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**The Role of Hungarian Local
Governments in Local Economic
Development**

**by
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1 Introduction

Local authorities, in a similar way to central governments, operate in an increasingly globalised economic environment. Globalisation has led to a re-evaluation of the local government level and this, in its turn, has been reinforced by the ineffectiveness of central government policy in tackling regional disparities (Campbell, 1990). Meanwhile, local authorities and self-financed developments have come to play an ever-increasing role in the provision of public services.

In this environment a local authority has had to find individual solutions to fit its own strategy, taking into consideration the criteria of sustainability, the need to provide solutions to local employment problems and also the opinions of local residents. It is, therefore, not surprising that *local economic policy became hugely important* in the '80s and '90s.

As a result of these changes, and over and above the influences generated by central economic development, the role of local economic development has also gained in importance.

In addition to the relevant quantity and quality of local resources and to their composition, the success of local economic development depends on the cooperation of those participants who control the resources. Factors such as *coordination and partnership appear to be crucial in local economic development*.

Naturally, cooperation does not mean unconditionally equal status for the partners. The essence is that each participant should carry out his own tasks and obligations in the process of local economic development – to provide sustainable development. The contributor who, under normal circumstances, always participates in such local action is the local authority – which is, in any case, incapable of operating independently of other levels of government and of non-government actors (Bennett–Krebs, 1991).

We have, therefore, selected, from the various local development actors, the actual settlement local authorities¹ to help us in analysing the Hungarian situation, and we have focused on their local development tool system, their economic

¹ The current Hungarian local government system was established under the Local Government Act of 1990. This Act classifies local authorities as: villages (2,883 in Hungary), towns (229), the capital, together with its metropolitan districts (23), and counties (19). The Act defines county authorities (County Councils) as territorial (or area) authorities, which, on the basis of their functions, are distinct from those of settlements. For the purpose of our research, our questionnaire was sent only to local authorities of settlements. Within this group, “towns” can be further categorised as towns, county-rank towns (22) and the capital. The county-rank town – on its own territory and within its own ambit – undertakes county-level activities and responsibilities. Within the “village” category, we can segregate “large villages” (187 in Hungary), a status which might be granted as the first step towards becoming a town for those settlements which satisfied these conditions before 1990 (Data from 2003).

development practice and the country-specific characteristics of their assumption of responsibility in local economic development.

In the present study we offer an overview of the regulatory background relating to the economic development activity of the settlement authorities. In addition, we survey the extent to which local authorities have opportunities to create the conditions necessary for economic development, and, on the basis of the questionnaire used for our survey, we analyse, within this framework, the types of tools, methods and strategies which are widely used – and also those which are more rarely used.

The basic objective of our *survey of the tool-system used in economic development by local authorities* was to analyse the approach of Hungarian local authorities to local economic development in general and to detect the special characteristics emerging in Hungarian local economic development practice.

2 The background to the survey

2.1 Theoretical background

First of all, we need to define clearly what is meant by local economic development, since the literature offers a wide variety of definitions.

In our view, local economic development is a locally executed, conscious intervention which influences the operation of the local economy and where local participants initiate or, alternatively, accept, support and modify external development concepts. In our case this local level is that of the settlement.

In the light of international practice, the form of organisation responsible for economic development can vary over a very wide range from totally community-owned to totally privately-owned organisations. In our opinion, in all cases the initiation should be a community initiative and should be based on community economic policy objectives, since any disparities brought about by normal market reactions can be influenced on the authority of the community. However, public-private cooperation, or even private enterprise, can participate in implementing economic development objectives.

We shall, therefore, analyse only those local economic development initiatives which are approved, initiated and controlled by the elected representatives of the local community. This is the reason for the decision to survey the role of local authorities.

A review of the literature indicates that the execution of local economic development as undertaken by local authorities can be either endorsed or criticised from the point of view of the theory. In the international literature *the question of intervention or non-intervention by the local authority* is not resolved.

Currently there is an ongoing debate about the advantages and disadvantages, and the supremacy of market mechanisms. However, it can also be concluded that *intervention at local level in local economic development has become routine at world level.*

An examination of international practice shows that the problems of local economic development should be dealt with, since, in all countries examined, local economic development interventions concerning the improvement of the quality of life of the local community, the improvement of local development strategies and the rational use of local resources (with sustainability permanently in mind) should have priority. In many cases it can be asserted that local economic development flourishes alongside central institutions, decisions, resources and programmes, although it sometimes occurs that the given system supports the execution of ideas created on a bottom-up basis. It cannot be said that one is better than the other, since everything is either system- or, even, society-dependent.

Defining domestic directions, therefore, depends most of all on the variegated nature of local economic development opportunities – which delivers a productive economic development tool system well-suited to Hungarian conditions into the hands of local authorities.

2.2 The questionnaire-based survey

Our survey was conducted according to the research aims of the National Research and Development Programme – *The competitiveness of Hungarian regions and settlements in the European Economic Area* (NKFP 5/074/2001).

As we were focusing on the issue of local authorities in economic development, our questionnaire was sent to all of the 3,134 local authorities and metropolitan districts. We received 288 valid responses.²

The major economic re-structuring resulting from globalisation and the change of regime has created new tasks for local authorities. However, neither the extent of participation in economic development by domestic local authorities nor surveys of local policies and the changes to the tool-system used at local level have been adequately investigated in the past 10–15 years. Therefore, in our questionnaire we focused on issues which have only an indirect connection with local economic development. In the focus of our research, however, were the economic development tools and practices of the local authorities of the settlements, as a result of which we can see the typical methods and intensity of local authority participation in local economic development.

² See *Appendix I.* for further details about the content of the sample and the methodological background to the survey.

Our research covered county councils and also offered a short introduction to other potential participants in economic development – confirming our opinion that successful local economic development requires the co-operation of many actors. However, the main issue of the analysis – assuming a public-supervised, -controlled and -monitored definition of economic development – concentrated on an examination of local authorities and their attitude to – and opportunities for – co-operation.

From this point on we focus on local authority economic development practice between 1990 and 2003,³ following a discussion of the regulatory background to their activities.

3 The regulation of urban and economic development in Hungary

Even though settlement development is a complex task, there is no comprehensive law which deals with its regulation. Sub-fields within settlement development exist which are not subject to central regulation, but there are numerous elements for which a legal framework has been established by legislation.

3.1 Determining the tasks of local authorities

The Hungarian Constitution contains numerous regulations which directly influence settlement development activity. These caution that property rights should always be respected in the development process and they also set general goals for development – by specifying citizens' rights (*Kökényesi-Madaras, 2002b*). These goals appear in the Local Government Act as mandatory tasks for local authorities, and so these must be fulfilled during the development process.

The Local Government Act does not itemise the tasks that settlement local authorities are obliged or may opt to carry out. The reason for this can be explained by means of one of the basic laws applying to local authorities, under which local authorities are empowered to deal with any local public matter that is not legally assigned to another body. A further significant requirement, however, is that, even if the local authority chooses to involve itself in these such public matters, it should not neglect attending to the compulsory functions and competences assigned to it by law.

³ Occasionally, different time-scales were applied to questions – and so the particular survey period is mentioned in respect of each question. However, the main analytical objective was to track changes following the change of the regime (1990).

To narrow the range of tasks of local authorities, the Local Government Act names *mandatory tasks*. These are:

- The provision of potable water,
- Kindergarten education,
- Primary school education,
- Basic health and social care,
- Public lighting,
- A guarantee of national and ethnic minority rights.

Since the tasks and obligations of local authorities may differ, depending on the size of the settlement, the number of inhabitants and other circumstances, tasks cannot be definitively categorised into compulsory and optional groups: there are tasks which are optional for some local authorities although compulsory for others.

The range of mandatory tasks set out in the Local Government Act – subject to regulatory enactment – may be extended by other, for example, competence- or sector-related regulations. However, an important guarantee of the autonomy of local authorities is that mandatory tasks may only be assigned to them by law.

One of the optional tasks set out in the Local Government Act is that of *settlement development* – which is important for our topic. *However, details relating to the content of settlement development and to the tools intended for implementation have not yet been fixed, due to problems in the regulations which have appeared as a result of the suspension⁴ of the legislation process.*

3.2 Financing local government functions

The functions which a local authority undertakes, if legally possible and considering that it has to give priority to its mandatory tasks, primarily depend on its own revenues and its overall financial situation. Local circumstances limit freedom of choice in selecting tasks, and, whilst it is of great importance to consider the needs of the local population, in the final analysis it is the budget which creates bottlenecks.

It is no accident that the Local Government Law imposes mandatory rules for economic planning: for example, §.91 requires local authorities to formulate an

⁴ It would have been the task of the Act on Settlement Affairs to provide a harmonised regulatory background to facilitate the functioning of local authorities (the Act on Spatial Development required that a separate law should be created to regulate settlement development and its physical aspects). However, in spite of a long preparation period, the bill was not enacted, and, as a result, “the institutional structure of settlement development is haphazard, and its content changes according to momentary sectoral or financial interests” (Kökényesi, 1997. p. 268).

*economic programme. The content of the economic programmes, however, is left to the discretion of the local authority by the legislator, who does not prescribe any mandatory elements, and there are no special background materials available to help in compiling these programmes.*⁵

Central budgetary rules set budget limits for a given year for local authorities. This produces its own planning difficulties and, arising from the characteristics of the local government financing system, significantly restricts the operative scope of local authorities. The Public Finance Act and the Public Procurement Act also have to be complied with when financing operative activities and settlement development, and the freedom of local authorities to decide which economic activities to perform is limited by these two Acts.

Settlement authorities are able to manage with relatively greater flexibility the size and range of their own revenue, which makes up 25–27% of all local authority income (Dobos–Szelényi, 2004. p. 945.). They are allowed to set the price for the use of public services according to their tariff principles, and they are free to choose the type of tax and the rate at which they levy this tax within the limits laid down by the *law concerning local taxation*. “Own revenue”, particularly that raised by local taxation, is a significant resource for local development, and so it was most significant that modifications to the Act – in the light of the need for legislative harmonisation within the EU – narrowed the scope of local authorities in respect of the Local Business Tax. Local authorities are not allowed to exceed the levels of exemptions and benefits set by law.

The funding of settlement development is a delicate issue in itself, since *there are no direct, comprehensive central funds for settlement development; local authorities must raise the money either themselves, or from external sources (tenders involving private capital) in order to realise developments.* Target regions and allocations of central development funds are always determined by *annual budgetary law*. It is, therefore, difficult to plan ahead, and, in most cases, it is not statutory.

The majority of *spatial development decentralised funds* finance settlement development projects, and so the main issue is which objectives are supported by county and regional development councils in that particular year (taking into consideration the related central rules), and how government regulations control which authorities are entitled to use the funds.

Targeted, earmarked subsidies comprise a significant settlement development resource, and so, when compiling regional development objectives, what should be considered is the types of development which Parliament will support in the annual budget, and under what conditions – in accordance with the National Spatial Development Concept (Kökényesi–Madaras, 2002b).

⁵ The regulation has changed from 2006.

3.3 Settlement development planning

For local authorities there are numerous statutes which prescribe the mandatory preparation of plans, concepts and programmes in relation to settlement development planning.

The first of these to be highlighted is *building regulations*, which contain strict rules concerning the planning of the physical side of development.

Building regulations define the basic concepts connected to the planning of settlement development and they also set out the tasks of local authorities in the physical part of settlement development. As physical settlement development plans are based on settlement development concepts, building regulations essentially prescribe the creation of such a concept for local authorities, although none of the regulations actually lays down the content.

Although it is true that, in 2002, the Settlement Development Office of the Home Office finally issued at least recommendations for the structure of settlement development concepts, the almost 50 pages of the “perfectionist” document provides only a pattern for drawing up plans, and, moreover, mainly for larger towns (*Kökényesi–Madaras, 2002a*).

By way of comparison, *the physical development of a settlement is one of the well-regulated local planning tasks*. The local authority assembly has the physical development of a settlement elaborated and adopted in terms of:

- the settlement development concept,
- a settlement structure plan based on this settlement development concept,
- local building regulations and regulation plans based on the settlement structure plan.

An important legal statute lays down that several settlements may collaborate in settlement development projects of common interest.

It is self-evident that plans need to function effectively; and that, in consequence, they should be constantly reviewed and updated. In fact, the building regulations require the preparation of physical development plans for the settlement based on the settlement development concept to be completed within a specified time, although non-compliance with these legal requirements does not incur sanctions.

It is understood that the more significant development undertakings and investments usually require settlement structure and regulation plans (*Kökényesi–Madaras, 2002b*). The same tendency is evident with EU and national subsidies, as the requirement of the physical development plan may be stipulated in the tenders by those allocating the resources. Likewise, other action and financial plans, together with sectoral and functional concepts can also be prerequisites.

