

# **THE POSSIBLE FUTURE ROLE OF SELF-EMPLOYMENT**

## **IN THE REDUCTION OF SPATIAL DIFFERENCES**

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### **1. INTRODUCTION**

Increasing employment in Hungary is a social-economic demand encompassing several government administrations, if we wish to establish our competitiveness within the European Union. On the road leading here, there are several typical and atypical possibilities. One of them is a form of support assisting self-employment, as a rarely examined active means, which—as part of Labour Market Fund—offers opportunity for those driven out from the world of labour and trying to re-adapt.

Though the ratio of the self-employed in Hungary grossly equals the average number of the self-employed in the European Union, its consistence and motifs are different from the European practice. Naturally, a part of those involved have relative freedom, can make their own schedules, organise their work and take responsibility for it. But the majority can merely formally be considered independent. Many enterprises have been established around the change of regime not out of labour market demand but by force. Most of these enterprises are still self-employed. Turning from employee into entrepreneur is also a significant phenomenon. Those belonging here actually have the same obligations as those employed traditionally; but they do not have the same protection and security. Relations of employment have irreversibly altered in this field, too.

Governments continually announce innovation projects for micro, small and medium size enterprises. The main objective is to create more working places in all the sectors of the European Union's economy. But reality warns us that success of a minor degree—even in the wealthier countries of the EU—require great efforts. In Hungary, and very likely in the other transforming Eastern European countries, it is a great result if already existing and forming micro-enterprises are functioning. The examination of Hungarian practice is worthwhile from several aspects.

LAKY T. (1987) has been collecting data relating to micro-enterprises—and especially to self-employment—since the beginning of the 1980s. He has summed up the essentially different characteristics of enterprises and self-employment.

In the middle of the 90s, the chances of "survival" for the self-employed became the focus of observation (FREY M. 1995). Enterprises established by women, youth, by those possessing lower school education, and former semi-skilled workers stand a little chance. Cities offer a more attractive soil for the foundation of enterprises, as it turned out evidently from regional analysis. A further point of the analysis shows that the self-employed are faced with the difficulties of lack of sources, current assets and entrepreneurial knowledge. The "dead-load" of the financial supports occurred in the course of efficiency examinations. There are participants whose conduct was not influenced by means extending employment, since they would have selected self-employment even without the support. Maintaining the means that facilitate self-employment is reasonable despite the great dead-load, its cost effectiveness is good, though its results are not. Then, the program cannot have the unemployed become entrepreneurs only for the support.

It also came to light that the structural characteristics (qualification, living place, age group division) of those taking self-employment support are much more favourable than that of the average unemployed; since many of those quitting enterprises found employment or set out with a good chance on the labour market.

The question of self-employment as the means to facilitate the growth of small enterprises has become paramount since the second half of the 90s. The central characteristic of self-employment is the inter-dependance of the enterprise and the household, they are built on each other. The majority intends to improve their business only to a degree that would increase the wealth and incomes of the household, since the main drive behind the business affairs is the secured living of the family. They are not so much interested in growth but in consumption.

LAKY T. (1996) has the following explanation for further progress. Those opting for self-employment voluntarily or for reasons of force a) have a licence to venture; but do not function; b) function but during retirement and in supplementary employment; c) work in such fields that do not require capital or where a minimal investment would suffice; d) work mostly alone or with family help at the outside; e) follow traditional lifestyles when they do not strive at improvement but at consumption and family gatherings.

Some uneasiness followed the proliferation of small enterprises in Hungary in the 90s. One of the OECD studies noted that the exceptionally high ratio of self-employment does not mean a high level of economic maturity. The route of progress in the developed countries is an economy with considerable and mature industry, and a relatively low rate of self-employment. So, the importance of self-employment may decrease during industrialisation. In this context, the speedy expansion of self-employment can be the manifestation of a particularly unsecured progress in the transforming countries.

GÁBOR R. I. (1994) has not judged this tendency promising, neither from the aspect of economic development. He considered the syndrome of "too many-too little", i.e. the vast number of the self-employed an economic dead end since most of these are not capable of functioning or of growth. He also pressed for the access limits (e.g. starting capital) preventing minor firms from running wild. It is all true if result is measured by economic increase; but one cannot disregard—both from social and economic aspects—the fact that while working places are closed down, hundreds of thousands of people take over to maintain themselves and their families and to become consumers and clients of services. As a comparative economic advantage, special products and services are provided in regions where there is no sufficient field to invest in for the working capital.

The studies of CZAKÓ Á. (1997) contributed to the aspects of the necessary typology marking off the self-employed from entrepreneurs. The living of the family on a decent level of consumption is the objective of the self-employed. Their production is linked to a defined set of business activities, they strive to keep their solid position in the market, and also the investments considered inevitable secure this solid position. While the proprietor of an enterprise aims at a profit exceeding the worth of the means invested, he is ready to mobilize sources outside his own; and refund designates potential investments or drawing out the capital. The self-employed completely dedicate their working hours to establish all by themselves the foundations of their and their families' financial basis. The result of their work and the profits of their investments flow in the household and are spent on consumption. Competition forces them to raise the level of production or service and capital investments considered necessary for keeping the solid market position do not exceed the necessary minimum level. Their activities of gaining money and their household do not separate sharply.

