

Professional Services to Strengthen Competitiveness in Hungary

Deliverable 5: Final report

Technical Support Instrument

Supporting reforms in 27 Member States



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Contents

| | |
|--|----|
| Summary of the activities carried out during the implementation of the contract | 3 |
| Mapping the relevant professions – Deliverable 1-2 | 3 |
| Further analysis of the selected 19 professions – Deliverable 3..... | 4 |
| Elaboration of the problem maps - Deliverable 3..... | 5 |
| Conference I. - Deliverable 3..... | 5 |
| Conference II. - Deliverable 3..... | 6 |
| HÉTFA CGE model - Deliverable 3 | 7 |
| Summary of result..... | 8 |
| Action plan – Deliverable 3 | 9 |
| Closing workshop – Deliverable 4 | 9 |
| Second knowledge-sharing event – Deliverable 4 | 10 |
| Potential future TSI projects | 11 |
| Alternative dispute resolution | 11 |
| Electronic document handling and remote administration | 11 |
| Lessons learned that could be useful and relevant for implementing similar initiatives in other EU Member States..... | 12 |
| Annex 1 - Communication material | 14 |
| Title | 14 |
| Summary | 14 |
| Context..... | 14 |
| Support delivered..... | 14 |
| Results achieved..... | 14 |
| Mention of EU assistance..... | 14 |
| Social media text | 14 |
| Visualisation | 15 |

Summary of the activities carried out during the implementation of the contract

Mapping the relevant professions – Deliverable 1-2

The first main step of the project was narrowing down the 435 regulated professions in Hungary.

Out of the compiled list of 435 potentially regulated professions in Hungary, based on the Contractor's categorization:

- There were 119 professions providing mainly business services (typically B2B services).
- There were 220 professions providing mainly personal services (e.g. medical and health care professions).
- There were 96 professions providing mainly public services (services operated and financed by the state, e.g. consumer protection, competition authority, inspection bodies, etc.)

As a result of this process, we selected 19 professions where reforms were expected to be the most beneficial, i.e., they have significant economic relevance in the Hungarian economy and represent a big part of the business relations with small and medium sized enterprises (SMEs). This comprised three professional groups: legal, financial, and architecture-related professions. Of the three groups, focus was placed on professions delivering professional services to businesses rather than to private individuals or to public authorities. Nevertheless, given that many regulations affect both categories, the impacts of changes on individuals should have also been considered.

Based on the benchmarks and the surveys conducted amongst 1001 firms and professional organisations, the following 19 professions have been selected for further assessment, that appeared to be the most in need of deregulation:

Legal professions:

- Public notaries
- Patent agent
- Attorney, legal counsel with membership in bar association

Architectural professions:

- Expert of energy performance certification of buildings / Consultancy of energy auditor
- Interior design specialty / Activity of architectural-technical design
- Designing of constructed objects for the energy supply sector / Activity of architectural-technical design
- Geotechnical design specialty / Activity of architectural-technical design
- Landscape-architectural design of garden structures / Activity of architectural-technical design
- Architect
- Architect with acquired rights
- Civil engineer
- Design of constructed objects for traffic regulation and transportation / Activity of architectural-technical design
- Constructed objects in energy supply systems / Consultancy of architect/technician responsible for supervising

- Constructed objects in traffic regulation and transportation / Activity of the executive responsible for technical matter
- Constructed objects in traffic regulation and transportation / Consultancy of architect/technician responsible for supervising
- Architectural engineering / Consultancy of architect/technician responsible for supervising

Financial professions:

- Tax advisor
- Accountant
- Auditor

Further analysis of the selected 19 professions – Deliverable 3

We developed a standardized questionnaire, referred to as the Regulatory Survey, modelled after the main principles of the OECD 2018 Product Market Regulation Questionnaire, with a view to gathering information on willingness to reform, entry restrictions, exclusive and shared exclusive rights to activities and protected title, restrictions on conduct of professionals, restrictions on foreign entry and cross-border services, and authority responsible for regulation. When contacting selected organizations, we gave them the option to either answer the Regulatory Survey questions during an interview or to fill in and return the questionnaire to us in written form.

