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Action Plan

Southern Transdanubia

1. General information

Project: Policies to promote the internationalisation of SMEs for more competitive regional ecosystems in border areas of the EU

Partner organisation: Pannon European Group of Territorial Cooperation

Region: Hungary, Southern Transdanubia

NUTS2 region: Southern Transdanubia

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2. Background

INTER VENTURES project

INTER VENTURES aims to help SMEs located along national borders to internationalise their activities. This will spur growth and make EU cross-border regions more competitive. The present Action Plan is prepared in the frame of INTER VENTURES project.

Executive Summary

Capacities of the SMEs at the cross-border HU-HR region for the internationalisation are limited by the shortages of

- competitive products of the SME,
- production capacities of the SMEs,
- adequately trained staff,
- proper knowledge on international market opportunities.

Main drivers are

- to reach new, more lucrative (more profitable) markets,
- to stabilize the operations to ensure further development by diversification of customers.

Needs of companies are diverse in terms of support for internationalisation. While the selected policy instrument – a scheme supporting the cooperation of Hungarian and Croatian SME's in the framework of a bilateral Interreg programme – operates effectively in terms of delivering its planned outputs, it does not encourage internationalisation beyond the bilateral cooperation. Even though a number of measures target helping internationalisation both in Hungary and Croatia, local SMEs are very often not capable of accessing them. Therefore, the Policy Instrument should:

- maintain the cooperative approach,
- become less bureaucratic and though easier to implement,
- be more focused on enhancing internationalisation of SMEs,
- be specific to the needs of the regions' diverse SME sector, and
- include monitoring and evaluation practices.

The proposed actions aim at the introduction of a regional scheme that supports internationalisation. This Action Plan is an extension of the current PI to respond to the needs of the less prepared SMEs with an internationalisation focus with a new component that provides support for SMEs' needs to extend their international activities. Inspiration for this action comes from two Good Practices introduced in the project INTER VENTURES: (i) the Xpande Programme of Burgos (ES) that provides support for drafting an

individual Internationalisation Plan for the SMEs and then offers financial support (co-financing) for the implementation of the Internationalisation Process of the SME; and (ii) Adelante project of Podkarpackie Woiwodship (PL) that provides training and counselling support for SMEs active in the field of renewable energy.

Engagement of the Managing Authority in implementing the Action Plan is organised via joint workshops and meetings. Regional actors are institutions already having networks with the Pannon EGTC - their involvement takes place via local meetings and via the distribution of information material on the proposed amendment of the scheme.

Funding of the improved measures depends to a great extent on the eventual content of the EU-funded programmes in both countries. Programming and negotiations on the 2021-2028 programmes are ongoing, including the Interreg Cross-border cooperation programme between Hungary and Croatia.

3. Baseline situation

Policies and strategies targeted to internationalisation of SMEs

In Hungary, Strategy for Strengthening Hungarian Micro, Small and Medium-sized Enterprises (2019-2030), aims at strengthening the value-creating capacity of a group of companies capable of growth and providing a predictable framework for the entire SME sector to operate. „Promoting the internationalisation of SMEs“ is one of the 7 pillars of the Strategy. The relevant expected results of the strategy are:

- the SMEs with growth potential will find a foreign and domestic involvement in the international division of labour opportunities and thereby achieve the growth goals;
- the SMEs account for the volume of their sales revenue from domestic sales keeping them expanding their markets internationally, achieving their sales revenue a quarter from export sales;
- expanding the range of exporting micro, small and medium-sized enterprises.

In Croatia, Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020, aims to increase the competitiveness of small and medium enterprises in Croatia by improving entrepreneurial skills, promoting entrepreneurship, facilitating access to finance and improving economic performance and the business environment.

Both Croatian and Hungarian counties of the EGTC's area do have development strategies with economic development components. However, internationalisation is not a focus of these strategies.

Strategies targeted to SME internationalisation are implemented via projects or programmes and do not contain continuous budgetary allocations. Rather, funding depends to a great extent on the content of the EU-funded programmes in both countries. Programming and negotiations on the 2021-2027 programmes are ongoing, including the Interreg Cross-border cooperation programme between Hungary and Croatia.

