

## ENTERPRISES OF LOCAL TOWN COUNCILS IN HUNGARY

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### INTRODUCTION

The present paper demonstrates a little part of a recent research. This investigation surveys possibilities, methods with which the local council, and later the local self-government, could complete its continually narrowing financial resources in the second part of the 1980s. Today these possibilities have already a rich assortment: from the bond issue, through the different competitions, to the foundational finance.

The basis of my paper is a questionnaire sent to the local councils of towns in December, 1989. So the result is a self-portrait. All of the towns<sup>1</sup> received this questionnaire and nearly 40% of the local councils completed it. This can be considered a very good representative sample.

In Hungary there is a political and economic system change. One of the main ideas is the forming of a market economy. Enterprise is a category in market economy. Relations between the local councils' economy and the enterprise as a possible source of supplemental methods will be studied here. First existing forms will be presented, then the barriers of enterprises and finally the possible trends of the near future.

### ABOUT THE LOCAL COUNCILS' ENTERPRISES

#### *Antecedents*

Enterprise as a word was a dead, a forgotten, a non-used word until the 1980s in Hungary (and Eastern Europe). Although many enterprises worked in the agricultural co-operatives as complementary activities—sidelines<sup>2</sup>—in the 1970s, the word became known again only at the beginning of the 1980s when the new small enterprises could be started. The spread of the new small companies was very fast in construction (particularly in planning), in commerce, in service and in computer technics. From the middle of the 1980s we could hear more and more about small enterprises. Small companies joined the local councils as well.

Enterprise and local council? Risk taking and administration? It is a very interesting question. It is one step in a long process. The "motive" of this process has been the lack of capital.

In the 1970s many agricultural co-operatives having bad land situations needed a complementary activity to survive. The basic activity was often sustained by complementary activities.<sup>3</sup> The economic crisis started at the beginning of the 1980s. Private capital had to be injected into economy. Private small enterprises could act in this way in 1982.

Meanwhile, the public budget deficit was continually growing. Therefore, local budget was under hard restrictions in 1986 and 1987, and, at the same time, it received more freedom to "make money". So the local council's enterprises cannot be considered as a result or a merit but a compulsion.

#### *Change in the regulation of local council economy*

Modernized regulation of local council economy started on January 1st, 1986 gave freer movement to local authorities: creation of the homogeneous fund involved the function as well as the development fund (so it was possible to rearrange these funds); moderation of the controlled management of local budget; free spending of "interest incomes"; freer loan raising; the possibility of bond issue etc. Later there was a chance to join an economic company, then at the end of the 1980s the "Economic Company Law" and the "Economic Transformation Law" were created.

How did town authorities utilize the new possibilities and what were their effects on the local budget? Changes in the "interest incomes" theoretically give an answer to these questions.

Our basic idea was that council and institute enterprises give the major part of the growth of "interest incomes". For its sake we have to investigate the structure of this source group or to map the local council's existing enterprises. There is a scarce information about the structure of the "interest incomes".

#### *The questionnaire about the council's enterprises*

Our questions were the following:

1. What kinds of enterprise were found by the local authority?
2. What kinds of enterprise were found by the institutes of the local council?
3. Did the local authority take the initiative or join the establishment of joint venture before the existence of the "Economic Company Law"?
4. Did the local authority take the initiative or join the establishment of joint venture after the "Economic Company Law" had been passed?
5. Is there any establishment of company by the local authority going on?
6. Did it try to attract foreign capital?

On the basis of all the answers received it can be ascertained that more than half of the towns took the first steps towards enterprises. But if answers are investigated in detail, it can be seen that the number of real, existing enterprises is very few. Only four councils had three or more positive answers to the questions.