The research of CZAKÓ Á. (2000) based on the analysis of time-schemes calculated from the waves of employee-hiring available from the 90s seek the answers if the increase in the rate of self-employment was caused by fear of unemployment or a certain decrease in employment. The active

self-employed are rather older, are male and have higher school education than contracted employees. Macroeconomy hardly explains the differences of gender: on a personal level, living place is an influential element and the question if women have children or not. On an aggregate level, Czákó finds that the unemployment rate of a county affects the self-employment of women more negatively than that of men.

SCHARLE Á. (2000) draws attention to the connection between self-employment and unemployment on a macroeconomic level. In the 90s, the number of self-employers rose rapidly. One reason for that was the demand for services and the increase in unemployment. Unemployment rate does influence the ratio of self-employment concerning demand and supply.

The fact that the demand for services can account for the increase in the rate of self-employment is valid not only for the Western-Europe of the 70s; but it can also be said about Mid-Eastern countries that the opportunities widening in the period after the change of regime have played a greater role in the decision about becoming self-employed. Naturally, when it comes to Hungary, it has to be added that increasing unemployment and decreasing demand for employees played a greater role than in the neighbouring countries, i.e. the side of supply was stronger. In the regions with high unemployment rate, the fear of actual or potential unemployment urged only women and agricultural entrepreneurs.

SOLTÉSZ A. (2001) also examines the regional particularities of becoming self-employed. His research conducted in four counties indicated that enterprises survived the first difficult period of commencement with the fairest chance where, as family enterprises, they could provide a secured financial background. Where self-employment meant only one person, it could hardly stand a chance to stay alive, avoid environmental influences, pay back the instalments, pay the dues, and provide a living. Research results published after the turn of the millennium suggest forming a more flexible active means better adapting to special regional changes and to individual life situations. Parallely, they also find it crucial to increase the amount of funding spent on equipment in order to have more applicants share this form of support. Marketable management plan, the attitude of the entrepreneur and the existence of business ties are all keys to success. Thus, ordaining trainings with a uniform curriculum, offering entrepreneurial knowledge would lower the number of enterprises not well-founded. As to employment centers, a wider and more focused campaign is necessary or the unified notification of the unemployed is desirable already at the branch offices.

Besides the disclosure of the support schemes in Baranya county, the present study aims at compiling a dynamic regional analysis that would explain the regional expansion/diminution of self-employment. The main purpose of the study—besides the structural analysis of self-employment—is to demonstrate and evaluate regional differences in efficiency and viability of the supported enterprises. Among others, it seeks to find out if the small enterprises involved can be as successful in the unfavourable regions of Baranya as in the favourable ones. What are the conditions of success, of efficiency and what are the reasons for failure? A further objective set to the study is to grasp how self-employment can be more effectively enhanced in the future, since this way opens a special path for the integration into a competition-based economy, and through that, it makes way for the expansion of entrepreneurial culture.

## **2. RESEARCH METHODS**

ILO formed the definition of self-employment. According to this definition self-employed are those not possessing a firm, i.e. working owners of enterprises without legal personality (in Hungarian everyday speech: small entrepreneurs), independently from the fact whether they have employees; those working by own invoice (e.g. intellectual freelancers); independent agricultural entrepreneurs and all their family assisting and their trainees of skilled work; and thirdly, working members of cultivating type of co-operatives. The wealth and incomes of the enterprise do not separate from the wealth and incomes of the family. So, the self-employed is responsible for his business affairs with all of his wealth (BORBÉLY SZ. et al 2000).

The present study, in contrast to the formal definition, examines those utilizing self-employment support as a form of enhancing employment. Those unemployed can apply for this form of support who undertake employing themselves through a business activity outside regular employment (also including those starting or joining an enterprise).

In order to expand self-employment support in Baranya, to see the changes in the number of the applicants for support, to have a dynamic analysis on a regional basis and to define the structural characteristics of the self-employed the authors have used the following documents: files containing the contracts of support of the self-employed from Baranya County Labour Centre, users' decentralized databank of employment sub-division of the Labour Market Fund, and a questionnaire of open questions. The interview with the expert responsible for the means enhancing self-employment was the basis for exploring the characteristics of the Baranya county procedures. In-

interviews were made with the enterprises supported in order to evaluate this form of support, to set the opportunities of progress, to define the regional differences in the success and fitness of the enterprises.

### **3. RESULTS**

#### **3.1 Particularities of funding in Baranya county**

The measures of funding self-employment have had a longer history in Baranya than in other counties. Though this form of support was officially introduced only in 1997, the self-employed have already been favoured within fundings supporting the creation of working places since 1991 in Baranya, before the introduction of the act. The reason for that was the re-structuring of the county—liquidation of coal and iron mines—during which authorities tried to offer opportunity to the miners dismissed with severance wages to enhance innovative investments instead of consumption.

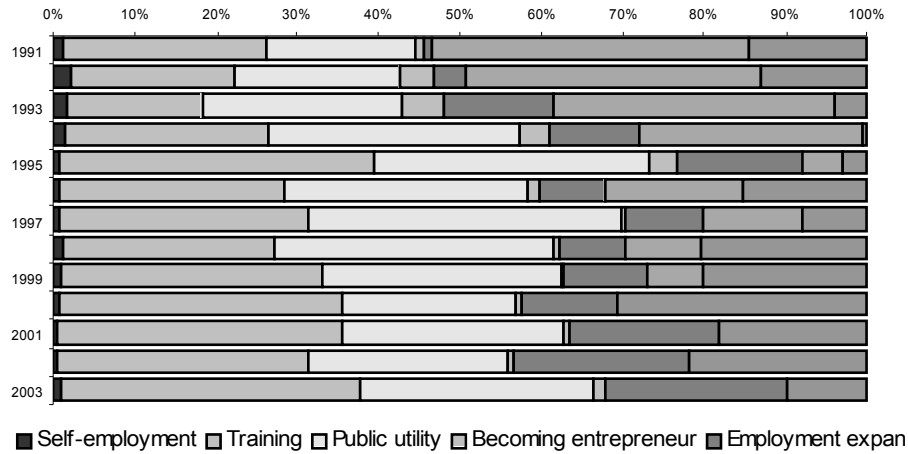
This target group has been aimed at independently since 1995 by the employment center. In the period before the legal introduction of funding self-employment, almost as many unemployed were supported in order to be employed outside regular employment as in the following six years. All this makes way for the long-term expansion of research and for the evaluation of efficiency and regional differences in result for over the last decade.

