REPORT

Analysis of the Hungarian financial instruments and business support initiatives in view of creating a trans-national guarantee fund model for migrants

WP 2-3

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HUNGARY

The project is being realized within the Interreg IIIB CADSES Program with the co financing of the European Union and the Republic of Hungary

1.1 OVERVIEW OF THE BANKING SYSTEM AND INSTITUTIONS

The **National Savings Bank (OTP Bank)** was established in 1949 as a nation-wide, state-owned, banking entity providing retail deposits and loans. In the following years, its activities and the scope of its authority gradually widened._The bank has subsequently developed into a universal financial and related services group.

Main members of the OTP Group include: OTP Mortgage Bank Ltd., Merkantil Bank Ltd., Merkantil Car Ltd., OTP Building Society Ltd., DSK Bank EAD (Bulgaria), OTP Banka Slovensko, a.s. (Slovakia), OTP Bank Romania S.A. (Romania), OTP banka Hrvatska d.d. (Croatia), CJSC OTP Bank (Ukraine), Investsberbank (Russia), Niska banka a.d., Kulska banka a.d., Zepter banka a.d. (Serbia) (these three banks were merged into one and operate under the name of OTP banka Srbija from May, 2007), Crnogorska Komercijalna banka a.d. (Montenegro), OTP Garancia Insurance Ltd., OTP Fund Management Ltd., OTP Real Estate Ltd., OTP Factoring Ltd., Hungarian International Finance Ltd., OTP Pension Fund Ltd., OTP Travel Ltd.
Merkantil Bank is established in 1988, with the objective of providing special, financial services such as factoring and leasing to its clients. Main activities of the bank: car financing for car dealers and buyer, real estate leasing, asset financing, car rental for company, deposits, factoring, account management. The bank becomes the 100% owned subsidiary of OTP in 1996. Merkantil Real Estate Leasing Inc. was established in 2002, with the objective of real estate financing. Launch of international expansion in the Central-Eastern European market: establishment of a leasing company in Slovakia. In 2005 the bank and its subsidiaries (Merkantil Car and Merkantil Bérlet) concluded more than 62,000 new contracts in very competitive market.

The National Savings and Commercial Bank Ltd. (OTP Bank) founded *OTP Building Society* in 1997. The business goal of OTP Building Society is to make contracts for collecting deposits and placing related loans for housing with as many clients as possible. With the help of the background services of OTP Bank Group members OTP Building Society can build up a complex service package (loans for housing purposes at low interest rates in HUF and currency, renovation loans for citizens, society houses and housing communities), which can provide an optimized financial service at the same place for the clients. In the market of building societies it could be realized a constant concentration in the past few years, the previous 3 competitors have merged in the past 2 years, realizing a building society with the greatest client database.

OTP Mortgage Bank has been performing its activities to its wide range of retail customers since 1 of February 2002. Since then the bank has become the largest mortgage bank in Hungary.

OTP Mortgage Bank Ltd. pursues a full range of activities of Mortgage Loan Companies:

- accepting repayment funds from the public, not including the collection of deposits;
- extending financial loans covered by mortgages on real estate located in the territory of Hungary and EGT-countries, extending loans without stipulating a mortgage, if cash surety is assumed by the State;

- apart from the financial and investments activities engaging in appraisal services to determine the collateral value of real properties.

The OTP Bank Group is a market leader in the Hungarian retail banking market with a market share of 32.4% share in retail deposit and about 35.0% in credit markets on December 31, 2006. The OTP Bank Group's market share was 32.0% in retail HUF and 35.0% in retail foreign currency deposits, 41.7% in the housing loans and 24.8% in the consumer credits markets as on December 31, 2006. The OTP Group administers over 4.5 million retail current accounts, and it is the market leader in the card market as well as in electronic banking services. The bank is a dominant financial provider for corporate and other business clients and municipalities. The multi level marketing channel is a major strength of the OTP Bank. The Bank serves its clients through Hungary's largest network of branches (408), about 1,900 ATMs, and also via phone and the Internet. The OTP Group provides banking and financial services in 9 countries for more than 10 million clients.

K&H Bank was founded on 1 January 1987 coincided with the introduction of two-tier banking system in Hungary. The founders of the Bank were the Hungarian State and some of the Bank's long-standing clients, which included companies in the fields of agriculture, the foodstuffs industry, trade and tourism. The Belgian owner KBC Bank and Insurance Group merged the Bank with the Hungarian affiliate of ABN AMRO of Holland in 2001. In January 2007 KBC Bank N.V. increased its participation to 99,96%. K&H Group is one of Hungary's leading financial service providers. It offers both banking and insurance solutions for the financial needs of its clients, enabling them to make smart decisions choosing the best option. In addition to traditional retail and corporate banking products (account management, investments, savings, loans, bank guarantees, bank card services, custody management, treasury, project finance, etc.), services offered by K&H Group also include premium banking services, investment fund management, leasing, life assurance, property and liability insurance, health and pension funds services, as well as securities trading. K&H Group offers hundreds of services to its clients across the country through approximately 173 retail and 20 corporate branches, as well as 570 local representatives.

The Austrian **Erste Bank** Group entered the Hungarian market in 1998. The bank has provided full-range financial services for its retail and corporate customers. The financial institution serves nearly 900,000 customers in its nationwide network of almost 190 branch offices, and owns in addition more than 380 ATMs and about 1200 POS terminals. With its market share of 11 per cent in car leasing, the leasing company of Erste Bank Hungary is considered to be the third largest player of the Hungarian leasing market. In the past three years, Erste Alapkezelõ Zrt. (Erste Fund Management Ltd.) has increased its market share from one per cent to ten percent and its managed assets have reached HUF 300 billion by now. Erste Befektetési Zrt. (Erste Investment Management Ltd.), providing investment services, is a market leader in stock exchange stock deals with its turnover of HUF 2,300 billion realized in the last year. On the retail side Erste Bank Hungary will focus on mortgage lending and credit cards and on the corporate market on the SME and municipalities' market, as well as EU development projects in 2007. Based on its strategic objective spanning 3 to 5 years, the bank aims to increase its market share in respect of retail services to 20 per cent and to 10-15 per cent on the market of SMEs.

The **Raiffeisen Bank** was founded in 1986 under the name Unicbank with the involvement of three international financial institutions: IFC International Finance Corporation, Washington D.C., DG Bank, Frankfurt/Main and Raiffeisen Zentralbank Osterreich, Vienna, each with a 15% stake. The Hungarian participants were the National Bank of Hungary (20%), National Savings and Commercial Bank Ltd. (11%), and four organizations representing the interests of cooperatives (24%). From 2004 Raiffeisen-RBHU Holding GmbH had a 100 % shareholding in the bank. Raiffeisen Bank offers leasing, capital market and investment services. Raiffeisen Leasing Zrt., Budapest was founded with a 50% participation each of Raiffeisen Bank and Raiffeisen Leasing GmbH, Vienna, on February 1, 1993. The company is engaged in the leasing of machinery, equipment and vehicles. It also undertakes the management of energy rationalization projects. In terms of portfolio, Raiffeisen Lízing Zrt. Is now one of Hungary's largest leasing firms. The company is a member of the Hungarian Leasing Association. Raiffeisen Bank provides comprehensive commercial banking services. It offers short, medium and long-term corporate finance facilities by providing current asset loans, discounting bills of exchange, advancing export accounts receivable, issuing bank guarantees, granting foreign currency loans and providing custody services. In foreign trade, it performs documentary transactions related to export and import deals (letters of credit, documentary collection, guarantees, money transfers, etc.). It also engages in arbitrage transactions (foreign currency and foreign exchange deals, forward and spot transactions) and provides investment and financial consultancy and project financing. It takes forint and foreign currency deposits from Hungarian companies, municipalities and other institutions. The bank has performed custody services for pension funds and investment funds since 1996. The bank offers tailor-made service packages, including fixed deposit facilities and complex asset management services to major private clients. From January 1999, the bank has launched retail banking services to households, with modern products and multiple accessibility. Retail banking services include account management, fixed deposit facilities, automatic investment services, loans, leasing and other ancillary financial services.