We found that, except for the architectural field, professional organizations and regulatory bodies of all other professions expressed interest in participating in the project and provided input. After informing the Beneficiary about the barriers encountered when approaching the Ministry of Construction and Transport due to ongoing changes in the regulatory environment of architectural professions, the Beneficiary decided to exclude the 13 architectural professions from the project scope.

For the remaining 6 professions—patent agents, public notaries, attorneys, tax advisors, accountants, and auditors—we agreed with the Beneficiary to continue our work.

Subsequently, we approached representatives of these professions and invited them to complete the Regulatory Survey to aid in the development of future problem maps.

For the legal professions, we reached out to the following organisations:

- Department for Innovation and Startups at the Ministry of Culture and Innovation (regulator)
- Hungarian Chamber of Patent Attorneys (professional organisation)
- Hungarian Intellectual Property Office (professional organisation) (represented by the deputy president responsible for Industrial Rights Protection Affairs and the head of department for Legal and International Affairs)
- Civil and Judicial Codification Department at the Ministry of Justice (regulator)
- Hungarian Bar Association (professional organisation)
- Hungarian National Chamber of Notaries (professional organisation)

For the financial professions, we requested responses from the following organisations:

- Supervisory Department at the Ministry of Finance (regulator)
- Association of Hungarian Tax Experts (professional organisation)
- Association of Tax Consultants (professional organisation)
- National Association of Hungarian Accountants (professional organisation)
- Hungarian Chamber of Auditors (professional organisation)

Elaboration of the problem maps - Deliverable 3

Based on the survey results, we have prepared preliminary problem maps for the relevant professions. Following the completion of these problem maps, we organised interviews with senior experts from Deloitte in each relevant field: tax advisory, audit, accounting, and legal.

Subsequently, we validated the identified issues by conducting interviews with the relevant regulators: the Ministry of Finance for tax advisory, auditor and accounting professions, the Ministry of Justice for attorneys and public notaries, and the Ministry of Culture and Innovation for patent agents. We validated the identified issues and supplemented the problem maps based on their recommendations.

We decided not only to address regulatory issues but also to explore additional interventions aimed at facilitating market players' access to improved services. These interventions may include voluntary programs, educational initiatives, and measures to reduce unnecessary costs, such as alternative dispute resolution mechanisms or insurance schemes.

Conference I. - Deliverable 3

After the completion of the final problem maps, we organised a conference where participants could register for legal, financial, and patent agent sections. During the conference, we presented the problem maps, allowing participants to express their opinions and share additional problems related to their professions.

Problems arose regarding the following topics in certain professions in the problem map:

Tax advisors

- Education/Training: e.g. taxation degree is not available in Hungary
- Registries/Quality assurance: e.g. quality issues with services
- Legal framework for tax advisory services: e.g. no legal framework for tax advisors
- Digitalization/Automation: e.g. limited use of electronic administration
- Price regulation
- International services

Accountants

- Education/Training: e.g.: outdated training materials
- Registries/Quality assurance: e.g.: lack of quality assurance
- Legal framework for accounting firms: does not exist
- Digitalization, automation: e.g. limited use of electronic administration
- Price regulation
- Thresholds
- International services
- A profession characterized by aging workforce

Auditors

- Education/Training: e.g. training materials are not suitable
- Registries/Quality assurance: e.g. there is no quality assurance system
- Digitalization, Automation: e.g. increase of data security risks
- Price regulation
- International services
- A profession characterized by aging workforce

Attorneys

- Mandatory membership in the chamber
- Capacity issues stemming from the wide range of services with exclusive rights
- Legal form of attorney offices are outdated
- Excessive bureaucracy
- Digitalization
- Use of alternative dispute resolution is low

Public notaries

- Capacity issues stemming from the wide range of services with exclusive rights
- High fees
- Excessive bureaucracy
- Digitalization

The participants approved our proposal to focus on the legal and financial professions, and it was agreed to exclude patent agents from the scope due to the lack of identified intervention areas, so we continued our work with 5 professions.

Following the validation conference, we refined the problem maps based on interviews and conducted desk research to develop recommendations for the identified problems.