Some statements regarding the answers:

1. The local councils' characteristic enterprises are: contractual operating in some areas of local communal tasks and job creating investments.
2. The institutes' characteristic enterprises are as follows: utilization of their free technical capacity (machines, equipment, rooms etc.), "own overhead" investments (for example their own technical group for the maintenance), letting rooms in student hostels (during holidays) and organizing different courses (language, swimming, cooking, typing, using the personal computer, yoga, autogen training, sewing etc.).
3. Joining an economic company was accidental. It is proved by seven examples which were received from the councils because these cases belong to different branches: the work of a butcher, the establishment of a holiday-village, the foundation of a yacht harbor, the development of a phone network, organizing transactions, the building of a petrol station.
4. Councils prefer the limited liability company (KFT) and corporation (RT). They have taken as apport money in 70% into the companies. (This sum of money was less than 3 million forints in all cases.) The council generally does not launch an enterprise but it becomes a partner.
5. The aim of the establishment of enterprises is mainly to create jobs. The characteristic areas are tourism and local media (printing and newspaper publishing companies).
6. Information about planned joint ventures was very scarce. The main barriers of these are the lack of infrastructure and the chaotic situation in land ownership.

I think the local council's enterprises are in an embryonic state, so they have not got a strong weight in the local budget.

## BARRIER FACTORS

### *In the questionnaire*

In spite of the legal possibility, many factors hinder the development of the councils' enterprising activity. The survey on personal opinion was concerned with this problem. (Table 1) Councils listed the three main barriers in "open questions".

"Lack of money" and "want of capital" are considered the gravest barriers (41% of all the answers). The proportion distorts upwards a little because in 15% of the answers the "want of capital" was identified in the first place but in these cases the second and the third factors have not been printed. In 5% of the answers the "want of capital" has been written to all the three points.

The following five problems were named as a second barrier in a similar proportion: “want of capital”, “dissonance of the regulation”, “lack of the enterprising vocation” and “the scarcity of specialists”, “lack of information and experience”. Among the barriers having been identified in the third place, the “lack of enterprising vocation” appeared in a higher proportion.

Besides the most important factors, there were other causes on the list as well but the frequency of these factors did not amount to more than 4%. (Table 1) Some of these answers are shown in the following:

- “The personal composition and educational level of the present administration are not suitable for these tasks.” (graded answer for the fourth-fifth places)
- “The preparation of a decision is very long and bureaucratic because of corporative hierarchy.” (sixth-seventh places)
- “There is not a financial source in the budget expenditure large enough for the enterprises. Enterprises need more and more money each year but they have given little back until now.” (eighth-ninth places)

**TABLE 1**  
*Barrier factors of local council enterprises*

Barrier factors in order of importance	Altogether, %	1st	2.nd	3rd
		place factors in percentage of all answers		
1st Want of capital	41	33	5	3
2nd–3rd Regulation	12	3	5	4
Lack of enterprising vocation	12	1	5	6
4th–5th Lack of specialists	8	2	5	1
Lack of experience and information	8	—	5	3
6th–7th Bureaucray	4	—	2	2
Rural localization	4	—	2	2
8th–9th Lack of self-government property	3	—	3	—
Low return	3	—	—	3
10th–11th Lack of infrastructure	2	—	1	1
Lack of enterprise areas	2	—	—	2
12th Lack of partner	1	—	—	1
Altogether	100	39	33	28

Source: *Survey results*

*The opinion of the Veszprém county council*

The council of Veszprém county has carried out a total fact-finding investigation about the enterprising activity of local councils. It is worth comparing the barrier factors mentioned in that investigation with the answers in our questionnaire.

The local councils of Veszprém county considered the "underdeveloped infrastructure" as the greatest barrier. But in our questionnaire this factor is mentioned only in the tenth-eleventh places. The "want of capital" is the second cause in the council's report, while in ours it is the first. The "low return of capital" is regarded as the third most important problem by the councils of Veszprém county. (In our research it is in the eighth-ninth places.) The proceeds of the enterprises of the councils in Veszprém county is 2 or 3%. At the same time, the interests of permanently fixed deposit—for three to six months—was nearly 14%.<sup>4</sup>

"Lack of experience" is put in the fourth place in Veszprém county (just as in our questionnaire, where it is in the fourth-fifth places). In their opinion, on the one hand, the council has not got enough practice in the enterprise law, and, on the other hand, they have no international experience, and there are very few council workers who are able to make transactions in foreign languages. The "retarding force of the risk" is mentioned as a substantial factor, too. This element is reflected in two answers: "There is no safety" and "The body and leaders of the council must not hazard the sources of the commune".

