



Magyar
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Peer review

Interreg Europe Policy Learning Platform

FINAL REPORT



**Developing Strategy for Strengthening
Hungarian Micro, Small and Medium-sized
Enterprises in ESG Related Aspects**

2-3/7/2024
MGFÜ Public Benefit Non-profit Ltd.



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Peer Review hosted by

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02-03.07.2024

Budapest, Hungary

1. Brief presentation of the beneficiary and its motivation to host a peer review

MGFÜ Public Benefit Non-profit Ltd. (abbreviated: MGFÜ) is the national implementing SME agency of the Ministry for National Economy with the goal to provide complex business development support services that includes financing to Hungarian enterprises.

It is responsible for the implementation of the SME Strategy defined for the period 2019–2030, in cooperation with some actors of the business development ecosystem.

Its mission is to build a close, coordinated cooperative relationship with other organizations, government institutions dealing with business development to effectively help SMEs in increasing their added value, developing their competitiveness and organizational culture. Accordingly, MGFÜ has already signed cooperation agreements with the National Association of Entrepreneurs as well as with the Hungarian Development Bank.

The activities of the agency embrace both Hungarian and European Union funding objectives (ERDF, ESF, Horizon, COSME) and also implements transnational and international projects related to these objectives.

MGFÜ also aims at transforming the SME sector with the establishment of a new type of resilience based on setting up ESG standards for SME development policies: making it more connected to the improvement of the state of environment and to the social impact of the policy alongside with a more explicit approach on how to address better governance with SMEs. Its concrete tasks in this respect are defined in to the provisions of the ESG Act of Hungary (see later in a more detailed way):

- to increase the ESG awareness of the SME sector, provide ESG consultancy services;
- to make SMEs ready to fulfil their responsibilities in ESG due diligence obligations for sustainability purposes,
- to organize the training of ESG consultants and to accredit institutions training ESG consultants in Hungary.

The practical realization of these aforementioned ESG related activities is a real challenge since the area itself is also novel. All international experience in this field is new and extremely useful for the agency so **this peer review exercise could help quick start the improvement of national ESG policy and the fulfilment of MGFÜ's related obligations.**

2. Specification of the policy challenge encountered

According to preliminary data of the Central Statistical Office for 2022, out of the 981 215 Hungarian enterprises 99,9 percent are SMEs accounted for 72 percent of the total employment, and represented 55 percent of net sales and gross added value. This clearly shows that **SMEs are the backbone of the Hungarian economy**, moreover there is a significant increase in their roles compared to previous years. That is why the stability of the Hungarian SME sector is a key factor for maintaining and increasing economic growth. The productivity of domestic SMEs has improved until 2022, but still lags behind the EU average. One of the reasons for the low productivity is that innovations (digitalization, new technologies, green solutions) are used by SMEs only to a small extent.

With these framework conditions in mind, the government reviewed and adopted the "strategy for strengthening Hungarian micro, small and medium-sized enterprises 2019-2030" strategic document (hereinafter: SME Strategy) in January 2024 and determined the key business development measures to be carried out in the next two years for the benefit of businesses. The **SME Strategy is the framework strategy for SME development in Hungary.**

The challenges and intervention areas are grouped into five pillars assigning specific goals to them:

1. Competitive Hungarian SMEs
2. Business environment and taxation
3. Access to financing
4. Future technologies and innovation
5. Entrepreneurial culture and successful generation change

In Pillar 1, amongst the specific goals, the green transition and the ESG compliance are directly mentioned in the strategy but not discussed in a detailed way.

Since 2023 January the new ESG directives, [CSRD](#) on EU level, LkSG in Germany and the proposal for the Corporate Sustainability Due Diligence (CSDD) Directive significantly transforms the reporting obligation of the enterprises. As a consequence of the new regulations, appr. 50,000 big companies are obliged to report on their environmental and social impacts and corporate responsibility considering their suppliers' performance according to these dimensions, too. Consequently, **ESG became a competitiveness factor for SMEs in the EU.**

The Hungarian SME sector is especially affected as Hungarian SMEs are more engaged in international trade than their competitors, especially as exporters generating appr. 46% of trade value while the OECD average is appr 39%. Hungarian suppliers are especially engaged with the German supply chains as according to the World Bank data 39 % of Hungarian export is directed to Germany. Accordingly, a EUR 29.776 billion size export market, thousands of SMEs and hundreds of thousands of employees are affected solely by the changes of the German regulations.