Conference II. - Deliverable 3

During the second conference, we presented the updated problem maps and recommendations for in-depth discussion. Participants were invited to add additional insights, which were then incorporated into the final list of recommendations. Participants also ranked the problems by importance and assessed the effectiveness and viability of proposed solutions using Microsoft Forms.

For certain topics, listed below per profession, the decision was made not to proceed further based on conference inputs and feedback of professional organizations. We did not continue with the work on the topics because either the implementation would not be feasible or would result in minimal impact. In some cases, the topic was not deemed a priority by the professionals.

Tax advisors

- Comprehensive reform of compulsory trainings
- Strengthening the knowledge in international taxation, specialisation in international taxation
- Providing extensive influence for professional organisations, and promoting becoming a member
- Developing training materials
- Creating a registry of professionals that includes those as well who are pausing their activities

- Introduction of an MSc in Taxation
- Determining which services qualify as services of tax advisors, tax experts or certified tax experts

Accountants

- Developing the course material (e.g. AI components, reform of the examination system)
- Common compensation fund, promotion of organisations providing liability insurance for their members, involvement of experts when assessing the damage
- Longer mandatory internship
- Legislation similar to the regulation of law firms

Auditors

- Establishing an independent, anonymous speak up line where clients could report corruption or unethical behaviour, where reports would be handled by persons independent of the Chamber, and where investigations would be monitored by a body independent of the Chamber.
- Adapting the curriculum to the needs of professionals and the market, e.g. digital skills (software use, automation), data protection and security related courses
- Rethinking examination based on the practical relevance of the subjects
- Increasing the number of exam dates per year
- Annual list of audited clients provided by the auditors to the authority

Public notaries

- Review of price regulation, reduction of capped fees of public notaries
- Reducing the obligation to involve a legal professional

Attorneys

- Reducing the obligation to engage a legal professional
- Legal assistants should also be authorized to perform basic legal services and routine tasks

HÉTFA CGE model - Deliverable 3

Based on conference inputs, we integrated expert suggestions into the proposed solutions, followed by the development of the HÉTFA CGE model. Using the CGE model, we selected recommendations the implementation of which could lead to significant increases in productivity, GDP, and employment. After narrowing down the recommendations, we conducted additional desk research to identify international best practices and conducted further interviews with stakeholders to assess recommendation feasibility.

We continued our work with the following intervention areas in the model.

Tax advisors

- Mentoring for graduates
- Registry
- Information asymmetry

Accountants

- Mentoring for graduates
- Quality assurance forum
- The Registry is not linked to the Ministry of Justice's Company Information System
- Alternative dispute resolution

Auditors

- The time from obtaining a chartered accountant qualification to becoming a member of the Chamber is disproportionately long
- Development of a registration system

Public notaries

- Too many "mandatory" elements in contract templates
- Market players over-insure themselves when concluding contracts
- Lack of electronic documents, paper-based storage of documents

Attorneys

- Too many "mandatory" elements in contract templates
- Market players over-insure themselves when concluding contracts
- Lack of electronic documents, paper-based storage of documents
- Remote administration options, lack of remote identification options
- Unrealistic client expectations regarding the lawsuit

Summary of result

The simple demand changes yield relatively small effects both in GDP and in employment. In the case of efficiency, we also see a small loss in employed in the specified sector, since there is less demand for their work.

The productivity increase can lead to significant increases both in GDP and employment in the long term in the case of medium and high scenarios. The biggest GDP effect comes from the reduction of underinvestment, and its employment effect is significant as well. Moreover, the underinvestment effect could be even higher since we only calculated with the provenly lost capital. The total GDP effect can range from 0.56 to 0.85%, which is about 463 billion HUF (1.19 billion EUR) and its total employment effect is between 1 396 and 3 768.

Table 1: Summary of macroeconomic impacts

| | | GDP (%) | Employment (persons) |
|-----------------------|------|-------------|----------------------|
| Demand efficiency | | 0.04 | -653 |
| Demand increase | | 0.004 | 142 |
| Productivity increase | 0.01 | 0.03 | 242 |
| | 0.05 | 0.16 | 1 299 |
| | 0.10 | 0.32 | 2 614 |
| Underinvestment | | 0.48 | 1 665 |
| Total | | [0.56-0.85] | [1 396-3 768] |

Action plan – Deliverable 3

Based on the results of the CGE model, feedback, conferences, and desk research, we ultimately selected four intervention areas with the aim of developing detailed action plans for their implementation.