Budapest Bank Ltd commenced operation in 1987, when the two-tier banking system emerged in Hungary. Budapest Bank was established as a joint venture by the government, state-owned enterprises as well as co-operatives. In December 1995 Budapest Bank was privatized and acquired by GE Capital, EBRD as well as the State Privatization and Asset Management

Company Ltd. (ÁPV Rt.) The Bank is licensed to conduct the full range of the activities of a credit institution including transactions denominated in Hungarian forint and foreign currency alike. Budapest Bank is one of the major commercial banks in the market, which relying on the support and decades of experience of its parent provides the full range of financial services for consumers and corporations, within the latter segment focusing on small & medium sized enterprises. the bank expanded its network of branch offices both in Budapest and in provincial areas. The number of outlets has increased with 16 new branches and 3 Money Plus offices serving private banking customers in 2006, and currently (May 31st 2007) the bank has a network of 94 outlets (branches, loan shops, independent Money Plus center). The dynamic growth of the business and customers required opening a second operations center, which was established in Békéscsaba.

Central-European International Bank Ltd. (now CIB Bank Ltd.) was established in 1979 as an off-shore bank authorised to carry out FX operations. Italy's largest bank group, formed by the merger of Banca Intesa and Sanpaolo IMI and, on the basis of its market capitalisation, one of the most influential participants in the European financial markets, has been the parent bank of CIB Bank Ltd. since 1 January 2007. By the end of 2006, its net customer-loan portfolio had exceeded HUF 840 billion, giving the bank a 12.7% share of the corporate loans market. By the end of 2006, the number of corporate customers exceeded 36,000. In 2006 CIB Bank also contributed to the financing of several large-scale development projects - in recent years the bank has acquired an outstanding position in the financing of real estate projects - and today plays a leading role in the banking sector both as an agent and a lead-arranger in syndicated lending.

The Investment Banking Division supplements its activities with custody services, which it provides to pension funds, public and private investment funds, as well as to other domestic and foreign institutional investors. Through its sub-custodian and clearing-house partner relations, it ensures that the capital markets of the region are available to its customers, in addition to the larger, international markets.

The retail loan portfolio grew 45% in 2006, from HUF 147.5 billion to HUF 213.9 billion,. With this performance, the division increased its share of the retail deposits market by 2.2 percentage points, to 8.1%. CIB's bankcard portfolio also grew at an exceptionally high rate: the number of issued bankcards increased by 33%, and by the end of the year had surpassed 326,000. The number of CIB Bank's retail customers also grew by 33%, to more than 381,000 (from 416,000 to 514,000 at group level), and the division intends to maintain this dynamic rate of increase.
CIB Leasing Group concluded more than 51,000 new financing deals in 2006 and the number of its active contracts exceeded 182,000 by the end of the year. Its interest-bearing capital outstanding increased by 16%, to over HUF 358 billion.

CIB Investment Fund Management was established in 1997, and today manages nearly 30 investment funds. In 2006 the company: managed more than HUF 67 billion in assets for 12

voluntary pension funds, three private pension funds and one health fund, which was 15.6% more than the total figure for 31 December 2005.
CIB Factor's account turnover in 2006 was more than HUF 50 billion. Allocated capital decreased from HUF 15.2 million in 2005 to HUF 10.1 billion by the end of 2006, though the average allocated capital increased compared to the previous year, by 25%. The balance sheet profit of the company in 2006 was HUF 42.1 million. The number of customers (trade creditors) rose by 8% and the number of active contracts by more than 57%.

The **Hungarian Development Bank Ltd. (MFB)** plays a special role in the Hungarian economy and in the banking system as well. On the basis of its authorization from the Government, the Bank is promoting the development and modernisation of the Hungarian economy and Hungary's integration with the European Union by making available long-term financial resources. The members of the MFB group (Corvinus ZRt., Eximbank ZRt., Mehib ZRt., Hitelgarancia Zrt., MFB Invest ZRt., Magyar Követelés Kezelõ ZRt., MAG - Magyar Gazdaságfejlesztési Központ ZRt., Regionális Fejlesztési Holding ZRt., Kisvállalkozás-fejlesztési Pénzügyi ZRt.,Beszállítói Befektetõ ZRt.)

The Bank's main strategic objectives are: to promote the modernisation of Hungarian economy and the economic growth; to strengthen the competitiveness of the SME sector by loans and development equity investments; to reduce differences in regional development through financing or refinancing national and municipal infrastructural investments; to increase the volume of financing available for the Hungarian economy; to mediate public and EU funds and long-term loans with preferential terms and conditions. To realize the above mentioned strategic objectives, MFB established a close co-operation with domestic and international commercial banks. Due to the joint efforts of the members of the MFB group, loan-, insurance-, guarantee programmes and other development activities (e.g. development equity financing) are channelled in the most efficient way to domestic micro-, small- and medium-sized enterprises and to municipalities as well.

1.2 INSTRUMENTS FOR PRIVATE SECTOR FINANCING

1.2.1 LOAN

Business Development Loan

The objectives of these programmes are common, namely to support business entities aiming at introducing new technologies, improving efficiency and competitiveness, creating new jobs. To cover source of finance for New Hungary Development Plan's tenders

Rate of interest: 3 monthly EURIBOR + 4%
Amount of loan: min 5 million HUF, max. 3000 million HUF
Capital resources: 10 % - 25 % of investment

Micro-loan Plusz Program

Micro Loans are small loans for micro and SME's enterprises to purchase new or old vehicle, equipment, machine, software and build or purchase real-estate.
Start-up ventures can claim

- Margin of security: 80 % by Credit Guarantee Ltd.
- Amount of loan: min. 1 million HUF, max. 15 million HUF
- Capital resources: 15 % of amount of invest
- Rate of interest: prime rate
- Expiration: 7 years - 10 years

Start Loan Program

Aim:

- motivate enterprise to start a venture
- Developing competitive and marketable products, services
- Technological innovation
- set business network
- creating new jobs
- encourage enterprise to join in Industry Park
- involvement of regional development program
- extend credit for Structural Fund' tenders and Cohesion Fund' tenders

Own Capital resources: 30 % of investment
Rate of interest: 75 % of prime rate
Expiration: 5-15 years

1.2.2 NEW HUNGARY DEVELOPMENT PLAN

The government has approved all of 15 operational programmes of the New Hungary Development Plan (NHDP), within the framework of which we are able to invest 7000 billion Hungarian Forints in the development of Hungary during the next 7 years with the assistance of EU funding.

Principle described in the OP:
Operations that have a local or regional effect will be of regional competence, while operations that have a wider, national, or international effect will be of the competence of the EDOP related to sectoral development.

According to the objectives of the interventions the economic development related interventions of EDOP and the different ROPs can be broken down to the following groups:

1. Direct enterprise development, modernization (by repayable financial instruments, as well as non-repayable support schemes)
2. Promotion of Research & Development and innovation (cooperation between enterprises as well as between enterprises, universities and research institutes)
3. Development of research infrastructure and services (research centres, also in part: innovation/technological parks)
4. Support of innovative start-up enterprises (with seed capital)
5. Development of innovation bridging institutes (innovation/technology parks) and their services (related to consulting ad education)
6. Development of economic infrastructure (industrial parks, logistics centre, incubation)
7. Networking , cluster management support
8. Other development of the business environment (ICT, advanced level consulting, information service)

Within the above groups, in accordance with the principle, the below regional sector level competences can be defined:

<u>1. Direct enterprise development, modernization (by repayable financial instruments, as well as non-repayable support schemes)</u>

a) Repayable financial instruments serving enterprise development, modernization – **Economic Development OP**

b) Non-repayable support schemes serving complex enterprise development and technological modernization. Area to be developed, with the following characteristics:

Specifics of the Economic Development OP:
Direct promotion of complex enterprise development
- Internationalisation of the enterprises
- Development of supplier capacities
- (Larger scale of) adaptive innovation
- Material and energy saving, environmental awareness
- Labour-intensive technology development (regional service centres – primarily in regions lagging behind)
- Development of corporate process management and IT services

Specifics of the Regional OPs:
- Development related to tourism.