In spite of this emerging importance of ESG, Hungarian enterprises are **hardly prepared** for the transformation due to the lack of awareness, skills and capacities to manage environmental, social and governance issues as well as the lack of harmonized and transparent regulations and ESG standards tailored to enterprises.

These clearly show a risk of the high vulnerability of the Hungarian economy and the business sector in general. That is why Hungary was one of the first countries to react with **the issuance of the [ESG Act nr. CVIII of 2023](#)** “on the rules of corporate social responsibility taking into account environmental, social and societal aspects, and amending other related acts, in December 2023.”

This is the first comprehensive and unified Hungarian law in the field, entered into force as of 1 January, 2024 containing rules applicable not only to the companies concerned but also to the public regulators/authorities and to the ESG market players (i.e. ESG certifiers, ESG qualifiers, but also companies producing and distributing ESG software), as a whole.

It sets new expectations mainly for large companies including not only annual **ESG reporting** including topics like a description of the company’s sustainability due diligence process, the social responsibility and environmental risks identified by the company, or the measures taken by the company and the company’s objectives (first in 2025 for the financial year of 2024) but also **risk management, reporting ESG data** looking at the **whole supply chain** and **complaints management**. Hungarian companies listed on an EEA stock exchange already fall into this category and are subject to the new rules.

Thus, based on the adopted legislation, all affected companies will soon need to become familiar with the applicable ESG compliance requirements and adjust their operations to them.

MGFÜ is also nominated in the Act having the following responsibilities:

- a) launches support programmes aimed at the preparation and development of **small and medium-sized enterprises** to fulfil ESG due diligence obligations for sustainability purposes under the conditions specified in the separate support programme and provides ESG consultancy services;
- b) organizes ESG consultant training;
- c) keeps a register of institutions training ESG consultants;
- d) accredits institutions training ESG consultants in Hungary;
- e) performs ESG-related tasks specified in the ministerial decree.

The legislative process has not finished yet, 20 executive decrees must be issued this year to make the whole system function.

In order to properly determine the detailed legal rules and conditions MGFÜ already organized company forums and advisory workshop to understand how these stakeholders see their readiness for the new system and their roles in it.

Two main general intervention areas were identified:

1. There is a strong need for **awareness raising** related to ESG – to define this as a competitive advantage for the SMEs, not as a new administrative burden.
2. There is a need for advisors to provide tailor made service to SMEs to make them ready for their ESG related obligations – a **support programme** should be worked out available for the companies

As a general conclusion, it could be stated that this transition presents a significant challenge to Hungarian SMEs, which are hardly prepared for the change. There is a lack of awareness of the issue. Skills and abilities to manage environmental and social aspects of business operations are also missing, just like the standardized ESG rating models and common regulatory frameworks that may enable the transparent qualification of SMEs' operations regarding sustainability.

As it could be seen in the SME strategy some elements of an ESG approach is mentioned, however, the application of this approach is not yet systematic and not closely related to international practices. MGFÜ plays a key role in the implementation and the improvement of this strategy, not to mention its designated role define in the Hungarian ESG Act.

The practical realization of these aforementioned ESG related activities is a real challenge since the area itself is also novel. All international experience in this field is new and extremely useful for the agency so **this peer review exercise could help quick start the improvement of national ESG policy and the fulfilment of MGFÜ's related obligations.**

Based on this, **3 focus areas of the peer review** were defined:

- 1. Development of Environmental, Social and Governance (ESG) related regulations and policies for SMEs**
- 2. Consulting and advising SMEs and other companies directly on how to implement ESG related measures inside companies**
- 3. Setting up and implementing different ESG related financial instruments and support measures for SMEs**

