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## Regional profile

### *Hungary*

## 1 Introduction

### **The CrowdStream project**

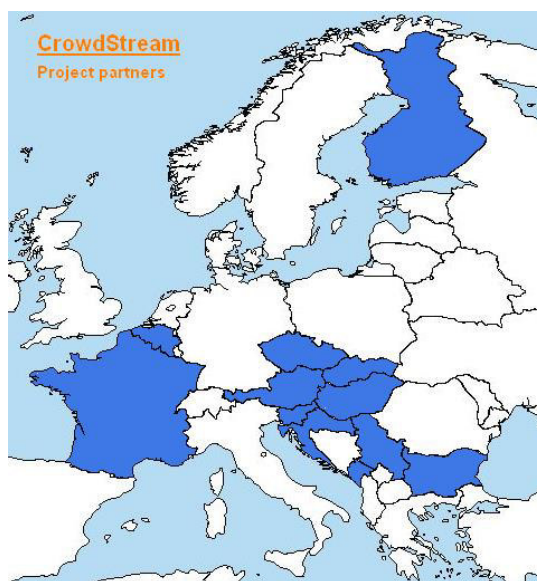
CrowdStream's main objective is to improve the effectiveness of public/private business-support for innovative spin-offs & social enterprises to access qualitative alternative financing (crowdfunding). The main project result will be improved cooperation between business-support-organisations and enterprises to guarantee a qualitative access to crowdfunding in the Danube region.

Crowd Stream outputs:

- ✓ Strategies for alternative finance (crowdfunding) in the Danube Region
  - Regional Action Plans
  - Policy recommendations for the region
- ✓ Quality tools for crowdfunding
- ✓ Capacity building for innovative small and medium enterprises (SMEs) and business support organizations
- ✓ Pilot actions