Environmental protection laws define important rules regarding the planning process and methods. Article 27 of the Law states that, for the sake of the coordinated protection of the natural and man-made environment, *in regional development concepts the expected environmental impacts of physical development plans at regional and settlement level should be disclosed during the preparation process and subsequently evaluated. The necessary environmental protection measures should be defined in an environmental chapter or in a separate environmental protection plan or programme.* Settlement authorities should enforce the requirements of environmental protection in their development process and they should assist in the improvement of the environment.

For environmental protection, the local authority should develop, and have approved by its assembly, *a separate settlement environmental protection plan* for its area of competence – conforming to the National Environmental Protection Programme, which is updated every six years, and to the physical development plan for the settlement.

The local authority ensures the implementation of the tasks defined in the settlement environmental protection programme, even by the creation of individual local authority regulations, in the process of formalising the physical plans for the settlement and making any other decisions. However, the environmental law also makes it possible for local authorities to draw up a common environmental protection programme.

Numerous other laws also contain important rules connected to settlement development which restrict physical development, although some impose development obligations on local authorities. Here we refer to a non-exhaustive list of laws relating to arable land, forests, national monuments, mining, environmental protection and the protection of the cultural heritage (*Kökényesi–Madaras*, 2002b).

4 Economic development practices of the Hungarian self-governments

In the subsequent part of the study we undertake the presentation of the results of the above mentioned empirical research. The circle of self-governments represented the survey consists of 288 municipalities returning our questionnaire.

The questionnaire was focused on the practice of *local economic development* by pointing out the topics below:

- Planning,
- Financing,
- Business development,

- Partnership,
- Institutional system,
- Infrastructure development.

This chapter is based on the results of empirical research, comparing them with other data and information – trying to enlighten the most important aspects.

4.1 Planning of local developments

4.1.1 Preparation of plans by local governments

As we presented above, there are several types of plans, strategies, concepts and programmes which must be prepared by local governments, a number of them are encouraged or required by the application requirements of different supporting funds and a number of plans are being prepared on a voluntary basis⁶.

Based on the above paragraphs we postulated that in the case of all larger and small towns we will find at least one type of planning document establishing the settlement development, or minimum one programme orienting the economic management of the self-government. Further we supposed that in the case of smaller settlements the planning activity rate will be lower.

Since the legislator did not lay down the formal, technical and professional requirements even in the case of compulsory planning document types it is possible that the persons filling in our questionnaire devote the same name to different documents with completely different content of completely different quality. Thus we cannot conclude from the number and type of prepared documents how far these are able to orient the local decision-makers in reality and to what extent the frequent revision of those plans is carried out, respectively what is the proportion of plans prepared for the desk drawer.

Figure 1 shows the planning practices of Hungarian settlements of different number of population in the survey period of 1990–2003.

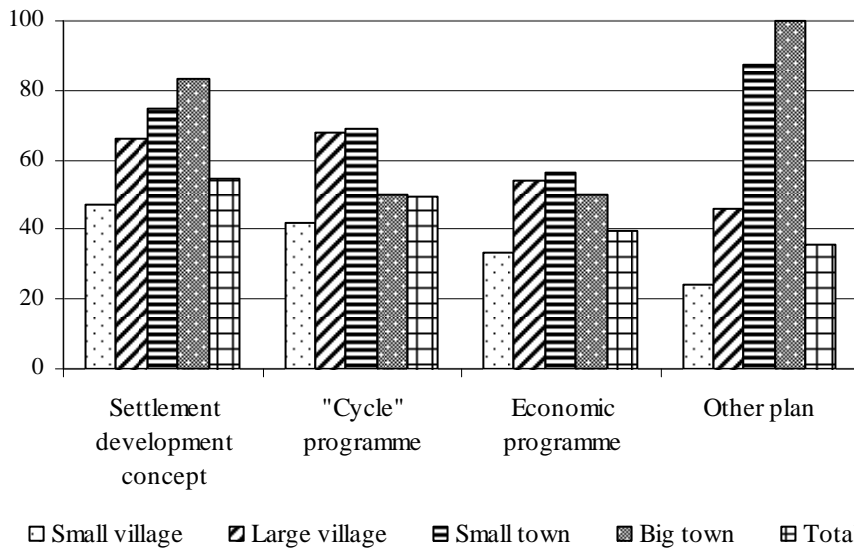
While the settlement development concept as a part of the physical plan is available at the majority of settlements, concretely at 54.5%, only 40% of the settlements (50% of the big towns, 56% of the small towns, 54% of the large villages and 33.3% of small villages) have prepared the so called economic programmes which are also specified by the law. Twenty-eight per cent of the sample settlements have both compulsory plan types, i.e. the settlement development concept and the economic programmes.

⁶ The definition ‘plan’ is used as a collective term. It involves all concepts, programmes and plans that the body of representatives commissions and approves. We indicate in the text if we mean any concrete type of plan.

The situation is more advantageous if the so-called cycle programmes are considered, which on the other hand – due to their form and period – are unable to provide for a basis for the longer term economic planning. Also in this case the smaller settlements injure the average.

Figure 1

Planning practices of settlements in percentage of the participating settlements, by size categories



Source: Own construction.

The plans concerning other areas of economic development and implied in Figure 1 are detailed in Figure 2.

The majority of the 103 local governments preparing “other” plans implied more different types of plans in the questionnaire, while 36% of them reported on the preparation of one type of planning document.

The coexistence of plans has a kind of thematic interconnection characteristic. The significant part of marketing concepts is connected with tourist programmes. The majority of business development plans is supported by an economic development plan, and the employment concept shows a close relationship with the other two. These interrelations may not carry any surprising information if only that in some cases it is hard to understand the existence of two or three plans with the same or similar functions. It is especially true for the tiny settlements, where the preparation of a “complexity” of economy does not require the preparation of many divergent plans.

Figure 2

Other plans of settlements concerning economic development, pieces



Source: Own construction.

The most frequent type of plans is the tourism concept and the housing concept. It is obvious that the adherent behaviour of the municipal self-governments contributes to the dominance of these two fields and in the previous two years the attachment of the majority of central development resources to these two objective areas and the announcement of tenders also influenced the preparation of local level plans.

The uniform impact of the central development policy may be blamed for the orientation of the functional and sectoral plans on one or other target area, since in the lack of development resources the actual support priorities define the development target areas in the case of several settlements (see *Figure 10* below), similarly a further reason is the general condition of self-governmental economic management. However in the background a continuously deepening problem is the lack of territorial co-ordination in the course of definition of local development directions. With the help of territorial co-ordination parallel developments and developments disqualifying each other could be avoided.

Turning back to *Figure 2* the frequency of economic development plans and related business development and employment plans implies that several settlements attach special importance to the preliminary, complex planning of municipal economic interventions by the self-government. This fact is also important since strategy making has a key role in the European Union's support system for local initiatives.

It is clear that *the complex support of local economic development initiatives (especially the treatment of employment difficulties) is a more and more accented element of the European Union. The appropriate planning will be unavoidable in the future in order to acquire resources from the European Union, and therefore the solution may be the preparation of complex local development, economic development, business development and job-creation programmes, respectively the promotion of the local support of such programmes as well as the promotion of the evolution of partnership.*

The local governments have listed among the other plans in *Figure 2* concepts about infrastructure development, education, estate management and institute development, most of them concerning the base tasks of settlement governments.

Only three settlements indicated the making of environmental protection concept taking economic claims into consideration (see other plans in *Figure 2*). We did not ask local governments about environmental protection concepts, on the other hand it is to be feared that many of local governments do not make this type of plans.

We may come to the conclusion that local governments must emphasise the protection of environment, for example by planning. It is especially true because of the membership of European Union, since in the present programming period the EU lays stress on subsidy of development strategies which follow environmental needs. In the present programming period that began in 2007, the reduction of local developments' negative environmental effects became a more emphasised part of EU's policy (EC 2004). Justifying these, in the European Commission's *Third Cohesion Report* we find among the most important tasks the sustainable development, and among the planned cohesion priority the protection of environment and the risk avoidance too (*Horváth, 2004*).

Summarising we may state as regards municipal planning that *the smaller communities stay away as regards the frequency of planning. The larger towns on the other hand are in the vanguard of preparation of development plans* (such as settlement development concepts and economic development plans).

However at this point it may be misleading to draw conclusions from the number of plans to the presence of a strategic approach. Nevertheless the fact that only 28% of the sample settlements have fulfilled their planning obligations set by the law in any case bears information.

It is also remarkable that among the settlements having prepared more different plans we can find tiny settlements and large cities, while *the settlements having no plans at all (55) are solely those with municipal status, and their majority are tiny villages.*

Planning is – visibly – becoming more and more accentual, therefore it is possible to device significant advantages in the settlement competition with appropriate planning routine, but in this case the simple observation of regula-

tions is insufficient for the municipal self-governments. The preparation of development plans and the actualisation of physical plans in accordance with the regulations *require expertise, appropriate planning teams, sufficient planning mechanisms and reconciliation mechanisms* etc.

The question who should prepare the plans for the local governments may raise as a significant problem. While in case of the physical plans the circle of planners (plan-makers) is fairly well defined and regulated, development type of plans may be prepared practically by anyone (without any professional or practical background). Although the strict setting the circle of planners would violate the planning freedom of self-governments, the preparation of an *expert list* and a *form of a recommendation* could improve the quality assurance.

Moreover, in the interest of the continuous actualisation of plans and the enforcement of the content of plans the employment of *an expert in planning strategy building* by the self-government or by the association of self-governments would be suitable.

However the first and most important task in terms of planning activities is *to develop economic planning to a general practice*. This could reinforce the feasibility analysis of every local development. Also, it could *domesticate a kind of strategic thinking*, which could effectively support the preparation of further plans. The regulation of preparation of economic programmes as a compulsory activity brought – obviously – no success, therefore the introduction of such supporting activities as assistance, recommendations, increased monitoring and holding out the prospect of sanctions would be necessary.

4.1.2 Designation of local development direction

4.1.2.1 Involvement of local enterprises in the designation of local development direction

During the research of local economic development activity the local actors' role in the designation of development directions and making plans is a relevant question. *The wide reconciliation of development concepts during the planning procedure can conduce to the viability, the social acceptance and the financial support of several projects.* From this reconciliation procedure we analysed only one actor's, namely local entrepreneurs' role – on the other hand we are aware that local economic development has a lot of actors beyond settlement governments and local businesses (Mezei, 2003).

Sixty-four per cent of municipal self-governments request the opinion of *local businesses* prior to the formulation of local plans. The chance for taking local businesses' opinions into consideration during the planning procedure grows

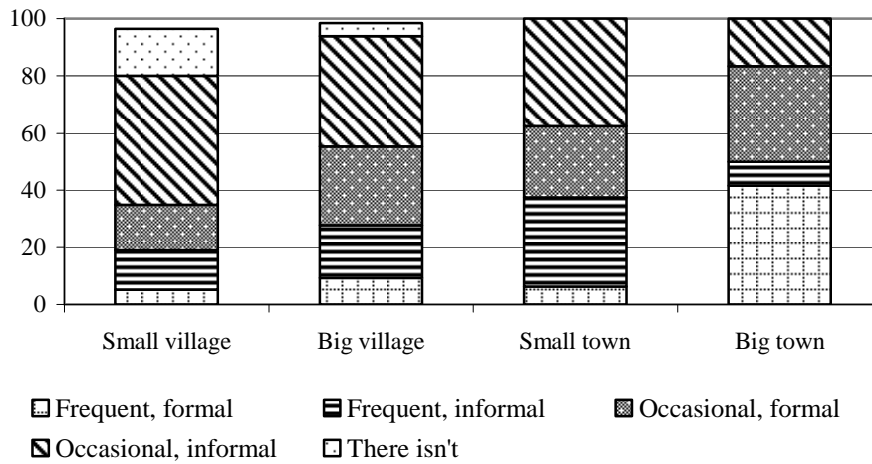
proportionately with the settlement size. From 76 settlements that gave negative answer (from which 80% are small villages), at 65 settlements the number of private entrepreneurs per thousand head was less than the national average, and at 71 settlements the same index of companies did not reach the national average. It was found that *the characteristics of partnership of local businesses and the role of enterprises making local concepts are dependent on the settlement size and the number of local businesses. When we are talking about the local actors' involvement in the course of making local strategy, important factors are the social feature and the composition and the partnership-making ability of local governmental management.*

We did not ask how the local governments were doing the partnership-making exactly, but we analysed the business partnerships' formal/informal and frequent/occasional features (see *Figure 3*).

Twelve per cent of settlements answered that there is not any partnerships. In the towns the lack of partnerships did not arise as a problem, but sixteen per cent of small villages had no business partners. Forty-two per cent of big cities have frequent and formal, other eight per cent of big towns have frequent but informal partnerships. Half of big cities are making only occasional partnerships with the local businesses. *The smaller the settlements, the more dominant role the occasional partnerships play, as regards the frequency of co-operations.*

Figure 3

The partnerships within local governments and regional businesses in percentage of the participating settlements



Source: Own construction.