<u>2. Research & Development and innovation</u>: The entire process of R&D, and innovation, focusing on corporate research including

- Promotion of innovation and R&D related cooperation between universities, research institutes, and enterprises
- Corporate Research & Development and innovation is under the competence of the Economic Development OP.

3. Development of research infrastructure and services (research centres, also in part: innovation/technological parks): under the competence of the Economic Development OP

4. Support of innovative start-up enterprises (with seed capital): under the competence of the Economic Development OP.

5. Development of innovation bridging institutes (innovation/technology parks) and their services (related to consulting ad education)

The following are under the competence of the Economic Development OP.

- R&D infrastructure and services (research centres, technology & innovation parks)
- Bridging institutes (technology/innovation parks, technology incubation, technology transfer offices)

Activities are under the competence of the Regional OPs

Bridging institutes (the technology transfer offices among these)

6. Economic infrastructure

The following are under the competence of the Economic Development OPs:

- Logistics centres

The following are under the competence of Regional OP:

- Industrial parks,
- Development of incubator houses
- Sites not having industrial park title

7. Networking services, cluster management

The following are under the competence of the Economic Development OPs:

The accredited economical co-operations (innovation clusters of the pole programme) aiming at results of international significance, accredited according to unified aspects nationwide are under the competence of the Economic Development OP.

The following are under the competence of Regional OP

The promotion of activities related to co-operations between enterprises (joint investments), as well as networking activities are under the competence of the **Regional OPs** - with the exception of innovation clusters of Pole Programme.

8. Business environment related to other enterprises

The following are under the competence of the **Economic Development OP**.

- Assistance to the introduction of quality, environmental and other control systems, and standards
- Development of corporate process management
- Support for setting up e-commerce and services
- Development of (broadband) network infrastructure
- The support of services related to proactive investment incitement and entering international markets
- Consultancy related to financial instruments programmes

The following are under the competence of Regional OP

- Business guidance in the fields of entrepreneurship and market development (except for support of pro-active investment-promotion, foreign-market entry related services and the guidance related to financial instruments programmes).

Economic Development Operational Programme-2007-1.3.3. Supporting technological star-up enterprises

The improvement of financial resources availability is also connected to the provision of suitable market environment, especially in the case of and the preparation of start-up enterprises for the use of seed capital investments (in the so-called *pre-seed* phase) in order to enable practical utilization of research institutes and their research results, followed by the promotion of them receiving **seed capital** in the next phase.

Eligible activities:

- Development of young innovative enterprises;
- Industrial property rights of SMEs;
- Basic research;
- Industrial research;
- Research & development;
- Utilization of R&D results (de minimis)

1.3 BUSINESS SUPPORT SERVICE CENTRES

INNOCENTER Innovation Centre was founded in 2002, which main purpose is the developing of innovation activity in the North region of Hungary.

SERVICES:
- business incubation,
- research and development,
- finding investors,
- education,
- finding business partners,
- writing tenders,
- financial, legal and business expertise,
- technological transfer.

The **SOUTH TRANSDANUBIAN REGIONAL DEVELOPMENT AGENCY (STRDA)** is the executive body of the Regional Development Council.

Services of the STRDA:
- Consulting services: basic and specialised innovation consulting for SMEs (e.g. starting an enterprise, financial consultation, protection of industrial rights, technical development, production management, search for resources), managing the application for grants, marketing services;

- Developing and operating the innovation database: exploring R&D results, organising the database with the help of the knowledge bases, unified database of offer and demand, links to Hungarian and foreign database service providers, building thematic sub-databases as required, providing services;

- Enterprise development activities: setting up an enterprise, acquisition of shares, supporting fusion/acquisition, services of company rating and buyout, partner matching on Hungarian and EU basis;

- Network development: supporting institutional developments improving the R&D potential of the region, facilitating links between the knowledge-generating sphere and the companies (new organisations, events, programmes other actions), mutual information exchange, internal trainings to enhance the efficiency of the innovation supporting institutions, elaboration of new forms of co-operation, supporting innovative co-operation between the enterprises;

- Training activities: innovation-related knowledge, general training programmes for developing skills for SMEs, (e.g. innovation management, technology and quality management, industrial rights, copyright), as well as organising and implementing trainings connected to a specific industrial sector, technology.

The members of the Consortium run Offices, which provide the total coverage of the South Transdanubian region, the coordination among the different county economy development and innovation partner organizations, the information flow as well as the representation of the knowledge bases. The partners keep up relations with other innovation and economy development organizations of their counties; undertake the conciliation at local level and give information. On county level they provide involvement for a wide scale of enterprises into innovation developments.

In the Central Hungarian Region, the **INNOREG** consortium was the winner of the NKTH's (National Office for Research and Technology) call for proposal of Regional Innovation Agencies. The leader of the consortium is the Infopark Rt. (Technological and Informatical Innovation Park Ltd. InfoPark Ltd.), further consortium partners are: Budapesti Vállalkozásfejlesztési Közalapítvány (Budapest Enterprise Agency), CHIC Közép-magyarországi Innovációs Központ Kht. (CHIC Central Hungarian Innovation Centre), Gödöllői Innovációs Központ Kft. (Business Innovation Centre Gödöllő), INNOSTART Nemzeti Üzleti és Innovációs Központ Alapítvány (INNOSTART National Business and Innovation Centre), Pest Megyei Vállalkozásfejlesztési Alapítvány (Pest County Foundation for Enterprise Promotion), Pro Régió Kht. (Pro Régió Agency Central Hungary Regional Development Agency Ltd.).

The most important aims of the agency providing public benefit activity are to harmonize the regional innovation processes, to ensure the information flow between the actors of the market, to coordinate the funds that can be taken into account in the stimulation of the innovation, to expand the national and international relationship system, to give innovation services and to integrate them into a unified system.

HUNGARIAN FOUNDATION FOR COMPANY DEVELOPMENT

The role of the Foundation (MVA) is:

- To support SME activity in order to raise their level of knowledge and skill, and to reinforce their market position and their financial capability.
- To facilitate the establishment of new companies
- To develop entrepreneurship in the Hungarian economy.

It was constituted in 1990 by the Hungarian Government, in co-operation with the main banks and professional entrepreneurial associations. It is a non-profit-making, independent association, under the leadership of a Board of Directors that provides the society with its strategic orientations.

It is the implementation agent of the European PHARE policies, for which it distributes resources for the benefit of the Hungarian economy.

The Agency's central element is the regional network at the disposal of businessmen (LEA). Those agencies are foundations that associate all the support partners. On the basis a revised annual examination of the situation, the network provides consultancy and advice, training, business information, and financial assistance.
Other programmes have been conducted:

- The guarantee of loans for starting new businesses, a programme that today has been taken up by other Hungarian guarantee bodies, but which was started with the funds of the German DtA Company. This Fund is not issuing any new guarantees at this moment.
- Micro-credits by a 5-year loan, at a preferential rate for new entrepreneurs. The purpose was the purchase of equipment. This programme was run for a 3-years period.

The central pillar of the foundation is finally the network of 20 consultancy agencies. The Foundation serves 110 towns in the country and, since its constitution, more than 100,000 entrepreneurs have had recourse to this service. In countries of recent access to the market economy, advice is absolutely fundamental, in order to offset the lack of experience of potential entrepreneurs wanting to launch their own business.

THE PROGRESS FOUNDATION FOR ENTERPRISE DEVELOPMENT OF SZEGED

The Progress Foundation is the partner of the SMEs developing policy of the European Union and the Phare Program in Csongrád County. The Foundation was formed in 1991 by the collaboration of municipalities, social organisations, banks and economic institutions operating in Csongrád County.

The Progress Foundation as a public benefit organisation offers complex enterprise developing, project manager services for the SMEs and for the inquisitive and affected people situated locally and in the county. Forms of activities: education, consultancy, project planning and management.

