



Inclusive Entrepreneurship Policies, Country Assessment Notes

Hungary, 2017



Acknowledgements

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FOREWORD

Inclusive entrepreneurship policies aim to offer all people an equal opportunity to create a sustainable business, whatever their social group or personal characteristics. This is an important requirement for achieving the goal of smart, sustainable and inclusive growth set out in the Europe 2020 strategy. It is also a means to respond to new economic challenges, to create jobs and to fight social and financial exclusion. Among the key targets of inclusive entrepreneurship policies and programmes are women, youth, older people, the unemployed, migrants and people with disabilities, who all continue to face challenges in the labour market and are under-represented or disadvantaged in entrepreneurship activities. ‘The Missing Entrepreneurs’ series of publications of the Organisation for Economic Co-operation and Development (OECD) and the European Union discuss how public policies and programmes can support inclusive entrepreneurship. This includes refining regulatory and welfare institutions, facilitating access to finance, building entrepreneurship skills through training, coaching and mentoring, strengthening entrepreneurial culture and networks for target groups, and putting strategies and actions together for inclusive entrepreneurship in a co-ordinated and targeted way. Governments are increasingly recognising the challenge of inclusive entrepreneurship, but there is still much to do to spread good practice.

The proportions of women, youth and older people involved in starting or managing new businesses in Hungary between 2012 and 2016 were similar to the European Union averages for each population group. National entrepreneurship and SME policies are set out in the National Strategy on Small and Medium Enterprises for 2014-20 and the National Employment Strategy 2014-20. There are very few tailored policies and programmes that support entrepreneurship for people from groups that are under-represented and disadvantaged in entrepreneurship (e.g. women, older people, the unemployed, people with disabilities), but some training and start-up financing initiatives for youth and women have been recently launched. Inclusive entrepreneurship policies can be strengthened by developing strategies for supporting under-represented and disadvantaged groups in entrepreneurship, even with mainstream programmes, and by improving the flexibility of existing tailored supports.

This note is the second in a series of annual country assessments prepared by the OECD in collaboration with the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission on the state of inclusive entrepreneurship policies and programmes in each European Union Member State. Each note provides an overview and assessment of policies and programmes that support people from under-represented and disadvantaged groups in business creation and self-employment and suggests policy actions to address gaps in the support system and to improve the quality of available support offers. The notes cover national-level policies and programmes and, where relevant, sub-national initiatives and actions by the non-governmental sector. The 2017 notes place a special focus on describing the characteristics of self-employment in each country.

The notes are part of a wider programme of work by the OECD and the European Commission that includes ‘The Missing Entrepreneurs’ publications, a series of Policy Briefs on specific target groups, policies and issues, country reviews of youth entrepreneurship and women entrepreneurship, and the production of online policy guidance. For more information please refer to: <http://www.oecd.org/employment/leed/inclusive-entrepreneurship.htm>.

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KEY MESSAGES

- The entrepreneurship and SME policy framework is set out in the National Strategy on Small and Medium Enterprises for 2014-20 (currently under strategic revision) and the National Employment Strategy 2014-20. With the exception of tailored measures for youth, women and the unemployed, there are no specific policies and programmes that support entrepreneurship for other under-represented and disadvantaged groups. Support for youth, women and the unemployed focus on entrepreneurship training, mentoring, subsidies and grants. A new, multi-stakeholder initiative to develop financial skills and promote entrepreneurship in basic education has recently been launched.
- Indicators on business start-up and self-employment activities suggest a downward trend in entrepreneurial activities in Hungary and a growing gap with the European Union and the Visegrad countries (Czech Republic, Poland, Slovak Republic). The downward trend in Hungary is strongest for men and seniors (with self-employment rates of 12.1% and 14.1% in 2016, respectively), and the gap to both the European Union and Visegrad averages is most striking in case of youth (2.5% in Hungary in 2016, relative to 4.1% for the European Union and 5.7% for Visegrad countries).
- A key challenge for further developing inclusive entrepreneurship policies and programmes is a lack of data and information about the barriers faced by different groups and the impact and efficiency of current and past policy responses.
- To further strengthen inclusive entrepreneurship policies in Hungary, it is recommended that the government: (i) include and monitor the performance of key under-represented and disadvantaged groups (e.g. youth, women, Roma, people with disabilities) in strategic programmes related to entrepreneurship promotion and support; (ii) strengthen monitoring and evaluation activities for entrepreneurship initiatives; (iii) introduce more flexibility into the youth entrepreneurship support schemes (GINOP - Economic Development and Innovation Operational Programme and VEKOP - Competitive Central Hungary Operational Programme) by leaving more room for needs-driven, diversified support and speeding up access to financial support linked to training and mentoring services; and (v) strengthen partnerships with non-governmental organisations to improve policy implementation.

1. INCLUSIVE ENTREPRENEURSHIP OBJECTIVES AND TARGETS

There are two main government documents that describe Hungary's key objectives related to business creation and self-employment: the National Employment Strategy for 2014-20 (NES) and the National Strategy on Small and Medium Enterprises for 2014-20 (SME strategy). Even though the importance of self-employment and inclusive business creation is highlighted in these documents, they do not identify inclusive entrepreneurship policy goals and quantified targets. The NES focuses on addressing employment challenges in Hungary and highlights the potential for youth entrepreneurship as a potential solution to the youth unemployment challenge. The SME Strategy calls for a differentiated approach in addressing the needs of various types of entrepreneurs, but it does not map the variation in the needs of vulnerable groups such as women, youth, seniors, Roma and people with disabilities, and it does not specify the relevant, group-specific public policy actions. Recently, this strategy is under revision and a new strategic SME development framework is expected to be adopted by early 2018.

In addition, Hungary has defined some targets in support of the European Union's 2020 growth strategy. For example, it has set a target employment rate of 75% by 2020 and also aims to have 450 000 fewer people at risk of poverty or social exclusion. Inclusive entrepreneurship policies can contribute to the suite of policy actions to achieve these targets.

Hungary is also working to improve support for social enterprises, which is related to inclusive entrepreneurship since they also support disadvantaged people in the labour market. By reinforcing social enterprises Hungary supports their development and widens the scope of the professional services and financial tools (grants and loans) available to this sector and also promotes the job creation for disadvantaged unemployed.

2. KEY INCLUSIVE ENTREPRENEURSHIP INDICATORS

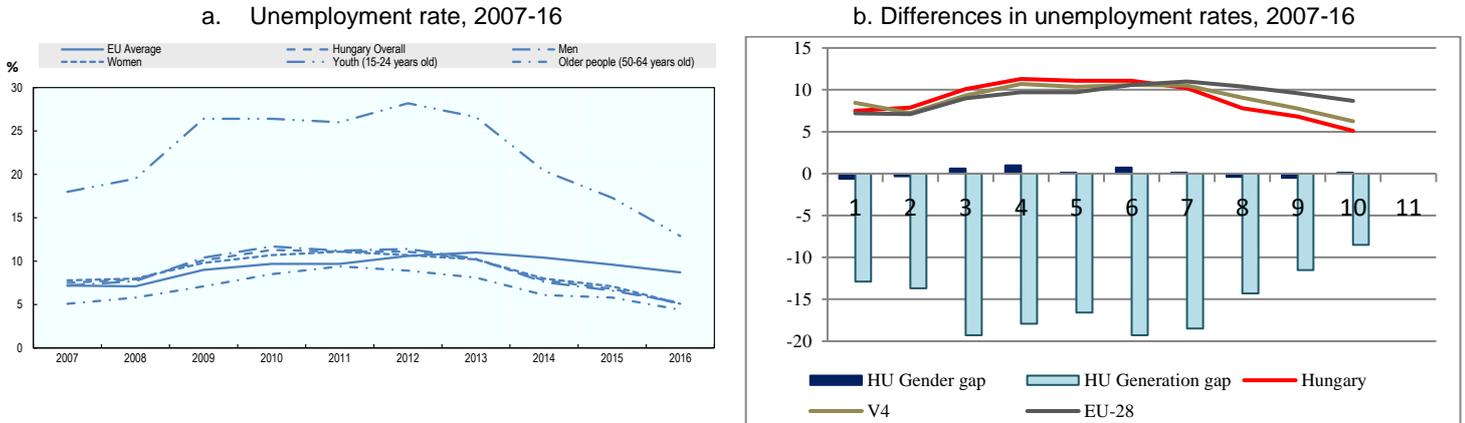
2.1. Labour market context

The unemployment rate has been increasing since 2007 (7.5%), reaching a peak in 2010 (11.3%). It has since decreased to 5.1% in 2016, which was below the European Union average (8.7% in 2016) and below the unemployment rate at the onset of the economic crisis in 2008 (5.1% in 2016, Figure 1a).