The legal basis for Baranya County Labour Centre was article 17th of the Employment Act, which made it possible "to support the employment of those driven out permanently from the labour market." The labour centre and the expert responsible for the measures proposed the modification of the Act in 1996. The proposition intends to include in the act the facilitated employment of those unemployed registered for at least three months and of the career-starter unemployed as entrepreneurs beside those permanently driven out from the labour market.

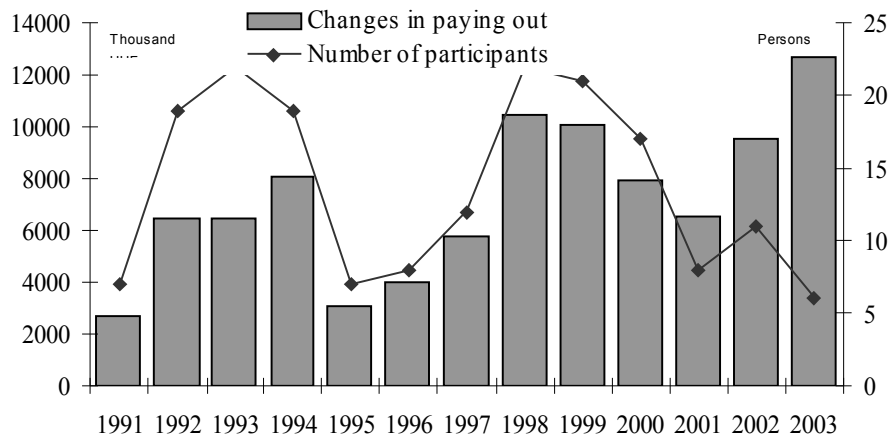
Practically, it would mean supporting those unemployed who accomplish employing themselves, set up or join an enterprise.

Already that year, a new ordeal of the ministry came to light, according to which—from 1997—the financial support of the unemployed employing themselves was rendered part of the support scheme of creating jobs, then the earlier became an independent form of support in 2000.

The Baranya County Labour Council, following the proposition of the labour centre, annually specifies the priorities of funding, along which the refundable interest-free capital lending support favours those unemployed who participate in the program called Foundations of Entrepreneurial Knowledge, which embraces entrepreneurial preparatory courses and counselling. The distribution of the decentralized county funds of the Labour Market Fund happens according to these set terms, which is not far from the actual practice. The amount designed for the fund has not reached 1% of the total county fundings since the middle of the 90s—except for 1998 (Figure 2). The change in the number of the participants of the self-employment funding program obviously points to the early success of the Baranya county initiative, since in the first part of the 90s the number of those applying and contracting rose sharply. The drastic set-back in the middle of the 90s can rather be attributed to the influence of the government's attitude than to the decreased interest in this form of support. One can observe an apparently narrowed potential of the support scheme after the turn of the millenium. None of the utilizable funds have shown significant growth, while the amount an individual can claim at maximum has risen significantly and many times (in 2001 and 2003) (Figure 3). As a matter of fact, the decrease in the number of the involved already began in 1999 when nothing accounted for the relative narrowing of the funds. It is worthwhile examining every phenomenon that could cause the set-back in the intention of applying beside the ones mentioned above.



**Figure 1.**  
Utilization of decentralised county funds of the Employment Sub-division of the  
Employment Fund (1991–2003)  
Source: Baranya County Labour Centre



**Figure 2.**  
Paid sums funding new self-employment (1000 HUF) and the number of the involved  
(persons) (1991–2003)  
Source: Baranya County Labour Centre



Beside the terms of the tender set in the act (three registered months preceding application, received support to enhance becoming an entrepreneur), the Baranya County Labour Centre, from experience, has added a further term in order to secure the success of the enterprise: attending the training as part of the program is inevitable. Naturally, those receiving a training support are exempted and also those who apply for exemption on the basis of their qualification and experience. The history of the support has had only a few examples for that. The training project started in Baranya as early as 1995. The primary aim of the entrepreneurial training is to secure the success of the enterprise, to offer assistance in setting up business plans, and to implant a certain selection or "brake" which—through the consideration of aptness—could guarantee success. It is worth examining the role, effect and content scheme of the training since hardly one-fourth or one-fifth of those attending the courses hand in an application. It is our basic objective to make the composition of the application a marked part of the training, i.e. to have it react to the requirements of the employment center.

As a further condition, the individuals supported should possess financial means reaching up to the 20% of the investment setting up the enterprise. Nothing could prove the gradual reduction of this amount more than the fact that in the beginnings financial support could not be more than the half of the total material resources and by the end of the 90s it reached 70%. The resource can take the form of any implement owned individually, by the family or by the local government handed over to the future entrepreneur for utilization.