3. Participants

Members of the beneficiary organization

- Richárd Szabados, managing director
- Dr. Csaba Novák , Head of International Department
- Dr. Kármén Billo, advisor to CEO
- Sándor Fehér, ESG expert
- Péter Lenkey, ESG expert
- Eszter Balogh-Tanka, International Project Manager
- Lili Schweitzer, International Project Officer

Peers

- Dr. Katharina Schoeps, RKW Sachsen GmbH, Germany,
- Tony Schuetze, RKW Saxony GmbH, Germany,
- Peter Friberg, Region Jönköping County, Sweden,
- Micael Ragnar, Region Jönköping County, Sweden,
- Maarika Taal, Estonian Ministry of Finance, Estonia,
- Dr. Mari Kooskora, Estonian Business School, Estonia

Local Stakeholders involved

- Mihály Rublinszki, head of department, Economic Development and Innovation Operational

Programme Managing Authority

- Anikó Markó, Economic Development and Innovation Operational Programme Managing Authority
- Bernadett Sándor, Economic Development and Innovation Operational Programme Managing Authority
- Nóra Miklós, Economic Development and Innovation Operational Programme Managing Authority
- Dr. Kristóf Kaszap (NGM, legal adviser, Department of Enterprise Development)
- Andrea Koós, Head of Department, ESG Liaison Department, Supervisory Authority of Regulated Activities (SZTFH)
- Dr. Orsolya Nagy, professional relations coordinator, ESG Liaison Department, Supervisory Authority of Regulated Activities (SZTFH)

Interreg Europe Team

- Laurentiu David, Policy Officer, Interreg Europe Programme Secretariat
- Antoine Duquennoy, Thematic Manager, Interreg Policy Learning Platform
- Rene Tönnisson, Thematic Expert – Smarter Europe, Interreg Policy Learning Platform
- Mart Veliste, Thematic Expert – Smarter Europe, Interreg Policy Learning Platform

4. Policy recommendations

1. Development of ESG related regulations and policies for SMEs

- **Recommendation: Review all the policies relevant for ESG, the strategy and the ESG act itself is not enough**
 - All the policies should be aligned
 - Develop a common vocabulary ensuring common understanding
- **Recommendation: Integrate ESG into strategy building of SMEs**
 - Provide good practices and case studies
 - **a good example for that is the Sustainability BI-Tech project**
 - Goal to turn bureaucratic obligations into a business strategy exercise

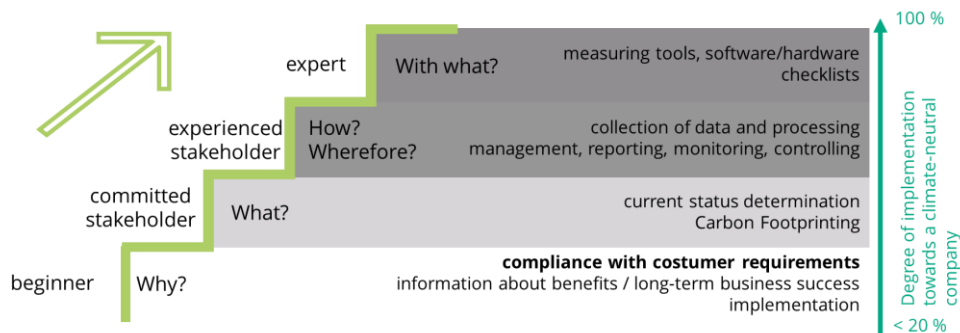
- Foresight exercise: not only environmental data but also general company data. By tweaking several parameters, the tool helps to forecast ESG strategy > simplification
 - Uses sensors to create real-time data that would help carry out enhanced business foresight simulations
 - Connected with concrete companies manufacturing processes
 - Shift from paper to strategic processes
 - CSRD reports as a by-product
 - Still open for international partners
- ESG support - if we consider it as a new dimension of strategy building for SMEs- should be offered and communicated as assessment & development& monitoring of business strategies and performance and should be integrated into the system of already existing support measures
 - Subsequently, all service providers and policy should act in an aligned way and activities should be interlinked
- **Recommendation: Looking for international policy related good practices**
 - Is any other member state planning similar policy/activity - direct contacts or [Sustainable Finance Member State Expert Group](#) (MSEG) and see their list of member state activities.