Instruments and tools for internationalisation

Both Hungary and Croatia are centralised states so that main stakeholders involved in SME internationalisation are mostly situated in the capital cities of the states. Sub-national entities - County Development Agencies in Croatia or Enterprise Development Agencies in Hungary - play an intermediary role in making some of the national schemes available for local SMEs and future Monitoring Committee related to HUHR Cross-Border Program.

Main directions of financial support available in the region are

- subsidized loans and guarantees for SMEs to grow and increase competitiveness, including small- and micro-loan schemes,
- pilot grant scheme to encourage cross-border cooperation of Croatian and Hungarian SME's,
- Venture Capital Funds for some innovative start-ups,
- grants and loans to capitalize on the results of research and development in business and encourage research and development of the business sector,
- loans and guarantees to encourage export in both countries and to increase outward investment of Hungarian companies, and
- grants for participation in international fairs or B2B meetings and for exploring foreign markets.

Main directions of non-financial support in the region are:

- business counselling, especially for SMEs by regional Chambers of Commerce in both countries, County Development Agencies (in Croatia) and Enterprise Development Agencies in Hungary,
- Pécs and Baranya county (Hungary) industrial development programmes that provide a coordinative framework for various regional economic actors (including SME's, local authorities and the University of Pécs) to encourage cooperation,
- promotion of FDI by national level institutions in both countries,
- promotion of Hungarian exports and investments by informative workshops and professional guidance by national institutions for Hungarian SMEs, and
- facilitating the introduction of products and providing support for cooperation with foreign partners by Croatian national institutions.

In Hungary, HEPA (Hungarian Export Promotion Agency) has been designated to run specific export promotion programme for SMEs at national level. However, outputs of this programme are yet hardly noticeable in the region.

SMEs barriers and needs regarding internationalisation support

Capacities of the SMEs of the region for the internationalisation are mostly limited by the interlinked shortages of

- competitive products of the SME's,
- production capacities,
- lack of capital supply
- adequately trained staff, and
- proper knowledge on international market opportunities.
- Main Drivers, explored by the analysis, are
- to reach new, more lucrative (more profitable) markets, and
- to stabilize the operations to ensure further development by diversification of customers.

In the HU-HR cross-border region with strong peripheral characteristics and a high share of SMEs in the economic structure is of utmost importance to focus on enhancing the competitiveness and international activities of the SMEs. Croatian and Hungarian part of the EGTC's region shows similar characteristics in terms of problems and development potential of the SMEs so that a coordinated development does have an additional added value.

Needs of companies are diverse in terms of support for internationalisation. Besides the few companies exporting, other types of international activities, such as investment abroad or research and development cooperation, are hardly found. Awareness of SMEs about the conditions and benefits of a more international presence are also at a low level. However, intensity of the trade links between the Hungarian and Croatian companies is increasing.

The more fundamental factor behind the low level of performance on the international markets is the low level of competitiveness of the region's SMEs. A number of institutions and support schemes are in principle available to support both the competitiveness and the internationalisation of local firms. However,

- capacities of the institutions are weak so that they're often unable to help and encourage SMEs in participating in schemes, and
- selection priorities and criteria of nationally defined instruments are often not in line with the specific needs of the region's SMEs so that they often access these schemes.

4. Policy context

Overview

The Action Plan aims to impact:

- Investment for Growth and Jobs programme

- European Territorial Cooperation programme
- Other regional development policy instrument

Name of the Policy Instrument:

INTERREG Cross- Border Cooperation Programme Hungary Croatia 2021-2027

Body responsible for addressed policy:

Managing Authority, Ministry of Foreign Affairs and Trade/ Budapest, Hungary

Department for Cross-border Cooperation Programmes

Influence of the partner organization over the targeted Policy Instrument

The Pannon EGTC is not a part of the hierarchy of the territorial administration neither in Hungary, nor in Croatia. Also, both countries are centralised states, especially when funding is concerned. This way the direct influence of Pannon EGTC on the distribution of public funds and the selection of projects or funding schemes to be implemented is only informal and of advisory nature. However, a number of the members and stakeholders of the Pannon EGTC – first of all the county administrations in both States - do have direct influence on these decisions, so that through them EGTC’s initiatives can be promoted.