Reducing the risk of refund, one should also possess a certain financial security, which means 100–150% of the amount of the support in Baranya. The value of unencumbered uninhabited property and equipment is to be estimated by a technical or real estate expert, and its costs are to be covered by the applicant. (One can economize considerably in case of requiring tax- or value warrant.) The applicant is also burdened with the costs of pawn contract to be made for the equipment. Every single implement can serve as security that exceeds one hundred thousand forints net in value; but in this case a financial security of 150% is necessary. Applicants from the country have the advantage of presenting land, vineyard or privately owned allotments as security, young applicants can have their parents' support and bank cover or permanent deposit along with it.

The tender was announced five times in 1997 and three times between 1998 and 2003 by the Baranya County Labour Centre. Because of the continual and relative narrowing of the funds, the tender could only be announced once after 2003. By 2004, the lack of work experience and financial resources most likely characterising young applicants along with a reduced will to venture has considerably set the number of applicants back. Tenders are annually announced in county newspa-

pers and advertising papers after the endorsement of the county labour council. Applicants apply at the branch offices, where expert opinions are compiled along set aspects and sent to the county official responsible for implementation. Members of the labour council evaluate the applications and the Support Monitoring Department of the Hungarian State Treasury registers them. An expert commission consisting of three parties of the labour council and representatives of the employment center make a proposition for the ones to be supported, and the labour council makes the decision with regard to this proposition. But legally, the director of the employment center is the person to decide.

On the basis of data relating to the nature of enterprises of the supported, one can see a primary preference for tourism and processing industry and a certain dispreference for enterprises with vague trade market.

The financial support in the beginning was 500,000 HUF, 1,000,000 HUF from 2001, and since 2003 it has been 3,000,000 HUF of refundable interest-free grant of capital. According to the Baranya county procedures, innovation is to be made in the year of receiving the financial support and refunding is to be commenced after a year of tolerance following the accomplished innovation. Total refund can take another three years.

If the supported applicants should find jobs and become employees, they have to notify the authorities. In this case, the remaining sum of the financial support is to be paid back in a lump sum with interests, paying in instalments can be claimed. Long-range analysis has indicated that roughly 15% of the contracts are cancelled. The majority of this share of the supported refer to the difficult market conditions that make them incapable of continuing the enterprise, while the minority have altered family conditions as a reason for cancelling the contract.

Analysing the future of this form of support, the measure faces the actual risk of being pushed to the background according to the development in the number of applicants, since the funds to be used have not increased as much as the amount one can claim on the outside. So, the relative narrowing of means infiltrates the expectations of the applicants after some time, thus less and less apply every year. Those still holding out to their conceptions often cannot meet the terms. It is worth thinking over the reform of the funding from several aspects.

One of these aspects is cancelling the refund obligation, or partly keeping it. In this case, just like in the case of other implements, it can be evaluated as real support meeting the requirements of the Employment Act principles. Yet, one should be aware of the fact that security is required in

the case of non-refundable support as well, and presenting it is usually problematic. It is a fundamental pre-condition that real estate cannot serve as security so that the applicants should not be in the danger of losing their homes. There is a further difficulty: funding in advance, which characterises most forms of support, rendering it impossible for the entrepreneur to carry out great investments in lump sum.

It is advisable to examine in the future the practice of announcing tenders, since at present only one form of support is available in order to prevent abuse: funding newly established corporate enterprises formed by the unemployed and their family. Joining already existing enterprises threatens the self-employed with unemployment having received the financial support. But supporting an enterprise in the family would not bring these risks.

With relevance to the accession to the European Union, one is to reconsider the fund distribution practice at employment centers. The appearance of European Social Fund (ESF) as a supplementary form of support makes way for financing programs of individual initiatives. It would by all means increase the relative amounts respective of self-employment funds handed out by the Employment Sub-division of the Labour Market Fund.

It is typical of Baranya county decision procedures that the commission of experts promotes a much larger share of the applicants than those actually making use of it. Nearly half of the winner applicants do not contract every year. That is, in most cases, the sense of responsibility is only realized right before making the contract. More evidently, many of those attending the trainings do not hand in any applications. It is worth examining the course material and efficiency of these trainings, and their role in the facilitation of applications containing projects fit for survival.

## **3.2 Regional expansion of becoming self-employed**

### **From the first half of the 90s to our days**

Regional analyses evidently indicate that the branch office in Komló is the focal point of the expansion of supported self-employment. In the first years, almost half of the enterprises of such character and in the following years—despite the growing importance of Pécs—one third of them have been established in this area, and with it keeping its leading role. But the significant regional differences are suppressed in the branch office analyses. Examination on the town level points out

that—disregarding the outstanding results of Mágocs—the majority of the self-employed come from the settlements of Komló and Pécsvárad microregions (Figures 3–5). The number and ratio of the supported enterprises established in Mágocs are outstanding not only in absolute measures but in relation to the number of economically active population. It is all explained by the fact that a tax advisory, accounting and venture developer firm operates in the village, and it tracks down and visits potential entrepreneurs and the unemployed and encourages them to apply. In the spring of 2004 an enterprise innovation centre was inaugurated funded from state support, and this centre assists the above activities in organised forms. It also proves the inductive effect of economic and financial services on the labour market, and that is why it is crucial to have such dedicated and up-dated services assisting enterprises in every microregion.