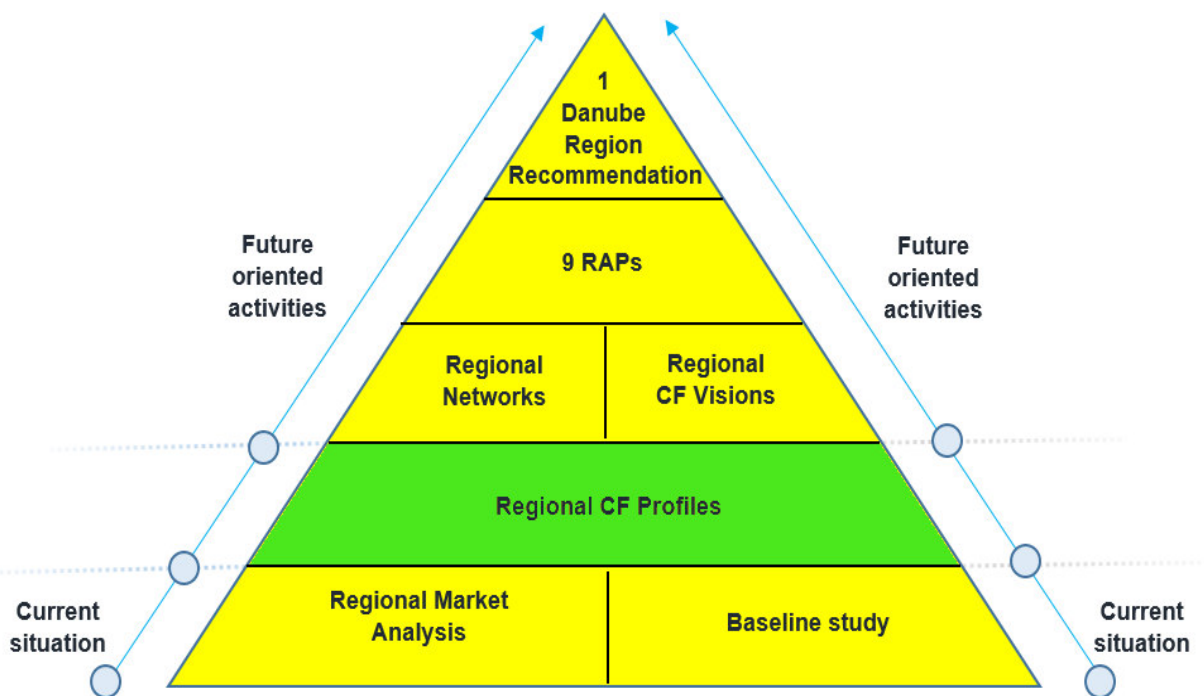
### **Who we are:**

In this partnerships **16 organisations coming from 10 regions** aim at improving framework conditions for the development of alternative financing sources for SMEs in the Danube Region.



**How we work:**

The regional profiles will guide the project partners towards including relevant stakeholders in regional networks for developing the Regional Action Plan and the long-term targets on CF in their region (Regional CF visions). Those visions will enable the stakeholder groups to work jointly on the development and implementation of the RAPs and recommendations.



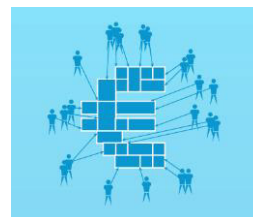
**2 The regional profiles**

- ✓ Describe the current situation of alternative finance in the partner regions
- ✓ Identify, inform and involve relevant stakeholders
- ✓ Support the development of common visions, Regional Action Plans (RAPs) and policy recommendations for the region

### 3 Crowdfunding basics

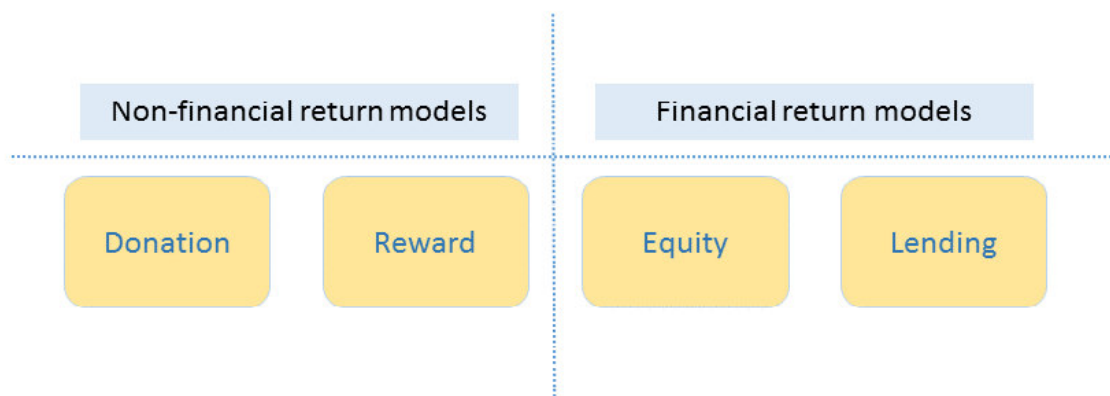
#### Types of Crowdfunding

**Crowdfunding** represents an effort from many individuals by offering a small contribution to support a project or a company in raising capital (*European Crowdfunding Network*).



Source: European Commission, Crowdfunding Explained to small and medium sized enterprises

In the case of **non-financial return crowdfunding models** individuals support a project because of emotional aspects of the campaign (donation-based) or they receive a symbolic award (reward model), which is not proportionate to the actual donation (*European Commission, Crowdfunding Innovative ventures in Europe*). The main advantages in the reward model can be attraction of first customers and a fast feedback on the commercial potential.



**Financial return crowdfunding models** provide an opportunity for the public to invest in start-ups or to offer loans with the expectation of a financial return while accepting some risks. The crowd could invest in early-stage companies (equity-based) or offer loans to SMEs under certain legal conditions (lending-based).

## 4 West-Transdanubian region - general information

### 4.1 Regional characteristics and economic situation

#### *Innovative sector*

The West-Transdanubian Region consists of 3 statistical counties: Győr-Moson-Sopron, Vas and Zala County. Perhaps the most dynamic region of Hungary after Budapest, where the nearness of Austria and the unique natural resources, together with the regions history and traditions enabled the area to establish prosperous industry and tourism.