Although youth unemployment rate decreased from 28.2% in 2012 to 12.9% in 2016, youth still face several challenges, including relatively high dropout rates from secondary education and a high but recently declining NEET rate (i.e. those not in employment, education or training). In 2016, the NEET rate for the age group 15-29 years old was the same as the EU average but slightly above the average in the Visegrad countries: Czech Republic (14.1%), Poland (14.2%) and Slovak Republic (13.7%).

In contrast, seniors (50 to 64 years old) were the least likely to be unemployed – an outcome, which may be due to the fact that seniors are less likely to register their unemployment status and/ or to be registered, at all. They would typically opt for early retirement or for disability pension, i.e. they become inactive in the labour market. (The volume of early retirement and disability pension significantly decreased after removing the possibility of early retirement (except for women after a period of employment of 40 years) and reforming the disability pension system). The so-called generation gap (i.e. difference between senior and junior rates) has been decreasing since 2012. The unemployment rate for men and women was essentially the same in 2016 (5.1% for women and 5.2% for men).

Figure 1. Unemployment rate



Source: Eurostat (2017), Labour Force Survey 2016.

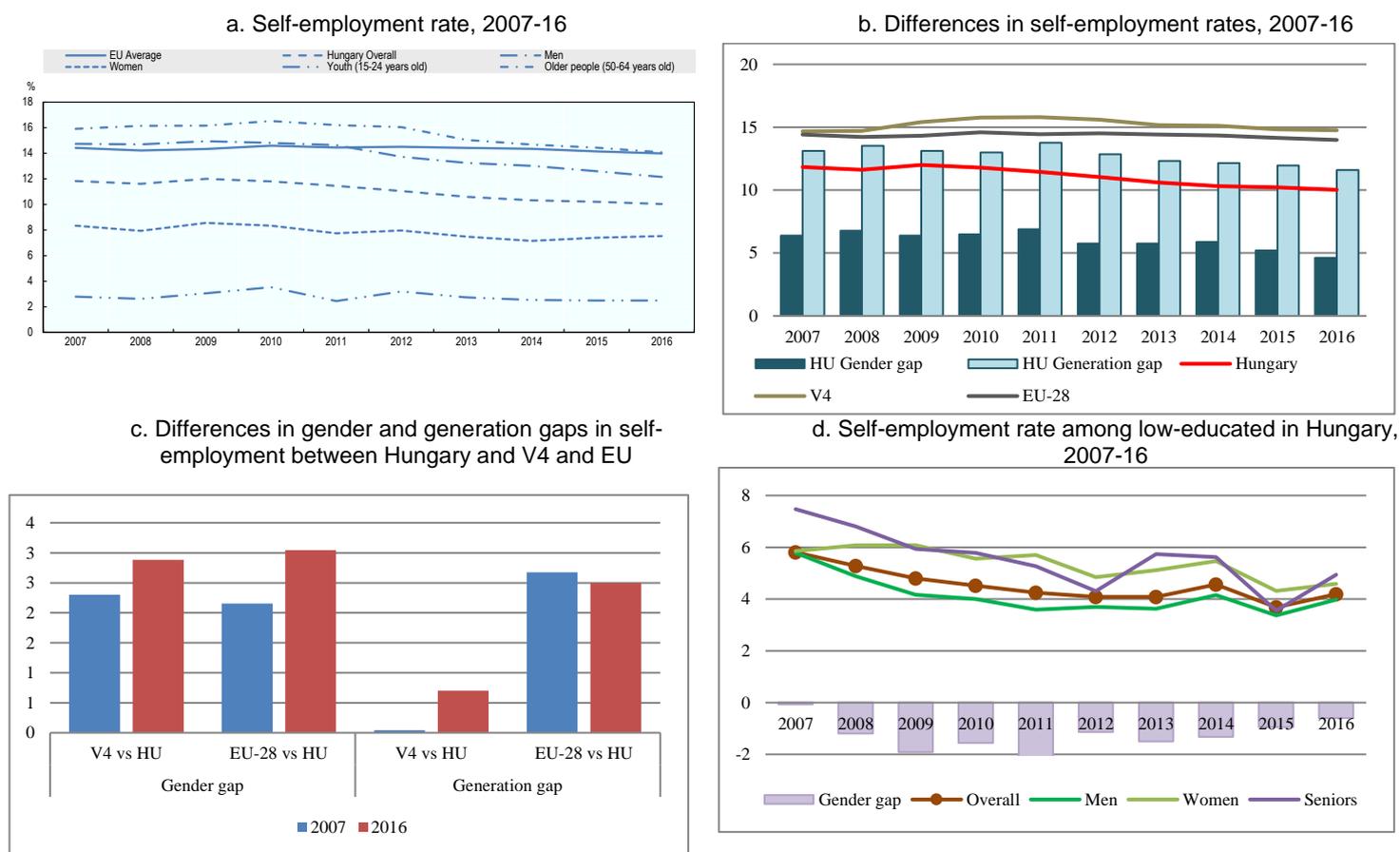
2.2. Self-employment rates

Overall self-employment has declined in Hungary since 2007 and remained below the EU and V4 average rates for the past decade (Figure 2a, b). By 2016 this held true for all the vulnerable groups, especially for youth with the lowest rate (2.5%). Alike the EU and V4 patterns, older people have relatively the highest self-employment rate (14.1% in 2016) and we find more men than women as self-employed also in Hungary.

While youth and women regularly opt less likely for self-employment in V4 and the EU too, the generation and gender gaps are decreasing over time in HU as well as in the reference countries (both in terms of differences in and ratios of the group-specific rates, Figure 2c). With regards to gender, the closing of the gap in self-employment rates seems to be slightly stronger in Hungary (Figure 1e), but this is due to the larger fall in the men's rates rather than the increasing and/or constant trend line of the female rate (as opposed to the case in the EU countries). It is also common across the EU member states that we find less and less senior among the self-employed over time, the difference in case of Hungary is however that self-employment among youth is highly variable across time (3.5% in 2010 and 2.5% in 2016) and does not increase as compared to the V4 region. Consequently, the generation gap in Hungary remains still more than twice larger than gender gap by 2016.

The self-employment rate in Hungary varies significantly when controlled for education level. Low-educated people have been historically the most disadvantaged group with a decreasing self-employment rate over time (5.8% in 2007, 4.2% in 2016) in opposite to those with medium levels of education (63.3% in 2016). Among low-educated Hungarians, the starting point for men and women was almost the same in 2007 (5.8% and 5.9%). However, gender gap has been fluctuating until 2013, and decreasing since then against men unlike in the EU (Figure 2d). The reason is that female self-employment among low-educated rate has been well above the overall rate that can be ascribed to their lower chance to get full-time employment (Hárs, 2012; Scharle, 2001). Notably, overall self-employment rate among low-educated in the EU is much higher than in Hungary and V4 (V4 was roughly the same as Hungary) – despite the fact that the EU average has been decreasing faster than in the new Member States.

Figure 2. Self-employment and entrepreneurship rates by target group



Note: The self-employment rate is defined as the proportion of those in employment who are self-employed.

Source: Eurostat (2017), Labour Force Survey.

