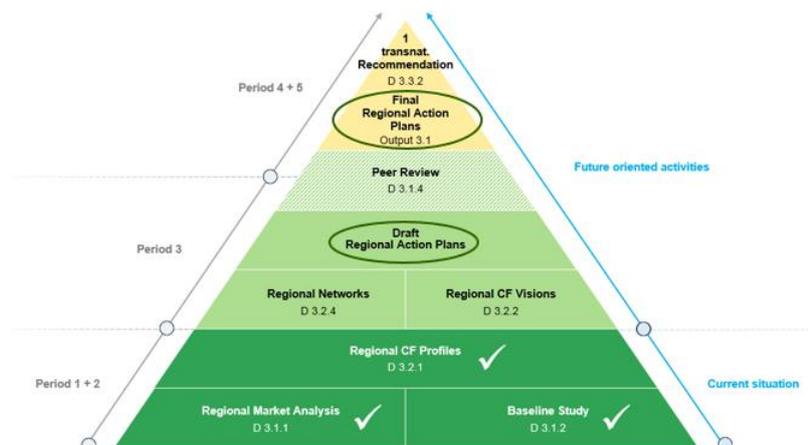
Within the CrowdStream project, each partner region has implemented a process of analysis of local conditions, stakeholder involvement and definition of long-term targets on Crowdfunding. These activities lead to the formulation of the Regional Action Plan (RAP) on the basis of the following inputs (available on <http://www.interreg-danube.eu/approved-projects/crowdstream>):

- Regional Market Analysis on Crowdfunding (D 3.1.1)
- Baseline study (D 3.1.2)
- Regional Profiles (D 3.2.1)
- Regional Stakeholder meetings (D 3.2.3)
- Regional Crowdfunding Visions (D 3.2.2)

The Regional Action Plan provides concrete measures for improving the access to alternative finance for innovative businesses and social enterprises. A peer review process was established to develop the final version of the Action Plans.

RAPs will be linked to the Pilot Actions that will be organized at partner region level in order to showcase solutions how public business support organisations can support CF campaigns of start-ups and social enterprises.

Inputs from the Regional Action Plans of all Danube area partner regions will feed into Policy recommendations aiming at improving the access to alternative finance for innovative businesses incl. social and creative entrepreneurs.



2. Main regional challenges and development needs

Main Challenge #1:

Nowadays, in Hungary there are several available funding options, however they are limited, and not accessible by every company, entrepreneur, start-up, or private individual. Therefore, alternative financing, more specifically crowdfunding would be an advantageous opportunity as a funding option.

Nevertheless, it has to be mentioned that in Hungary crowdfunding is not as widespread as in other countries, and its funding procedure is less well-known by potential enterprises. As a result, the main aim in Hungary is to raise awareness of small and medium sized enterprises, start-ups, private investors and other relevant companies about this financing possibility.

Consequently, since they are less or not at all aware of the crowdfunding system, companies in general do not possess adequate former experience in connection of crowdfunding. This current situation has to be changed, and the objective is that more and more potential investors get to know and apply crowdfunding as one of their financial sources.

Another obstacle in Hungary that needs to be tackled is the low level of innovativeness of companies. The most talented and innovative enterprises are located in Budapest, and because of the numerous prestigious universities situated in the capital city too, the majority of the potential crowdfunder students can be found there as well and in other cities their number is lower.

Furthermore, cultural barriers have to be taken into consideration as tackle in the current Hungarian crowdfunding situation. Generally speaking, crowdfunding is not so prevalent in the country, so companies and investors are not willing to try the alternative financing, because they are not aware of it, and they frequently do not trust the system of crowdfunding. Thus, good practices and international achieved results have to be collected, and shared with the potential investors such as SME-s and start-ups.

When it comes to the already available Hungarian crowdfunding websites, they are very limited and it is strongly recommended to use the most popular foreign crowdfunding platforms such as Kickstarter or Indiegogo. However, the languages of these platforms are English, that may be a problem for users, because their English language knowledge may not be sufficient to use the platform confidently.