The Region in numbers:

Surface area (km <sup>2</sup> )	11 328 km <sup>2</sup>
Population (inhabitants)	994 698 people
Population density	87 people/km <sup>2</sup>
GDP of West Hungarian region	12.100 EUR/ inhabitant; 21.500 PPS/inhab.
GDP of Győr-Moson-Sopron County	14.700 EUR/ inhabitant; 26.100 PPS/inhab.
GDP of Vas County	10.800 EUR/ inhabitant; 19.100 PPS/inhab.
GDP of Zala County	9.200 EUR/ inhabitant; 16.300 PPS/inhab.
Unemployment rate (%)	3,8 % (2015; West Hungarian region)
Activity rate (%)	70 % (2015; West Hungarian region)
R&D expenditure (% of GDP)	1,38 % (2014; Hungary)
R&D institutions	189 (2015; West Hungarian region)
R&D investments	70 M EUR (2015; West Hungarian region)
Total n. of firms	63 346 (2014; West Hungarian region)

\*Database of the Hungarian Central Statistical Office



Based on the positioning of the counties in the innovation space three types of regions can be defined in Hungary<sup>1</sup>:

- Knowledge regions
- Industrial production zones
- Low S&T driven regions<sup>2</sup>

2 counties of the West-Transdanubian region – Vas and Zala belong to the ‘Low S&T driven regions’ and Győr-Moson-Sopron belongs to the ‘Industrial production zones’. It is important to mention this classification as the national S3 strategy defined different visions and objectives for the 3 categories.

In the West-Transdanubian region – based on the county specializations – the following areas were defined as priority:

Győr-Moson Sorpon County:

- special materials, advanced materials, modern materials technologies
- metal fabrication other than machine industry
- building industry (building materials technologies)
- textile industry
- wood and furniture industry
- logistics

Vas County:

- special materials, advanced materials, modern materials, technologies
- electronics and semiconductor technology
- logistics
- cultural and creative industry

Zala County:

- special materials, advanced, materials, modern materials, technologies
- modern packaging technologies
- chemical industry (e.g. rubber and plastics industry, production of intermediates, fertilizers and cosmetics)
- wood and furniture industry

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<sup>1</sup> The three types of regions are markedly different from each other in terms of the basic innovation features, so instead of formulating a general vision, it is necessary and appropriate to create an independent vision for all three types of regions.

<sup>2</sup> <http://nkfih.gov.hu/policy-and-strategy/national-strategies/s3>

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- logistics
- cultural and creative industry

## 4.2 General investment situation

### Investment trends

The private investment share in GDP has fallen since the crisis. While total investment stood at around a quarter of GDP before the crisis, it dropped below 20% thereafter. This drop has been driven by a contraction in private business investment, which dropped below the EU average in 2015. This continuous decline was due to investment contractions in both the corporate and the household sector. Business investment remains 10% below the pre-crisis level in real terms and is forecast to keep contracting. However, household investment is set for a progressive recovery after a decade of weakness.

Government investment grew dynamically in recent years, reflecting an increasing level of EU fund absorption. It is expected to keep growing in the years ahead, after a temporary pullback in EU-funded investment in 2016.

The sizeable decline in private investment reflected a drop in construction activity as house prices dropped. The peak-to-trough decline in construction investment was 36 % (2005-2012). It was especially marked in investment in dwellings, which contracted by 63 % from its peak in 2004 to 2013. Household investment started to recover thereafter, and a recovery boom started in 2015-2016. This recovery is fueled by the governmental support of new house investment: lowering VAT from 27 % to 5 % for new houses and the financial support for families for buying new home.

Equipment and machinery investment is important for making the economy more productive and competitive. Hungary's high dependency on EU funds creates risks of postponing business investment, which could happen without external support, as companies wait for new funding opportunities or outcomes of their applications for EU funds. This leads to a dependency culture, which may be hard to break. Grants or co-financing support from EU funds involves much less risk for the recipient, but greater risks that the funds are not used on higher productivity- or growth-enhancing investment.