Not considering the large towns, the frameworks of frequent and formalised partnerships have not yet been established within the self-governmental structures in general. The ad hoc opportunities for expressing opinions cannot appropriately guarantee the full support and acceptance of local development initiatives by the local business sphere and their integration into the local economy.

The owners and size of local businesses do not exactly determine the local economic development activity, since the mayors of the participating settlements referred to the location of such multinational businesses that influenced the local development targets with their own activity, and there were such cases when local firms remained outsiders and did not co-operate with the local governments. The answers of SMEs out and away depend on the characteristics of local society, but there are other factors too, so *the categories of local businesses do not make exclusive discriminative criteria when we talk about the intensity and the highlights of the co-operation between local governments and local businesses.*

4.1.2.2 Determinants affecting the designation of local development directions

In the course of the inquiry of the local planning practice we attached importance to the assessment of the weight of certain *determinants affecting settlement development* in the process of the designation of development object areas – based on the estimation by the mayors. The mayors had to classify the seven impacting factors mentioned given by us on a scale of five degrees implying the supposed volume of influence and setting at the same time the order of rank of the factors. In the settlements of different size category there were differences in both rank order and average values (*Table 1*).

The global order of rank was identical with the order of tiny municipalities, obviously resulting from their weight. *The transport-geographical situation has a leading role in all four size categories. The actual priority system of the governmental support policy took the second place while the status of local physical and human resources was mainly placed on the third rank. The opinion of the larger towns differed from the main trend since they considered the quality of local resources a more significant element than the governmental support policy. This approach may obviously be attributed to the existence of own resources,⁷ to the better financial deposits and to the better opportunities in terms of acquisition of external resources.*

The economic structure of the settlements received the fourth place in the global rank order. The smaller towns graded it prior to the local resources. Possibly this settlement category is not able to become a territorial economic centre

⁷ Only if we look at the amount of the money: as regards the proportion of development expenditure within the total budget, the big towns are in the worst situation (see *Table 3.*).

due to its size, since the propulsive sectors, innovations are concentrated in the larger urban centres and therefore in the smaller towns the treatment of problems deriving from the inherited and “forced” sectoral structures, the promotion of restructuring and the elaboration of new, supporting strategies have a stressed mission. There are at the same time a number of counter-examples, since some small towns were able to exploit the advantages arising from their location or the existence of other factors of attraction (such as the proximity of the state borders or a motorway, etc.).

Table 1

The order of determinants of identification of local targets and development directions by their significance based on the opinion of the mayors – in a breakdown by size category

	Small village	Large village	Small town	Big town	Total
Transport geographical situation	1.	1.	1.	1.	1.
Support policy of the government	2.	2.	2.	3.	2.
Local resources	3.	3.	4.	2.	3.
Economic structure	4.	4.	3.	5.	4.
Development level of the regional economy	5.	5.	5.	4.	5.
Settlement size	6.	7.	7.	6.	6.
Competitiveness of SMEs*	7.	6.	6.	7.	7.

* Small and medium size enterprises.

Note: by arithmetical means measured on a five-degree scale.

Source: Own edition.

The smaller towns can in their strategy building rely preliminarily on the local SMEs, and this is the reason why this factor received an extremely high value in their case. In case a provincial town cannot get into the advantaged areas of globalisation it will be forced to find the links on its own. In terms of economic basis this mainly means the establishment of supplier networks and promotion of a competitive basis of SMEs and therefore the performance of local SMEs may receive special importance. A further important factor is the possibility of acquiring supplementary (government) support and due to this fact the small towns attached the greatest importance to the level of economic development of the region.

4.1.2.3 The effects of regional differences

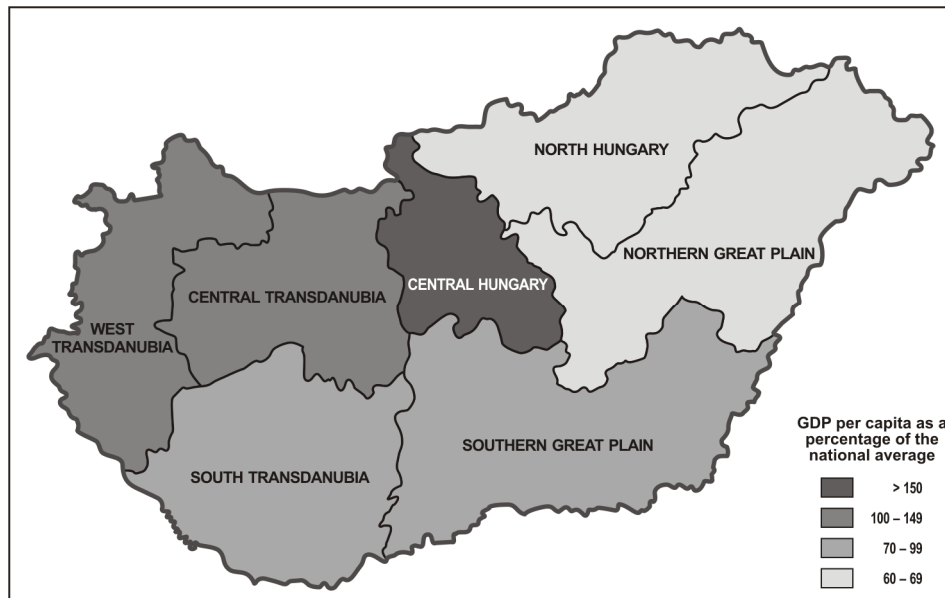
The question when we research the determinants of identification of local targets and development directions is whether there are any differences among the answers of settlements in developed and underdeveloped regions.

In the underdeveloped regions the GDP per capita is less than the 75 per cent of the national average, accordingly South Transdanubia, North Hungary, Northern Great Plain and Southern Great Plain are the underdeveloped, while Central Hungary, Central Transdanubia and West Transdanubia are the developed regions⁸ (Figure 4).

First we must talk about the transport geographical situation. Because of special industrial and infrastructural development practices, which were coherent factors in Hungary in the past, in the country the infrastructural differences come forward mainly not at regional level (Figure 5), but as village-town conflict or question of proximity to motorway etc. For all regions and micro-regions the main problem is the lack of good, appropriate or essential infrastructure. For this reason the transport geographical situation was ranked at first place in our questionnaire.

Figure 4

GDP per capita, 2001

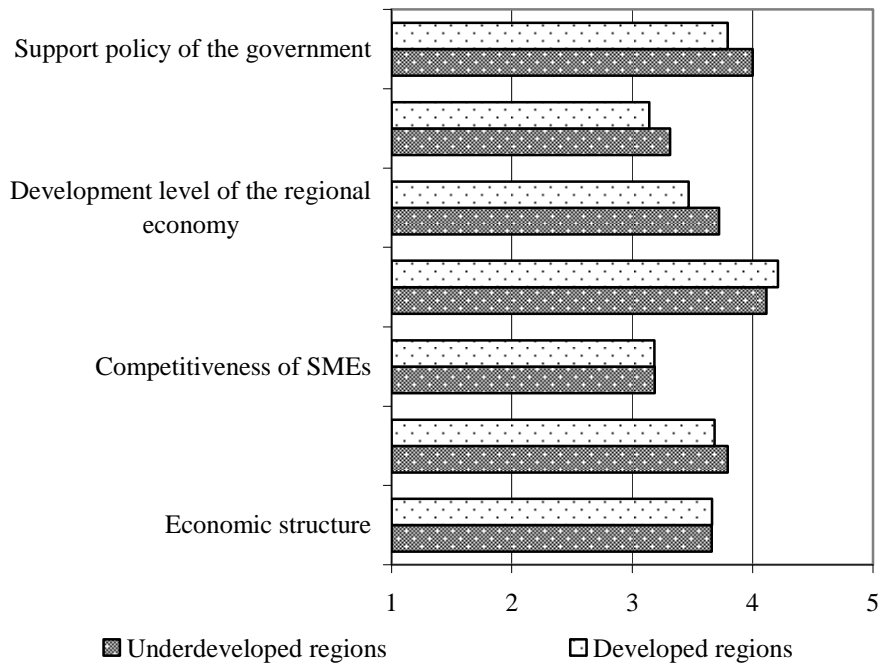


Source: by KSH, 2003. Constructed by Valéria Fonyódi.

⁸ In Hungary there are no administrative, only planning-statistical regions.

Figure 5

*The rank of the factors effecting local development targets, by well developed-
 underdeveloped regions, average values on a five grade scale*



Source: Own construction.

Before the change of regime we had been accumulating huge disadvantages in the settlement infrastructure, and the problem concerning the development of heavy industry was associated with this, because in our days this manufacturing infrastructure is mostly non-usable. Further problems are the regional differences of building modern communication infrastructure and the negative effects of the change of administrative system on the quality of public utilities and so on. From these problems *we focused on the question of transport, because of its perceptible main role*, which was consequently ranked at first place.

It is notable that developed regions show less attention to local resources⁹, and it is not an accident that the endogenous growth model is commonly referenced in local development – related literature as a potential solution for underdeveloped regions, as well as region which are excluded from the advantageous effects of

⁹ See average values (Figure 5).

globalization, and which way therefore only build on their endogenous initiatives (G. Fekete, 2001).

A country-specific feature is that the governmental support policy has important position in the settlement governments' priority. The reason why local development programs are dependent on governmental sectoral, spatial and local governmental support can be found in the financing form of the local government system and insufficient amount of own resources by municipal self-governments. So in Hungary the *classical economic development investments take place to limited extent, and in this process the local governments' role may differ from the Western European and American practice. Furthermore in Hungary the stakeholder settlements are the towns, which have better allocation and financing systems.* It follows that in Hungary the local economic development partnerships have different role, and there are special target areas of local developments too.

First and last we may point out that *in Hungary there are no significant regional differences* in connection with the studied factors (Figure 5).

4.2 Development of local infrastructure

We have already spoken about the special and emphasised role of local infrastructure development in Hungary. This is the reason for the separate study of the local infrastructural investments, the participation forms of local businesses and the local conflict situations.

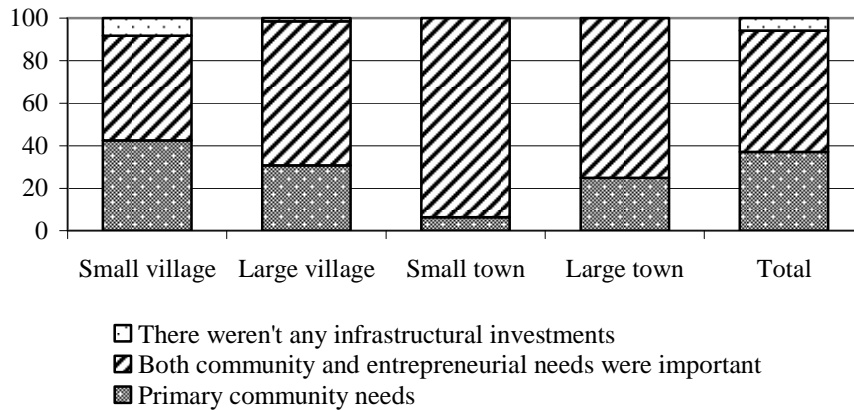
Sixteen small villages and only one big village indicated that since 1990 there has not been any infrastructural investment with involvement of local government. However, 94 per cent of settlement governments have been involved in – at least one – infrastructure development project – but it is not an indicator of success, because of the bad infrastructural situation (Figure 6).

As Figure 6 demonstrates, no respondent signified that meeting entrepreneurial needs could be a primary goal in infrastructural development projects. On the other hand, in the larger size category, the philosophy stressing the equal importance of the entrepreneurial and citizen needs is in the lead. Although the parallel satisfaction of entrepreneur and citizen needs was also leading in small villages, this was barely above the share of municipalities whose sole concern is the well-being of their citizens. This – unsurprising – share can be correlated with the particular role of small settlements, and the lack of local businesses.

Among the local infrastructural development projects aiming at the location of new enterprises, or amending local businesses' conditions there were some investment (6%), which created idle capacity or redundant infrastructure (e.g. empty industrial parks), and there were some “underplanned” projects (4%), where the government had to make urgent additional investments.

Figure 6

Distribution of settlement governments' infrastructural investments by size categories, per cent



Source: Own construction.

Thirty-three settlements of those that had own infrastructural investment indicated that there was local conflict situation during the implementation or after the completion. More than 30 per cent of the towns and less than 20 per cent of the villages mentioned local conflicts (in the towns there were more investments too!).

The most frequent source of conflict was the resident population's objection to the implementation (quality or duration of investment etc.). The next reason was the citizens' disapproval of the local economic development (increasing vehicular traffic, declining road-system etc.). The business conflicts, which are in connection with the lack of infrastructural development, came up only at the third place. From time to time citizens have objected to supplier's or local government's tariff or rate decision in connection with local investments.

To sum it up, 12 per cent of local governments that developed local infrastructure indicated that there was local conflict situation in connection with investments. Most of them came from the citizens' objection, but in a few cases the negligence of the consideration of business needs was a problem.

The quality of local infrastructure and access to it are the main issues in a settlement, so the local business involvement in the infrastructural investments is not a unique answer (Figure 7).