We proceeded with the following intervention areas:

- Promoting alternative dispute resolution methods for small and medium-sized enterprises (SMEs)
- Developing an online platform to assist SMEs in finding accounting and tax advisory services
- Electronic document handling
- Remote administration processes

Closing workshop – Deliverable 4

We planned two knowledge-sharing events.

The first one was the closing workshop for the electronic document handling and identification, the online platform for the financial professions and the alternative dispute resolution between businesses.

The second one was about the recommendations for the tax advisors, accountants and auditors.

For the first session, we developed an action plan based on interviews and conducted traffic light modelling. Those were presented to the participants.

We presented the following intervention areas: ‘Promoting alternative dispute resolution methods for small and medium-sized enterprises (SMEs)’, ‘Developing an online platform to assist SMEs in finding accounting and tax advisory services’, and ‘Electronic document handling and remote administration processes’.

Second knowledge-sharing event – Deliverable 4

Our second knowledge-sharing event held online on 3 April 2024 focused on the accounting, tax advisory, and auditing professions.

During the second knowledge-sharing event, representatives from the Ministry of Finance and a specialist from each of the three financial professions were present. The representative of the National Association of Hungarian Accountants, the Association of Hungarian Certified Tax Professionals, and the National Association of Hungarian Accountants participated. The following topic areas were discussed during the meeting:

- Mentoring for graduates (tax advisors, accountants, auditors)
- Mandatory liability insurance (accountants)
- Determining which services qualify as services that can be provided by tax advisors, tax experts or certified tax experts (tax advisors)
- Limited authority of professional organizations, their authority is not formally established in legislation (tax advisors)
- Introduction of an MSc in Taxation (tax advisors)

Regarding the topics of 'Mentoring for graduates' and 'Mandatory liability insurance', the Ministry of Finance stated that making these compulsory would be considered a restriction of the market under EU regulations.

The representative of tax advisors emphasized that the most crucial area is the definition of tax advisory activities under legislation. They believed that this regulatory aspect is not adequately addressed in Hungary and advocated for its incorporation into legislation to define the tasks that professionals with qualifications can perform.

Furthermore, they mentioned that the definition of the authorities of professional organisations in legislation is not as crucial as defining the services qualifying as services which can be provided by tax advisors, tax experts or certified tax experts under legislation.

The representative of the Ministry of Finance mentioned that there is no intention to tighten regulations. Introducing new rules requires thorough justification, and the Ministry has not observed serious issues due to the lack of regulation.

Additionally, it was noted that although specialised MSc programs for tax experts exists, it is not launched for some reason.

The representative of auditors added a new issue to the discussion. It was highlighted that although mandatory audits are regulated by the Accounting Act in certain cases, some enterprises ignore this requirement. Despite reminders from the Chamber, there are no sanctions in place for non-compliance.

Participants concluded that there are no further steps to be taken regarding the discussed topics at present. MNE agreed to share the documents prepared during the project with stakeholders if possible.

Potential future TSI projects

Alternative dispute resolution

As alternative dispute resolution methods are currently not widespread in Hungary, our goal is to lay the groundwork for a future TSI project. We invited representatives of organisations involved in alternative dispute resolution to our workshop and presented how awareness raising campaigns, incentives to SMEs willing to participate in alternative dispute resolution methods, dissemination, etc. could increase the adoption of alternative dispute resolution methods. The topic of designating micro-enterprises as consumers again for the purpose of accessing conciliation procedures was also discussed. Additionally, we suggested considering mandatory participation in an informational session on alternative dispute resolution before litigation in certain cases. At the closing workshop, it was emphasized that it is more beneficial to employ mediation in cases of higher value disputes. Experts did not recommend exclusively steering low-value disputes towards alternative dispute resolution. The widespread adoption of alternative dispute resolution is a long process; therefore, we recommend initiating a new TSI project led by an organisation specialising in alternative dispute resolution to further this cause. MKIK and BKIK expressed interest in taking on the role of the project owner. We have to validate if they are eligible to host such a project, if not, alternatively we may recommend the participation of the Ministry of Justice.