Selected Policy Instrument is implemented by national level structure, the MA is the Hungarian Ministry of Foreign Affairs and Trade. As EGTC’s regular activities are supervised and funded by the same Ministry, it provides an opportunity to channel EGTC’s arguments into the Ministry’s decision-preparation procedures. Programming decisions are typically influenced by a wide partnership with diverging interests and taken by the national authorities in both countries. Pannon EGTC can influence the programming process both by channeling relevant information from the region to the decision makers and delivering good practice identified e.g. in the project Inter Ventures and through its partners or members who are in the same time part of the formal territorial hierarchy in the two Member States. MA has already confirmed that it agrees with and will support the actions included in current Action Plan, while negotiations with local partners have started.

Issue addressed

Evaluation of the current operation of the policy, functioning of the policy

The Policy Instrument operates effectively in terms of delivering its planned outputs: a sufficient number of cooperating SMEs have reached the scheme; the development projects are of acceptable quality and the supported developments are in the phase of implementation so that available funds are expected to be fully used during the programme period.

In terms of impacts in a wider sense, no evaluation has taken place. However, an operational level (output-oriented) evaluation has taken place recently and some further activities with a broader scope are planned for 2022. Projects in general tend to demonstrate the benefits of the bilateral (HU-HR) cooperation well, although initiatives with real innovative content are much more uncommon than foreseen at the outset. Most criticism on the operation of the scheme relates to the overly bureaucratic and slow decision-making processes and lengthy periods of approval in the process of the management

that make the implementation of the cooperation projects extremely difficult for the recipient SMEs. The scheme focuses exclusively on the bilateral cooperation between Hungarian and Croatian SMEs, so that its impact on the internationalisation of the SMEs is limited.

Problem(s) with the Policy Instrument, problems to be targeted

Analysis for about the national strategies of SME development and the views of the regional stakeholders agree that the region’s economic performance depends to a great extent on the performance of the SME sector. Local and regional market is definitely not big enough to provide sufficiently strong demand to growing companies, so that the development of the SMEs’ capabilities to go international should increase in parallel with their increasing productivity. Survey in the framework of the Regional Situation Analysis in INTER VENTURES revealed that besides the need to further support SMEs to develop their productive capacities, they need to be more aware of what benefits and requirements are associated with the operations on international markets. Survey also revealed that more experienced export-oriented SMEs can get access to existing national schemes that support their activities abroad, while specific assistance is needed for SMEs that are established already but are not yet aware of the benefits of internationalisation. Currently, SMEs need awareness-raising, assisted business planning and market research as well as human resources development to help their first initiatives to internationalisation. The PI, however, aims at supporting joint development actions of Hungarian and Croatian SMEs but proposals of the SMEs rarely target the activities on other countries’ markets. The focus of the funding programme is more on enhancing the bilateral cooperation than promoting internationalisation; more on joint products and services than on awareness-raising and capacity building. While in principle a number of measures target helping internationalisation both in Hungary and Croatia, these schemes are managed at central level with very limited involvement of local actors. Also, local SMEs are very often not capable of accessing them. As a result, SMEs that might be successful internationally cannot get access to support that could provide assistance to overcome initial difficulties of internationalisation.

The Policy Instrument, on the basis of the experiences in implementation and the needs and practices identified by the project Inter Ventures, need to

- maintain the cooperative approach,
- be less burdensome in the implementation phase for the beneficiaries,
- be more focused on enhancing internationalisation of SMEs,
- be specific to the needs of the region’s diverse SME sector, and
- include monitoring and evaluation practices

Indicator(s) measuring the success of policy influencing

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| Self-defined indicator | Number of SMEs applying for funding under the amended scheme |
| Target value of the indicator | 20 in total |

Description of the situation after the Policy Instrument is targeted

We envisage that a new call will be elaborated and made available in the Hungary-Croatia Interreg CB cooperation programme 2021-2027 that supports Hungarian and Croatian SMEs in cooperation and in internationalisation. The amended scheme will be able to reach SMEs that are currently not capable and though not even aiming at extending their activities to international markets. These companies cannot get access to any assistance that currently could enhance their chances to go international. By addressing the needs of the SMEs for a better knowledge of their potential international markets, for more capable personnel and for better knowledge of the conditions and constraints of internationalisation in general, some of the current barriers to internationalisation could be abolished and the number of internationally active SMEs increased.