One of the most important activities of the Foundation is to provide the local entrepreneurs with up-to-date information, and educational materials. By the international, cross-border co-operation the Foundation represents and mediates the norms of the European Union, the business and development opportunities, and it promotes the formation of partnerships with EU countries (Romania) and with outsiders (Serbia, Ukraine).

The activities of the Foundation:

- Management consultancy: basic and higher level
- Adult education
- Financial complementary service

- Rent of computer devices
- Operation of incubator houses
- Credit programs, Microcredit program.

One of the most important activities of the Foundation is to provide the local entrepreneurs with up-to-date information, and educational materials. By the international, cross-border co-operation the Foundation represents and mediates the norms of the European Union, the business and development opportunities, and it promotes the formation of partnerships.

The partner had a lot of experiences within Phare Programme before the accession to EU of Hungary in the field of local economic development. It has taken part as applicant in three Phare CBC projects between Romania and Serbia Montenegro. Moreover, it has participated to three projects funded by the Interreg III A Programme (two projects as applicant and one as co-PP) and two projects, involving Germany, under the CIP Equal.

The present project at Progress Foundation is participation in the Regional Operative Program of the EU. The aim of the project is to train handicapped and unemployed people to home appliances repairmen. It is also planned that not only train them but also find work for them – now in a recycling manufactory. This is also a way and an effort to integrate them into the society.

The Progress Foundation for Enterprise Development of Szeged is of fundamental importance for an efficient project implementation and will be involved in the following tasks:

- Carrying out of a sector survey analysis on the specific demand of services among SMEs in the Szeged area;
- Functional analysis with a map of the services providers in the related area;
- Prototype proposal of the WIN-S and of its general features, in relation to the SMEs needs and after ana analysis of the local situation.
- Pilot project implementation in the Szeged Country in relation to the proposed one-stop-desk system;
- Diffusion at local level of the prototype methods and character through different means: internet, newspaper, local networks, associations, organisation of events, etc.;
- Improvement of local network with other kind of entities (municipalities, chamber of commerce, foundations, regional development agencies, etc.);
- Fine tuning of the prototypes main characters and provided services;
- Participation to the co-ordination meetings, contribution to the interim and final reports;
- Diffusion and promotion of project results.

Moreover, in Szeged will be held some of the meetings, workshops and conferences scheduled in the project activities. It provides also one member for the Steering Committee and for the TSB and two for the study tour.

BB FOUNDATION

BB Foundation was set up in 1990, at a time when the managers of new and growing businesses scored poorly on business and corporate management skills. The Foundation was designated first of all to lend a helping hand to such entrepreneurs by transferring to them the know-how needed to flow effectively with the blood-stream of the economy. At present, the core business of the Foundation involves assistance to small businesses in need of working capital loans and to non-profit organisations.

Initially, the activities were supported by the British Know-how Fund and later by the Soros Foundation, but starting 2001, support has been limited to consulting for non-profit organisations and to the credit program for small businesses and non-profit organisations. All other activities are performed on a for profit basis.

BB Micro credit

Following nearly one and a half years of development with Microloan Corporation, BB Foundation has been participating in preparing small enterprises for the BB Micro-Credit Program since Sept. 2004.

The BB Micro-Credit has created a unique opportunity by engaging in lending to formerly ignored small businesses, which the banking sector had considered to be non-profitable. As compared to other micro-credit arrangements, this program is unique in that a local commercial lends its own funds relying on the experience the BB Business Development Foundation has accumulated in analysing small businesses over the past 10 years.

The credit is designed to serve a source of working capital financing: purchasing raw materials, procurement or imports, financing daily expenditure, smaller capital expenditure (with repayment under a year).

NGO credit program

The Foundation has developed a not-for-profit credit program for NGOs. The short term loan (maturing under a year) is designed to bridge liquidity problems caused by the late disbursement of funds awarded for applications or under contracts. Borrowed amounts may also be used to finance fund raising events or to cover the working capital requirements of businesses that aim to support goal oriented (non-profit) activities of a non-governmental organisation by generating subsequent income. In addition to rating the creditworthiness and the operations of non-profit organisations, we sit down with them to draft a cash flow forecast, which also serves as a security for the co-operating financial institution Mikrohitel Rt. The interest on the loan is preferential.

The Foundation offer financial, marketing and business planning advice to enterprises during and in addition to the lending process. The same is provided to non-profit organisations about the following topics:

Non-profit marketing and PR

Designed to help non-profit organisations in their search for donors, in organising local campaigns for 1% of income tax payments or in their attempt to improve relations with their immediate environment of target audiences. The Foundation help them draft plans, formulate responsibilities and harmonise the co-operation between donors, beneficiaries and their organisation.

Applications, business planning, finance

Designed especially for non-profit organisations involved in drafting an application, a business plan or a financial plan, for those obliged to make liquidity forecasts for their organisation, and those engaged in an attempt to underpin their own non-profit activity with another non-profit activity. The Foundation assist them in drawing up cash flow forecasts, business plans and financial plans. Tables constructed together help them perform their daily duties later on.
Organisation development and business start-up consulting are offered to the clients of the Foundation by the advisors of BB Consulting.

HUNGARIAN CHAMBER OF COMMERCE AND INDUSTRY

Act XVI of 1994 on the Chambers of Economy provided for the reintroduction of the chambers as bodies of public law. The Act stated that the chambers were to be responsible for fostering the development and organisation of the economy, for encouraging business growth, guaranteeing fair market practices, and assisting the general and joint promotion of interests amongst those conducting business activities. Under the Chamber Act, the chambers became bodies of public law, and their operations were based on the self-government principle. Companies and entrepreneurs automatically became members of the chambers. On the basis of the new Chamber Act adopted by Parliament in 1999, the Government abolished compulsory chamber membership as of November 2000. There are currently approx. 45,000 members (small, medium and large enterprises) of the national chamber.

It is obvious that enterprises will be keen to join the Chamber if they are offered something in return. The basic task of the new professional chamber is lobbying and the support of capital exports, while promoting the trade of SMEs. The Chamber's programme includes the revival of the business interest promotion organisation, safeguarding the interests of Hungarian entrepreneurs, and ensuring that the Chamber becomes service-oriented. The Chamber should be managed in the same manner as a large company.

At the international level, the Chamber's objectives include the provision of assistance to Hungarian entrepreneurs in foreign markets, in particular preparing them for successful contribution to the European integration, and the creation of opportunities to co-operate with the business world of neighbouring countries. The international relationships developing amongst chambers are worth mentioning - bilateral co-operation agreements have been signed with almost all neighbouring countries - and the Chamber has joined the multinational co-operation agreement of the chambers in CEFTA countries. In 1996, the Hungarian National Commission of the International Chamber of Commerce (ICC Hungary) was set up in Budapest.

The basic principles of HCCI's 2005-2008 strategy

- Fostering the competitiveness and successful European Union integration of businesses, setting up a Union-level lobbying activity;
- Participation in elaborating and implementing programmes aimed at improving the liquidity situation of businesses and making sure that they have resources, similarly to the Széchenyi Card set-up;
- Active participation in setting up and implementing economic development programmes serving for the survival, strengthening and successful European integration of small and medium enterprises;

NATIONAL ASSOCIATION OF ENTERPRENEURS

The VOSZ (NAEE) has been established on the 20th of February of 1988 - under the name of Vállalkozók Országos Szövetsége (National Association of Entrepreneurs) - as the first and before the political transition the only voluntary, non-governmental, politically neutral nation-wide economic interest representation of enterprises (manufacturers, companies, small co-operatives, economic working communities, civil law companies, e.t.c.) in majority Hungarian ownership. Members: Any private entrepreneur, economic association with or without legal status and cooperative registered in Hungary, Moreover, any non-governmental organization established by the above mentioned legal entities and natural persons as well,

Objectives and tasks of the Association

- The association provides representation and safeguard in Hungary and in international organizations for general economic and employers' interests of individual and associated entrepreneurs with or without legal personality, acting as owners, managers and employers as well as for their unions and confederations organized according to region, professional and ownership character.
- participating in the work of employers' organizations at European Union level, keeping contact with other international organizations of the employers and of interest representation, participating at the activities of international bodies of interest harmonization, joining the international network of employers' organizations
- providing wide ranging information for the Members on changes of the economic environment
- providing market and business services for its Members.