*Another point of view*

In my opinion the hindering role of the "lack of money" is overstated. The main barriers and equal factors in my view are the following:

- (1) The lack of the mobilizable self-government property and assets.
- (2) The lack of human capital and specialists.
- (3) Non-organized and uncompleted enterprise organizational system and jurisdiction.

(1) The "appraisal of property" is in an embryonic state. It concerns both the real and the landed properties. These are important questions because the very essential aim of the local self-government is increasing the settlement's wealth, namely founding resources for the development of the settlement (it means investment or a higher level of function). It is in close connection with infrastructure. The lack of proper infrastructure prevents the settlement from running any enterprises.

(2) A business attitude differs from the earlier budget deal situation. It means different human relations. There is the need for manager-type people who are skilled in business negotiations. Now only very few presidents and secretaries of the councils or heads of departments can take up such a role.

The "lack of experience", information and knowledge of foreign languages are in

close connection with the above mentioned problem, too. The last one, the lack of knowledge of foreign languages, has special importance when councils are planning to initiate foreign capital into enterprises.

(3) There are enterprise groups or enterprise specialists within the scope of some local councils already. They execute tasks as part-time-employees. 35% of the councils plan to employ an enterprise specialist or to organize an enterprise team in the future but 53% of the local councils do not plan to run such an organization at all.

Besides the three main factors, regional differences in chances must also be emphasized.

### TRENDS OF THE NEAR FUTURE

The direction to be taken in the near future is determined by the barrier factors: the completion of regulational frames, the formation of organizations and securing of personal pre-conditions. We have to consider the question of self-government property with special attention. The regulations concerning enterprises must be interpreted and published.

Though the germs of institutional system have been formed (i.e. the Exchange), there are not organizations of syndic. According to the two thirds of local councils, especially in small towns, management of self-government property need not be organized separately from the council. They say that it would have rather few tasks. The councils which want separate syndic, on the one hand, think that the councils' enterprising activities will expand, and, on the other hand, they say: "...this activity is totally different from administration".

In the future the council needs "brain workers" who know the new market regulation, who are able to negotiate (even in foreign languages), who know financial processes and the capital market. We have tried to learn from the questionnaire whether the councils need courses to prepare for the future (bond issue, foundation of companies etc.).

12% of the councils answered that they did not consider it important to organize the above mentioned courses. 16% of them thought that such courses are important but they would not need them. The councils which want these courses prefer to get knowledge about the forms, foundation and activity of companies, establishment and activity of funds. Only some of them would like to have information about appraisal and the existing Exchange. This means that the majority of councils would commission outside specialists or organizations to deal with enterprise tasks.

The courses related to the shares or bond issue would be popular, too. I think the local councils consider important the processes of the capital market and the preparations for these processes. In my opinion the listed wants reflect a certain enterprising vocation, and this is a guarantee for the beginning of a change in the local councils' way of thinking and their attitude towards self-government economy.

## CONCLUSION

In my paper it was supposed that council enterprise as a possibility to increase financial resources becomes stronger in the local budget. The questionnaire refuted this theory. Because of the basic barriers (poor infrastructure, lack of self-government property etc.), the lack of experience and specialists, and underdeveloped appraisal, maybe it is better that these council enterprises have not been created in more number.

Finally, the enterprise is just one of the many possibilities—true, a very important one—as a technique for the completion of local financial resources.

## NOTES

<sup>1</sup> In 1990 there are 165 towns in Hungary besides the Capital.

<sup>2</sup> Especially in food industry but mainly around Budapest in engineering industry and even in electronics industry.

<sup>3</sup> The rate of basic activity is under 20% (!) in a number of co-operatives around Budapest and in Komárom county.

<sup>4</sup> It is 32 million forints income from 460 million forints in the case of the local council of Veszprém county.