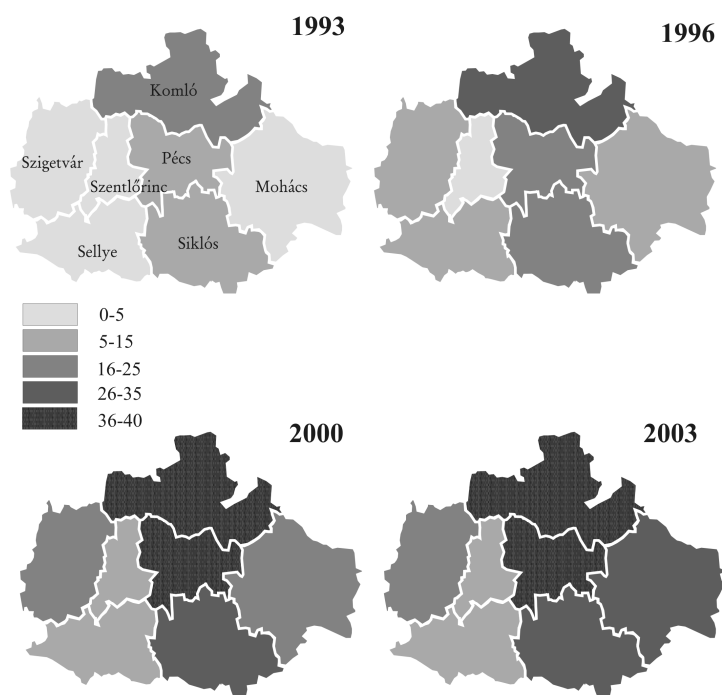
The employment conditions of the Komló region were fundamentally outlined in the early 90s by considerations of regional politics according to which the social bearings of the mines to be shortly closed down could not be grappled with. And in the middle of the 90s, the employment of nearly 2500 individuals was secured through the integration of mines.

Those few hundred dismissed in 1996 did not add to the number of the unemployed because of the possibility of old-age-pension. This opportunity was not given the ensuing year, so the number of employees in the mines of Komló decreased significantly. Agriculture and the critical state of the textile industry working for the Russian market could have produced symptoms of crisis earlier. The first signs of employment crisis of March in 2000 appeared in January the preceding year. One reason for that might be the ongoing using up of the reserves accumulated in earlier prosperous years, so crisis developed only by the turn of the millenium (TÉSITS R. 2002).

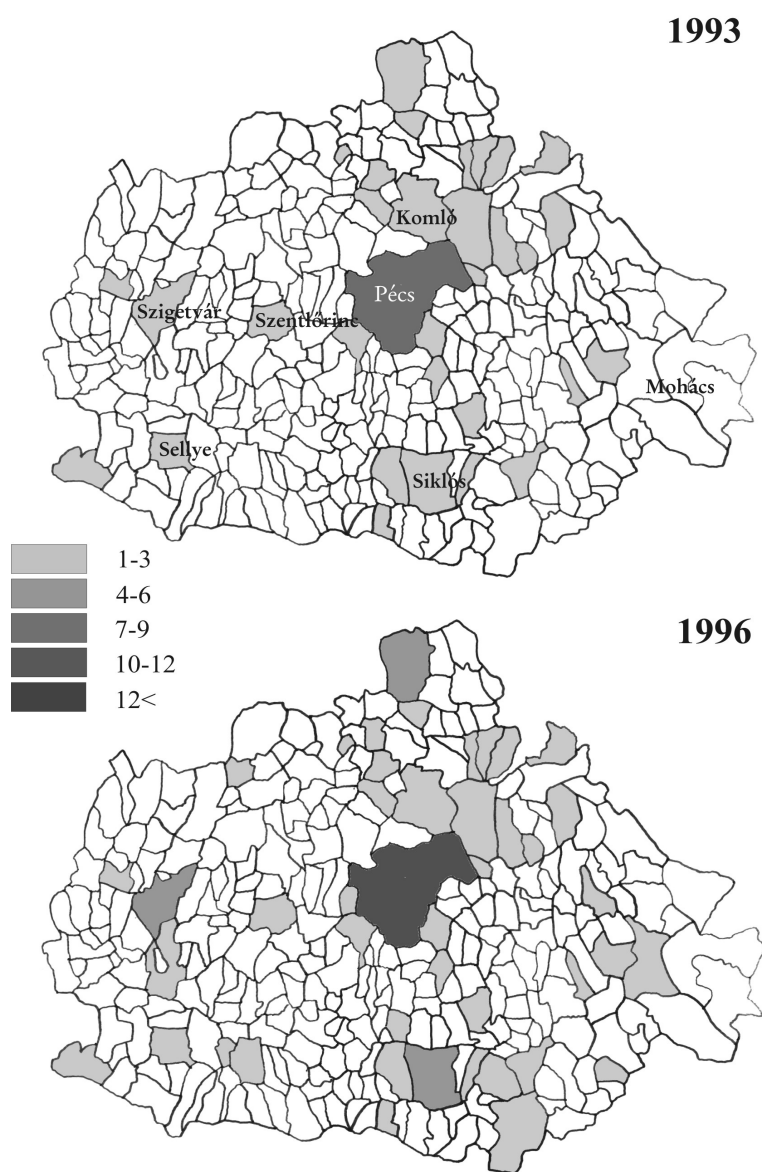
The reorganisation of agricultural large-scale farming have ended in the analysed region. Newly established small farms could not employ the masses of the dismissed. Though reorganistation of trade has not been completed yet, it has seemed to be the most steady sector. The predominance of industry and building industry at the end of the 90s left its mark on the state of the region's labour market. These unbalanced conditions have moved towards ready-to-wear industry, wood processing and third sector only by the turn of the millenium. Besides the continual closing down of mines, the increase in unemployment rate has been induced by the difficult state of agriculture and the textile industry working for Eastern markets. Those becoming unemployed this way with no skills or only with specialized skills, were endowed only with little inclination to start an enterprise, what is more, women considered previously as housewives but appearing on the labour market, and the high rate of those working in the black market have added to the worsening situation.