Extent of the Membership fee: 18,000 -100,000 HUF (depend on income of members)

1.4 REMITTANCES IN THE COUNTRY

Emigration, 2005

- Stock of emigrants: 471,298
- Stock of emigrants as percentage of population: 4.7%
- Top 10 destination countries: United States, Germany, Canada, Austria, Australia, Slovak Republic, Israel, United Kingdom, Sweden, Switzerland.

Skilled Emigration, 2000

- Emigration rate of tertiary educated: 12.1%
- Emigration of physicians: 1,782 or 5.6% of physicians trained in the country

Immigration, 2005

- Stock of immigrants: 316,209
- Stock of immigrants as percentage of population: 3.1%
- Female as percentage of immigrants: 52.4%
- Refugees as percentage of immigrants: 2.6%
- Top 10 source countries: Romania, Slovak Republic, Serbia and Montenegro, Ukraine, Germany, Russia, Croatia, China, Austria, Poland. Sources: UNPD, UNHCR, Development Prospects Group.

Remittances

$ million	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Inward remittance flows	**281**	**296**	**279**	**295**	**307**	**300**	**363**
of which							
Workers' remittances	53	51	39	39	26	20	40
Compensation of employees	221	242	232	249	265	262	317
Migrants' transfer	7	3	8	7	16	18	6
Outward remittance flows	**87**	**101**	**106**	**114**	**128**	**155**	**189**
of which							
Workers' remittances	14	16	15	20	17	16	15
Compensation of employees	70	84	90	91	108	136	169
Migrants' transfer	3	1	1	3	3	3	5

In 2004, officially recorded remittances to the ECA region totaled over US$19 billion, amounting to 8 percent of the global total for remittances (US$232.3 billion) and over 12 percent of remittances received by developing countries (US$ 160.4 billion). For many ECA countries, remittances are the second most important source of external financing after foreign direct investment. There have been several countries in the region that have transitioned from net emigration to net immigration including Belarus, Slovenia, Hungary, Croatia, and Serbia and Montenegro. Net migration is Western ECA from 2000 to 2003 is 3 % of population. Received remittances, which consist of received compensation of employee + received worker's remittances + received migrants' transfers were about 6 % (as a portion of GDP) in 2004. The remittances were stagnated from 2001 to 2004. Remittances as a Share of Exports were 13 % in 2003. The share of total remittances compared with total household expenditure is 8 %.

1.5 FUNDING NEW BUSINESSES

RURAL CREDIT GUARANTEE FOUNDATION

The Rural Credit Guarantee Foundation has been set up on August 7th 1991 by the Hungarian government and five banks. The European Phare programme added an initial grant of € 10 million (which meanwhile increased to € 20 million). Today, the institution is provided for with € 63 million of own funds. This underlines that the fund's activity has allowed it to build up extensive reserves, needed to support a steadily growing portfolio. AVHGA interprets its activities as a contribution to the global development of the rural areas with a focus on farming. Its action cannot take place in the city areas (Budapest and 23 regional cities). It targets instead companies established in the countryside, with a particular emphasis on farming activities (60% of total value of transactions and 80% of total number of transactions in 2005). 40% of loan applications aim at covering working capital needs.

The foundation grants guarantees providing loan cover from 50% to up to 80% (average of 58%) and for a maximal amount of € 600.000. To this end, AVHGA works with 8 commercial banks, the cooperative group Takarekbank and some savings cooperatives. Its network allows it to be active on the entire national territory. The cooperation is based on a comprehensive operations' manual, which among others foresees a quarterly monitoring and reporting obligation on the customer portfolio. Thus, AVHGA can check its portfolio's quality and ensure adequate risk allowances. It benefits from a national public counter-guarantee of 70% and has signed a contract with the EIF. This policy enabled AVHGA to decrease the guarantee fees in 2005. They vary from 0,25 to 0,75% for loans with a term of less than 1 year. For credits terms of longer than 7 years, the fee can go from 1,00 to 2,60% in a one off payment at issuance of the guarantee.

The Foundation was an associate member of AECM (Association Européenne du Cautionnement Mutuel). It is essential for the Foundation to cooperate with AECM in the long run as it offers an opportunity to have direct relationship with European guarantee organisations and to share professional experience and best practices with them. The Foundation is an active participant in the conferences and workshops organised by AECM, presenting and representing Hungarian small and medium-sized enterprises mainly in agriculture and rural development.

The Foundation was awarded a counter-guarantee at the European Investment Fund in a tender in April 2006. In Hungary, the Rural Credit Guarantee Foundation was one of the first institutions that complied with the strict conditions under which an organisation may receive EIF guarantees. Based on the agreement with EIF, the Foundation announced a new guarantee product „Kaláka" subject to preferential terms and conditions on 1 May 2006.

An analysis of the guarantees by the size of enterprises classified in line with the Act on SMEs shows that the Foundation issued the largest number of credit guarantees to micro-enterprises and covered the largest loan amounts for small enterprises. They issued fewer credit guarantees to medium sized enterprises and had several guarantee transactions with producers operating without tax registration, including traditional farmers and family farms first of all.

Credit Guarantee Transactions by Enterprise Category

	2006		
	Number of guarantess (pcs)	Guaranteed loan amount (HUF million)	Commitment by foundation (HUF million)
Micro enterprise	548	9 865	5 930
Small enterprise	167	7 193	3 945
Medium-sized enterprise	56	3 596	1 818
Total	**771**	**20 654**	**11 693**

In 2006 the Foundation honored 88 of the claim applications it received and rejected only 8 cases. Of the 21.754 guarantees (211,6 milliard HUF) claimed from 1991 to 2006, a total of 1545 transactions have been closed to date. The total revenue of the Foundation amounted to HUF 4,474 million, representing a year on year increase of 15%. The total costs of the Foundation amounted to HUF 2,537 million, represented an increase of 33,2 % on the reference year.

Standard products

Security for bank loans and guarantees

Partner financial institutions apply for the services of the Foundation when enterprises cannot offer sufficient collateral to cover the required loan or bank guarantee. The rate of collateral varies with banks and is 110% on average, depending on the customer's rating.

Guarantee for factoring transactions

The Foundation only provides guarantees for factoring transactions that stipulate a right of recourse for the financial institution and are linked to receivables not yet overdue. Under the guarantee for factoring agreements, the Foundation undertakes to make payment to the credit institution on behalf of the debtor in respect of its payment liabilities arising from the factoring agreement in accordance with the terms and conditions of the Guarantee Letter in case the enterprise (debtor) fails to meet its payment liabilities in part of in full on the basis of the right of recourse.

Guarantee for leasing transactions

The Foundation provides guarantees for close-end and open-end financial leasing transactions for the procurement of production assets.

Standard guarantee fee as a % of the guaranteed loan amount payable in a lump sum for a 50% guarantee

Guaranteed loan amount (HUF)	Maturity			
	less than 1 year	1-4 years	4-7 years	7-15 years
0-1.000.000	HUF 1.000 Ft uniformly			
1.000.001-100.000.000	0,3	0,6	0,8	1,0
100.000.001-300.000.000	0,4	0,7	0,9	1,2
300.000.001-800.000.000	0,5	0,8	1,0	1,3

Special products

Kaláka Guarantee

Guarantee "Kaláka": Enterprises may apply for this on-demand guarantee through a financial institution provided they employ less than 100 persons.
Eligible investments may have a period of 3 to 10 years.
The guarantee "Kaláka" may be provided to cover loans for the following purposes:

- innovative village development investments
- rural tourism
- establishment of rural services
- investments by young entrepreneurs (below 40 years of age)
- investments by rural start-up enterprises

The Foundation offers the guarantee "Kaláka" at a one-off 0.25% fee irrespective of the loan amount, maturity and the guarantee rate. The guarantee applications submitted by the financial institutions are evaluated in a fast-track procedure to allow for a decision within three days.