2.3. Entrepreneurship activity rates

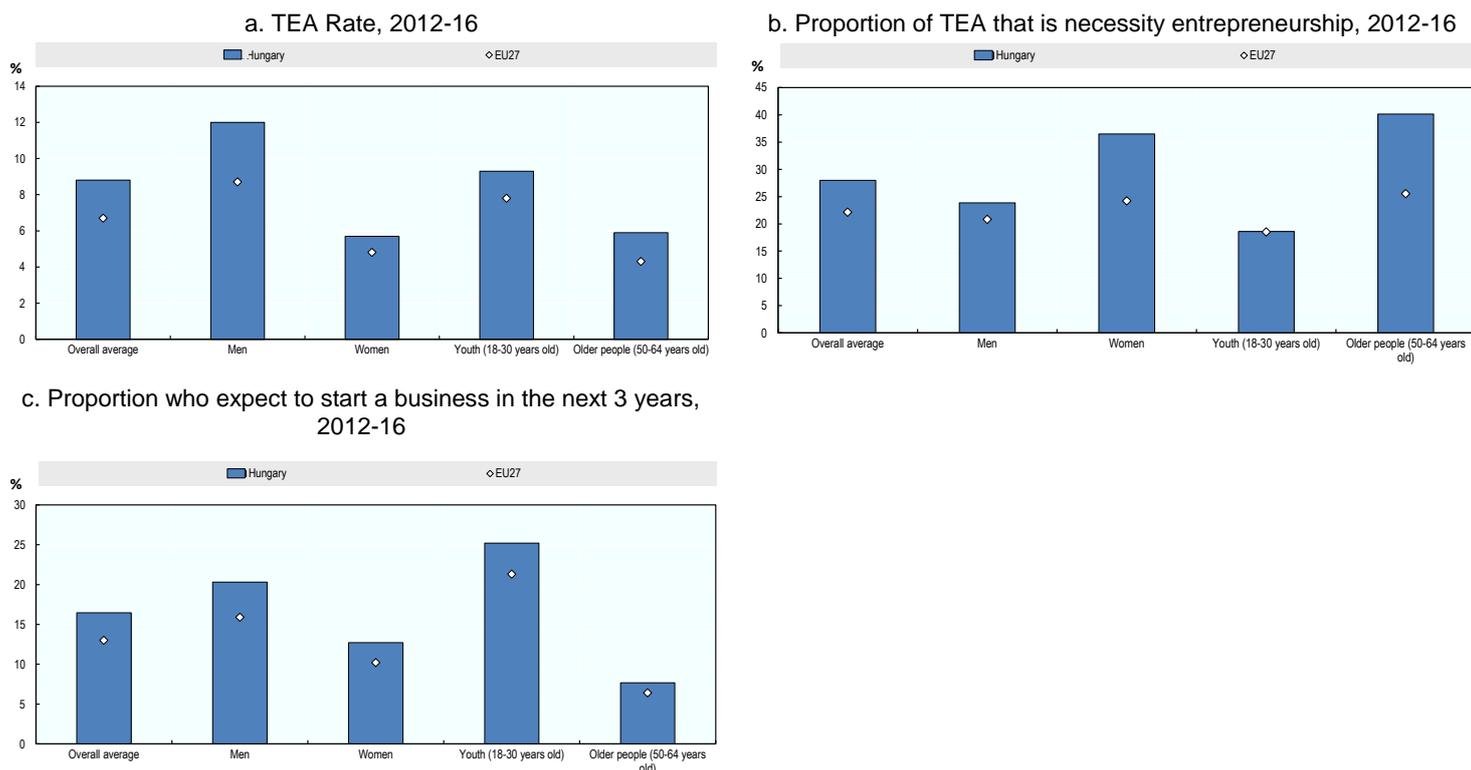
The Total Entrepreneurial Activities (TEA) Rate (Figure 3a) was slightly above the European Union average for the period 2012-16 (8.8% vs. 6.7%), which is in contrast to the lower self-employment rates. This can be explained by differences in the two measures. The TEA rate measures pre start-up activities and new business ownership, but does not pick-up the stock of entrepreneurs in an economy. The TEA rate for women was substantially lower than the rate for men (5.7% vs. 12%) and youth were more active than older people (9.3% vs. 5.9%) in starting a business and operating new businesses.

The above average TEA rate can be partially explained by a high proportion of entrepreneurs who indicate that they do not have other opportunities in the labour market. 28% of entrepreneurs over the period 2012-16 indicated that they started their business for this reason, relative to 22% in the European Union (Figure 3b). 36.5% of women entrepreneurs and 40.1% of older entrepreneurs reported starting their business due to a lack of other opportunities, which was again above the

European Union average. Youth, however, were as likely as the European Union average to start a business out of “necessity”.

The findings related to the TEA rate are consistent with the high self-reported expectations to start a business (Figure 3c). Overall, 16.5% of people in Hungary expected to create a business over the next 3 years, which was higher than the proportion across the European Union (13%). This was driven by a high proportion of men (20.3%) and youth (25.2%) with a pro-business intention.

Figure 3. Entrepreneurship rates by target group



Note: The TEA rate is the Total early-stage Entrepreneurial Activity rate, which is defined as the proportion of the population actively involved in pre start-up activities and those who have started a new business within the last 42 months. The proportion of TEA that is necessity entrepreneurship is the proportion of entrepreneurs involved in setting-up a new business or operating a business that is less than 42 months old, who were motivated to start their business because they had no better options for work. Data for panels b, c, and d were pooled for the period 2012-16. Responses were weighted to reflect the population in each year, but no weighting was used when pooling the time series data, i.e. all years have the same weight regardless of the sample size in each year. The EU27 average in panels b, c, and d covers all EU Member States except Malta.

Source: GEM (2017), special tabulations of the Global Entrepreneurship Monitor’s household surveys from the 2012 to 2016.

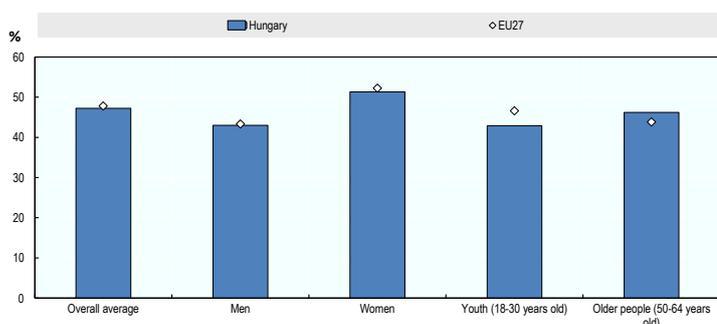
2.4. Barriers to business creation

Potential entrepreneurs were as likely as the European Union average to report a fear of failure as a barrier to business creation for the period 2012-16 (47.2%) (Figure 4a). There was little difference in the proportion of men (43%), youth (42.9%) and seniors (46.2%) who reported this barrier. Women stand out in this respect with a high share in reflections (51.3%).

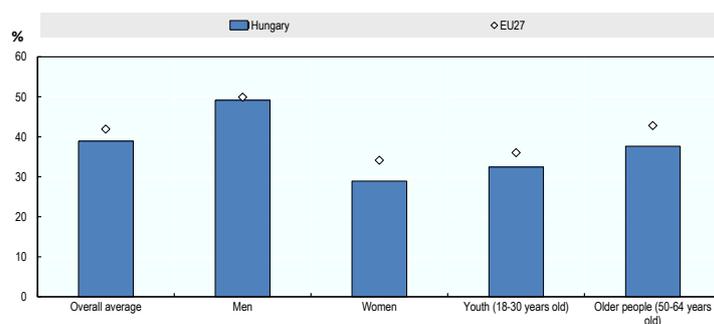
Another important barrier to entrepreneurship for many people from under-represented and disadvantaged groups is a lack of entrepreneurship skills. Over the 2012-16 period, adults in Hungary were slightly less likely to report that they have the skills to start a business than the European Union average (38.9% vs 41.9%) (Figure 4b). Men were more likely than women to point to lack of sufficient business skills (49% vs. 29%). Approximately one-third of youth and four out of ten of seniors indicated that they had the skills for business creation. Notably, all of these rates were below the European Union averages however for the respective groups.