The number of the agricultural unemployed rose even at the turn of the millenium, and greatly exceeded the county average in 2001. Continually, several smaller agricultural firms hardly meeting the quality standards have gone bankrupt in the region since the beginning of the 90s. Enduring larger firms are forced to reduce the number of employees in order to reach efficiency.

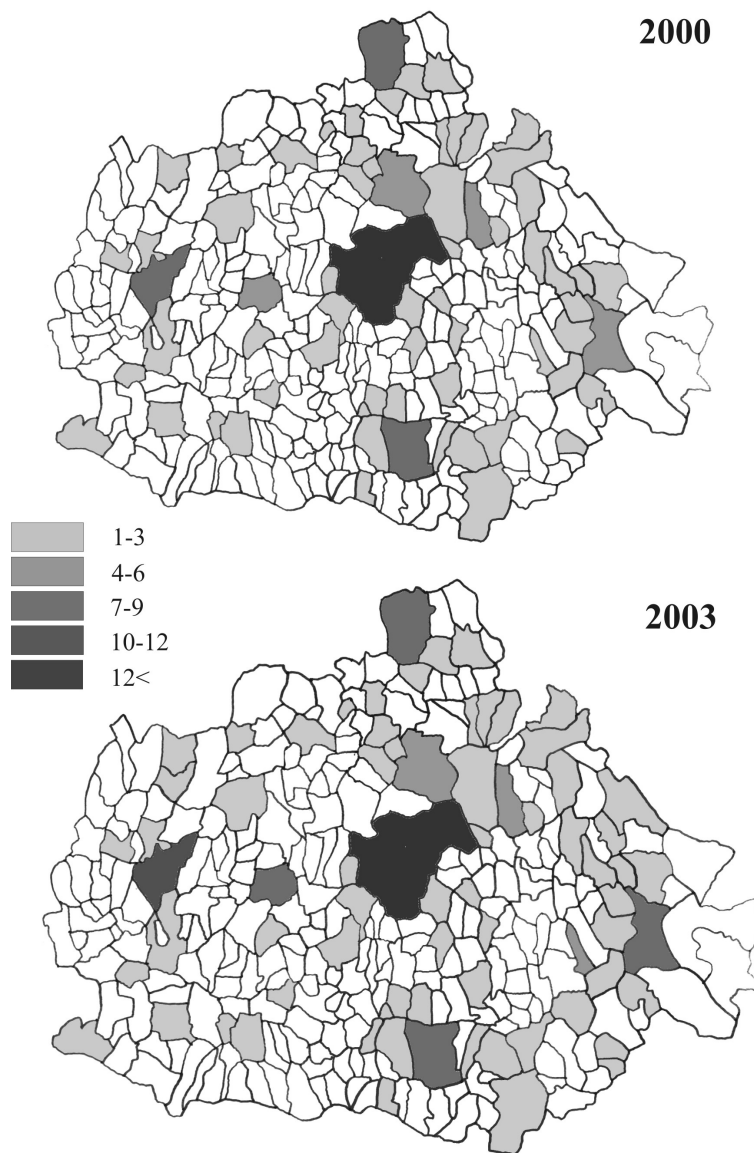
Following the ordeal of the ministry, the financial support of firms producing on a larger area were already cancelled before the turn of the millenium. Employment costs of co-operatives and business companies have risen because of numerous increases in minimum wage, and parallel to the price of materials, while the prices of products have turned unfavourable. Though produced profit is spent on innovation, it primarily means technical innovation (renovating machines or the milkhhouse, procuring incubators, mixers). But these innovations rather reduce the number of skilled and semi-skilled workers employed instead of increasing it (TÉSITS R. 2002).



**Figure 3.**  
**Concluded self-employment contracts in Baranya by the time of research**  
**(Ed.: Tésits R. 2004)**  
**Source: Baranya County Labour Centre**



**Figure 4.**  
The number of those contracting for self-employment in Baranya by the time of research  
(1993, 1996)  
(Ed.: Tésits R. 2004)  
Source: Baranya County Labour Centre



**Figure 5.**  
The number of those contracting for self-employment in Baranya by the time of research  
(2000, 2003)  
(Ed.: Tésits R. 2004)  
Source: Baranya County Labour Centre

Support of entering self-employment has offered an opportunity for a part of those becoming unemployed. Though the rate of self-employment is influenced both by supply and demand, it is not enough in itself to induce significant increase in the number of the self-employed. Demand for services and the increased potentials of expanding sale have proved a more influential aspect. The role of the following areas have to be mentioned here among the fields with potentials of development: processing animal products, producing cultures needing live labour, producing seed grain, bio production, cultivating meadow and grazing ground on fields not quite fit for cultivation, and accessory services of food industry (delivery, packaging, drying). That is, the conditions of further development in agricultural production and services are given. It is well-known that the most common business activity of the self-employed in Baranya is linked to these two sections.