### Financing investments

On the supply side companies meet increased liquidity from the commercial banks with significant easing in company lending conditions. This financing is ideal for the booming construction industry and the automotive industry, which ensures no-risk business for the banks.

The 8<sup>th</sup> priority of the Economic Development and Innovation Operative Program provides preferential credits, guarantees and capital programs for production and service

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SMEs, research and innovation projects, energy efficiency and renewable energy. Top target groups are start-ups, young entrepreneurs, women's businesses.

## 4.3 Financing of innovation

### 4.3.1. Public financing

Relevant players related to the financing of innovation actions:

- The Ministry for National Economy is responsible for the business development; therefore the enterprises (such as SMEs) belong to this organization.
- The National Research, Development and Innovation Office is the national coordinator of innovation-related activities, concentrating mostly on strategy. It is the organization responsible for RDI infrastructure, strategic papers, policy setting.
- The regional and local players of the innovation-related ecosystem are significantly cut back, since the relevant competencies are concentrated on national level.

Related strategic documents and subsidy schemes:

- Economic Development and Innovation Operative Program  
It is by far the largest operative program in Hungary, covering nearly 60% of the total 2014-2020 budget. The programme aims to stimulate the economies of the less developed regions in Hungary. Its most important **priorities are the competitiveness of small-and medium sized enterprises, research and innovation, and employment**. The Programme will focus on different areas:

- increasing the competitiveness and productivity of SMEs,
- research, technological development and innovation,
- infocommunication developments,
- energy,
- employment,
- competitive labour force,
- tourism,
- financial instruments.

The Programme is supported by the European Regional Development Fund (ERDF) and also by the European Social Fund (ESF) what are parts of the European Structural and Investment Funds (ESIF).

- Regional Innovation Smart Specialization Strategy
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In Hungary the RIS3 strategy was developed on national level based on the recommendations of the 19 counties of Hungary.

As a result of the two-round EDP ("Entrepreneurial Discovery Process") process, the participants of the county workgroups, organized along the 'quadruple helix', identified the sectors and the technologies and research directions, along which they ***develop their research, development and innovation strategy and specialization.***

- Irinyi plan

The nationally allocated budget for economic development. This strategy ***aims to generate the driving force required for long-term economic growth, outlining the 7 future perspective industries for Hungary:***

- motor vehicle manufacturing,
- manufacturing of specialized machinery and equipment,
- health industry- and tourism,
- food industry,
- green economy,
- info-communication industry and
- defence industry.

Funding required for the implementation of this concept will be provided by partly EU and partly state funds.

#### 4.3.2. Commercial financing

The Hungarian banking system has strengthened substantially over the past two years. The shock-absorption capacity of the banking system remains strong. Therefore significant easing in company lending conditions occurred.

Policy initiatives to boost small business financing start to bear fruits in loan growth.

The Funding for Growth Scheme was substituted by the new Market-Based Lending Scheme designed to boost SME financing. It provides interest rate swaps to participating banks, which cover part of the interest rate risks generated by new loans.

This results on the supply side as low interest rates as 2-3 % in EUR or 4-5 % in HUF.

From the demand side booming construction industry and automotive industry ensures no-risk business for banks.

Therefore 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.

The National Bank has expanded its area of action beyond monetary policy and purchased the Budapest Stock Exchange (BSE). The BSE then adopted a new strategy to boost capital market access, growth, liquidity and improve the financial culture in Hungary. The BSE aims to become an alternative to bank financing for local companies. The new BSE management aims to reach market capitalisation of 30 % GDP, build a market for small

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<http://www.interreg-danube.eu/approved-projects/crowdstream>

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firms with at least 30 participants, and attract at least 5 stock market launches (IPOs) a year.

Micro financing is still a popular form a financing, the credit can be 10.000.000 HUF (approx.. 32.000 EUR) for an interest rate of 3.9 %.