Figure 4. Barriers to entrepreneurship by target group

a. Proportion who report that a fear of failure prevents them from starting a business, 2012-16



b. Proportion who perceive that they have the skills to start a business, 2012-16



Note: Data were pooled for the period 2012-16. Responses were weighted to reflect the population in each year, but no weighting was used when pooling the time series data, i.e. all years have the same weight regardless of the sample size in each year. The EU27 average covers all EU Member States except Malta.

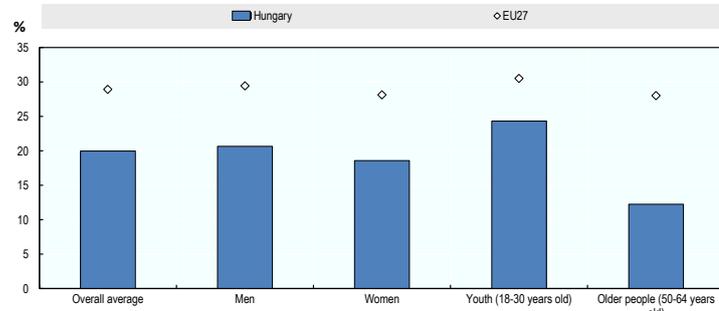
Source: GEM (2017), special tabulations of the Global Entrepreneurship Monitor's household surveys from the 2012 to 2016.

2.5. Entrepreneurship performance

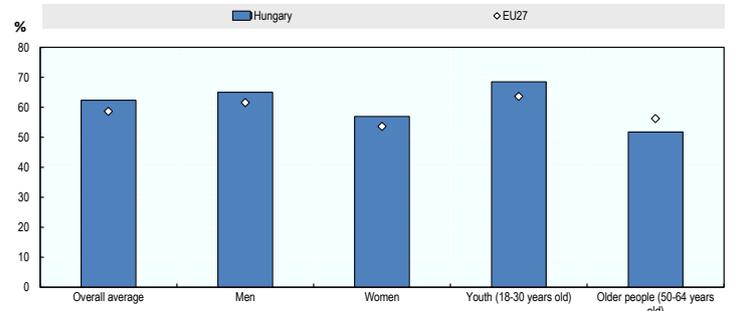
When it comes to innovative products and services, entrepreneurs from all groups in Hungary were far less likely to offer new products and services than the European Union average (20% vs. 29%) (Figure 5a). Hungarian youth were the most likely to operate businesses that offer innovative products and services (24.3%) followed by men, women and seniors. This may correspond with the observation that people in Hungary tend to start a necessity-driven business in higher proportion than in the EU – especially, women and seniors tend to opt for self-employment due to lack of job opportunities rather than being driven by a competitive business idea. Indeed, the proportion of new entrepreneurs whose products or services are new to all or some customers and proportion of TEA that is necessity-driven are negatively associated.

Figure 5. Entrepreneurship activities by target group

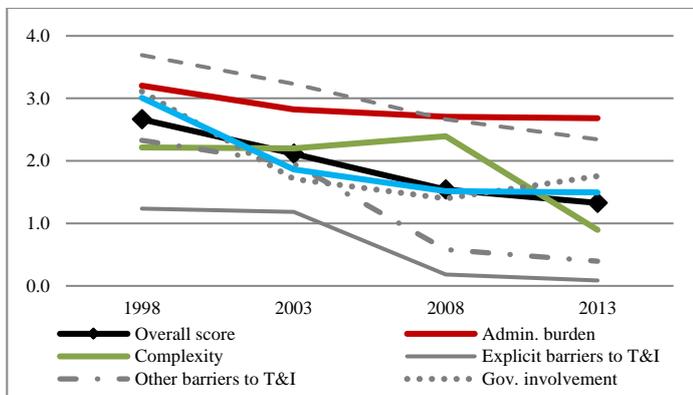
a. Proportion of new entrepreneurs whose products or services are new to all or some customers and who have few or no businesses offering the same products or services, 2012-16



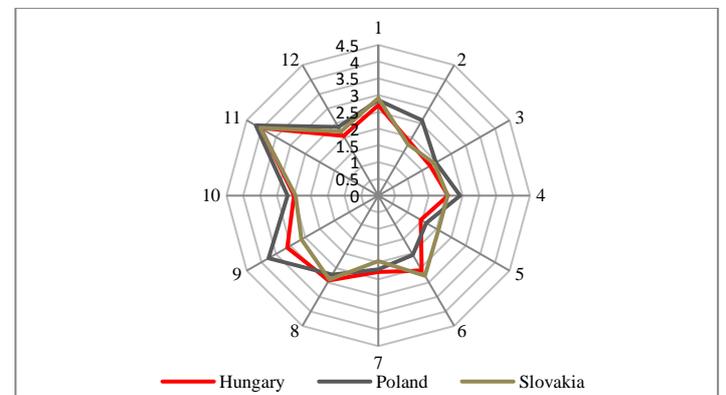
b. Proportion who sell to customers in another country, 2012-16



c. Product market regulation index, 1998-2013



d. Entrepreneurial ecosystem in Hungary, Slovakia and Poland, 2016



Note: Data in Panels a and b were pooled for the period 2012-16. Responses were weighted to reflect the population in each year, but no weighting was used when pooling the time series data, i.e. all years have the same weight regardless of the sample size in each year. The EU27 average covers all EU Member States except Malta.

Source: Panels a and b contain data from GEM (2017), special tabulations of the Global Entrepreneurship Monitor's household surveys from the 2012 to 2016; Panel c contains data from the 1998 to 2013 Product Market Regulation survey developed by the GEM (2017); Panel d is from GEM Ecosystem database (2016).

Entrepreneurs from all groups in Hungary were more likely to expect to create at least 19 jobs in the first five years of their business than the European Union average (17% vs. 10%). Youth (19%) and men (20%) were the most optimistic towards job creation, with shares above the European Union average in both cases.

Hungarian entrepreneurs are slightly more likely to export than their EU peers (62% vs. 59%) (Figure 5b). Among all, in 2014-2016, youth was the largest group who reported that they will export (68.5%) followed by men (65%) and older people (51.7%). Women were the least export-oriented group (57%). Proportion of entrepreneurs who reported that they exported was larger in all social groups (except for older people) in Hungary than in the EU.

GEM indicators correspond with other research findings showing that women and seniors are typically the groups that start a business because they have no other option in the labour market rather than because they have genuine and innovative business ideas (Hárs, 2012; Scharle, 2001; Szerb et al.,

2014). Moreover, these groups are less likely to be optimistic about starting a business in the next 3 years and they have also a relatively stronger fear of failure. All these support the two lowest TEA rates among women and seniors, with the only difference that while women do also miss proper business skills, seniors have relatively optimistic perceptions in this regard.

As for youth, the results that they are the most optimistic to offer innovative products seems to go in line with the observation that they have the lowest necessity-driven self-employment rate. A low fear of failure may also explain their high expectation about starting a business in the next 3 years. However, youth are not much likely to perceive that they have skills, which is in contrast with their optimistic views about starting a business.

EU-LFS indicators on self-employment rate and GEM indicators on TEA rate seem to be contradicting each other. According to EU-LFS, overall self-employment rate in Hungary is below that of the EU, and youth is the most disadvantaged group given their lowest indicator. In contrast, the overall TEA rate in Hungary was well above that of the EU and youth was more progressive than any other social group in Hungary (see, their TEA rate being above the EU average). This divergence in data may be explained by methodological differences. In general youth in EU-LFS data is younger than in GEM data (15-24 and 18-30 years old, respectively). Not surprisingly, people in the age group 25-30 years old are usually more likely to start a business because this is typically the first working period following graduation. Similarly, youth aged 15-17 may still be in schools and less likely interested in self-employment (those not-in-school and/or –in-training will definitely lack the skills and financial/ social capital to start their own business). Second, GEM data collection hinges upon voluntary respondents and may over-represent those who have already established or those who are significantly more optimistic with regards their business performance. In this way, self-selection bias may explain over-optimistic perceptions of Hungarian youth about starting a business in the next 3 years, fear of failure and growth expectations in the GEM surveys. In addition, responses in the GEM survey are more likely to reflect those who identify themselves as entrepreneurs, but not self-employed (and vice versa).