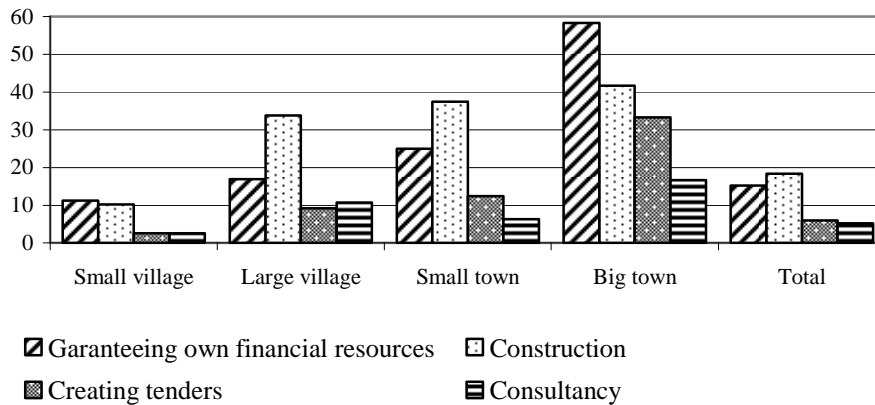
Seventy-three per cent of small villages, 48 per cent of big villages and 38 per cent of small towns indicated that there was no local infrastructural investment

with business involvement. All the big cities have at least one infrastructural development with business involvement.

Entrepreneurial participation in local infrastructure development is atypical in small villages, monetary contribution or playing a role in construction was only found in 10% of settlements in this category. Advisory and tendering activities were even less common. Large villages and small towns reached a similar ranking and shares. In these size categories – unlike large cities – discounted or free construction was the dominant form of participation, the investment of entrepreneurs funding taking second place. Local entrepreneurial participation in the local government’s infrastructural investments was most typical in the large city category, predominantly through own funds or, in second place, construction.

Figure 7

The form of local entrepreneurial participation in government’s infrastructural investments by size categories, per cent



Note: Each settlement could select more then one category.
 Source: Own construction.

4.3 Instruments of business development

4.3.1 Investments targeted at business development

Thirty-one per cent of the involved settlements indicated that the local government initiated since the systemic change investments the target of which was the assistance of the manufacturers and service providers (*Figure 8*). However the distribution by size categories is not even, since while 92% of the involved larger towns and 81% of the involved smaller towns were able to carry out business development investments, this proportion remained in case of the larger municipalities only 37% and smaller municipalities 21%.

It is not surprising that the towns and larger settlements are in a more advantageous situation as regards the active business support policy. The investment types listed by us did obviously not expel the individual solutions of smaller volume since theoretically all types of investments could be fitted at least in the “other” category but the offered options somehow implied that we want to collect information on wide-spread investments forms of larger volume requiring significant own resources. The specification of grandiose investments has possibly disfigured the result since the solutions applied by the medium and smaller size settlements may possibly be abstracted. Nevertheless it is feared that the majority of development resources in the smaller settlements are devoted to correction of the lag in the public infrastructure and accession to fundamental services.¹⁰

The results imply that the implementation of economic development investments was characteristic for larger settlements. Within economic development investments the most popular forms were the creation of industrial areas supplied with public utilities, equipped with the title industrial park but created free from commitments and the purchasing of industrial areas.

The content behind the notions “setting up of innovation centres and the foundation of incubator houses” were – obviously – interpreted differently by the persons answering and therefore we can only be sure that the innovation oriented approach and the support of new businesses is existent in 4 and 16 involved settlements, respectively. While the setting up of an innovation centre is obviously not part of generally applied business incentive strategies, in 60% of larger towns there are already incubator houses operating.

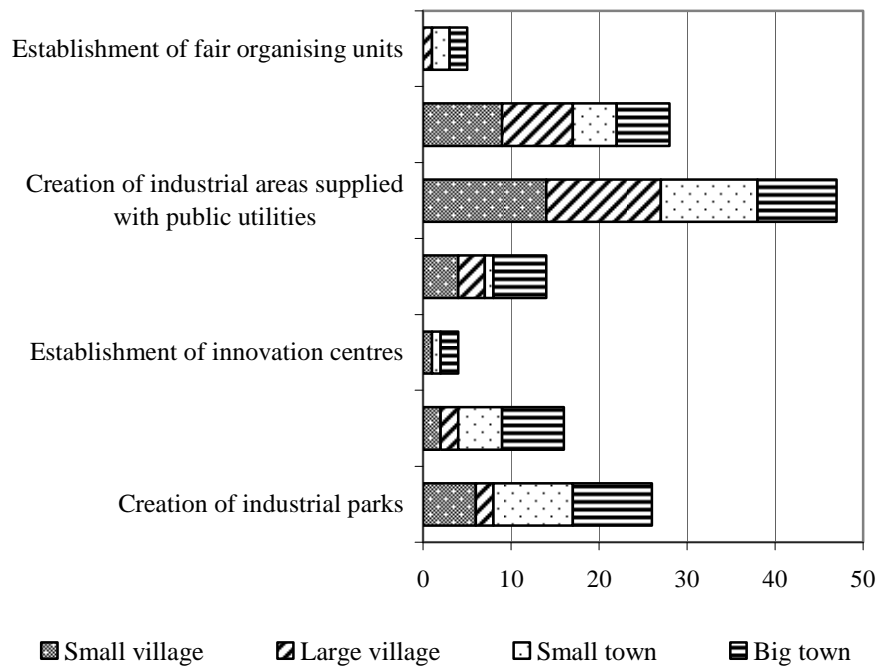
The establishment of fair organising units could be an element fitting explicitly the development strategies of larger towns, and this opportunity even before the systemic change had serious antecedents in the Hungarian larger towns. The

¹⁰ This is why we wanted to get specific information on the major investments implemented in 1998–2002 and proportion of development resources within the total of revenues (see subchapters called *Targeted areas of local development* and *Budgetary sources of local economic development*).

low share may have evolved because we only indicated in our questionnaire the newly founded fair organising organisations. We found examples of investments implemented under the aid of the business development centre in 14 settlements.

Figure 8

Settlements implementing investments targeted at the support of local businesses by size categories (number of settlements)



Source: Own construction.

We also offered the opportunity to mention types of investments beyond the basic categories set by us. In compliance with our expectations mainly the smaller and medium size settlements took this opportunity. In many cases the answers were hard to relate to investments and not appreciable (such as planning and consulting activities etc.). However we can find among the answers activities like preferential utilisation or letting of real estates and the infrastructure development of industrial areas beyond supplying them with public utilities. Considering the larger towns in one case the local government mentioned the establishment of a logistic service centre, and similarly in one case the founding of an innovation organisation and in further two cases the facilitation of innovation and marketing organisation was mentioned in this category.

4.3.2 *Impact of the central government industrial park programme*

During comparison of investment types the influencing impact of the central government *industrial park programme* is definitely apprehensible.¹¹ However, the number of industrial parks does not necessarily reflect the real picture of the success of the industrial park programme, for example there are some empty parks too.

According to the bulletin of the Ministry of Economy and Transport, ten per cent of 160 operating industrial parks had not operated in accordance with the instructions in 2003. These parks may be closed and the subsidies may be returned (GKM, 2004). Until the end of 2002, there were 25 empty industrial parks. However, the operating industrial parks have significant economic role (see employment, export and investment activity of industrial parks) (*Table 2*).

It is not easy to make a balance of the central industrial park policy's effects and success. There are some successful industrial parks (Székesfehérvár, Győr etc.) with best practice of local development¹², and there are some parks with indicators under expectations (Nagykanizsa, Pécs, Dunaföldvár etc.). We already are talking about the problems of empty industrial parks, too. But the labelling of industrial parks depends on the survey aspect and the sensitivity (see *Table 2*).

According to regional distribution of industrial parks we can diagnose that the settlements with industrial parks have a steady distribution, only South Transdanubia and West Transdanubia have lower shares than the national average (*Nikodémus*, 2002). The following important question is raised: does the steady regional location of industrial parks mean that the parks can be successful without the assistance of the state, the host settlement and reception area, or regional dimension can play a dominant role in this field?

In 2000 the Terra Studio Ltd. studied this question. In their opinion there are two dimensions for distinguishing the industrial parks. First we can mention the state of development rank made by different indicators (e.g. number of businesses, number of employees), second we can talk about the settlements' developments rank (population of the settlement, number of employees in the processing industry, accessibility of Western Europe). By the above-mentioned study, *the most developed industrial parks were located in the most developed settlements*,

¹¹ The first industrial parks were established in Győr and Székesfehérvár, right after the systemic change. By the end of the 1990s not only in the northern part of Transdanubia but also in Pécs, Kaposvár, Kecskemét and Ózd the planning of such parks started. The success of the industrial parks made the Ministry of Economy initiate in a tender system a governmental industrial park programme that resulted in the continuous growth of the number of industrial parks year after year (*Kullmann-Hegyí*, 2000).

¹² According to a survey in 1999, all the successful industrial parks were located in the northern part of Transdanubia – these industrial parks were not connected with the governmental programme (*Kullmann*, 2000).

but in these areas were home to less prosperous industrial parks too. In the underdeveloped areas there was not one excellent or appropriate industrial parks (operating with the Ministry's terms: at least 10 operating enterprises after four years of beginning, and minimum 500 employees), but the proportion of empty parks was low too. Accordingly, the sequitur was that *making successful industrial parks without appropriate background is hard, but excellent background in itself is not enough for making well operating industrial parks. The settlement and the area that make the background of the industrial park limit the growth potential of parks, so the less developed areas' industrial parks can develop by special methods* (Kullmann–Hegyí, 2000).

Table 2

Information about industrial parks, 1997–2002

	1997	1998	1999	2000	2001	2002
The number of areas with 'industrial park' title	28	75	112	133	146	160
The total area of industrial parks (ha)**	2,350	4,950	6,790	7,590	8,010	8,570
The number of industrial parks with businesses inside	19	51	56	109	120	135
The total area of industrial parks (with businesses inside) (ha)	1,500	3,200	4,000	5,400	5,650	6,170
The number of businesses inside	320	685	980	1,495	1,760	1,924*
Area fullness (%)	21.5	30.0	34.5	32.9	38.4	39*
Inward investment (thousand million \$)	0.7	1.2	1.8	2.6	4.0	4.1*
The total revenues of businesses inside (thousand million HUF)	620	930	1,700	2,670	3,290	3,500*
Export (%)	83	75	78	83	78	76*
The number of employees (1,000 persons)	27	59	82	110	115	122*

*Estimated value. **In the meanwhile the law of minimum area has changed.

Source: LogSped, 2003.

At this point we have to mention that the central governmental policy with its industrial park programme could appropriately adjust itself to supply central *economic development strategy generally applied by local governments*. However, for the settlement of foreign investors and filling up the industrial parks the sole designation of the territory of the industrial park is insufficient, since the choice of site by the foreign capital is influenced by several other factors too. In this respect therefore the industrial park programme was a bad strategy since the designation of the development area alone is not enough to result in successes in job creation and local economic development, still the tender system could have implied that currently in Hungary the key of success may be the creation of indus-

trial parks. Therefore the programme had besides its undeniable achievements deforming effects, although not only this one factor led to the evolution of the supply-side local strategies.

4.4 The budgetary resources of local economic development

Since in larger settlements the implementation of economic development targeted investments is rather widespread (*Figure 8*) it seems to be a fair question whether the larger towns are also in a better situation as regards the development resources than the other settlements.

If we study the trends of development resources on the basis of the many years stagnant proportion of accumulating and capital type of expenditures by the local governmental subsystem of the state finance, we may come to the conclusion that there is no potential for the facilitation of increased investments targeted at economic development in so far as the basic infrastructure is backward, since the totality of these development resources must provide, guarantee for the own contribution for all local governmental investments (*Table 3*). Moreover, the share of local governments in the GDP has been continuously decreasing in the period of 1997–2000, and has shown a moderate growth in 2001–2002, but it was still short of the 14% in 1997¹³ (*Table 4*).

Table 3

*Development of the accumulation and capital expenses in Hungary
and the sample, * 1997–2003, %*

	1997	1998	1999	2000	2001	2002	2003
National proportion of accumulation and capital expenses	18.2	20.1	17.1	18.8	19.8	20.8	16.5
Share of the development expenses in the sample**	14.2	14.8	15.4	16.5	17.5	***	***
Small villages of the sample	13.8	15.1	15.6	17.6	17.2	***	***
Big villages of the sample	15.0	14.2	16.0	16.3	20.7	***	***
Small towns of the sample	17.1	16.1	13.5	10.7	10.7	***	***
Big towns of the sample	10.6	11.5	12.0	12.3	11.8	***	***

* Compared to all costs. ** Mean values. Only between 1997 and 2001. *** Lack of information.
 Source: Own calculations based on Dobos–Szelényi, 1998. p. 441.; Dobos–Szelényi, 1999. p. 693.;
 Dobos–Szelényi, 2000. p. 789.; Dobos–Szelényi, 2001. p. 763.; Dobos–Szelényi, 2002. p.
 1021.; Dobos–Szelényi, 2003. p. 977.; Dobos–Szelényi, 2004. p. 955.