Main Challenge #2:

The second identified challenge is definitely overlapping with the first challenge where the lack of crowdfunding knowledge among potential beneficiaries was depicted. Currently, unfortunately, BSO-s, similarly to SME-s are not or just partially aware of the crowdfunding procedure, therefore, another crucial challenge is to identify and train these national business support organisations, (such as Chamber of Commerces) to acquire the necessary knowledge and skills to support

campaigners and to offer their services to crowdfunding campaigns. If these BSOs had the possibility to get acquainted with, and widen their knowledge about the progress and the advantages of the crowdfunding system, they could support SME-s and start-ups, so they could contribute to high number of successful crowdfunding campaigns. This gained knowledge of BSO-s might be shared with other relevant actors, so the transferability of the crowdfunding knowledge shall be provided.

All in all, it can be stated that Hungary has not reached its full potential in the field of crowdfunding and no new developments have been achieved in the field of CF regulations in the country. That is why awareness raising among stakeholders- including start-ups, SMEs, BSOs...- about crowdfunding is the most essential objective in Hungary.

3. Visions

Vision #1:

According to the first vision of Hungary by the end of 2020, Crowdfunding becomes more popular among innovative startups, researchers, SME-s and social enterprises providing financing for their new products or services.

Explanation:

The regional profile of Hungary showed, that for innovative new products basically two types of fundings are available.

Public funding is provided by the National Research, Development and Innovation Office and the Ministry for National Economy. Public funding is mainly available for Universities, R&D institutions or big companies. The formerly existing support (regional innovation funds, innovation voucher) for small scale development projects no longer exists. Therefore small scale innovative product development can be financed only from either commercial or alternative financing sources.

According to the regional profile, the Hungarian banking system has strengthened substantially over the past two years and significant easing in company lending conditions occurred. However innovative, risky clients hardly gets financing. The minimum criteria for risky clients is to provide solid business plan with signed orders or at least letters of intents. Lack of fulfilling these criteria alternative financing is the only option for innovative start-ups, therefore crowdfunding is an ideal funding option.

According to this vision, the main aim in Hungary is to raise awareness of small and medium sized enterprises, start-ups, private investors and other relevant companies about this financing possibility with the help of face-to-face trainings with appropriate up-to date and useful material and methodology. Besides, another vision is to give financial support to innovative SME-s start-

ups, or other relevant types of enterprises to pay one of their activities in the crowdfunding process (such as communication activities)

As far as the number of the expected reached target groups are concerned, the goal is to reach at least 20 SME-s/start-ups/social enterprises .

Vision #2:

By the end of 2020, business support organizations will be identified and trained to acquire the necessary knowledge and skills to support campaigners and to offer their services to crowdfunding campaigns.

Explanation:

During the regional stakeholder meetings it turned out, that one of the main barriers of crowdfunding in Hungary is the lack of knowledge and lack of facilitators, who help the fund raisers. After identifying and training possible facilitators, potential campaigners can get professional help, that contribute to the successfulness of crowdfunding campaigns.

Regarding the target groups, the expected quantity is to reach (identify and reach) at least 10 people from 3-4 different Hungarian business support organisations throughout the country. As a result, these BSOs could share their knowledge with potential crowdfunders, and they might be able to train further BSOs in the future.

4. Proposed actions to address the regional challenges

Action 1:

The first proposed action of the region is to reach and identify the relevant actors, such as start-ups, SMEs, university students and widen their knowledge in the area of crowdfunding. These actors may have excellent innovative ideas, and may be thinking of different investment solutions, but they might not have heard about crowdfunding, or if they have, their knowledge may be limited.

As a result, the goal of the first action is to widen the actors' knowledge in the field of crowdfunding with the help of face-to-face trainings. These trainings shall provide new,

and up-to-date information to stakeholders who may benefit from the trainings, and may use the crowdfunding methods confidently in their enterprises.

As far as the concrete target groups are concerned, the trainings shall be held in prestigious Hungarian universities, more specifically on technical departments, where students may have innovative ideas, but they are not sure how to start their business. Therefore, the trainings will provide the concrete methodology, and up-to-date information of the crowdfunding procedure which may be applied by students in the beginning of their businesses. The trainings are planned to be conducted in the following universities covering numerous regions in Hungary:

- Széchenyi István University (Győr; Western Transdanubia)
- Eötvös Loránd University Savaria University Centre (Szombathely; Western Transdanubia)
- Pannon University of Pannonia Nagykanizsa Campus (Nagykanizsa; Western Transdanubia)
- Pannon University of Pannonia Veszprém Campus (Veszprém; Central Transdanubia)
- Óbuda University (Budapest; Central Hungary)

At these universities trainers may find enthusiastic students who wish to implement their innovative ideas, but they need to receive financial background to start their businesses. Due to the trainings, students –who may already have a start-up or SME entity- will be able to widen their knowledge in the field of crowdfunding. According to the plans, at least 20 students will be trained. Among these 20 students some of them may be already part of SMEs or they might have launched a start-up, but they are beginner entrepreneurs who need support to make their businesses successful.