5. Details of the Action envisaged

Action title:

Extension of the cross-border „Beneficiary Light Grant Scheme“

Nature of the action:

The action aims at extending the current Beneficiary Light Grant Scheme to less prepared SMEs with an internationalisation focus. We recommend to expand the scope of the policy instrument by a new component that provides support for SMEs wishing to extend their international activities. Besides current practice of receiving grant-financing for extending their productive capacities of joint marketing, SMEs in an earlier phase of cooperation could apply for assistance to increase their capacities to become more active on international markets. Support could serve to prepare develop a “preparedness test” to assess the applicant SMEs (or consortium of cooperating SMEs) preparedness for internationalization, in accordance with its aspirations or goals, and then to draft a development plan on how to increase the preparedness to a level that makes it realistically possible to go international. Then, in a possible second round of application, the SMEs can get non-refundable funding grant to implement key element(s) of this internationalisation plan.

The main types of outputs of our planned actions will be recommendations about

- a set of selection criteria for the SME support scheme,
- actions and activities of the supporting (TA) component (probably a separate project) to the scheme, and
- tools that can be used to raise awareness of internationalisation for potential applicant SMEs.

These recommendations will be made on the basis of our experiences gained in the project Inter Ventures and the knowledge we collected in our network of regional stakeholders.

Action will include technical negotiations with HEPA (Hungarian Export Promotion Agency) to channel their experiences to the planned actions and to avoid potential overlaps between the amended support scheme and the projects managed or planned by HEPA.

Linkage between the Action and the Policy Change:

We consider this action as a policy change in the form of a change in the strategic focus of the policy instrument. Focus of the Policy Instrument becomes wider: besides supporting bilateral HU-HR cooperation, it will provide focused assistance for SMEs in preparing for and making their first steps in internationalisation in line with a set of selection criteria (to be defined in the process of elaboration) that addresses the specific needs of the region's diverse SME sector. Selection criteria and supported activities will be defined in accordance with the results of the analysis (highlighting the needs of the SMEs for awareness and knowledge) and the practices learnt in Inter Ventures. New activities will be outlined that are expected to increase awareness, knowledge and capabilities of the SMEs to go international. By aiming to develop a scheme for SMEs preparing for internationalisation, the action is expected to contribute to increase the number of SMEs in the region which are engaged in international activities. The Action therefore is clearly in line with national level policy objectives of SME development. The planned regional approach to selection criteria and delivery mechanism will increase the accessibility and effectiveness of the scheme.

Good practice(s)

Interregional exchange of experience

Inspiration for this action comes from two good practices introduced in the project Inter Ventures:

1. Xpande Programme (ESSP) was chosen mostly due to its two stages' approach to the SME development and the similar development context, and also because of it targeted rural areas; and
2. Project Adelante (PL) was chosen mostly due to its sectoral focus that could enhance the visibility of the support scheme in areas where not all sectors are ready for a more international presence.

The "Xpande" Programme has been implemented as a collaborative agreement between the Chamber of Commerce of Burgos and the local public authority as co-financer. Recipients of the assistance implement their projects in two stages:

Stage I: Support is provided for drafting an individual Internationalisation Plan

Stage II: Financial support (co-financing) is provided for the implementation of the SME Internationalisation Process

The programme operates in a rural and rather peripheric area of Spain, very similar to the development context of the region of Pannon EGTC. The project Xpande programme effectively addresses the need for local SMEs to get informed about the costs and benefits of internationalisation and for a reliable assessment on their realistic chances and opportunities on their potential international markets. Emphasis in the first part of the supported projects under this programme is on helping to prepare the

SMEs for internationalisation (including drafting a realistic development plan). On this basis, investments necessary for internationalisation can be identified and could form a basis for further support.

Project “Adelante” provides training and counselling support for SMEs active in the field of renewable energy. It provides counselling for SMEs together with the pilot implementation of adopted solutions and trainings for managerial personnel and employees of SMEs (in the field of strategic management of renewable energy sources, internationalisation of export consortia, branding, packaging and marketing).