¹³ This figure reached 16–17% in 1992–1994 (*Illés, 2002*).

Table 4
*Development of the revenues of the local governments compared to GDP,
 1997–2002*

Year	GDP (billion HUF)	Local governmental (GFS system) revenues (billion HUF)	Revenues of local governments in per cent of GDP
1997	8,541	1,200	14.05
1998	10,087	1,340	13.28
1999	11,393	1,499	13.16
2000	13,172	1,656	12.57
2001	14,849	1,904	12.82
2002	16,740	2,181	13.03

Source: Own calculation on the basis of HCSO, 2000. p. 26.; HCSO BCD, 2003. p. 60.; HCSO, 2004. p. 181.; Dobos–Szelényi, 2000. p. 779.; Dobos–Szelényi, 2003. p. 968.

The examination of development resources by settlement size justified that *the larger towns are in this field in a worse situation than the average (Table 3)*. The same was concluded by *Iván Illés* in a comparative analysis in 2002 which was conducted for the towns with county rank. While the share of the towns with county rank in the self-governmental revenues decreased from 25% in 1997 to 17% in 2001, some 20% of the population was living here and therefore the revenue per capita in these towns was below the national average (*Illés, 2002*).

If we accept that the larger towns have less and less share from the decreasing self-governmental revenues while their tasks are not decreasing so they are in a worse and worse financing situation, the result is not surprising that the development targeted expenditure of larger towns in the sample does not even reach the national average. Also in the case of smaller towns we can experience an explicitly declining tendency due to which the proportion of the development expenditure of the smaller towns was even lower than that of the larger towns in 2000–2001. Based on the above data it seems that the “winners” of these changes are the smaller and larger settlements, villages even though the proportions are not suitable for demonstrating all aspects (such as the level of backwardness, the volume of income per capita, the difficulties and malfunctions of servicing etc.).

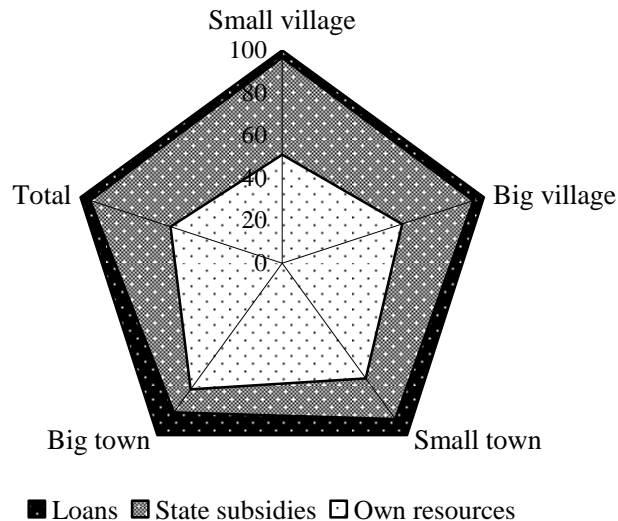
Furthermore it is a very important question in what proportion the own resources are available for financing developments and what is the proportion of state financing, respectively of loans, in the implementation of investments. *Figure 9* implies the division of development resources in the sample and the average division in the certain size categories.

It is clear that the proportion of own contributions is the highest in the larger towns (74%) if all the development expenditures considered and also the loans are the most characteristic here (13%), while the state contributions and subsidies

play a dominant role in smaller and larger settlements, in their case 35–41% of development expenses are financed by central resources. While the larger towns are rather forced to increase their own incomes (due to the mentioned modifications of the central financing), *the smaller and larger settlements, municipalities receive a significant amount of central finances for their larger scale developments.* This fact alone projects the tendency of the structure of development expenditures (Figure 10): *the significant state subsidies are obviously accompanied by the appearance of central priorities in the designation of development directions and vice versa.*

Figure 9

Resource structure of development expenditure in the respective size categories, in the average of the years 1997–2001, %



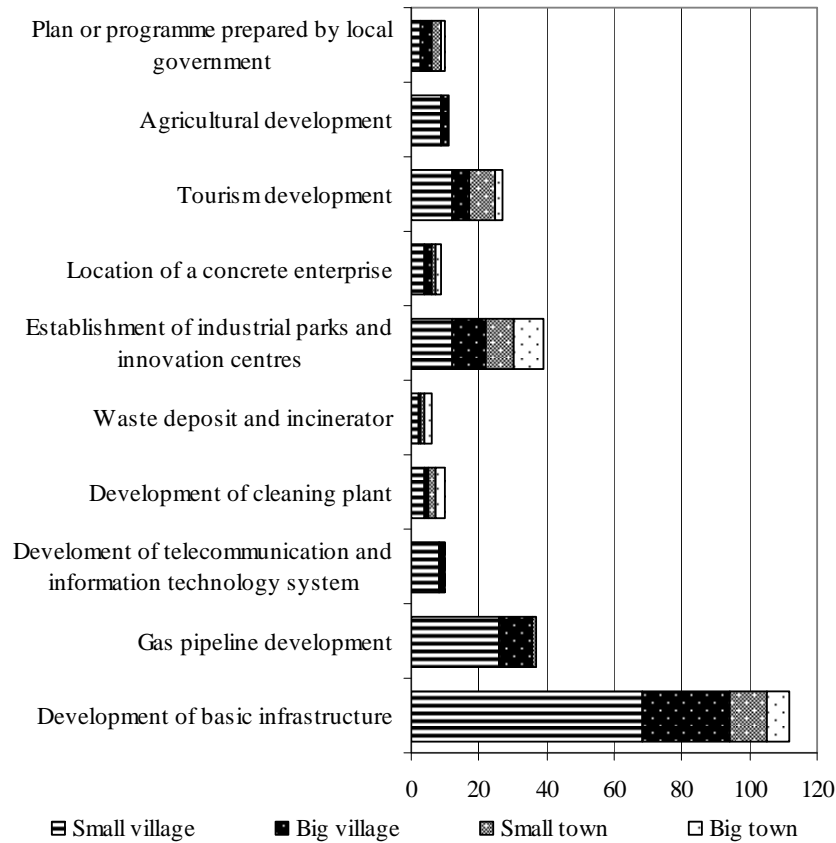
Corrected value, proportioned to 100%.
 Source: Own construction.

The self governments were compelled to borrowing up to 4-5% of their investments' budgets – in the period 1997–2001 – besides the continuously growing proportion of state subsidies and the decline of own resources. However the borrowing with development target is still not of alarming volume but the forfeiture of credibility may result in the decline of developments and *therefore the accumulation of the financing problems (and the multiplying of functional problems) of the self-governance system may have a serious effect on the tempo of settlement development and economic development in the future.*

The tendency of the development expenditure by self governments and the development constraint focus the attention of the municipal management on the domestic and European tenders. Ninety-three per cent of the self-governments gave a positive answer to the question whether they carry out a continuous observance of tenders. The same proportion in the case of smaller towns and larger towns was 94% and 100%, respectively, in the case of larger municipalities 95% and in the case of smaller municipalities 92%. *We suppose that this activity may be of different intensity, depth and techniques but the recognition of the necessity is to be experienced at all levels of the settlement hierarchy.*

Figure 10

Local governmental types of investments with definite economic development target in 1998–2002 – in a breakdown by size categories, number of settlements



Source: Own construction.

4.5 The target areas of local developments

The proportion of state subsidies within the development targeted local governmental expenditures (*Figure 9*) justifies the investigation of the question of *up to what extent the central governmental targets do influence the tracks of local developments.*

The governmental development resources accessible for self-governments through tenders are mainly targeted at compulsory self-governmental tasks, basic services.¹⁴ In the local tier the primary target is the provision for the compulsory tasks and therefore this type of development enjoys priority among the local governmental development priorities, especially if additional governmental subsidies are accessible for this aim.

The impacts of the state supported target system can be detected on the actual municipal development activities (Figure 10). Even though we asked the sample settlements to list the five most important developments from those implemented in the period 1998–2002 as targeted local economic development, the result rather reflects that the persons answering the question comprehended the economic development target fairly wide since besides the development of basic infrastructure even the planning activity was listed as such, and the location of a concrete enterprise did not mean the creation of the conditions of location, i.e. the location of the given enterprise was not accompanied by a real investment. Based on the answers that we received we did not get the information that we expected, but basically this was the point where we could identify the progress in the past 5 years in these settlements.

The priorities in the circles of the investigated state subsidies and the enormous lags in the field of basic infrastructure cause such development “obligations”, mainly in the small villages, which absorb the main part of available own resources. Fifty-seven per cent of the small villages could not indicate any investment activity targeted at economic development at all, the remaining 35% of them spent significant resources on the development of the basic infrastructure. In this sense we considered as basic infrastructure development the renovation or establishment of roads, public lighting, drain (waste-water, drink water, rain) and public institutions. We listed the establishment of waste deposits and incinerators, as well as the cleaning plants separately, since in many cases the precondition of

¹⁴ Those central (governmental or sectoral) decisions that are made with the exclusion of the local tier cannot be considered as local economic development interventions, so we did not consider them in our survey. We only focused on a part of the resources available through tenders, concentrating on the possibilities regularly available during the period of our investigation, i.e. the priorities of addressed and targeted supports, development grants for territorial equalisation and targeted decentralised supports.

these investments is the territorial collaboration, but anyhow an important aspect of consideration is the appropriate and economical size.

In the field of the development of the telecommunication and information technology system a rather vital activity could be detected in the smaller and larger villages, obviously due to their backward or lacking networks and the slower reactions to the new challenges (of the information society). In the larger towns and towns – mainly subsequent to the entry of different cellular phone suppliers and due to the continuous developments by the MATÁV Hungarian Telecom and some other regional service providers – no significant lag could be detected in the field of satisfying the telecommunication network development demands and the establishment of internet connections.

We investigated the investments in connection with gas pipeline developments since these investment types cover such developments that are not in connection with the compulsory local governmental tasks but they at the same time definitely contribute to the improvement of life quality in the given settlement.

However the problem is that the local governments encourage the establishment of gas-pipeline networks for the replacement of traditional heating technologies which further injures the structure of domestic energy inputs, usage. Also the distribution of gas investments by settlement size categories implies that mainly the small and large settlements, villages made efforts in this field in the investigated period – which is not at all surprising.

The agricultural development category concerning mainly the small villages (and occasionally the large villages) includes the purchasing of agricultural machinery by the local government, plantation, purchase of land, and road construction in the outskirts, drilling of irrigation pumps and the draining off of the inland waters. These investments are perfectly fitting into the priorities of local-governments in rural areas and therefore it is not surprising that the larger settlements are not really present in this category.

According to the classification in *Figure 10*, only two categories could match the criterion of *investments directly targeted at economic development* (of course the improvement of the quality of life or the infrastructure development also increases the attractiveness of the settlement but the preliminary target in this case was not local economic development):

- The first category included the establishment of industrial parks and business zones, establishment of innovation or information centres and the provision of industrial zones,
- The other category, tourism development included, besides the lake, bath and pool development, other types of development in the field of tourism industry.

Six per cent of small villages, 15% of large villages, 50% of smaller towns and 75% of larger towns implemented investments belonging to the first category in the period 1998-2000. *These investment types are obviously accessible for larger settlements and regions*, since the quality of local services, the accessibility of the given settlement, the availability of an appropriate size labour market district etc. are as important aspects of considerations when launching an investment as the availability of own contribution. *In case of these investments requiring the appropriate planning of local, regional resources, capacities and effects the cooperation with smaller settlement is suitable not only in the course of procurement of resources but the assurance of optimal utilisation of local resources and avoiding parallel developments and the investments extinguishing each other would be also necessary during the planning phase, the preparation of the regional economic development strategy.*

The tourism developments on the other hand may very well fit into smaller settlements' strategy aimed at diversification or at the creation of economic basis, but in the case of larger investments the introduction of territorial reconciliation would be desirable even in this tier. In this category – during the examined five years – 6% of the small villages, 8% of larger villages, 50% of small towns and 17% of larger towns excelled.

4.6 Local tax policy

The most significant element of the local economic development policy is the taxation policy, since the legal regulation of local governments as well as the act on local taxation provide for fairly large freedom for the self-governments in this field, both as regards the tax assessment and the volume of taxes as well as the application of tax allowances¹⁵.

The tax policy is an especially important element of local policy, since the volume of local tax revenue determines the scope for action of local governments to a large extent, as the amount of their resources available without restrictions is fairly limited, while the state subsidies cannot even cover the maintenance costs totally and therefore the development opportunities of self-governments and the volume of own incomes are often interconnected. It is especially true in the case of voluntary tasks such as local economic development which is really financed by “residues”.

¹⁵ In accordance with the expectations of the EU, the freedom of action of the local governments in matters of local business tax significantly decreased, as the local governments cannot freely give allowances in this tax, on the basis of the act on local taxes.