After the training, students will have the possibility to find the trainer and ask him for further information.

The awareness raising trainings shall be conducted within October 2018 and one training will be about half-day long. The expectation is to reach all universities with the trainings mentioned above, and exceeds the compulsory 20 reached target groups.

Regarding the impacts of the trainings, there is no doubt that participants will be benefit from them, and they will be able to use the gained knowledge about crowdfunding in their (would-be) enterprises. It may happen that one of the participants may launch a crowdfunding campaign in the future and the training provides some useful methodologies to make the campaign successful. It is possible to circulate a paper-based

questionnaire at the end of the trainings to assess the opinions of the attendees about the trainings.

Based on the attendees' assessment, the further trainings shall be improved to make the whole training as effective as possible. The successful training methods can be repeated in the future to reach further stakeholders. Moreover, students will be able to share the gained knowledge with their peers and crowdfunding ideology will be spreading.

When we scrutinise the budget and the available resource of Action 1, we are planning to spend approximately 3000 € for this action including organizations, staff cost and other relevant expenditures.

Action 2:

In the framework of this Action 2, we intend to address already successful Hungarian crowdfunders or would-be crowdfunders to support them in a financial way. In the preliminary survey conducted in May 2018 in WP4 activity, we managed to find numerous crowdfunders who had already launched a campaign using different crowdfunding websites (mostly Kickstarter or Indiegogo). In the following step of the workflow, we created an online questionnaire to receive information about their crowdfunding experience and this questionnaire was circulated among the crowdfunders reached in the survey. After few weeks, five crowdfunders replied who expressed their opinions and experience as well as their future plans in the field of crowdfunding. The survey has revealed that the five responders had already achieved 13 successful crowdfunding campaigns in total. Besides, the questionnaire has demonstrated that the majority of the responder crowdfunders (4 out of 5) are willing to develop a new crowdfunding campaign in the future.

On the one hand, our intention is to reach (via e-mails or telephone calls) again all crowdfunders, who were found in the preliminary research and ask details from them what kind of crowdfunding campaigns they would like to start in the near future. It is going to be an open call, and we will be waiting every interested crowdfunder, not just those who were addressed in the previously mentioned research, to share their ideas and the expected details of their planned crowdfunding campaign.

The open call intends to ask crowdfunders to apply, and in their application they detail their required service during the crowdfunding campaign, which they would like to receive the financial support. Among other things, would-be applicants may demand financial support for their preliminary video campaign, or other media campaign, as well

as graphic materials, but besides these, further services might be promoted which are in connection with their own crowdfunding campaign.

During the open call, applicants will be asked to fill in an application form in national language, where they are asked to describe their previous crowdfunding experience, the content and time period of the planned campaign, the type of the target group and their reaching method. As well as the budget proportion shall be demanded where the ratio of the required financial support, their own resources and other supporters shall be demonstrated.

Apart from the application form, applicants will need to sign an obligatory declaration in national language where they declare that they provided every required document during the application, and they enounces that in their own submitted application, every statement is true and true to reality.

As soon as the content of the open call is ready, including the template of the complementary documents, they will be publicated on several media platforms in order it will reach big number of applicants. Regarding the method of the publication, the call will be available on social media platforms, such as Facebook, Twitter and LinkedIn, furthermore it will be sent directly to the relevant crowdfunding campaigners. According to estimations, the preparation and the management of the open call procedure will cost approximately 5000€.

The open call will be available for two months, (2018 Nov-2019 January) and applicants will have to submit their requested documents within the given deadline in an electronic form.

According to the open call, within the applicants, minimum two, but not more than four applications will be supported, between 1000-3000€ per each campaign depending upon the required service for crowdfunding campaign.