Guarantee plus

In order to facilitate borrowing for small enterprises, the Rural Credit Guarantee Foundation provides a „guarantee plus" product in the frame of individual agreement concluded with the banks and credit institutions that is valid for an indefinite period to cover investment loan agreements of not more than HUF 10 million for over one year subject to favourable conditions whereby the Foundation grants priority to the settlement of the outstanding debts of the financial institution before 100% of the guaranteed amount claimed is recovered from the Foundation's guarantee and the debtor's collateral.

The „guarantee plus" product may only be linked to one and the same project of the enterprise, the project cannot be split up into several loan agreements of HUF 10 million each. However, this product may be used for several independent loans of the same enterprise.

Instant guarantee (for the financing of EU and national aid)

"Instant" guarantee: Guarantee applications for loans, credits, bank guarantees and factoring agreements are processed in a simplified evaluation procedure by the Foundation if the guarantees are related to agricultural and general enterprise subsidies available either directly or subject to tenders.

The simplified evaluation procedure is also applicable to agreements necessary to receive advance subsidies as well as the full subsidies. Partner financial institutions may apply for this guarantee for agreements they have signed with resident enterprises. The Foundation fully accepts the debtor rating and the results of the assessment of the loan and the transaction performed by the financial institution and given in the application and carries out no separate analysis of the financial risks with the exception of market guarantees.

The guarantee fee is a one-off 0.25% for loans within a year and 0.50% for loans over one year of maturity.

<u>Period of guarantee evaluation: three working days.</u>

1. The simplified evaluation procedure of the guarantee applications covers agreements both for the advance and the full amount of the support. The rules of "instant" guarantees are not applicable to the evaluation of market-based guarantees.
2. The partner financial institutions of the Foundation and resident enterprises may apply for this form of guarantee for their agreements.
3. For the evaluation of the guarantee application, the Foundation fully relies on the debtor rating and the results of the loan and transaction assessment of the financial institution and does not perform a separate financial risk analysis, with the exception of market-based guarantees. The Foundation only checks the application to make sure that there are no legally disqualifying circumstances in the case of the given enterprise such as:

- previous guarantee claims,

- entry in the company register provided that it is required by law for the establishment of the enterprise,
- ongoing bankruptcy proceedings,
- termination of bankruptcy proceedings without arrangement,
- expiry of dates specified in the bankruptcy arrangement
- the publication of a court decision regarding insolvency in liquidation proceedings in the Corporate Bulletin,
- expiry of dates specified a liquidation arrangement,
- ongoing final settlement,
- ongoing deletion procedure,
- ongoing execution procedure,
- checking the aid intensity for the requested guarantee and any other outstanding guarantee at the Foundation.

The Foundation checks the aforesaid disqualifying circumstances with due care, and if they are only revealed subsequently when a guarantee is claimed, it will fulfil the claim nevertheless.

4. Upon the request of the financial institution, the Foundation may perform a preliminary check to make sure that there are no disqualifying circumstances in the case of the guarantee application. The Foundation notifies the financial institution of the outcome of such a check within two working days of the request at the latest.
5. The guarantee fee is a one-off 0.25% of the guaranteed amount for loans within one year and a one-off 0.50% for loans over one year of maturity irrespective of the guaranteed amount and the rate of the guarantee.
6. In accordance with the requirements of the central government counter-guarantee backing the Foundation's guarantee, the enterprise has to provide all types of collateral listed in Chapter XXIII of the Civil Code. Otherwise, the Foundation does not stipulate any special collateral requirement, including the assignment of the support, as a condition for evaluation or the fulfilment of guarantee claims.
7. The support agreement has to be attached to the guarantee application submitted to the Foundation. The Foundation evaluates the application within three working days of receiving it and notifies the financial institution of its decision without delay (in an e-mail or by fax).
8. The guarantee provided by the Foundation qualifies as aid. The aid intensity therefore has to be imputed in the total amount of aid the given project has received in accordance with the applicable General Business Conditions. The Foundation issues a certificate of the aid intensity of the guarantee to the manager of the aid (e.g. Agricultural and Rural Development Office), the financial institution and the enterprise concerned.

START TŐKEGARANCIA ZRT. / START EQUITY GUARANTEE PTE LTD

The Hungarian Foundation for Enterprise Development (MVA) and Corvinus Pte Ltd., founding shareholders of START Equity Guarantee Pte Ltd., established the company in May 2006 with the aim of assisting Hungarian SME's through the company's financial products in acquiring equity financing for development purposes and non-refundable European Union subsidies.

The financial base for Start Pte Ltd's operation is provided by the MVA managed Start Guarantee Fund that amounted to HUF 5.9 billion on the date of the company's establishment in May 2006. Through the fund, Start Pte Ltd. is committed to provide surety via a number of financial products to its clients, investors, financial institutions and SMEs.

The company conducts its business under market conditions with appropriate risk analysis and risk management in return for guarantee- and other fees paid by its clients.

Start Equity Guarantee Pte Ltd. is Hungary's first and currently only financial service provider offering equity guarantee products for professional institutional and private venture capital investors investing in Hungarian SMEs. The equity guarantee program of Start Pte Ltd. that already exists in several countries of the European Union makes equity guarantee, the last absent financial product, available for Hungarian SMEs and their investors.
In the case of equity guarantee provided for individual investments, Start Pte Ltd. guarantees the reimbursement of investment realized through capital increase from a minimum of 50% to a maximum of 80% to its clients in case of liquidation or final settlement of the investee company.

With portfolio equity guarantee, Start Pte Ltd. provides guarantee to investors of venture capital funds financing SMEs in Hungary, which means a reimbursement of up to 50% of incidental capital losses realized at the final settlement of the fund.

Start Pte Ltd's guarantee of payment for EU grants product, currently under development, will enable Hungarian SME's otherwise unable to meet collateral requirements set by banks to acquire bank guarantees necessary for obtaining non-refundable European Union subsidies. Launch of the product is planned for the first-half of 2007 and will provide support for acquiring non-refundable subsidies of EU's budget for domestic SMEs between 2007 and 2013.

The founding shareholders of Start Equity Guarantee Pte Ltd. are the Hungarian Foundation for Enterprise Development and Corvinus Pte Ltd.

The Hungarian Foundation for Enterprise Development (MVA) was established in 1990 with the aim of providing support for setting up and developing Hungarian SME's. MVA is an independent, autonomic organization with a HUF 4.2 billion capital granted by the Hungarian government, commercial banks and trade organizations. Assets managed by MVA reached HUF 20 billion in 2006. Start Guarantee Fund is part of this portfolio and it accounted for HUF 5.9 billion in May 2006. MVA provides a wide range of professional and financial support programs and as such acts as a catalyst in strengthening domestic SMEs. To achieve these goals the

European Union provided significant grants through MVA to establish regional foundations for enterprise development, Local Enterprise Centres and to set up and train their executive bodies. Currently Local Enterprise Centres organised in counties around Hungary consist of over 140 offices creating a nationwide enterprise development network. From 1990 until present the Phare program of the European Union provided over EUR 80 million to secure the funds needed for co-financing the development program of SMEs.

Corvinus Pte Ltd. is a financial strategic holding with a capital of HUF 15 billion providing equity financing under market conditions for the development needs of Hungarian enterprises through the members of the Corvinus group.

Corvinus International Investment Pte Ltd., founded in 1997, provides equity investment to Hungarian enterprises for their cross-border expansion, investments, start-up and acquisition projects.

Corvinus Venture Capital Fund Management Pte Ltd. was set-up in 2005 with the aim of establishing and managing venture capital funds financed partly by state and in part by private funds investing in innovative start-up or early-stage SMEs. In October 2005 Corvinus First Innovation Fund (CELIN) an innovation venture capital fund was established with a registered capital of HUF 5 billion that was financed by Corvinus Pte Ltd.

Small Enterprise Development Financial Pte Ltd. is an investment company with a capital of HUF 3.5 billion providing funds for the development needs of SMEs through equity investment.