Electronic document handling and remote administration

According to the Deputy State Secretariat Responsible for Economic and Property Legal Regulation and Litigation Representation, these legislative innovations are likely to reduce obligations and administrative burdens for organizations offering digital services, as indicated by their preliminary impact assessment. As this is an emerging framework in the making, we proposed that a regulatory impact assessment plan should be established to influence this process. Emphasizing this procedure is crucial to ensure that Act CIII of 2023 concerning the digital state and specific regulations regarding digital service provision effectively meets evolving requirements.

In the initial phase of the monitoring plan, we will devise an evaluation and impact assessment plan, engaging pertinent professional bodies, with a target set for 30 June 2024, prior to the enactment of the new framework law. Subsequently, a preliminary impact assessment, informed by extensive consultations on proposed changes, including relevant government regulations and associated projects, will be the subsequent milestone by the close of 2025. This will be succeeded by a testing phase, wherein significant involvement from end-users and relevant professional bodies will be pivotal to proactively identifying refinement needs throughout the development process. Following the completion of testing, slated for the end of 2026, an information campaign will be launched to ensure comprehensive user-side awareness for optimal utilization of digital solutions. Subsequently, monitoring activities on digital solution usage and an ex-post evaluation of the overall implementation experience will be conducted of the Act CIII of 2023.

After the implementation we recommend having an ex-post evaluation, which could be the core of a follow up TSI project. This planned project would deal with the whole digital administrative changes of the new framework law. The ex-post evaluation would help to determine whether the new framework law has achieved its intended goals and objectives. By assessing its impact after implementation, policymakers can gauge whether the law has effectively improved digital administration practices as intended. It also allows for the identification of any unintended consequences or negative side effects resulting from the implementation. This information is crucial for policymakers to address any issues and make necessary adjustments to mitigate adverse effects.

Moreover, ex-post evaluations provide a great opportunity to gather feedback from stakeholders, including government agencies, businesses, and citizens, about their experiences with the new digital administration framework. This feedback can inform future policy decisions and adjustments to improve the effectiveness and efficiency of digital administration processes. This was also highlighted by the stakeholders of this project as we have seen.

Lessons learned that could be useful and relevant for implementing similar initiatives in other EU Member States

One of the main challenges was the organisational change at ministerial level. Another challenge was that the ministerial levels were overwhelmed due to the parliamentary elections. Therefore, if during the course of such a project, organisational change or parliamentary election is expected, project timeline will likely go beyond the planned one. Additionally, in cases of organisation transformations, it is crucial to keep the ownership of the beneficiary to ensure the continuation.

In certain professions, both over-regulation and under-regulation can arise, and operational processes often fail to adequately reflect current trends. For example, many professionals mentioned that in an increasingly digitalized world, they are required to keep documents in paper format for up to 10 years. The project implementation could benefit from being more flexible to carry out developments more effectively. For example, we suggest that deregulation should not be the sole focus of the project's main goal, but rather broaden the scope to consider other trends as well, such as digitalization.

Low response rates may result in a bias and leaving too much emphasis on certain problems and shift the focus away. Because of this, triangulation of the results (i.e. by desk research) is necessary to strengthen the conclusions.

Stakeholder inactivity can be explained by timing and workload issues, which impact the development of the recommendations and their detailed implementation plans could be problematic. As decision makers are identified stakeholders, they are expected to be important partners in the discussion about the possible interventions and reforms. Sometimes the timing and/or the workload of the stakeholders does not make them able to contribute to those, despite being interested in the topic. In these occasions, having alternative solutions and partners can solve the problems.