Evaluation of the applicants:

The replies of the applicants will be analysed by PBN and external experts and based on the given answers, we will be able to determine which activities would be the most relevant to support financially.

An evaluation sample table will be compiled preliminary, and based on that, applicants will be marked objectively. If the number of applications justifies we are planning to ask the relevant crowdfunders to present their ideas in a face-to-face meeting, where external experts may have the possibility to be part in a jury and vote for the best one(s), so the judgement will be carried out. Depending on the given answers, it will be decided whether only one crowdfunder will be supported financially, or it might happen that the allocated financial support will be shared between the actors. The objective is that with the help of

our financial support, the idea(s) will appear on crowdfunding platforms and start their own campaign.

From the applications it is preferable if the applicant gives a comprehensive description about his/her project and campaign, and in the application the market demand is presupposed as well.

Besides, it is also favourable if the applicant is planning to start his/her campaign within April 15 2019.

The deadline for submission of the applications is 15 January 2019, and the applications will be evaluated within 31 January 2019, and all applicants will be informed about the results within February 4.

Following the announcement of the results, contracts will be prepared with the winner applicants, based on their required service and its budget, including a deadline. They start their crowdfunding campaign and they will be financially supported within 20 May 2019.

The support will be provided based on the official invoice about the crowdfunding campaign service.

Hopefully, all of the supported campaigns will be successful, but unfortunately it is beyond our competence, the success will be depending upon the market demands.

Table 1 demonstrates the envisaged timeframe of the pilot implementation of Action 2:

Table 1: The timeframe of Action 2

Number of Action	Name of the Action	Envisaged timeframe of the action in general	Envisaged timeframe in the first implementation of the action
1	Preliminary research on successful crowdfunders on national level	3-4 weeks	May 2018
2	Conduct a questionnaire with the target group found in the previous step about their previous and planned CF campaigns	4-5 weeks	June-July 2018
3	Analysis of the results of the questionnaire	4-5 weeks	August-September 2018

	and adapting the call according to the demand		
4	Prepare the open call for applying services in CF campaign (available for everybody, not just those who were contacted previously)	4 weeks	November 2018
	OPEN CALL is available	2 months	November 2018-January 2019
6	Managing the open call, promoting it on (social) media platforms and by direct mails.	2 months	November 2018-January 2019
	DEADLINE for applicants for submitting all required documents		15 January 2019
7	Analysis of the incoming applications	2 weeks	15 January -31 January 2019
8	Announcement of the results to all applicants	1 week	First week of February 2019
9	Winner applicants (2-4) conduct their crowdfunding campaign	3,5-4 months	February-May
10	Financial support for winner applicants (1000-3000 € per each)		20 May 2019

We are convinced that the above detailed structure in connection with crowdfunding service support is sustainable and might be transferred, and applied in the framework of other future projects as well.

Action 3:

In this section Action 3 will be demonstrated which corresponds to Vision 2 depicted in the second chapter of this document. This Action is concentrating on training for Business Support Organisations (later abbreviated by “BSO”) who might support crowdfunders in the future. These trainings would be advantageous for BSO-s who share the new knowledge with the crowdfunders. The BSO-s will have the responsibility to decide whether a crowdfunding campaign is feasible or not. In case the campaign and project idea is accepted as achievable, the crowd will have to be identified, and the appropriate crowdfunding platform shall be found for the successful CF campaign. Besides, BSO-s might provide different financial services for crowdfunders as well as preparation of business planning, or budget forecast might be part of the advocated services.

Furthermore, BSO-s might be helping crowdfunders in the marketing of the CF campaign, including advising marketing video strategies as well as pitching.

According to the plans, during the first implementation of the action plan min 3. BSO-s will be supported, with one-day on-site trainings per each one. As far as the estimated budget is concerned, one BSO training with preparation and conducting the training itself would cost approximately 1000 €, so in total the three BSO trainings would mean about 3000€.

5. Further recommendations to improve regional and transregional framework conditions

In order to successfully implement the above mentioned actions the following developments are necessary in order to improve the national and transregional framework conditions.

- Since at the moment no alternative financing regulation exists in Hungary it is indispensable to establish a harmonised legal background both for non-financial and for financial models of crowdfunding.
- Include Crowdfunding into the financial support models for innovative SMEs, start-ups and social enterprises as a complementary instrument to national innovation funds.