Municipal self-governments can influence the tax burden of local enterprises and undertakings through the combination of different eligible tax categories and the application of allowances. However it is inevitable that the key element of local taxation system is the so-called trade and industry tax which gives the most significant proportion of local incomes – 84-86% of local tax revenues (*Table 5*), and therefore we have selected this tax category for investigation too.

Table 5

Development of the local tax revenues and the proportion of local governments levying them within Hungary, 1997–2003, %

	1997	1998	1999	2000	2001	2002	2003
Proportion of local taxes within total revenue, %	9.3	10.4	12.9	13.0	13.4	12.8	12.4
Proportion of trade and industry tax within local taxes, %	84.0	84.0	86.0	84.0	85.0	85	85.0
Share of local governments levying local taxes, %	81.0	85.0	89.0	94.0	96.0	97.0	97.0
Share of local governments levying trade and industry tax within all local governments levying taxes, %	57.0	60.0	67.0	75.0	78.0	79.0	81.0
Share of local governments levying the maximum of trade and industry tax within local governments levying this kind of tax *, %	26.0	22.0	22.0	26.0	35.0	36.0	36.0

*Since then both the method of calculation of the tax and the volume of the ceiling of the tax changed!

Source: Own calculations based on Dobos–Szelényi, 1998; 1999; 2000; 2001; 2002; 2003; 2004., different pages.

We paid special attention to the impact of the tax strengths capacity based territorial equaliser system¹⁶ on the local taxation policy, although we do not want to declare that all the settlements where the local trade and industry tax were first issued after 1999, have decided for the taxation of the businesses due to the calculation of the potential tax revenues. In any case it is a fact that in the years 1999 and 2000 the “inclination” towards tax assessment grew and this circumstance can be detected in the tendencies of tax revenues and the number of tax assessing self governments.

At the national tier, in 2002 23% and in 2003 21% of the settlements did not issue local trade and industry tax, while the same value concerning the other tax

¹⁶ It is a central re-distribution calculated on the basis of the potentially collectable local trade and industry tax, designed for the decrease of the territorial disparities.

categories remained under 3%. Switching to the examination of the sample settlements we may state that 19% of these settlements – all municipalities (95% of the small and tiny municipalities) – did not take the chance of the assessment of local trade and industry tax at the time of the polling. In the majority of these settlements (i.e. except for 3 settlements) the number of individual and joint undertakings, businesses per thousand capita does not reach the national average and in 9 settlements there are no joint undertakings at all. The predominant majority of the settlements introducing the local trade and industry tax subsequent to 1999 are small municipalities, villages (78%), and some larger villages and only one town colour this picture. Twenty-one per cent of the sample settlements belong to the latter category.

The majority, concretely 59% of the sample settlements issued in their own administrative territory the local trade and industry tax before 1999. In the case of larger towns this proportion is above 80% in the case of smaller towns 100%, considering small villages 47% and larger villages 74%. The majority of the municipalities considered that most of local businesses are either subsistence enterprises, such as servicing small business, the cessation of which is not at all in the interest of the settlement and therefore they did not assess the local trade and industry tax in lack of solvent taxable businesses. The redistribution of the tax ability based personal income tax has modified the situation to a certain extent, however for the smaller villages it still does not seem to be a real opportunity to acquire revenues from the local trade and industry tax. If there is no subject to taxation the freedom of the municipality remains illusory.

Some 72% of settlements applying the local trade and industry tax, which makes the 58% of the sample settlements, indicated that they exert different types of tax allowances (*Figure 11*). The majority of the settlements have obviously chosen the supply-side strategy in the course of their economic development activities. This means that their primary target is to increase the attractiveness of their settlement for external investors, and therefore it is not accidentally that the tax exemption (fiscal immunity) and the different tax allowances provided for newly settling businesses are fairly preferred solutions. The tax allowance provided for SMEs at the second place and the so called capital investment tax allowances at the third place are targeted besides the attraction of new businesses and enterprises at the maintenance of existing businesses and the support of their developments. Within the latter category the proportion of small villages is fairly high and this is not accidental, since the application of tax policy as investment incitement is not really a mean of development for small and tiny villages.

The different tax allowances targeted at designated industrial areas are applied preliminarily by larger and smaller towns – having mainly industrial parks with infrastructure. Fifty per cent of the settlements possessing industrial parks have assigned different tax allowances to the designated industrial area.

Figure 11

Most frequent ways of tax allowances and exemptions from local industry and trade tax, in a breakdown by legal status, number of settlements



Source: Own edition.

However the above proportions are influenced by the *requirements of the European Union*. In the course of the accession negotiations by the end of 2002 it was clear that municipal self-governments may not provide for local trade and industry tax allowances after 31. December 2007 and even until this date only for such businesses which do not enjoy any corporate tax allowances. These requirements are already included in the local taxation orders in the better case and this means that the local decision-makers were forced to give up the most widespread form of business attraction. The main track after the EU accession and before 2007 will remain *the investment and development tax allowance* which is in harmony with the EU recommendations – focusing on the SMEs. The range of this form of advantage is verified by the fact that *40% of the sample settlements applied it at the time of the inquiry*.

Since the amendment of the act on local tax assessment in 2005, only one allowance may be connected with the local trade and industry tax, the so called tax base immunity connected with the promotion of employment which is not qualified as a state subsidy by the European Union since any person subject to taxation can be the beneficiary of it.¹⁷ When the transitory regulation expires, i.e.

¹⁷ In *Figure 4* we featured the local governments applying employment-related tax allowances (11 municipalities) in the 'Other' category, as this is not a typical form of tax allowance.

from 2008 this form will be the only form of trade and industry tax allowance, moreover withdrawn from the competency of local governments.

4.7 Networking practices

4.7.1 Partnership of self-governments

In the light of the principles of the European Union, in our opinion it is important to take a look at the *enforcement of the principle of partnership and the real inclination, willingness to make partnerships* in Hungary. Therefore first we investigated the forms and frequency of the partnerships by local governments.

Networking

Main forms of co-operation:

- *Co-operation with a general economic target* (such as the harmonisation of the employment policy, job creation policy, measurement of the potential supplier network and available business potential of the region)
- *Cooperation explicitly connected with tourism development*
- *Cooperation, common thinking in the course of public servicing targeted at the maintenance and development of institution*
- *Cooperation in concrete* (and therefore often short term) *programmes* (micro-regional programmes, programmes implemented in the framework of development associations, lobby activities, common tendering etc.)

Forty-two per cent of the total of 158 settlements reporting on regional networking did not indicate the concrete form and field of cooperation. *The most frequent (30%) type was the project oriented cooperation, which is actually encouraged by the majority of regional development subsidies.*¹⁸

The second most frequent form, with 25%, was the harmonisation of developments creating the general preconditions for economic development, and these activities cannot be bound with one single sector. Eighteen settlements indicated the existence of cooperation in the field of service provision, while only the settlements in the medium size settlement category, concretely 12 of them, voted for partnerships in the field of tourist industry development.

Ninety-three per cent of the replying self-governments are members of one or another *national association of local governments*. We can find self governments “absent” from these associations only among the small and large villages.

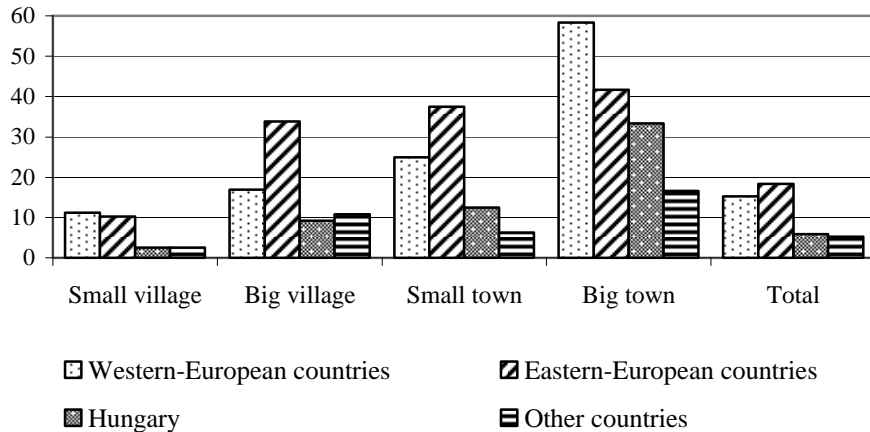
¹⁸ The spreading of these associations was encouraged among others by the fact that in the case of certain state subsidies the territorial cooperations enjoyed priority.

The associative willingness of self-governments is fairly high, 80% of the municipal self-governments are members in a self-governmental association. Concerning the types of associations by their aims, the participation in associations targeted at institution maintenance is at the first rank. Fifty-two per cent of the sample settlements are members in such associations; 48% reported on membership in permanent municipal development association, while only 16% participate in associations connected with one single investment. Twenty-two per cent of the sample has a membership in other types of associations.

Fifty-six per cent of the sample settlements have partnerships with other settlements in the form of “twin town” or “twin village”. International partnerships, especially with European settlements, are dominant in every size category. In the case of smaller towns the weight of partnerships with Western-European and Eastern-European “twin settlements” is nearly the same and those partnerships are characteristic for 10% of the total number of selected settlements, while in two categories (larger villages and smaller towns) the Eastern-European linkage (towards the countries of the former eastern block) plays a leading role. The majority of the settlements in the large town category have partnerships with Western-European “twin towns”, the Eastern-European partnership is characteristic for only 42% of them. Thirty-three per cent of the towns in this category have a partnership with a Hungarian town (Figure 12).

Figure 12

‘Twin settlement’ partnerships of settlements in percentage of the participating settlements, by size categories



Source: Own construction.

4.7.2 Partnership with the business sphere

In this title we examine the involvement of the business sphere in planning, strategy building. The majority of municipal self-governments, concretely 64%, request the opinion of local businesses prior to the formulation of local development targets (Figure 3). *It seems that the chance for close and active relationship with the business sphere grows proportionately with the settlement size.*

We have distinctly investigated the practices of application of self-governmental international partnerships for marketing and mediatory purposes.

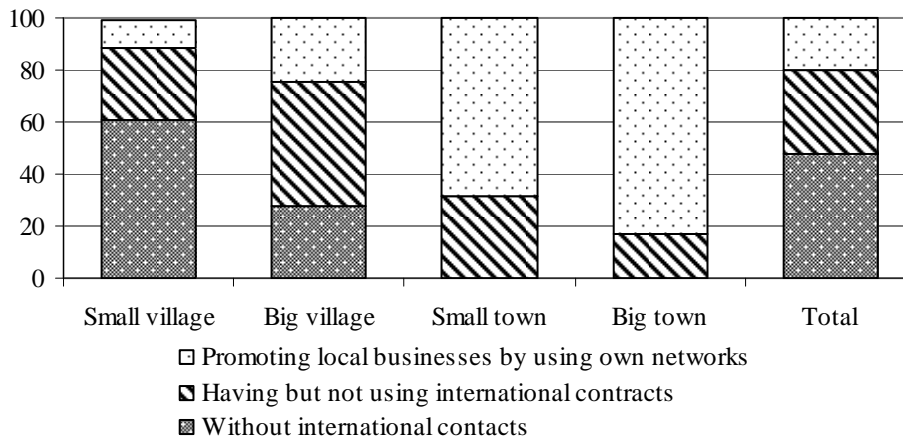
In the urban categories the lack of international relationships seems not to be a problem, 17% of larger towns and 31% of the smaller towns do not use their existing international relationships in the interests of local businesses, for the marketing of local productive and service providing businesses (Figure 13). However the predominant majority of towns took the opportunities provided by networking.

The generally used methods of mediation and marketing were:

- promotion of participation in international fairs,
- marketing activities,
- concrete agreements,
- promotion of networking,
- encouragement of exchange of experiences.

Figure 13

The international contracts of local governments by size categories, %



Source: Own construction.

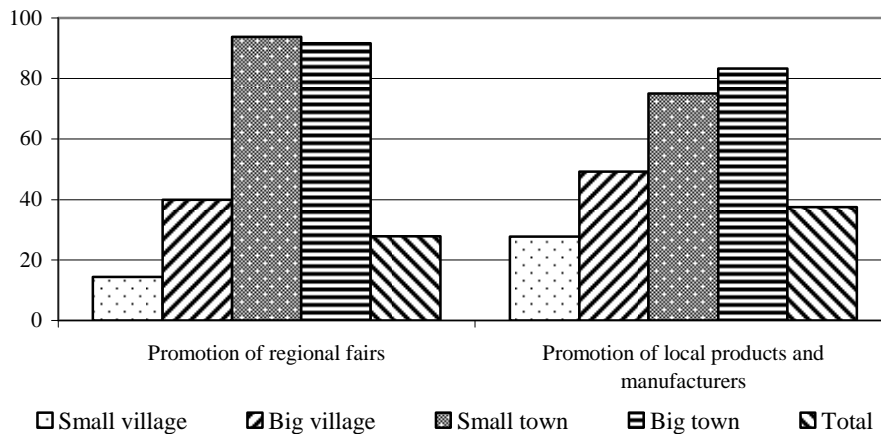
Some 62% of smaller villages have no international contacts at all; the same figure is only 28% in the case of larger villages. However it is a fairly more important problem that the majority of small and larger villages having international contacts do not utilise these partnerships in the interest of marketing of local businesses. Only 11% of smaller villages and 25% of larger villages promote the local businesses through their own relationship networks. It is probable that the main obstacles of the establishment of this mediatory role are the local conditions (e.g. the lack of appropriate and vital business sphere, capacity problem etc.) and the quality of the evolving system of relationships.