With regard to business environment Hungary's performance has been changing in the last period – improvements in some regulatory elements come along with no or very limited progress in other dimensions. OECD Product Market Regulation (PMR) index for Hungary has declined continuously since 1998 (Figure 5c). In the last measurement period 1998-2013 all components of the PMR index have been contributing to a more competition-friendly regulatory environment but the level of government involvement. The components most relevant to sole entrepreneurs (typically, self-employed) and small businesses show either definitely positive trend or has though not changed considerably. For example, the complexity of regulatory procedures was reduced (sharp decrease in the sub-index from 2.4 in 2008 to 0.9 in 2013), the level of administrative burdens and that of regulatory protection has not really changed between 2008 and 2013. Based on the composite PMR index, while the Hungarian regulatory environment in general is converging to the EU one, there is still room for improvement, especially in the components most relevant for self-employed and start-ups.

Most strikingly, the management of public perceptions on the ongoing regulatory and policy changes shall be improved, as well. The GEM survey on the national entrepreneurial ecosystem in Hungary shows that the change of the stakeholders' perceptions was negative for all the indicators between 2012 and 2016, but for internal market dynamics. The assessment of the national stakeholders was also very selective. The scores vary considerably across the various factors of the entrepreneurial ecosystem. Like in earlier surveys, in 2016 physical and services infrastructure index was the highest (4.03) followed by internal market dynamics (3.11) and commercial and professional infrastructure (2.93). In contrast, government support and relevance (1.86), government support in taxes and

bureaucracy (1.78) and entrepreneurial education and training in basic schools (1.46) continue to have the lowest scores, with a steady downward trend for education and training (also post school) for the last four years.

When it comes to comparison with Visegrad countries, the business environment in Hungary, the Czech Republic and the Slovak Republic were broadly similar in recent years,¹ albeit with minor differences in the field of entrepreneurial education, R&D transfer and internal market dynamics (Figure 1p). If we are to think about which aspects of entrepreneurial environment have to be given policy-makers' attention, Poland would be a good reference case for Hungary. While in the two countries the public perceptions are relatively similar in most of the indicators, Poland got definitely better assessment in government support and policies, taxes and bureaucracy, and government programmes.

3. ASSESSMENT OF CURRENT AND PLANNED INCLUSIVE ENTREPRENEURSHIP POLICIES AND PROGRAMMES

In Hungary several labour market programmes are aimed at supporting entrepreneurship among youth, women and the unemployed. Their name, timeframe, budget and targeting differs but they operate following three specific methods, especially in the case of youth and the unemployed.

One of these is a two-phase programme offering start-up incentives and support through the provision of entrepreneurship training and mentoring, advice and support in developing business plans, and contribution to the costs of setting up the enterprise. In the first phase of support, experienced service providers deliver training, mentoring, counselling to the target group and help them to develop their business plans. In the second phase, those participants who completed their training and whose business plans had been accepted can apply for a grant of up to EUR 10 000 EUR (HUF 3 million) to cover start-up costs. In some cases (GINOP 5.2.3), a minimum of 10% of self-financing is required, and some of the subsidies are refundable. This type of support is available for young people aged 18-35 years old, and the unemployed over 30 years old. The different programmes are funded by ESF Funds and national budget.

Jobseekers with at least one month unemployment spell who are registered with the public employment services (PES) are also entitled to apply for a grant from domestic resources. This support includes mentoring and business counselling. In addition, subsidy of up to HUF 3 million is offered as long as the individual invests covers at least 20% of the start-up costs.

The third measure provides a support for six months after setting up the business and support is limited to the level of the minimum wage. The target groups are the young people under 25 years old (in the framework of the Youth Guarantee Programme), the unemployed over 25 years old (in the framework of the Path to the labour market programme), and also jobseekers with at least one month unemployment spell at the PES (from national funds). In addition to a six month long subsidy, the employment service stays in touch with the self-employed, provides mentoring and other labour market services.

¹ Note: data for the Czech Republic is available only for 2013.

Table 1: Overview of main inclusive entrepreneurship support measures

	Name	Type	Target group	Precondition	Budget
Two-phase programmes	Youth entrepreneurship programme GINOP 5.2.2	Training	Young people under 30 years old	-	HUF 1.1 billion (ESF)
	Youth entrepreneurship programme GINOP 5.2.3	Grant	Young people under 30 years old	GINOP 5.2.2 (+business plan) 10% own resource	HUF 2.9 billion (ESF)
	Be a young entrepreneur in Hungary!	Training	Young people under 30 years old	-	HUF 380 million (national fund)
	Youth entrepreneurship programme VEKOP 8.3.1	Grant	Young people under 30 years old	Be a young entrepreneur in Hungary! (+business plan) 10% own resource	HUF 1.04 billion (ESF)
	Enter the market! – first component	Training	Young people under 35 years old	-	HUF 479 million (national fund)
	Enter the market! – second component	Grant	Young people under 35 years old	Enter the market! – first component (+business plan)	
	Entrepreneurship programme for jobseekers and youth GINOP 5.1.9	Training	Young people under 30 years old and unemployed above 30 years old	-	HUF 6 billion (ESF)
	Youth entrepreneurship programme GINOP 5.2.7	Grant	Young people under 30 years old	GINOP 5.1.9 (+business plan)	HUF 16 billion (ESF)
	Entrepreneurship programme for jobseekers GINOP 5.1.10	Grant	Unemployed above 30 years old	GINOP 5.1.9 (+business plan)	HUF 8 billion (ESF)
Grant	Jobseeker's self-employment support	Grant	Unemployed	20% own resource	No dedicated budget
Subsidy	Youth Guarantee Programme (GINOP 5.2.1, VEKOP 8.2.1)	Subsidy	Young people under 25 years old	-	HUF 190.2 billion (ESF)

					(no dedicated budget for self-employment support)
	Path to the labour market (GINOP 5.1.1, VEKOP 8.1.1)	Subsidy	Unemployed above 25 years old	-	HUF 231.8 billion (ESF) (no dedicated budget for self-employment support)
	Jobseeker's self-employment support	Subsidy	Unemployed	-	no dedicated budget

3.1. Policy framework

The SME and entrepreneurship policy framework is outlined in the National Strategy on Small and Medium Enterprises 2014-20 (SME strategy) and to a lesser extent, the National Employment Strategy 2014-20 (NES). Both documents signal the importance of self-employment and inclusive business creation in creating access to the labour market, but neither outlines clear objectives, actions or targets related to supporting people from under-represented and disadvantaged groups in entrepreneurship. The SME strategy is under revision during the course of 2017, government approval of the revised strategy is expected by early 2018. Ongoing intra-government consultations indicate that there may be more emphasis on digitalisation, development of business skills and competences - all in all, on boosting firm productivity and technology/know-how driven gains in efficiency rather than focusing on job creation. This strategic revision is partly driven by the adoption of the Digital Welfare Programme in December 2016 and the subsequently developed Digital Start Up strategy 2016-2020. Boosting female start-ups and promoting entrepreneurship in general via improving entrepreneurial education in general education, developing entrepreneurial competences and skills are among the main strategic priorities of the strategy.

In addition to this overarching strategic framework, there is a policy for supporting youth in business creation and self-employment. The National Youth Strategy 2009-24 (NYS) was approved by the government in 2009 and indicates that “making use of the opportunities of education and informal learning, the entrepreneurial mindset should be promoted amongst youth.” While this policy was an important start, the first evaluation of the strategy points out a need for further actions to provide youth with opportunities for experiential learning in entrepreneurship and individual mentoring support, but does not outline specific proposals to address these issues (Ministry of Human Capacities, 2013). The NYS is under strategic revision, as well. According to plans the new strategy (*Strategy for Youth 2020*) will be approved by the government later in 2017.

The Youth Professional Forum (*Ifjúsági Szakmai Fórum*) was established in 2013 as a cross-ministerial co-ordination platform for the implementation of the National Youth Strategy. It co-ordinates the implementation of the strategy and has a dedicated Entrepreneurship Working Group, which focuses on supporting youth in business creation. The original mandate of the Forum was planned to cover the promotion of young female participation, including the development of targeted measures for young women, but this step was not concluded so far.