2. Consulting and advising SMEs and other companies directly on how to implement ESG related measures inside companies

- **Recommendation: use a cascade approach**
 - Different level of knowledge and involvement requires different stages of awareness raising and determines different needs

needs	solutions to be provided
general awareness	information
knowledge	tools / Checklists
skills	further training / LMS
harmonized ESG relevant data	collection of data and processing
awareness of strategic potentials	experience
motivation / involvement	network/ contacts across the supply chain
capacity	access to ESG experts / single point of contact

- Provide different support depending on the SME's need/stage



In Hungary due to the low awareness on environmental protection and social awareness the awareness raising and support might be needed to start even a step earlier: conceptual clarification.

- **Recommendation: design trainings for different positions**

- Trainings in more general ESG related areas to **SME executives having international relations, being part of the international value chain** (for creating the holistic view and share main perspectives and best practices; current and future trends, requirements, standards, reporting frameworks, etc)
- More specific trainings for **ESG, sustainability managers, change leaders**, to get the knowledge and skills for implementing ESG principles into business practices, stakeholder management, community & partnerships engagement
 - When there is no real managerial support then the results are limited.
 - Guide them how they can they bring the whole team on board
- More **specific ESG reporting and communication trainings**, ESG, sustainability managers, change leaders, accountants, to get the knowledge and skills for reporting and communicating ESG activities, conduct double materiality & risk analysis, due diligence assessments and various ESG audits

- **Recommendation: Provide tailored, company specific trainings about ESG related activities in organisations**
 - including topics like environmental impact: mitigating climate change impacts & risks, energy, transportation, materials, packaging, circular economy, carbon footprint; own workforce and value chain: human rights, diversity and inclusion, health & safety, products and service responsibility, community relations, code of ethics, anti-corruption, fair competition, equal opportunities, board composition
 - Provide navigation/coaching through the process – support the implementation of their ESG strategy
 - This is for companies who want to go further. To identify where the biggest impact is.
 - Different ways to do it in practice:
 - ESG Masterclass – mentors assigned to specific companies
 - Vouchers could also be used here.
 - Pilots with companies – creating ambassadors in the field – what can we achieve together (in 2024 with the voluntary group)
 - This **should not be fully funded** – the beneficiaries should have to pay a part of it – this way their participation also becomes a question that **needs to be addressed on the board level**
- **Recommendation: create opportunities for peer learning**
 - Create and coordinate ESG, sustainability, responsible business organisations networks for organisations who want to develop further and share best practices
 - Enable experience exchange among SMEs
 - Make use of already established projects, events, conferences, seminars, workshops to share ESG information and best practices, to promote activities and enhance awareness

- **Recommendation: Take full potential from the ESG related section to Business Information Website (VALI.HU)**

- If you can set up screening questions on the company dashboard (i.e. a simple survey)– this could help identify the early adapters as well as those who are in trouble but do not know it yet (that would then guide them to relevant info and help you target your events and trainings)

3. Setting up and implementing different ESG related financial instruments and support measures

- **Recommendation: Sustainability being a horizontal matter, see if it can be added as additional aspect of other support measures**

- Any SME support and funding should also address ESG-criteria. ESG-criteria and possible impacts (beyond the well- known tick-boxes on environmental impacts, gender equality etc.) should become mandatory for any financing of any (not only) innovation projects

- **Recommendation: set up a voucher scheme to support the ESG journey**

A good example for that is the Consultancy voucher scheme example from Region Jönköping County

- **Simple application:** Each individual company sent a simple email describing the type of transformation they wanted to pursue in the areas of Digital Transformation, Green Transition, or Gender-Equal Regional Growth.
- **Small amounts:** Each company had the opportunity to receive assistance from a consultant for an amount up to 5000 € . Subsequently, a staff member contacted the company to discuss the potential impacts of such efforts on their specific business.
- **Clear plan:** Based on this discussion, the staff member and the company developed a detailed specification outlining exactly what assistance the consultant would provide. Using this specification, we then identified a consultant who matched these requirements and subsequently carried out the intervention.
- Following completion of the consultancy services, the consultant invoiced us, and our staff member verified with the company that they received the assistance as previously specified.