The prioritised treatment of international relationships is – due to the export constraint of the businesses in small and open countries – a key factor of competitiveness. For that very reason, through supporting the presence of local businesses at regional or local fairs the self-governments can contribute to the better marketing of local business sphere and to its better access to the market. The local government can provide for the promotion of unique local products and manufacturers in the course of its own marketing activity.

Fourteen per cent of small villages, 40% of large villages, 94% of smaller towns and 92% of large towns participate in the performance or assistance of regional or (mainly in the case of larger towns) local fairs. A total of 28% of the settlements indicated the incitement of some industrial, agricultural fair or a fair of other profile which was organised in their region (*Figure 14*).

Figure 14

The local governments' activity in the promotion of local products by size categories, %



Source: Own construction.

Thirty-eight per cent of local governments take part in the dissemination or propaganda for local manufacturers and products. This rate was 28% in small villages, while in the large villages 49%, in small and large towns 75 and 83%, respectively. This type of activity by local government may intensify in the future since they must recognise that this is a cost effective way of contribution to the improvement of competitiveness of local businesses. This is especially true due to the general use of internet presentation of settlements and micro-regions,¹⁹ but the utilisation of other promoting materials, leaflets for these purposes is also more and more characteristic.

4.7.3 Partnership with regional institutions

There are many regional institutions operating at the meso-level (between the central governmental and the local level) of the Hungarian public administration system, with which the local governments maintain connections with variable intensity, tightness and quality.

We asked the mayors of the sample settlements to label on a five grade scale the partnerships with some regional institutions. We wanted to map the typical forms of local partnerships. *Figure 15* demonstrates the average values, although with higher proportion of received questionnaire we should have researched the regional differences too, because there are some regional factors, e.g. the quality of regional institutions' management.

The bigger the settlements, the wider *regional functions* they have. *It means they must have continuous partnerships with many regional organisations.* *Figure 15* also shows that the small and big towns indicated much closer average connections than the villages, in all researched categories.

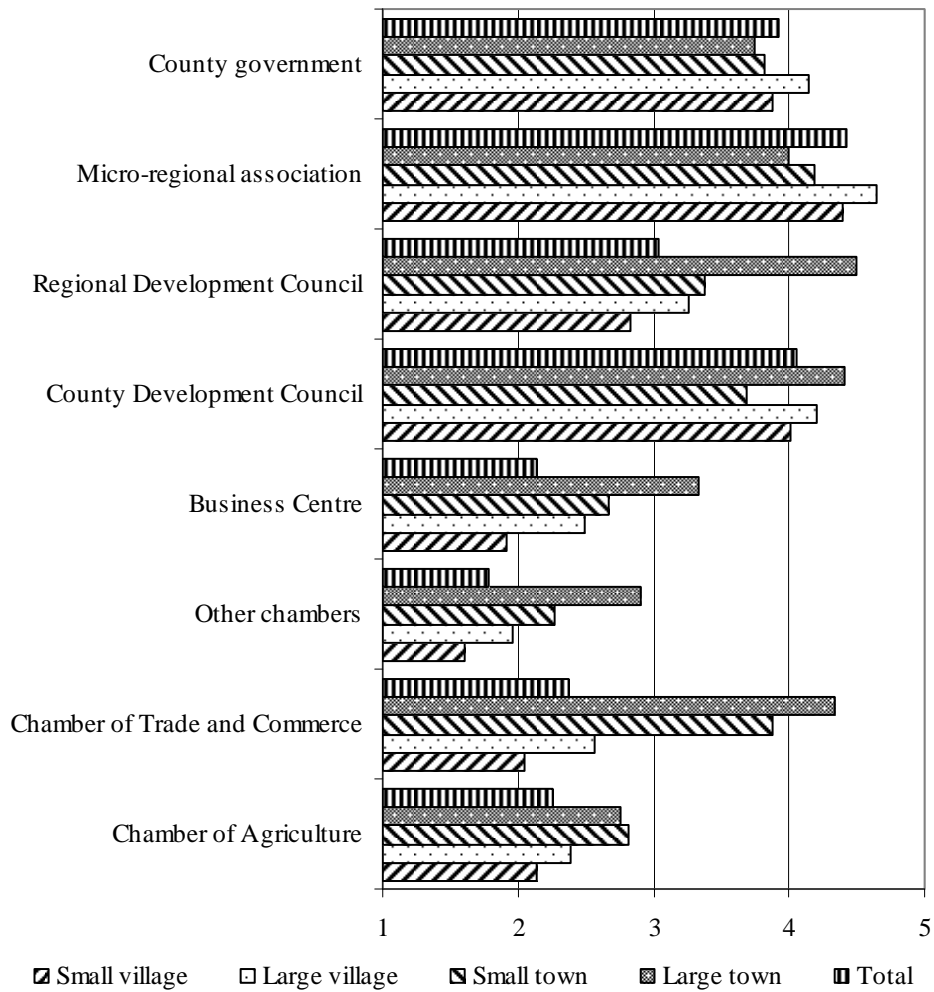
The function of county governments justifies that they maintain closer linkage with the villages than the towns. This connection can be soft in particular between the county governments and the towns with county rank, because of the regulation. For this reason, while the county government stands at the third place in all categories, the big cities rate them on the fifth place, only (although there are many legally binding connections between them).

In the micro-regional associations – because of their evolution – mainly the villages and small towns are active, the big cities initially were out of the voluntary associations.

¹⁹ Thirty-nine per cent of the sample self-governments had their own homepage, concerning the category of small villages, 27% were in some form represented on the internet, which figure significantly debased the 90–100% proportion of urban categories and the 50% proportion of larger villages.

Figure 15

Partnerships between settlement governments and regional institutions by size categories, average values on a five grade scale



Note: '1' means: there is no linkage; '5' means: there is close, bilateral, continuous partnership.
 Source: Own construction.

The altering regulatory background²⁰ has changed the participants of the regional and the county development councils, but the micro-regional associations still have significant importance for the settlements with low population. Accordingly settlements in all categories (except big cities) indicated the closest average partnerships with the associations.

The regulatory background of the spatial development institutions, the amount of allocated financial resources and the allocation mechanism together determine the operating circumstances of County and Regional Development Councils. The deficiency of spatial development's financial resources regulation also contributes to the *main role of the resources allocated by County and Regional Development Councils*. This role in the long run influences the labelling of partnerships between the settlements and the Development Councils. The resources distributed by the County Development Councils – contrary to the Regional Development Councils – serve mainly settlement development targets. This is the reason why the settlements have labelled the partnerships with them in different ways. The mayors of the big towns indicated that they have the closest relationships with the Regional Development Councils, while the County Development Councils stand at the second place in every category (except small towns). The villages and the small towns have weaker connections to the Regional Councils than to the County Councils.

Chambers are also judged on the basis of settlement size, only small villages considered cooperation with agricultural chambers, closer than with chamber of trade and commerce (industrial chambers). Predominantly industry and service-based areas consider industrial chambers more important, and accordingly develop closer links with this group vis-a-vis agrarian and other types. On the other hand, relations can be considered uniformly weak with the exception of urban categories, as an average close to two demonstrates.

The Business Centres and the other chambers are usually located in towns, therefore in the villages the lack of partnerships has determined the answers.

We separately researched the partnerships between the Labour Offices and the local governments, which came into existence because of the problems of local labour market (*Figure 16*).

The improvement of the local employment situation is one of the local governments' most important functions. It can account for the close connection practice with the Labour Office, so the area of partnership can determine the quality of connection. In this study area we also should have researched the regional differences, if we had received a higher proportion of questionnaires,

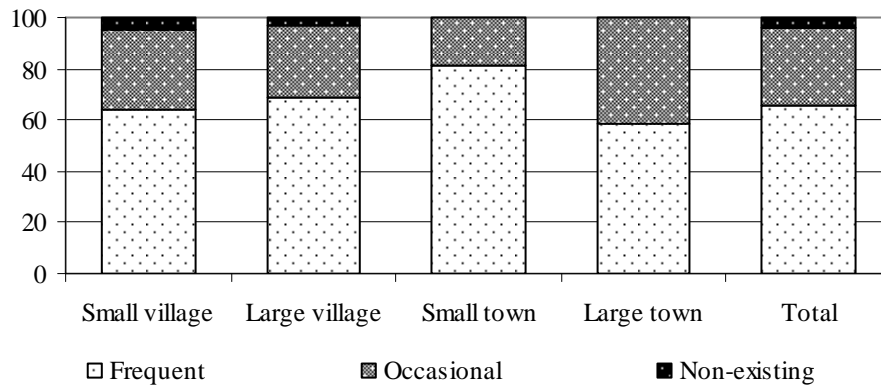
²⁰ The financial resources of County and Regional Development Councils made the local governments establish micro-regional associations. Aside from statistical (compulsory) micro-regions' associations there are a lot of (optional) voluntary micro-regions' associations too.

because the ability, quality and structure of regional institutions' management can be a relevant influential factor.

The solution of the local employment problems can be provided not only with the help of the Labour Offices. Sixty-three per cent of small villages and 50 per cent of large villages do not play any part in the improvement of the local employment situation – so it is the typical attitude. Thirty per cent of large villages' governments send own recommendations to the outsider educational institutions. The towns do not keep out of the local employment problems. They principally make concrete proposals for the structure of vocational training, and (mainly in the big cities) participate together with the educational institutions in projects.

Figure 16

The characteristics of partnerships between local governments and Labour Offices, by size categories, in percentage of the participating settlements



Source: Own construction.

4.8 The organisational and personal background of local economic development

The activity of municipal self-governments in the local economic development means a functioning beyond the basic activities, and therefore the entrepreneurial behaviour and the knowledge on market conditions is not necessarily the property of self-governmental management and the staff of mayor's offices. The employment of at least one economic expert within the mayor's office, and in

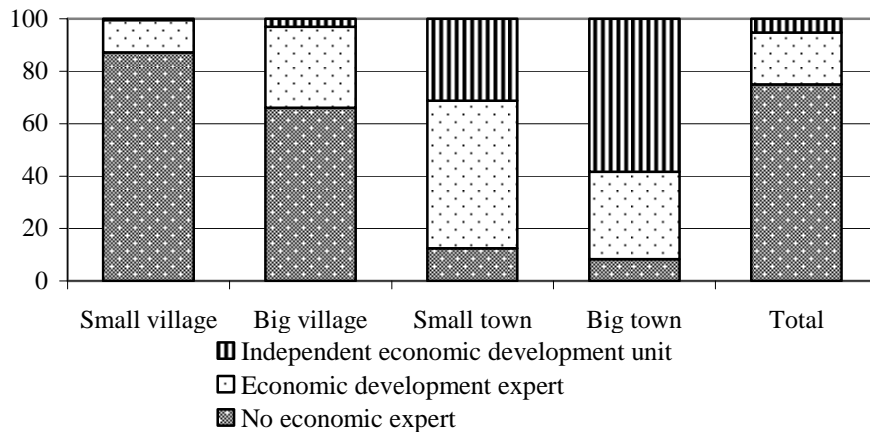
larger settlements the establishment of an independent organisational unit of economic development and the optimisation of its functioning in the course of preparation of decisions could to a great extent contribute to the better enforcement of market, efficiency and entrepreneurial aspects.

In the case of the decisions by the body of representatives, the composition of the representative body may be an influencing factor – and the proportion of members with entrepreneurial experiences may determine the “dominating viewpoints” (for instance efficiency versus equity).

Twenty per cent of the municipal self-governments indicated the employment of an expert supporting economic development within the mayor’s office and a further 5% had an independent economic development unit or department (*Figure 17*). The economic development is organisationally supported mainly in larger towns (92%), but the majority of smaller towns (88%) employed at least one economic development expert. Sixty-six per cent of larger villages and 87% of small villages have no expert equipped with economic development knowledge who would be able to support the economic development activity within the mayor’s office.

External, separate marketing, tourism or economic development organisation supporting the economic development activities of the self-government are functioning only in 30% of settlements. There is a separate organisation with this profile in 63% of smaller towns, 75% of larger towns while this rate is only 29% in large villages and 24% in small villages.

Figure 17
*Organisational and personal background of mayor’s offices,
 by size categories, %*



Source: Own construction.