The establishment of the Strategy for the Development of Financial Awareness (*Pénzügyi tudatosság fejlesztésének stratégiája*) is under development and is expected to be approved later in 2017. The strategy covers the period of 2017-2023 and the practical implementation is divided into

two year-long action plans. Among the several purposes the strategy aims to establish and reinforce real financial education within the public education, strengthen the basis of conscious financial behaviour, extend the access to financial products and services, and strengthen the approach promoting provident financial decisions. The main target group of the strategy are young people still in the education system, but the adult population and the pensioners will be reached as well, with a particular attention to the vulnerable groups.

Hungary introduced the Youth Guarantee Scheme in January 2015. Among several measures such as wage subsidies, training opportunities and labour market services, the scheme provides opportunities for youth between 18 and 25 years old to learn about entrepreneurship through training and mentoring programmes, to access start-up grants or to receive support for the first six months after establishing their businesses. Specific programmes aiming at promoting youth self-employment and start-ups have been designed under the Sustainable Labour Market Integration of Youth priority of the Economic Development and Innovation Operational Programme 2014-20 (hereinafter this operational programme is referred to as GINOP, Ministry for National Economy, 2017). In addition, several other mainstream measures launched within the framework of GINOP aim to reach young and female entrepreneurs and the unemployed by preferential treatment of applicants stemming from these target groups. For an overview of all the ongoing and planned relevant support measures, see the sections below.

An area in the policy framework that could be improved is the systematic collection and publication of outcomes of policy actions. For example, while the collection of data for schemes supported by the National Youth Guarantee Implementation Plan falls under the responsibility of the local public employment services (PES) and the Ministry for National Economy, the strategic design of these schemes is in charge of the various departments of different ministries (see, Ministry for National Economy, Ministry of Human Capacities). Data collection for the measures running under the operational programmes co-financed by the EU Structural and Investment Funds (GINOP, VEKOP) has been started in 2015, but little is available publicly and the programme monitoring data is rarely linked with PES administrative data and broken down by specific target groups. First wave of programme evaluations on the effectiveness of the ongoing measures is expected by late 2018.

More broadly, data on self-employment are collected and managed also by the national public employment service, but it is usually not linked to company dataset managed by the National Tax Authority (including the main performance and financial indicators of registered businesses in Hungary). Most importantly, government publications do not typically provide disaggregated data for different population groups (e.g. not for minority groups or migrants).

While some monitoring and evaluation is done of entrepreneurship initiatives, the evaluation reports are often not able to shed light on the impact and efficiency of specific measures because sufficient data are not collected. On the one hand, most of the available evaluations focus on the progress and the popularity of the programmes and on the level of participants' satisfaction rather than on the quantification of programme impacts (see, the *ex post* evaluations of the measures promoting and supporting youth entrepreneurship within the Social Renewal Operational Programme (TÁMOP), Hétfa, 2015; KPMG, 2017). On the other hand, impact assessment on the mainstream SME grants and financial instruments show that while financial instruments are more cost-efficient, none of these financial supports produce significant productivity gains, and they have some but minor positive employment effects at firm level (again evaluation evidence is in favour of financial instruments rather than of grants). All these effects seem to be slightly larger in micro-regions in disadvantaged situation, but there is no evidence on the target group-specific effects (Ecquinox, 2016).

Finally, it should be stressed that mainstream measures providing grants (and in some cases combination of grants and microcredits) to SMEs co-financed by EU funds seem to help more likely better-than-average firms, since these firms have sufficient own resources (eligibility requirement), are more informed and have capacities for and/or have resources for contracting out the highly administrative tasks of the application procedure. Consequently, SME supports without effective group-specific targeting may contribute to cream-skimming and in effect work against inclusive entrepreneurship goals (BI, 2012).

3.2. Government regulations

There are no specific regulatory measures that encourage and support business creation or self-employment among people from under-represented or disadvantaged groups. Moreover, there are currently no initiatives that provide assistance specifically to entrepreneurs from disadvantaged groups with registering a business or meeting their regulatory or tax obligations.

Nonetheless, there are some recent regulatory changes that simplify the administrative requirements that affect all SMEs and self-employed people. For example, the government has started a tax simplification reform for SMEs in 2010 with the introduction of flat rates of taxation and social contributions up to a threshold turnover level.² This regulatory simplification was continued in 2017 by raising the threshold level of an annual turnover of HUF 12 million (approximately EUR 39 350) and by providing the option to let the National Tax Authority prepare the annual tax report by notification. Unfortunately, there is no publicly available evidence on to what extent these reforms generated more business start-ups among disadvantaged groups, neither any government plan to examine the group-specific impact of these steps.

Entrepreneurs from under-represented and disadvantaged groups stand to disproportionately benefit from regulatory changes because they typically face greater challenges in navigating the regulatory environment. In addition, in Hungary some other regulatory requirements raised further entry barriers to these groups in the last years (for example, the statutory obligation to register at the chamber of commerce and pay the annual membership fee of HUF 5 000 (EUR 16), increase in the number of days necessary to start a business, increased equity requirements for business registration, more expensive financial services due to new, special sectoral taxes and bank regulations).

A number of tax measures are used to support the self-employed. Overall, there are minimum contributions for the self-employed that apply to social contribution tax, pension contribution, health insurance and the labour market contribution. However, some target groups such as young students (i.e. students at university, college, high school, vocational school), older people (i.e. people receiving old age pension), and some women (i.e. those receiving child care fee) are exempt while they are self-employed. Further, those with disabilities who are self-employed have a social contribution tax benefit (section 462/A of Act CLVI of 2011 on Amending certain tax laws and related laws) – they are exempt from social contribution tax on earnings up to double of the minimum wage. There are also recent changes for female entrepreneurs who are returning to work from maternity leave. As of 2014, their entitlement to the child care fee is maintained as part of the GYED extra programme if the child is at least one year old and the age of the child was lowered to six months in 2017.

In 2015, National Tax and Customs Administration records show that approximately 19-20% of the self-employed under PIT were older people (i.e. people receiving old age pension) and 2% were young students (i.e. students at university, college, high school, vocational school). These data suggest that the tax incentives are effective for older entrepreneurs.

² *Kisadózó vállalkozások tételes adója*, nav.gov.hu/data/cms277004/KATA_fuzet_munka_0620.pdf

New optional taxes for self-employed and entrepreneurs were introduced in 2013 – the lump sum tax for small taxpayers (KATA) and Small Business Tax (KIVA). The most relevant for inclusive entrepreneurship is KATA, which offer small entrepreneurs (i.e. sales revenue less than HUF 12 million, or approximately EUR 38 280) a simplified lump-sum form of taxation. The lump-sum tax is HUF 50 000 for full-time activities and it is HUF 25 000 for part-time activities, and groups such as young students and older people pay the part-time amount even if they work full-time. The website of the National Tax and Customs Administration provides information brochures to assist entrepreneurs and consultations with accountants should not be necessary.

3.3. Financing entrepreneurship

Labour market programmes supporting self-employment in Hungary are funded by national funds (National Employment Fund) or co-financed by the European Social Fund. The generic start-up financing measure that is available to all registered unemployed actively seeking a job (*Álláskereső vállalkozóvá válását elősegítő támogatás*) is funded by national budget. This measure offers partially or fully non-refundable capital transfer and/or wage support at the level of the minimum wage for the first six months of business operation. Eligibility requirements include the need to contribute a minimum of 20% of the equity, the provision of collateral and a pledge to sustain the registered business for at least three years. The scheme is managed by the PES offices at county level. There is scope for regional and local tailoring of the scheme. Local and county-level PES offices can specifically target the support in their area by setting their own eligibility criteria. For example, the ongoing start up support scheme in Békés and Baranya county focuses also on supporting people with disabilities.³

Participation rates for the scheme have been very low in recent years (approximately 1.2% to 2% of registered unemployed involved in active labour policy tools). Based on the statistics of the Ministry for National Economy and the National Public Employment Service, the number of people under 25 supported under this scheme equalled to 735 and the number of people over 55 to 297 in 2016. Women and men participated in the scheme in almost equal terms, with a slightly larger number of women (3 798 compared to 3 377 men). With regards to the level of education of the programme participants, the majority of applicants had secondary education (73%, Ministry for National Economy, 2016). While monitoring data suggest that almost all beneficiaries have concluded the support period (6 months) and the registered business seem to be sustainable, at least for the mid-term (the 12-months reintegration rate was around 70-75% for the last years), there are considerable differences in the use and outcome indicators of this scheme across counties and it is difficult to assess the effectiveness of the scheme and the reasons for the high geographic variance due to lack of impact assessments and to the very low total number of beneficiaries.