Table 2: Challenges encountered and possible precautional steps

| Challenge | Magnitude (critical/severe/mild) | Areas of effort (e.g. vision / alignment / execution) | Possible precautional steps |
|---|---|--|--|
| Organisational changes | Mild | Alignment | <ul style="list-style-type: none"> · Planning the project for a longer duration · The beneficiary ensures the handover process |
| Inputs from professionals not related to the project's objectives (Regulatory efforts instead of deregulation) | Severe | Execution | <ul style="list-style-type: none"> · Ensuring greater flexibility within the project to address the most frequently encountered issues with viable solutions |
| Low completion rate of the survey | Mild | Vision, Alignment | <ul style="list-style-type: none"> · Desk research for validation · Utilization of Phone Surveys · Wider sample than necessary · Increased attention to timing |
| Stakeholder inactivity | Severe | Alignment, Execution | <ul style="list-style-type: none"> · Increased and flexible collaboration, follow-ups, backup interviewees · Increased attention to timing and workload of stakeholders · Increased validation of focus areas |

Annex 1 - Communication material

Title

Improving Professional Services to Strengthen Competitiveness in Hungary

Summary

The project aimed to enhance professional services provided to SMEs by economically significant, regulated professions in Hungary. It was implemented with the support of the European Commission (DG REFORM) and the Ministry for National Economy as the Beneficiary.

Context

DG REFORM supports EU Member States in implementing growth-enhancing reforms. Hungary applied for advisory support for better regulation in selected professional services with a view to addressing market imperfections, undue costs, limitations on innovation and competition for business, and to assessing potential effect of recommendations on the GDP.

Support delivered

Out of the 435 regulated professions, 19 professions were selected where reform deemed necessary. Through interviews, surveys, conferences, and desk research, together with a variety of stakeholder groups key problem areas were identified, recommendations put forward and verified to help, and thereby indirectly improve the competitiveness of SMEs.

Results achieved

The results include intervention areas such as (i) expanding the use of alternative dispute resolution, instead of going to court, (ii) establishing online databases for SMEs to find financial service providers, like accountants and tax advisers easier, and (iii) the development of e-document handling and remote administration – all to save time and cost for businesses, primarily for SMEs.

Mention of EU assistance

This project is funded by the European Union via the Technical Support Instrument and implemented by Deloitte and HÉTFA Research Institute in cooperation with the European Commission.

Social media text

I. Improving Professional Services to Strengthen Competitiveness project targeted boosting services for SMEs in Hungary. Through interviews, surveys, and research, key issues were identified hindering SME services. Initiatives, like expanding alternative dispute resolution and establishing online databases, could pave the way for cost-efficient operation of businesses.

II. Improving Professional Services to Strengthen Competitiveness project: Unlocking business potential: Alternative dispute resolution = faster, cheaper solutions fostering strong relationships. Online databases streamline financial service access. Electronic administration = time & cost savings.