Supplier's Investment Pte Ltd. was established in 2002 with a capital of HUF 2.5 billion in order to strengthen and develop the market position of existing and prospective suppliers through the provision of equity thus making secure development and access to outside resource possible for enterprises. The principal activity of the company is temporary equity investment in SMEs in order to finance their development programs.

Equity Guarantee

Start Pte Ltd. offers equity guarantee for professional financial investors investing in Hungarian SMEs. The guarantee applies to a specified (maximum of 80%) share of the equity investment in the event of the investee company being liquidated or entering final settlement during the term of the guarantee.

Start Ltd. provides equity guarantee for a minimum of HUF 5 million to a maximum of HUF 100 million and for a term of maximum 5 years.

Scope of beneficiaries

The beneficiary of an equity guarantee may be any such professional financial investor – venture capital fund, investment company or individual ("business angel") – who/which acquires a (primarily minority) share by capital increase through cash contribution in an SME that is registered in Hungary as a Kft. or Zrt. and adheres to the regulations set by double-entry bookkeeping for its accounts.

Fees, expenses

Guarantees are issued against a fee payment.

Evaluation fee

An amount of 0.5% of the guarantee requested by the client is payable at the time of application as evaluation fee.

Contract and notary fee

The client is requested to pay a one-time fix contract fee upon signing the contract amounting to HUF 35,000 in addition to notary charges arising from the notarisation of the contract and its appendices.

Guarantee fee

A pre-payment amounting to between 1-4% annually is required every six months calculated on the basis of the guarantee provided by Start Pte Ltd.

Profit-sharing

During the term of the guarantee the client is required to pay a percentage (maximum of 10%) of the profit realized on the guaranteed amount of the investment to Start Pte Ltd. as a profit-share.

$$P = S + R - I$$

P = profit;
S = sales price of the portion of the shareholding guaranteed;
R = payments received by the client during the term of the guarantee (dividend, capital decrease, others);
I = client's initial investment guaranteed by Start Pte Ltd.

Application, decision-making, contracting process

During evaluation of an application and in determining terms of the guarantee Start Pte Ltd. conducts a complex analysis primarily of the investee company and of the project to be realized by the investment/capital increase and bases any decision on this analysis.

Start Pte Ltd. reserves to right to reject any application submitted on the account of its own decision without having to provide any reason to the client for the decision. Until such time that a guarantee contract is signed Start Pte Ltd. has the right to desist from a transaction.

Collaterals

In the event of the guarantee being drawn due to the liquidation of the investee company, the client must transfer ownership of its share in the company under liquidation as a condition for executing Start's payment guarantee, if Start Pte Ltd. so requests.

If necessary Start Pte Ltd. may request further liens or collaterals for issuing the guarantee which either the client or any other entity of legal capacity may provide.

Portfolio Equity Guarantee

With its portfolio equity guarantee product Start Pte Ltd. offers guarantee explicitly for venture capital funds registered in Hungary for the provision of equity financing for SMEs by reimbursing up to 50% of incidental capital losses upon the fund's final settlement.

Start Pte Ltd. provides portfolio equity guarantee for a minimum of HUF 500 million to a maximum of HUF 1,000 million investments and for a term of a minimum of 7 to a maximum of 12 years.

Scope of beneficiaries

The beneficiary of a portfolio equity guarantee may only be such equity fund that qualifies as a newly founded venture capital fund registered in Hungary in accordance with current Hungarian legislations and which invests at least 60% of its capital in Hungarian SMEs in the form of capital increase.

Fees, expenses

Guarantees are issued against a fee payment.

Contract and notary fee

The client is requested to pay a one-time fix contract fee upon signing the contract amounting to HUF 100,000 in addition to notary charges arising from the notarisation of the contract and its appendices.

Guarantee fee

A pre-payment amounting to between 1-4% annually is required every six months calculated on the basis of the guarantee provided by Start Pte Ltd.

Profit-sharing

During the term of the guarantee the client is required to pay a percentage (maximum of 5%) of the profit realized on the guaranteed amount of the investment to Start Pte Ltd. as a profit-share.

Profit realized on the client's investment should be calculated as follows:

$$P = R - I$$

P = Profit;
R = payments received by the client during the term of the guarantee (dividend, capital decrease, sums paid out at final settlement, others);
I = initial capital contribution paid in cash to the venture capital fund.

During evaluation of an application and in determining terms of the guarantee Start Pte Ltd. conducts an analysis primarily of the client (venture capital fund manager and the fund) and its management, ownership structure, investment policy, rules of procedures and deeds of foundation and bases any decision on this analysis.

Start Zrt. reserves to right to reject any application submitted on the account of its own decision without having to offer any reason to the client for the decision. Until such time that a guarantee contract is signed Start Pte Ltd. has the right to desist from a transaction.

Collaterals

In the guarantee contract document Start Pte Ltd. defines the scope of issues relating to the operation of the guaranteed venture capital fund in relation to which valid decisions may only be made after the written consent of Start Pte Ltd. as guarantor had been obtained. Such issues may include the change of the fund manager, fundamental changes in the ownership structure, or a change in the investment policy of the fund.

Guarantee of Payment (EU Grants)

Guarantee of payment for EU grants is furnished for domestic small and medium enterprises. In case the applicant partially or fully fails to meet the conditions set in the grant contract, resulting in the recovery of granted benefits, Start Zrt. makes a payment ammounting to the sum laid in the guarantee contract.

Start Zrt. provides guarantee of payment for a minimum of HUF 5 million to a maximum of HUF 100 million and for a term of maximum 7 years.

Fees, expenses

Guarantee of payment is issued against fee payments.

Name	Rate
Guarantee fee	2% annually
Amendment fee	HUF 15,000

CREDITGUARANTEE LTD.

With the objective of strengthening the market economy and improving the conditions for the development and operation of small and medium-sized enterprises in Hungary, the government and various key participants of the financial sector established Credit guarantee Ltd. in 1992. The purpose was to provide surety guarantees for loans disbursed by the financial institutions, thus mitigating and partially assuming their lending risks. Credit guarantee took its place in the financial landscape as the reference institution to improve access to debt finance for small businesses. It is a joint stock company with a staff of more than 70 persons and with a high capitalisation. The subscribed capital of 4,8 billion HUF is held by the Government of the Republic of Hungary (50,02%), the Hungarian Development Bank (13,97%), by 26 commercial banks, 43 saving cooperatives and, last but not least, by 10 trade associations of employers. In 2006 as a part of its product diversification strategy, Credit guarantee introduced asset leasing and factoring surety-guarantees for SMEs as well as municipality guarantees. The company has been negotiating a counter-guarantee facility with the European Investment Bank in order to achieve a reasonable risk-sharing and thereby to help local municipalities' investment projects to get access to bank loans and other types of debt-finance Credit guarantee is supervised by the state but it has also implemented the CRD, so it can offer partner banks not only a protection against credit risks but also a mitigation of their regulatory capital. The relationship with bankers is improved by a well targeted marketing policy and by a delegation of powers for standardized, small- value transactions and by package programmes (the Szechenyi Card). Credit guarantee practices a loss sharing guarantee with lenders up to a coverage percentage of 80% of the loans. Downwards, the losses are shared with the State that grants a 70% counter-guarantee (in the limits of a yearly stipulated budget). At the end, the risk sharing breakdown is favourable to an easy risk taking and thus to good lending conditions for SMEs that present a viable financial structure and sustainable projects. Guarantees of small amount are boosted by the success of the Szechenyi Card guarantee. A characteristic of Credit guarantee is the marked predominance of guarantee for working capital. This creates a rapid gearing. It also requires a monitoring of the quality of the portfolio. In 2005, 90% of the portfolio was rated in “problem free” or in “to be monitored” categories. Credit guarantee has been AECM associate member since 1996 and full member since May 16, 2006.