Nonetheless, it seems obvious that early school leavers and older people are not likely to use it and the entry requirements may be prohibitive for many potential entrepreneurs from under-represented and disadvantaged groups (cf. the requirement to self-fund 20% of start-up costs).

Most of the two-phase labour market programmes are ESF co-financed measures dedicating altogether HUF 35.04 billion (approximately EUR 116.8 million) for training and grants (HUF 21.04 billion for youth, HUF 8 billion for unemployed, and HUF 6 billion for both of the target

³<http://www.bekeskh.hu/hirek/20170301/2017-evi-palyazati-felhivas-allaskeresok-vallalkozova-valasat-elosegito-tamogatasa-ige>, <http://www.kormanyhivatal.hu/hu/baranya/hirek/palyazati-felhivas-vallalkozova-valas-tamogatasa-2016>

groups). An additional HUF 859 million (approximately EUR 2.9 million) national budget is available for expanding the target group and for the nationwide implementation. Most of the programmes are being implemented and some of them have not started yet. The nationwide target indicator for the 2014-20 period is ambitious (i.e. to provide support to 6 500 young participants until the end of 2021). Based on monitoring data by the end of June 2017 the GINOP and the VEKOP measures that are being already implemented (GINOP 5.2.2, 5.2.3, VEKOP 8.3.1) had 224 applicants, 61 successful project applications with 40 receiving the support so far – this equals to 0.6% of the target indicator. Consequently, the implementation and especially the allocation of funds are in considerable delay that has also triggered recent changes in the management of the implementing body of the VEKOP measures.⁴

Subsidies are provided in the framework of the two large-scale ESF co-financed labour market programmes. The budget of the Youth Guarantee Programme is HUF 190.2 billion (approximately EUR 634 million) and the budget of the Path to the labour market programme is HUF 231.8 billion (approximately EUR 772 million) but there is no dedicated budget for self-employment support. According to the monitoring data, 1 629 young people (2.9% of all participants) and 6 136 unemployed (8.8% of all participants) set up an enterprise with the help of these programmes.

Some further SME-targeted measures under the GINOP provide micro, small and medium enterprises either with financial support (grants or grants combined with microcredit) to increase their production capacity and to boost their job creation potential (GINOP 1.2.1., 1.2.2. and 1.2.3.), or to support market entry with training and special consultancy services (GINOP 1.3.1.). Applicants under the first type of schemes shall preferably (though not exclusively) be “young” and or “female enterprises”, i.e. those with majority owners and managing directors under 35 years old and/or women. Preferred applicants under the latter one are “young entrepreneurs”. Unfortunately, monitoring data broken down by age/gender groups are not published, yet and are also not expected to be published before the mid-term review period starting by late 2018.

In the Rural Development Programme co-financed also by EU funds a call for proposal was published on 25 August 2016 and it supports the launch of micro enterprises with a 100% funding (no need for own contribution, VP6-6.2.1.). Up to EUR 40 000 is offered per project and it is intended to support agricultural activities. The call was suspended in November 2016 due to the extremely high interest (over 11 000 applications were submitted as opposed to the expected number of ca. 1200). Based on monitoring data, no support decision has been made and no allocations transferred, yet, so no evidence is available on the effectiveness of this measure. The scheme has no special targeting with respect to vulnerable groups, though its geographic targeting may potentially positively benefit long term unemployed.

In the private sector, *Carion Finanszírozási Centrum* is a microfinance institute that offers microloans for starting or developing a microenterprise (with less than 10 employees). Their target clients include entrepreneurs from under-represented and disadvantaged groups. It was previously supported from the European Union’s Progress Microfinance Programme, but this programme has ended.⁵ There are currently no financial intermediaries that are supported by the European Union’s Employment and Social Innovation (EaSI) programme.

⁴ Following media news on the delay of the allocation of young start up supports, the leader of the main implementing body (National Employment Fund Non-Profit Ltd) was replaced. See, <http://444.hu/2017/05/22/kirugtak-a-fiatal-vallalkozokat-megszivato-program-vezetojet>

⁵[http://europa.eu/youreurope/business/funding-grants/access-to-finance/search/en/financial-intermediaries?shs_term_node_tid_depth=1233&combine=&field_amount_of_finance_range_value_i18n=All&field_sources_of_finance_tid_i18n\[\]=2099&field_sources_of_finance_tid_i18n\[\]=2327](http://europa.eu/youreurope/business/funding-grants/access-to-finance/search/en/financial-intermediaries?shs_term_node_tid_depth=1233&combine=&field_amount_of_finance_range_value_i18n=All&field_sources_of_finance_tid_i18n[]=2099&field_sources_of_finance_tid_i18n[]=2327)

3.4. Entrepreneurship skills

There are a small number of stand-alone initiatives that seek to develop entrepreneurship skills primarily among youth, women, and the unemployed. In the above described two-phase programmes' first component is a training component. The aim is to recruit organisations which will help young NEETs and the unemployed to develop their entrepreneurial skills and help them to develop their business plans. The implementing organisations for the period 2015-18 are six regional consortia led by regional non-profit limited companies helping young people under 30 years old. The total budget of the call was HUF 1.4 billion (approximately EUR 4.7 million). Another call was announced in March 2017 and is open to organisations with training and mentoring experience. It has a budget of HUF 6 billion (approximately EUR 20 million) to help young people under 30 years old and the unemployed over 30 years old to set up their enterprises. The Enter the market! programme's first component provides e-learning opportunities for young people under 35 years old.

In addition, the government strives to increase entrepreneurial awareness more broadly. This will be achieved by actions aimed at schools in primary and secondary education (see section 3.5), as well as through new actions focusing on financial literacy training and mentoring services with preference to youth and women within the GINOP (GINOP 1.1.2 measures expected to be launched later in 2017 with a kick off budget of HUF 3.3 billion – approximately EUR 11 million and targets 2 500 participants).

3.5. Entrepreneurial culture and social capital

The government seeks to promote entrepreneurship and build an entrepreneurial culture through some measures. First, there is a promotional effort, called the “Entrepreneur of the Month” award that is managed by the Minister for National Economy. This award identifies success stories and potential role models that are promoted to inspire others who may be interested in becoming an entrepreneur.⁶ Due to lack of any statistics, it is not clear how frequently people from disadvantaged groups are among the awardees. Nonetheless, it would be demonstrative for the government to screen and also award entrepreneurs from under-represented groups and communicate this clearly.

Second, in 2015 a national survey was conducted in primary and secondary schools, to explore the practice of teaching financial and business subjects. The results show that 35% of the schools have introduced financial and entrepreneurial education as part of the National Curriculum into the classrooms and only 9% planned to cover this topic in the future (ÁSZ, 2016). In reflection to these results, the government has launched several initiatives in the last year to expose students in the formal education to entrepreneurship at an early age and to build a positive attitude towards entrepreneurship.

Within the framework of the Youth Forum the Ministry for National Economy organised a collaborative roadshow in 2016 with the Ministry of Human Capacities for teachers and education stakeholders. The goal was to identify the basic difficulties that are hindering the full integration of entrepreneurial and financial education into the curricula of the formal education system.

In follow up of this mapping exercise, the national curriculum of vocational schools (10th grade) was amended with a specific module on financial and entrepreneurship knowledge. The Money Compass Foundation (established by the Hungarian National Bank in partnership with the Hungarian Banking Association and the Student Loan Centre) prepared and is in charge of disseminating also a

⁶ <http://gazdasagidijak.kormany.hu/english>

teaching module on financial literacy and entrepreneurship for grades 7-10 in public schools.⁷ Finally, within the framework of the EU Money Week the Ministry for National Economy in partnership with the Money Compass Foundation is also involved in developing further teaching materials in this topic (Communication from Ministry for National Economy, 2017).