Besides market conditions, the role of human factors is highly significant in becoming self-employed. The make-up according to school education and staff indicates that the number of skilled workers exceeds the county average in all the examined years. With the gradual closing down of Mecsek coal mines, miners, locksmiths, electricians and skilled workers trained for mining but originally working as masons added to the masses of the unemployed, not mentioning the vast number of those poorly trained (having low or no education). Technological innovation and modernizing making semi-skilled work dispensable adds to the continually growing proportions of the unemployed belonging to these sections. Still, inclination to becoming entrepreneurs was low for a long time even with the higher ratio of those having a profession—also because of behavioral forms originating from their past of large-scale industrial work. Yet, it is typical of this eastern part of the examined region to show the highest rate of German ethnic minority. Will to venture is over-represented in this group. It indicates that traditions concerning the culture of labour have a great share in these activities. It follows from this that Roma/gipsy unemployed, for whom obligations and the required own sources are holding back forces, hardly apply for support. The economic state of development in the region, the diffusion of enterprises—also building on the favourable conditions of location—is traditionally good. Local conditions, and advanced infrastructure joined to the economy of Pécs render it able for further quality development. Though the natural conditions of agriculture are moderate, the culture of production is traditionally advanced.

### **The second half of the 90s**

In Siklós and its agglomeration, growth in the number of self-employed began relatively late—in the second half of the 90s—compared to Komló region. What played a decisive role in the late development of trade, services and entrepreneurial will was the war in former Yugoslavia and its consequences, since the towns and villages could not renew their former contacts. This tendency



was worsened by the fact that Croatia lost its eligibility for Phare-support owing to the consequences of the war, so the opportunity of co-operation along the border narrowed down. In the area of services, only the spa tourism of Harkány and the wine route Siklós-Villány could be pointed out as possibilities. Shopping tourists from the consolidated former Yugoslav areas have appeared again in great numbers. Parallel to this, to meet these demands, small family enterprises and commercial facilities taking a few employees—mainly selling clothes and food—have opened. Hungarian entrepreneurs have preferred trade and catering, since the number of turnovers of shopping tourism in 1995 in Siklós and Harkány exceeded that of the years preceding the war (TÉSI TS R. 1998).

### **After the turn of the millenium**

The number of the self-employed in the region of Mohács has noticeably risen after the turn of the millenium. The economic development of this microregion had become balanced and even by that time. It can perform further spectacular development on the basis of its local conditions and with the establishment of the conditions of exploitation of its location in traffic-geography. The region is an excellent agricultural area with a traditionally high level of farming culture, both crop and plant production and animal breeding exceed the national level. Considering seed - and soya production, it has a particular position in Hungary. So, the Mohács microregion is undoubtedly an agrarian region. Progress in order to have it improved can be expected in the agriculture endowed with good conditions and long tradition. It is true the more so since the majority of regional industry is based on processing the products of the primary sector and procuring base materials. The connection between agricultural production and sale is more and more influenced by the economic reform still in progress. The set up of those producing is gradually changing. Corporate enterprises possess the infrastructure fit for harvesting, storing and handling produced goods. Individual farmers can sell or store their produced goods. The establishment of co-operatives of sale and service have been initiated in the region, since shared processing, storage and sale guarantee a greater security for individual farmers. The role of integration from producing to sale has become more and more significant, and it is, in turn, followed by the increased number of integrating personnel. They make contracts of production with individual farmers, and lend seed, artificial fertilizer and insecticide.

Also the service sector has gradually been improving in the region, those in lead position are banks and insurance companies. Further firms of trade or service have been or are about to be established in some places—following the laws of market. One can observe a certain—and yet unsatis-

fied - need for some services in many places, or the level of existing services is not satisfactory enough. Mostly, crafts are missing such as hairdresser, joiner, shoemaker, car mechanic. The above mentioned demand may increase the number of the self-employed.

In the microregion, the present and future demand for labour does not meet the supply structure of the labour market in the aspect of human resource, and qualified labour can particularly mean a lack from the point of view of development. When deciding about education, it needs to be considered. The options of human resource are fundamentally determined by institutions of secondary school education. Nearly 30% of the unemployed are skilled workers, and 10% have secondary vocational school education. Language skill as an important basis for creating international connections, spreading foreign enterprises, and improving tourism has good statistics in the region, in the county and also in the microregion. A great share of the inhabitants in the county speak at least one language other than their mother tongue, and this makes the region the first in the line of counties. The number and ratio of those putting a language other than Hungarian for their mother tongue is favourable, which means a surplus in sources not only through observing family ties but also on the broad scale of economic and cultural connections comprised in the multicultural nature of the region. Survival of ethnic culture is primarily linked to the Mohács microregion. Among others, the ratio of Croatian and German ethnic minorities is significant. Speaking a language is crucial when it comes to starting a new enterprise or organising foreign investments. Enterprises owned by foreigners require employees with language skills. There is a so called French bilingual<sup>[1]</sup> secondary school in Mohács, the potentials of a population speaking high level French must be reckoned with by all means. These data draw our attention to the significance of the so called "soft" aspects that are undeservedly neglected.

Evidently, besides the above mentioned potentials of the market and a more favourable set up of the human resources, the positive attitude towards employment can attribute to the diffusion and increased efficiency of the implement.