## 5 Regional Analysis on crowdfunding

### 5.1 CF actors (platforms, initiatives, intermediaries etc.)

The first CF initiatives started in 2012: [www.creativeselector.hu](http://www.creativeselector.hu) and [kezdheted.hu](http://kezdheted.hu). Both of these portals have shortly ceased operation with no real investments and no running projects available and no reply for contact attempts.

Currently the most important CF platform is “Let’s add it together”: [www.adjukossze.hu](http://www.adjukossze.hu). They host campaigns mainly in education, sport, health, social, and cultural topics. Most of the campaigns are social responsible donation based, partly reward-based.

As of April 2017 they’ve concluded 184 successful campaigns, achieving a total investment of 244.000 euros. Based on these figures it can be seen that the average investment is 1.325 euros.

Beside the national initiatives foreign crowdfunding platforms (e.g. Kickstarter, Indiegogo, Gofundme etc.) are commonly used.

### 5.2 Available types of CF

In Hungary non-financial reward models are common. Donation and reward based CF can be implemented with less administrative burden.

Due to lacking specific legal framework financial-return models aren’t implemented, yet.

### 5.3 CF volume of investment

As described in section 5.1 the investment volume of [www.adjukossze.hu](http://www.adjukossze.hu) is 244.000 euros.

Significantly higher volumes are invested through international CF platforms, but no exact data available for the volume of investment.

### 5.4 Existing Regulation Framework

At the moment no specific legislation exists for Crowdfunding in Hungary, therefore all crowdfunding type financing has to be examined through the existing general legal framework.

In Hungary placing securities to the market is ruled by Act CXX of 2001 on the Capital Market. According to this law all capital issues are public, except those that fall under one

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of the exceptions. Under one of the exceptions, the issuance is private, if within a year the company's registered capital is not more than 100,000 EUR. In this case a public campaign – open for anyone – may be appropriate (but in a fully regulated, controlled process of investor protection considerations). This could, in principle, be an opportunity for the operation of a capital-type Crowdfunding portal.

According to the above mentioned regulations of the "Act CXX of 2001 on the Capital Market" and the regulations for joint stock companies in the "Act V of 2013 on the Civil Code", equity-based crowdfunding can be implemented as a private placements of securities.

It is important to note, that capital involvement described above, may results significantly high costs (legal and KELER Ltd., the sole central securities depository) compared to the volume of the capital investment. However, as far as this approach is concerned with Community funding, it should be added that additional obligations may apply for the potential shareholders, in addition to the initial capital injection.

In addition to stock issuing - referring to the US peer-to-peer lending example – issuing bonds can also be an option.

In the donation-type capital injection essentially the relevant tax obligations should be taken into account (VAT or TAO), though it is primarily applicable by donations paid by business entities.

Many foreign platforms that are already in use can be classified as credit intermediation between the persons providing the funds and the person intending to take the funds, which is considered a financial service according to the law of the home country of the platform.

## 6 SWOT analysis of regional CF potential

### STRENGTHS

- top-end multinationals educate local staff, who are the potential inventors
- strong traditional industries (wood and furniture, food) implies craftsmanship
- geographical uniqueness (thermal water)
- high saving rate of households

### REGIONAL WEAKNESSES

- low level of innovativeness
- talented people attracted by central (Budapest) region
- limited foreign language skills
- lack of former experiences
- cultural barriers

### OPPORTUNITIES

- skilled practice oriented people
- border proximity results new impulses
- local community reinforces trust
- business intermediaries promote CF

### THREATS

- skilled people are tied to current employers
- potential bad examples damages new initiatives

## **7 Regional development demand**

### **7.1 Investment and business environment**

The regional business environment is well-described in the regional overview: multinational companies drive the economy mainly in the automotive industry. Potential inventors and start-ups have to find their unique market segment, that is novel and competitive and may rise the interest of the investors. In order to support this process thematic focus areas may be defined which benefits from the existing knowledge. Such a thematic focus area can be the digitalisation in production and healthcare.