In 2016, the State Audit Office conducted a national survey to support the elaboration of a national strategy for the development of financial culture. The survey shows that the ongoing actions are mostly targeted at secondary school students. Organisations active in this field use public funds (EU funds, support from central budget) and financial support from financial institutions. Information on the effectiveness of the ongoing actions is, however, very limited. Therefore, stricter monitoring and assessment of these efforts have to follow (ÁSZ, 2016).

4. POLICY RECOMMENDATIONS

Overall, new entrepreneurs are supported through mainstream SME support initiatives, which are open to the entire population. There are also tailored support measures for youth, women and the unemployed. While the ongoing strategic revisions expand the focus to women, it is not clear how the corresponding strategic objectives will be addressed and actions implemented. In addition, there is no further policy signal to meet the specific needs of other under-represented groups, such as seniors, migrants and/or ethnic minorities.

The overarching policy framework is defined in an SME strategy and in the new Digital Start up strategy and the responsibility for implementing these strategies clearly lies with the Ministry for National Economy. There is scope to improve the general measures for supporting entrepreneurship to make them more relevant for entrepreneurs from under-represented and disadvantaged groups. In effect, complexity of business administration, (still) high level of administrative burdens, uncertainties and inconsistencies in the regulatory environment pose considerable barriers to all groups but especially for those in vulnerable situation. In addition, the government policies focus primarily on start-ups, follow up services offered to those who have already completed the available training /grant supports and potentially enter a new business life cycle are under-developed.

There are promising new initiatives for boosting co-operation between the government agencies and the business sector at the national level, but local practices vary considerably in this respect. Finally, monitoring and evaluation of the past and ongoing measures lack regularity, specific details and public transparency (cf. lack of monitoring data broken down by groups in our focus).

The following recommendations are offered as inspiration for policy makers in Hungary.

1. *Include key under-represented and disadvantaged groups (e.g. youth, seniors, women, Roma) in strategic documents related to entrepreneurship promotion and support.* The national entrepreneurship policy should define objectives and key policy targets for fostering

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http://index.hu/gazdasag/2017/04/25/osztol_penzugyi_ismereteket_tanulnak_a_szakgimnazistak/
http://index.hu/gazdasag/2017/05/19/penzugyi_tudatossag_kozepiskolai_oktatasa/

entrepreneurship among these groups so that this can contribute to the economy and be engaged in society. Better assessment of the more specific needs of these groups is required in order to improve outreach of the ongoing measures. It should also be consistent with the European Union's Entrepreneurship 2020 Agenda⁸ and anticipate how information and data will be collected to measure progress made against objectives.

2. *Strengthen monitoring and evaluation activities for entrepreneurship initiatives.* Evaluations are currently conducted on an *ad hoc* basis but policy making needs to be informed about the impact and effectiveness of recent initiatives so that decisions on future actions can be well-informed. This would require stronger efforts to design programme monitoring systems, collect also group-specific data, undertake evaluations and make reports publicly available.
3. *Continue to make improvements to the broader business and regulatory environment.* Despite many government initiatives launched with the aim to cut red tape and simplify the business regulatory environment, starting (and closing down) a business is still not easy for many people in Hungary. Moreover, it seems to be the least attractive option for our target groups since they have the most difficulty understanding regulatory obligations and following the too frequent changes in the regulations. This simplification approach would also minimise the risk of rent-seeking behaviour and work against both cream-skimming and corruption easily linked with many EU co-funded grant-allocation mechanism.
4. *Introduce more flexibility into the youth support schemes and improve implementation (GINOP and VEKOP).* There is a danger that large programmes with a single path (a certain length of time for training, defined timing for setting up the business and the amount of finance required) will not suit all youth, which could lead to disenchantment. It would be helpful to build some flexibility into the programme and to tailor the support to the business life cycle to allow for young entrepreneurs to move at different speeds and with different needs. Consequently, flexibility and efficiency of the implementing bodies is crucial in supporting young entrepreneurs (especially, those with innovative ideas aiming to enter highly competitive markets) in an effective way.
5. *Strengthen partnerships with non-governmental organisations.* Openness to collaborate with NGOs and civil organisations could help the national authorities in providing better profiling of their support schemes as well as in better screening and selection of potential entrepreneurs from under-represented groups. Collaboration with civil society organisations and business associations might also be helpful in identifying successful entrepreneurs as role models (thereby, notably also potential mentors) from the specific groups and mobilise them in promotion campaign or in coaching and mentoring.

⁸ European Commission (2013). *Entrepreneurship 2020 Action Plan: Reigniting the entrepreneurial spirit in Europe*, p. 7: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0795&from=EN>

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ANNEX: METHODOLOGY

Each note was prepared by a national expert in co-operation with the OECD Secretariat. Information was collected through desk research and interviews (i.e. telephone, face-to-face, email) with key stakeholders and government representatives. The information was then verified by government partners, programme managers and other inclusive entrepreneurship stakeholder groups through email exchanges and one-day seminars in selected countries.

The notes are based on an assessment framework that was developed by the OECD Secretariat. The assessment framework provided a common analytical framework and report structure for the 28 notes that are in this series.

The framework contains 5 pillars:

1. Policy framework

- Is there an entrepreneurship strategy or action plan that explicitly covers the promotion and support of entrepreneurship for people in under-represented and disadvantaged groups?
- Is there a mechanism for co-ordinating inclusive entrepreneurship policy actions across relevant national ministries, and with regional and local governments and civil society organisations?
- Is there a systematic monitoring and evaluation process for the policies, programmes and schemes that promote and support entrepreneurship for people in under-represented and disadvantaged groups?

2. Government regulations

- To what extent are entrepreneurs from under-represented and disadvantaged groups treated equally with employees by social security schemes?
- Do measures exist that temporarily cover the loss of state income supports (e.g. unemployment benefits, disability allowances) for entrepreneurs amongst under-represented and disadvantaged groups when they start a business?
- Do measures exist to support under-represented and disadvantaged entrepreneurs in dealing with administrative procedures for entrepreneurship amongst under-represented and disadvantaged groups (e.g. information provision, support with administrative requirements)?
- Are there any entrepreneurship policy initiatives or schemes to address group-specific institutional challenges related to dependents (e.g. childcare, eldercare)?

3. Financing entrepreneurship

- Are there grants for business creation offered to support entrepreneurs from under-represented and disadvantaged groups?
- Is microcredit for business creation available to support entrepreneurs from under-represented and disadvantaged groups?

- Are there loan guarantee schemes for business creation to support entrepreneurs from under-represented and disadvantaged groups?
- Are there self-financing groups for business creation to support entrepreneurs from under-represented and disadvantaged groups?
- Are there public policy schemes that encourage and support business angel networks to support entrepreneurs from under-represented and disadvantaged groups?
- Are there schemes that encourage and support crowdfunding and peer-to-peer lending to support entrepreneurs from under-represented and disadvantaged groups?
- Is financial literacy training offered to support entrepreneurs from under-represented and disadvantaged groups?

4. Entrepreneurship skills

- Are there entrepreneurship training initiatives for entrepreneurs from under-represented and disadvantaged groups?
- Do high potential entrepreneurs from under-represented and disadvantaged groups have access to one-to-one or group coaching and mentoring?
- Are there public initiatives that provide information on available support programmes or on business start-up procedures for entrepreneurs from under-represented and disadvantaged groups?
- Are there business consultancy and advisory services for entrepreneurs from under-represented and disadvantaged groups?
- Are there business incubators for entrepreneurs from under-represented and disadvantaged groups?

5. Entrepreneurial culture and social capital

- Is entrepreneurship actively promoted as an employment opportunity amongst under-represented and disadvantaged groups through the education system, media, role models, etc.?
- Are there public policy actions that attempt to build specific business networks for entrepreneurs amongst under-represented and disadvantaged groups?