- It should be **rather open and easily accessible**. If you make it very narrow and precise then you set artificial boundaries
- **Recommendation: Benchmarking**
 - Take concrete thematic best-practices, also in twinning project with another country's support measures organization, go deep-dive on areas and measures

5. **Possible calendar of implementation**

Following the peer review, the host organisation started a consultation process with the other stakeholders and government departments involved in the implementation of policies in the topics included in this peer review.

Based on the feedback the following calendar of activities could be prepared:

Peer Review for Developing Strategy for Strengthening Hungarian Micro, Small and Medium-sized Enterprises in ESG Related Aspects
Budapest, 2-3 July 2024

Calendar of implementation of the proposed recommendations

Applicability [1]	Recommendations	month 1	month 2	month 3	month 4	month 5	month 6	month 7	month 8	month 9	month 10	month 11	month 12	Comments
Very likely to be applied	Consulting and advising SMEs: Cascading approach				x	x	x	x						Based on the questionnaire on VALI portal
Depends on specific political decisions/conditions	Consulting and advising SMEs: Design trainings for different positions			x	x	x	x	x	x					Depending on the financial source the realisation could last longer.
Depends on specific political decisions/conditions	Consulting and advising SMEs: Provide tailored, company specific trainings			x	x	x	x	x	x					Tailored to different industrial sectors or common interests
Very likely to be applied	Consulting and advising SMEs: Create opportunities for peer learning			x	x	x	x							Workshop for the sustainable Modern Model Factories planned for autumn/winter
Very likely to be applied	Consulting and advising SMEs: Take full potential from the ESG related section to Business Information Website (VALI.HU): screening questions on the company dashboard				x	x	x							Used for the cascading approach: to categorize the companies based on their answers
Very likely to be applied	Setting up and implementing different ESG related financial instruments and support measures: Set up a voucher scheme to support the ESG journey			x	x	x	x	x	x	x	x	x	x	
Very likely to be applied	Setting up and implementing different ESG related financial instruments and support measures: Any SME support and funding should also address ESG-criteria			x	x	x	x	x	x	x	x	x	x	
Depends on specific political decisions/conditions	Setting up and implementing different ESG related financial instruments and support measures: Benchmarking											x	x	Benchmarking within the country (sector specific, size specific comparism) based on the first reporting obligations, later international comparism could be added
Very likely to be applied	Policy recommendations: Review all the policies relevant for ESG, the strategy and the ESG act itself is not enough	x	x	x	x	x	x	x	x	x	x	x	x	Already ongoing process, could last longer
Very likely to be applied	Policy recommendations: provide good practices and case studies through joining the Sustainability BI-Tech project	x	x	x	x									Bilateral discussions are already started with the German Peers

6. Conclusions

Based on the feedback from the participants – including the organizers, the peers, the involved stakeholders and the Interreg Europe Team, the Peer Review was a success achieving the original objectives and even went beyond that.

Some of the recommendations strengthened the initial concept regarding the ESG related new activities of MGFÜ, whilst others offered new aspects in designing them.

It should be highlighted that the Hungarian planned initiatives in the field of ESG raised the peers' attention, as well. They expressed that they really would like to see the results we, as hosts will achieve with our activities. Moreover, with the German peers a discussion started about other possible future cooperation opportunities like the the Sustainability BI-Tech project and potential projects affecting for instance the automotive industry – as a relevant sector for both regions.

Thanks to the positive feedback it could be stated that there is a definite interest - also on the side of the peers –for follow up activities even in the form of study visits if possible (especially with Germany and Swedish peers) to see the progress of the related ESG activities in the participating regions. To stay in contact with the peers is also our intention and this was expressed by the involved stakeholders, as well. All the contact details were shared amongst the participant facilitating future cooperation.

Budapest, 09.08.2024