Visualisation

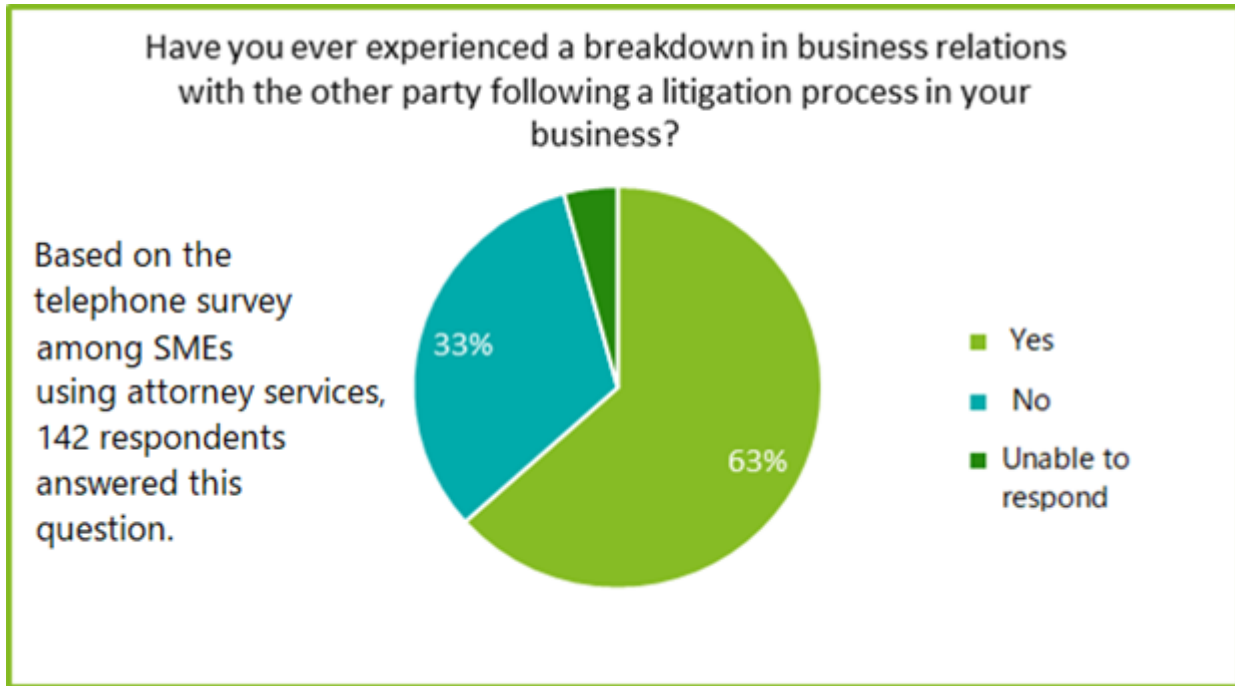


Figure 1: The effects of litigation on business relations

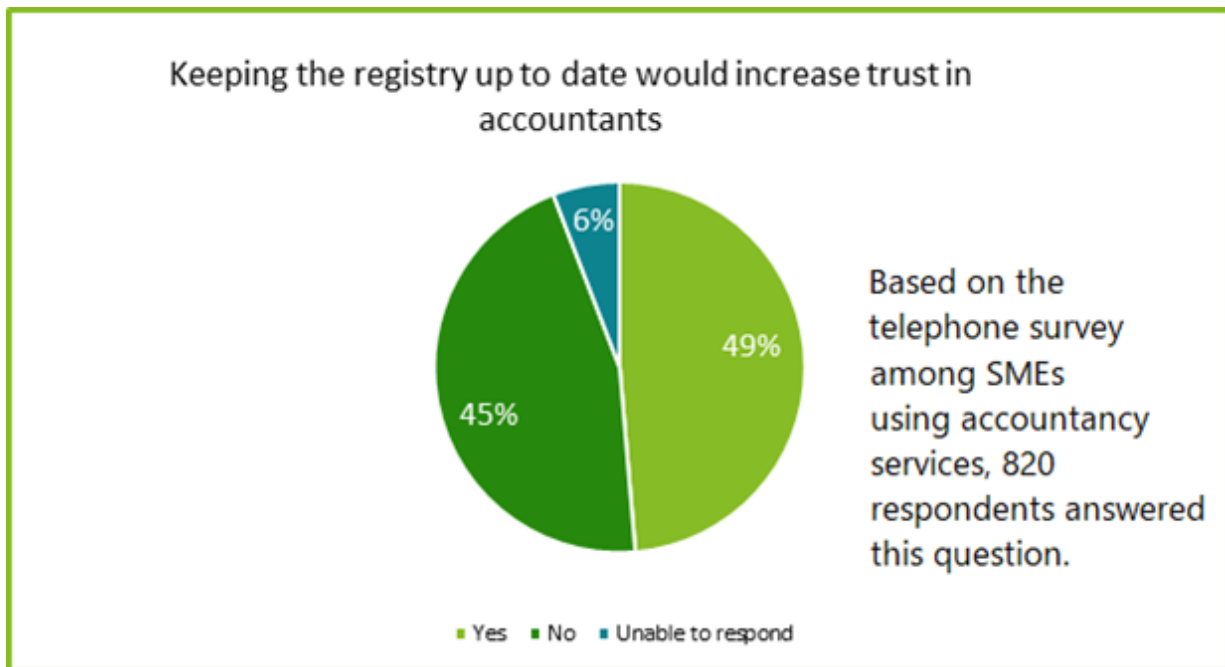


Figure 2: The effect of an up-to-date registry on trust in accountants

Deloitte.



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