Transferred elements

Xpande provides a working example of a two-step process that helps to prepare SMEs by offering a combination of drafting the individual (company-specific) plan and its implementation with experts’ professional support and funding. The two-step process seemed to be a very suitable instrument to target problems like low level of international linkages of the local SMEs and their weakness regarding skills and knowledge in international trade.

Usefulness of „Adelante“ lies mostly in its targeted approach, demonstrating that more prepared or more promising sectors could be selected for support for better or more visible results. Pannon EGTC's area has a great potential for renewable sources, expertise needed to exploit this potential is partially present but not spread enough among potential main actors in the region. Target groups are basically similar to the ones of the GP: local SMEs that have a business in the exploitation of renewable energy-sources. A number of companies – advisory firms, system’s producers, operating and engineering firms – exist in the Pannon EGTC's region. Research on the topic has been conducted at various universities of the region, including Croatian ones. Stakeholders, however, have not systematically been mapped or registered yet. Based on the previous, the first action in the Action Plan will be the conduction of a regional survey to sharpen sectoral focus.

Stakeholders involved

The most important stakeholder is the MA for the Hungary-Croatia Cross-border Interreg programme, as the 2021-2027 Cross-border programme is the potential provider of funding. MA has the ultimate responsibility for the programme. However, the programme’s strategy reflects the expectations of various local and national stakeholders forming the Hungary-Croatia Programming Committee (PC). Thus, responsibility for the proposed action lies with the MA once it is incorporated in the programme, while being part of the programme needs the approval of the said Programming Committee. Some important local partners of Pannon EGTC are represented in this committee. These partners - the three Hungarian county level enterprise foundations, the University of Pécs, and the Chambers of Commerce and Trade on the Hungarian side and the County Development Agencies on the Croatian side – are involved and can be involved in the delivery of the assistance (e.g. in advisory role or as providers of assistance to SMEs in the application and implementation process). Success of the proposed action depends therefore on how effectively we can influence the programming and the MA and whether our initiatives are supported by our regional partners. Pannon EGTC has regular meetings with the MA. Information on the development of the Action Plan, its background and feedback based on the regional consultation process is provided by the EGTC on these events, whereas status of programming is updated and reflections to the EGTC’s initiative are given by the MA staff. Involvement of the regional partners – including the members of the Hungary-Croatia Programming Committee – takes place by

producing and distributing short description of the concept of the proposed change of focus of the PI and organisation of briefings and online workshop with the participation of their key staff members. Timing of the activities follows the timing of the process of programming. However, information events are planned on a monthly basis.

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| Cost of the action: | Costs of expert's work (experts' fees, wages and wage-based contributions) and the costs of related events (organisation and implementation) are considered totaling to EUR 44,500. |
| Resources: | Own resources of the EGTC, including yearly contribution of the Ministry of Foreign Affairs and Trade. The latter expects to cover the costs of associated events |

Action steps and activities

| Action steps (what will be done) | Responsibility (Who will do it – reference to the stakeholder involvement) | Timeline (start and end dates) | Estimated cost of the action step |
|---|--|---|--|
| Regional survey on potential sectoral focus (like renewables, health, environmental industry, etc.) | PANNON (involving regional stakeholders) | September 2021 – October 2021 | Expert's work (desk research, interviews, elaboration of concept), EUR 5,000 |
| Devising a draft concept note on main structures and criteria applied for the enhanced scheme | PANNON (involving regional stakeholders) | November 2021 | Expert's work, EUR 2,500 |

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| Negotiations and collaborative creative events with relevant local and national level stakeholders | PANNON (involving regional stakeholders) | December 2021 – March 2022 | Expert's work (preparation, moderation, conclusions, finetuning of the concept) EUR 10,000 arrangements for the events (organisation, travel, etc.) EUR 1500 |
| Elaboration of the final concept note on the amended scheme | PANNON (involving regional stakeholders) | April 2022 – May 2022 | Expert's work (desk research, interviews, elaboration of concept), EUR 5,000 |
| Ongoing assistance and support for the preparation of the amended scheme | PANNON | June 2022 – December 2023 | Expert's work (clarification, amendments, information services, knowledge transfer) EUR 17,500 Arrangement for accompanying collaborative events (workshops, seminars, etc.) EUR 3,000 (EGTC/MFA budget) |