### **7.2 Innovation**

Regional development can be served by innovation supporting services. Idea generation, mentoring of potential inventors may be carried out on thematic workshops.

Mindful of the difficulties experienced by SMEs/entrepreneurs in raising finance and a limited understanding of more recent financial instruments, a supporting programme can be set up to raise awareness and understanding of Crowdfunding as an optional financial instrument amongst the regions businesses, stakeholder and advisory community. Through collaboration with a variety of crowdfunding platforms the service can be implemented as part of a package of global financial support, providing business initiatives with access to funds. With extensive knowledge/experience of both entrepreneurs and business finance, the intermediary may act as a 'funding bridge', specialising in helping business overcome obstacles involved in raising early stage finance.

### **7.3 Regulation framework**

The regulation framework is nationally defined. At the moment no specific legislation exists for Crowdfunding in Hungary, therefore all crowdfunding type financing has to be in-line with the existing general legal framework. The improvements in the legislative environment has to be initiated by national institutions (e.g. National Bank of Hungary) When drafting the model, care should be taken of the legislation on money laundering and terrorist financing (Act CXXXVI of 2007) which require customer identification, reporting of money laundering transactions, etc. This is especially important in this case, as the platforms are Internet-based and no personal administration is done.

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## 8 Good practice examples

### Ultimate Hacking Keyboard

<https://www.crowdsupply.com/ugl/ultimate-hacking-keyboard>

- **Company:**  
Ultimate Gadget Laboratories  
Kft.
- **CF platform used:**  
CrowdSupply
- **Topic:** Computers
- **Amount of money raised:**  
569.562 \$ raised of 200.000 \$  
goal



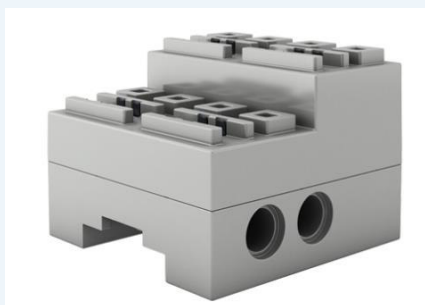
#### Short description

A fully programmable, impeccably built, open source, split mechanical keyboard - designed for extreme productivity and ergonomics.

### **SBrick - Smart way to control all your LEGO® Creations**

<https://www.kickstarter.com/projects/sbrick/sbrick-smart-way-to-control-all-your-lego-creation/description>

- **Company:** VENGIT KFT.
- **CF platform used:** Kickstarter
- **Topic:** Games
- **Amount of money raised:** 88.152 £ raised of 60.000 £ goal



#### **Short description**

SmartBrick is the next level in remote controlling your LEGO®. Build more, play more like never before.

This tiny brick of goodness works together with an application on a mobile or tablet, allowing to do things you've never thought possible before. Connect it to your LEGO® model, join our social platform, and experience a new way to have bigger and better fun with people just like you. Imagine the impossible, unleash your imagination, and make it real!

### **Brewie: World's first fully automated home-brewery**

<https://www.crowdsupply.com/ugl/ultimate-hacking-keyboard>

- **Company:**  
Brewie
- **CF platform used:**  
Indiegogo
- **Topic:** Computers
- **Amount of money raised:**  
723.620 \$ raised of 324.500 \$ goal



#### **Short description**

Brewie is a fully automated brewing machine with compact design. Perfect for beginners and experts.

## 9 List of references

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[https://www.jbs.cam.ac.uk/fileadmin/user\\_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf](https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf)

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Bethlendi András – Végh Richárd: Crowdfunding – Is it a real opportunity for Hungarian SME-s?

<http://www.hitelintezetiszemle.hu/letoltes/5-bethlendi-vegh-2.pdf>

Crowdfunding blog

<http://crowdfunding.blog.hu/>

Szechenyi Fund Manager

<http://www.szta.hu/blog/kinek-melyik-crowdfunding-oldalt-erdemes-igenybe-vennie/>

Kiszamolo blog

<https://kiszamolo.hu/kickstarter-kozossegi-finansziroz-as-igy-csinald/>