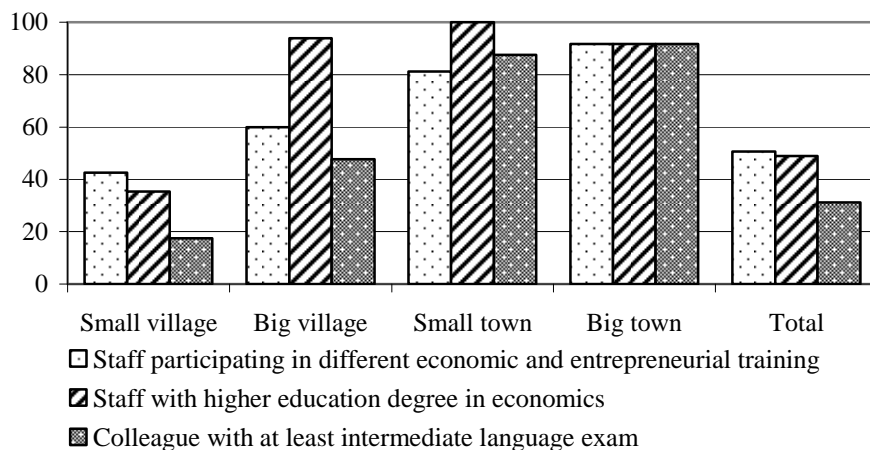
If we draw a wider scope for our investigation and we examine the economic development staff with higher education degree in economics within the mayor's office, we will receive a much more advantageous picture (*Figure 18*). Although only 35% of small villages employ such an expert, this rate is higher than 90% in the larger size categories. Concerning the staff participating in different economic and entrepreneurial (European or domestic) training, the situation is slightly better in the small villages, on the other hand, this type of further education of the staff is only typical in 60% of larger towns. In the case of small and large towns more than 80% took the opportunities offered by the different trainings.

In the 1998–2002 elective cycle there were no members in the representative body of 29% of the sample self-governments who were concerned with profit oriented enterprises and in the case of the remaining 71% at least one person with entrepreneurial experiences participated in the decision making.

The lag in the field of foreign language skills is a fairly significant obstacle of communication. We must admit that the data measured by the number of language tests is fairly simplified; however it implies the trends (*Figure 18*). The 17% result of small villages testifies a fairly unfortunate situation in this field, furthermore in more than half of small villages the conditions for the employment of staff with knowledge of foreign languages are not given. At the same time in small and large towns 88% and 92% of the persons answering indicated that the self-government employed at least one colleague with at least intermediate language exam.

Figure 18

The characteristics of the staff employed in mayor's offices and their proportion within the size categories



Source: Own construction.

Thirty-seven per cent of the mayors speak no foreign languages at all, 29% can speak one language a little bit and only 18% claimed that he or she could speak at least one foreign language (while 16% did not answer this question at all).

4.9 The success of settlement and local economic development

4.9.1 The mayor's opinion on the settlement's success

Sixty-four per cent of the mayors of sample settlements consider their settlement successful,²¹ 3% admit partial success only, and 22% consider their settlement unsuccessful. Within all settlement size categories the proportion of mayors considering their settlement successful is over 70%, while 20–25% think their settlement belongs to the category of unsuccessful places.

The surprisingly high rate of settlements within the small and large settlement categories is mostly explained by the long period of the investigation going back to 1990. Obviously, an *autonomous local government* consisting of an elected body of municipal representatives with independent governance and decision-making licenses received a better reputation compared to the secondary role in the past. This was topped by the results of public infrastructure development and the realisation of other investment projects.

The most important success and failure factors given by respondents were as follows (sequenced by the frequency of occurrence):

Success factors:

- The establishment of good infrastructure;
- Continuous or an adequate development level with the potentials and with the micro-region's overall development level;
- Improving local image, or turning into tourist spot and the realisation of tourism-oriented investments;
- Gaining an independent status, or the obtainment of city rank, manifesting through the realisation of local development concepts;
- The settlement of concrete enterprises, successful creation of new jobs, the ignition of economic development;
- The satisfaction of local population, an increasing number of local residents;
- The formation of local partnerships, good community, the development of civil organisations;
- Success is achieved by the appropriate management of local municipals.

²¹ The survey inquired whether the mayor was considering the development of his/her own settlement successful in the whole period since the change of regime. Thus the term success – in this case – is a subjective category.

Failure factors:

- The absence of new enterprises, the growing problems of unemployment;
- The local government's low funding sources, failure is the outcome of the general management problems of the municipality;
- Failure is the result of public discontent and the decreasing number of local residents;
- Failure is the outcome of the mismanagement of the earlier municipality;
- Unsatisfactory development progress;
- Deteriorating image of settlement, unfulfilled tourism development projects.

In case of large cities the location of new concrete enterprises was the most frequent success factor, while in small towns the relative development level (compared to that of the micro-region's) and the continuity of development (without fallbacks) were the major success factors.

Both success and failure factors included the same categories, which proves that in a Hungarian settlement the most important ranking factors are attached to the location of new enterprises, the creation of new jobs, the realisation of tourism development projects, the quality of local living conditions and the operation of local government.

4.9.2 The mayors' opinion on the local government's local economic development initiatives

To evaluate the local government's local economic development initiatives we collected such success and failure stories from mayors that had key importance in the recent past of settlement. A total of 101 mayors reported success stories and 88 presented failure stories (though these two categories were not excluding each other).

The categories of success stories were as follows in the sequence of their frequency of occurrence:

- The location of new enterprises, the growing number of entrepreneurs, the creation of new jobs;
- The realisation of infrastructure development projects;
- The realisation of successful tenders and programmes;
- The establishment of industrial parks, industrial districts or enterprise zones;
- The realisation of tourism development projects, the increasing number of visitors;
- The improvement of local image.

The major categories of failure stories were as follows (also in the sequence of their frequency of occurrence):

- The absence of new enterprises, the lessening number of local businesses, the rise of unemployment;
- Cancelled local government projects (e.g. residential resistance, municipal decision, or unused resources);
- Cancelled infrastructure investments;
- Problems with the establishment of industrial parks, industrial districts or enterprise zones;
- Ageing population, decreasing number of inhabitants;
- Missing tourism development projects;
- Poor local government funding;
- Agricultural crisis.

The *supply-side dominance of local economic development strategies* in local government programmes may be verified here – at an earlier part of this paper we mentioned the general trend of applying supply-side strategies (*Figure 11*) – as in both categories (success- and failure stories) the external, immigrating enterprises had key importance.

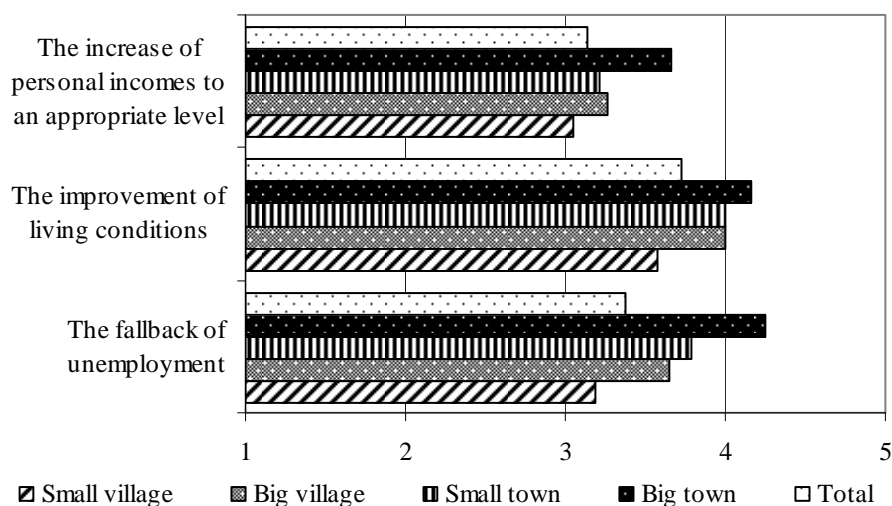
We also wanted to get information what kind of *indicators* local mayors would use for benchmarking the success of local economic development programmes (*Figure 19*).

The ranking of responses is clearly reflecting the fundamental thesis of the relevant literature on local and regional competitiveness (*Enyedi, 1997; Lengyel–Rechnitzer, 2000; Lengyel, 2002*), putting *the quality of living conditions on the top of a pyramid*. The category of city is – seems to be – excluded from this rule, as the fallback of unemployment is a more important factor there than the quality of living conditions – but at the same time more importance is attached to its average value than in any other categories. The quality of living conditions is on the absolute top of ranking, it is followed by the successful treatment of unemployment and the appropriate level of personal incomes is the third in the ranking. At the same time, *Figure 19* also shows that all the three categories are strongly correlated with each other but it is not the same which one is put on the top of the pyramid.

Beyond the three categories that we nominated, mayors were offered to mention further success categories. Other categories were marked by 10% of respondents, attaching great importance to the selected success factor on average level (this was a natural outcome of our querying methodology). Among these categories we can find some measurable and comparable factors concerning local resources but some immeasurable and elusive categories as well (e.g. image, future perspectives).

Figure 19

The evaluation of settlement success factors by size category, average values on a five grade scale



Source: Own construction.

Among the other factors of success factors the following categories were mentioned:

- The state of local infrastructure;
- The state of public security;
- The quality of human infrastructure;
- The general situation of the young generation;
- The degree of the willingness for outmigration;
- The formation of local image;
- The existence of future perspectives and their content;
- The stability of local government finance;
- The success of local government tenders;
- The success of the local government's housing provision;
- Other economic indices: the number of major investors, the number of visitor nights, the increase of land prices, the inflow of direct investments.

From the above results we can draw the conclusion that the majority of mayors think that local governments should actively formulate their local economic environment, as through this way they may improve living conditions and pro-

mote the emergence of success factors. At the same time the above-mentioned local success and failure stories are also indicating that settlements of different size have different local endowments, potentials and instruments for undertaking this task.

5 Summary

In the course of the presented empirical study we have seen that *concerning the planning activities of municipal self-governments* large lags can be detected in comparison with the necessary, optimal or even the legally required quality. The lack of planning and especially economic planning also contribute to trends that municipal self-governments try to conform to the actual priorities of the governmental subsidy policies in the course of the employment of their investments and developments or they even decide on significant issues (such as disposal of properties or infrastructure development etc.) without having done a serious planning work.

A further problem is the *financing form of the local government system* and the *insufficient amount of own resources* by municipal self-governments.

However an answer, a solution for these problems may be the widening of local-governments' networking, partnership both towards other self-governments or towards local businesses or other local or regional actors; local governments may manage, coordinate and encourage the successful local economic development process but without the cooperation of other actors of local economic development the system can not be viable.

The implementation of the successful local initiatives can be promoted by an appropriate organisational and personnel background in the mayor's offices or at competent external units.

We examined several aspects of the economic development practices at Hungarian local governments. *The settlements use the opportunities deriving from the legal background and connected with the municipal conditions to a different extent by their sizes, potentials and management.* We have seen that different factors may be emphasised in the development strategy of different settlements and they may use different tools to in order to implement their targets. Some self-governments are more active in the initiation of economic development interventions and in the creation of the partnerships connected to these, and these local governments achieve fairly spectacular results. Some other self-governments, on the other hand, cannot demonstrate a progress ever since the systemic change. While the settlements of the former category are mainly larger towns, we can state that in every size category we can find self-governments participating actively in local economic development. The lack of initiatives connected with local

economic development is rather characteristic for settlements with lower number of population.

Finally, our research verified our hypothesis that *mainly the larger settlements and towns have the tools for the facilitation of classical economic development investments and the smaller settlements can participate in special economic development initiatives within the frameworks of their opportunities.* In their case the regional networking and partnership may be a solution – starting at planning and finishing with the implementation.

We think it will be important in the future for the local economic development to become universal to create the local system of conditions adapted to the international practices, both as regards the necessary community resources and the freedom and opportunities of indispensable local economic development actors.

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Appendix

Methodological background

Table 6

*Some characteristics of the sample**

Characteristics	Data
Sent questionnaires (number)	3134 (settlements)+ 1 (capital city) + 23 (capital city districts)
Received questionnaires** (number)	288 (valid) + 4 (anonym)
Propensity to reply (%)	9.2
Propensity to reply of villages (%)	8.6
Propensity to reply of towns (%)	11.8
Propensity to reply of towns with county rank (%)	59.1

*The regional distribution of the sample settlements compared with all settlement's regional map results in similar picture. ** Budapest has a special position. We had to exclude the city from the essay, because only one district sent back our questionnaire. The capital city has special local economic development conditions, accordingly in case of better propensity to reply we should have processed it separately.

Source: Own construction.

Table 7

Settlement categories applied during the study

Category	Population (persons)
Small village	– 1,999
Large village	2,000 – 9,999
Small town	10,000 – 49,999
Big town	49,999 –

*The basis of categorisation was the grouping used in two empirical researches of similar topic (*Horváth–Péteri, 1993; Horváth–Kiss, 1996*).

Source: Own construction.

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