The maximum amount of guarantee to be undertaken for one client has increased to 800 million HUF. From May 2006 the maximum amount of Széchenyi loan has increased to 25 million HUF, the extent of guarantee has increased from 73% to 80%. Besides all the above the guarantee fee decreased from 1.8% to 1.5%. In order to increase the security of the loan outlays, the banks may request to strengthen the collateral with a real estate mortgage. Changes of the card loan terms and conditions have increased the demand according to the expectations.

Surety guarantee fee in general cases

Contract	Annual fee payment* (%)	Single fee payment** (%)			
		2-year	3-year	4-year	5-year
Credit, credit line and loan agreement	1	1.33	1.7	2	2.25
Bank guarantee and bank guarantee line agreement	0.8	1.1	1.34	1.6	1.8
Master factoring agreement	0.8	-	-	-	-
Financial lease agreement	1	-	-	-	-

*Fee payable for a guarantee with a maximum tenor of one year, and longer-term guarantees with annual fee payment.
**Single fee payment can only be chosen for surety guarantee applications relating to credit, credit line, bank guarantee line, loan and bank guarantee agreements.
Minimum fee: HUF 5,000.

Agricultural capital assistance loan - Surety guarantee fee

Up to HUF 10 million loan	1 %/ year
Over HUF 10 million loan:	
- Up to 50 % guarantee	1%/ year
- 51-60 % guarantee	1.2 %/ year
- 61-80 % guarantee	1.5 %/ year

Széchenyi Card loan

Surety guarantee fee: 1.80%
Term: maximum 1 year
Fee payment: single payment

Administration fee: The administration fee is calculated on the basis of the guaranteed amount relating to the loan amount applicable to the transaction,

Up to HUF 50 million	25,000 HUF
Up to HUF 50,1 million	50,000 HUF

Credit guarantee Ltd. has entered into 24,205 guarantee contracts in the year 2006, and in the frame of these it has undertaken for a financing need of 277.8 billion HUF in a guarantee amount of 228.3 billion HUF. By this, the company has over- delivered the guarantee target of the business plan of 2006 (188 billion HUF) by 22%. The amount of guarantee has increased by over 30% compared to last year. From 2006 the company has also undertaken absolute guarantee for factoring and lease. The amount of traditional deals showed a larger growth than expected (from the planned 60 billion HUF to 122 billion HUF). In the Széchenyi Card-branch an amount of 103 billion HUF was accomplished. Among the lease and factoring guarantees the factoring products have shown better results for start: in the introductory year for the factoring deals the amount of guarantee was 3.3 billion HUF, whilst for the lease deals the company has undertaken an amount of 100 million HUF. Number of contracts in the guarantee portfolio of HG Zrt. on 31st December 2006 was 27,853 contracts. Out of this in total 319.8 billion HUF is for financing resources (loan, bank guarantee, leasing, factoring) 257.6 billion HUF for the guarantee stock. It guaranteed 10.2% of the bank loan stock of the small- and medium sized sector existing at the end of 2006, exceeding 3,100 billion HUF. The risk setup of the guarantee portfolio is still favourable. 93% of the liability stock is free from problems or has a classification of "to be monitored separately".
In the last year HG Zrt. paid 8.4 billion HUF for 1,688 redeemed deals. The amount of actually utilised budgetary counter-guarantee amounted to 4.8 billion HUF. At the end of December 2006 the collection of claims in a total value of 7,546 million HUF was underway. The amount of claims under collection has grown by 1,317 million HUF (by 21%) compared to last year. From the claims of CG Ltd. in 2006 an amount of 1,842 million HUF was refunded. The profit after tax for CG Ltd. amounted to a value of 1.522 billion HUF in the year 2006. It has grown by 2.8 billion HUF guarantee fee income and an amount of 2.1 billion HUF revenue income. The company's equity has increased from last year's 22.9 billion HUF to 24.4 billion HUF, the annual balance sheet showed an amount of 32.8 billion HUF in the year 2006.

SMALL BUSINESS DEVELOPMENT COMPANY LTD.

The Small Business Development Company Ltd. (Kvfp) has been incorporated on December 20, 2001. The Company's total equity amounts to 3.4 billion HUF (appr. 13.6 million). The aim of its establishment was the promotion of development and growth of the domestic small and medium-sized enterprises basically in a way that additional capital is allotted to them by increase of their subscribed capital.
The company is run substantially by budgetary sources, the share of private investment is 7.35 %, equalling to 250 million HUF (appr. 1 million). Nevertheless, the operation and decision making occurs under commercial approach. When deciding upon any investment, the Company invests

its equity. Amount is invested only in the form of equity investment and not as a commercial loan for the target companies.
KvfP is a member company of the Hungarian Venture Capital Association (HVCA; Magyar Kockázati- és Magántőke Egyesület; MKME).

Basically, the equity investment activity of KvfP is characterized by an economic sector neutrality, however, enterprises of the steel manufacturing-, the shipbuilding- and the coal-mining industry as well as enterprises in difficult position cannot be subject of venture capital allocation. KvfP will make, also in the future, all efforts to maintain the multisectoral character of its investments. The Articles of Corporation does not allow the Company to invest into agricultural and financial enterprises. Kvfp's capital investments cannot be allocated for direct export activity, or direct import substitution (cannot be used upon the use of domestic in preference to imported goods).

Especially important aspect is that the accessibility of investment possibilities should be open for the company's all potential customers, consequently, the transparency and the availability of the program for every eligible small enterprise is of crucial importance.

Enterprises under liquidation or administration of bankruptcy as well as those having any public overdue debt cannot be subject of investment by the Company.
During the entire investment period one single enterprise can obtain investments of 100 million HUF (equalling to about 400.000 EUR) as maximum, which, in case of need, can be completed by bank loans and by other sources applied for.

Basically, KvfP invests into the customer's subscribed capital. The capital increase occurs on nominal value. The size of KvfP's ownership cannot exceed 49%, the Company is not allowed to acquire majority interest. The aim of this is that the management of the enterprises remain explicitly with the prevailing owners, further on, that the enterprises do not lose the title of any benefit which would otherwise be due to them. The typical duration of the investments takes 3 to 5 years.

The Company is, like the owners of any other enterprises, going to undertake risks but simultaneously, expects a return on its invested capital. When buying back KvfP's business share, the source of the buyout amount -i.e. the aggregate of the invested sum and the expected return - is the profit after-tax of the targeted enterprise.

Mapping Local Stakeholders

1.6.1 Public Institution

- Public Employment Service (ÁFSZ)
- Regional Employment Office
- World Bank
- Central Bank

- Hungarian Development Bank Ltd.
- Ministry of Finance
- Hungarian Central Statistical Office

1.6.2 Financial Institution

- National Savings Bank (OTP)
- Erste Bank
- Raiffeisen Bank
- Budapest Bank
- K &H Bank
- HUNGARIAN FOUNDATION FOR COMPANY DEVELOPMENT
- Rural Credit Guarantee Foundation
- Start Equity Guarantee Pte Ltd
- Creditguarantee Ltd.

1.6.3. NGOs

Project Retour is a non-profit, privately-founded NGO, which has as its mission to aid returning young Hungarian citizens in the present difficult employment situation in Hungary by establishing networking and community building through the media as well as through direct lobbying efforts with governmental agencies. The organization was created by Regina Saphier on the basis of her own personal, professional and research experience as a returnee.

To date, Project Retour have arranged 70 social clubs and an international conference, they send a regular newsletter to over 550 members and readers located in all corners of the world, they lobby governmental agencies. The organization run an international public relations campaign. They do fundraising and prepare grant proposals, the organization research the migration and demographic patterns of their constituency on-line and write case studies; they manage a website; and offer individualized counselling for returnees via their new online Helpline; they draft reintegration training plans for migrants. The global network of Project Retour is growing daily. The Project Retour community will network through the new portal, build smaller global groups with the help of their visual and global member locator, and find local jobs and community in Hungary. Hungarian citizenship with degree, who spent at least 2 years abroad, can become members.

Planned services in the longer run (introduced gradually as the organization grows) include career counselling: career planning and adaptation to the local employment situation, and other online services, group reintegration training, business incubation, grant writing and advising on NGO funding.