As it has come clear from regional research, it is not the most under-developed regions where the self-employed start enterprises to a greater degree under constraint, "fleeing in advance" from unemployment or because of the disinterest in their profession. The age and qualification of the majority of the unemployed is not advantageous when it comes to employee-seeking. They do not dare to start an enterprise, their potentials and capacities mean great obstacles for them. They do not possess own sources in the required amount, they cannot perform the pre-requisites of applying for credit, nor can they stand ready for the change in their attitude. This results in the lack of the self-employed, and the positive economic solution to the social crisis is lagging behind. It has

become evident from the research in the middle of the 90s that in Baranya, the regions of Szentlőrinc, Szigetvár, Sásd and Sellye—except for the employment centers—cannot perform any positive answers to the social crisis most deep in these regions. Typically, the ratio of the unemployed with no skills is high. They are unable to make decisions independently, they can be characterised with lack of self-reliance and a high degree of vulnerability. It is hard to find any investors who would be willing to invest in this region with under-developed networks of communication and infrastructure, which, in consequence, brings along all the symptoms of a dying economy. In many places, the almost uncontrollable conditions of employment are worsened by hopelessness, many-sided under-development, lack of infrastructure and stagnating economy. All these may bring about the official classification stating—on the basis of synthetic data—that the region including the county, the county itself and its several microregions are under-privileged to a massive extent.

So, disposition for an enterprise or self-employment largely depends on the geographical location, infrastructure, demand for services and existing human factors needed for the enterprise in the places in question. Speaking of the last aspect, the following would play a greater role: skill, speaking foreign languages and the higher ratio of German ethnic population in some areas of Baranya.

### **3.3 Regional and structural characteristics of the self-employed**

#### **General characteristics of enterprises**

Enterprises involved in the research, previous to starting the enterprise, in general, had applicants with skill, professional knowhow and entrepreneurial skills; but possessed no material means or entrepreneurial experience. They acquired skills in institutions of secondary school education, i.e. secondary school, secondary vocational school; and have worked in their professions linked to their own acquired skills. Nearly one-fifth of the self-employed has a degree of higher education. The profiles match all the branches of national economy, yet more than half of them work in economic or social service. The majority of the enterprises is a one-man enterprise. Less than 10% of the self-employed altered the activity profile, type of the enterprise, or its form. Accordingly, only a few self-employed have turned into family enterprises or deposit companies. Only one-third of the entrepreneurs plan to carry out improvements in the future, hardly anyone counts on the assistance of employees and only a few can expect that of the family. These entrepreneurs feel they do not

need intervention or counsel from the market. Co-operation with other enterprises is limited to professional exchange of experience on the outside. Clustering may force the formation of higher level synergic forms also in this area; but mental factors are to meet the necessary challenge.

Just about one-third of the enterprises had an initial capital of more hundreds of thousands of forints besides the employment center support. A large part of those supported would have started the enterprise even without the active labour market implement; still the financial support—creating the possibility for necessary investments—have greatly increased their success. It may give reason for further improvements and updating of active implements. The majority of the entrepreneurs are male, mostly middle-aged (36–45 years), and speak no foreign languages. The majority of the self-employed examined are married, more than 50% of them have one or two children to support. The period of their unemployment exceeded six months but did not extend to a year. More than half of the interviewed consider themselves entrepreneurs by force, and cannot get employed in their profession. Yet, one may see that enterprises established lately have belonged to the circle of young and successful self-employed, they are the ones who choose this path consciously.

### **Structural and regional characteristics of discontinued enterprises**

At the time of this research, only one-tenth of the enterprises started in 1991 had discontinued working. They usually closed down after two-three years. Liquidated enterprises—disregarding if liquidation was owing to family or economic problems—were all making loss, the owners had no previous experience and the self-employed did not believe in the future of their enterprises. A few agricultural entrepreneurs may be set as exceptions. They did see the potentials of their enterprises; but were strongly set back by withdrawn financial support and low land prices, resulting in credit unworthiness. Those making use of financial support have various branch offices, they can be found just as much in villages with a population of a few hundred inhabitants as in cities with a population of ten thousands of inhabitants (Csarnóta, Egerág, Szigetvár, Mohács, etc.). Also their profile varies along a large scale: agricultural activity and economic services can both be found among them.

Entrepreneurs, in majority, are young, most of whom had no previous extensive work experience. They became self-employed by force and their decision was motivated by the necessity of securing their families' living. Almost all of them are married with one or two children or they even commit to supporting an adult. The majority became unemployed because their former employers had dismissed them and the period of their unemployment exceeded a year.

### **Operating yet unsuccessful enterprises**

Those stagnating enterprises can be enlisted here that had years with loss as well in their history. Accordingly, they can be characterised by negative or scarcely positive (from 0 to 500,000 HUF) annual results. The self-employed, even if they do not consider their situation hopeless at present; cannot see any prospects in the future of the enterprise. Most of them—right at the time of starting the enterprise—had already thought that without an animated national economy their ventures do not stand a chance of development. The need for a more thorough consideration of emotional aspects from the part of those making the preparatory steps of decisions was placed in the centre because of the existing mistrust and lack of motivation at the time of start. The organisation of the labour market is endowed with the competence to carry out this type of filtering and support.

Nearly one-third of the entrepreneurs became entrepreneurs because their employers had dismissed them or their working place had been terminated. The self-employed of this category have various branch offices starting from villages with a population below one thousand inhabitants reaching to county centres (Széklyszabar, Vajszló, Mágocs, Pécs, etc.). Regional factors are not decisive significantly because one can find several examples of enterprises classifying themselves in this unsuccessful category in county centres and in larger towns as well.

### **Characteristics of successful enterprises**

Those ventures belong here that progress dynamically with potentially minor recessions and end the year with an income of 5–10 million forints net on average, and produce a profit of 1 million forints. Even the most pessimistic venturers believe that their enterprise will turn solid in a few years, while the majority sees their own activities more and more successful. All of them plan certain improvements in the future ranging from investments in material implements to diversifying and extending employment. Despite all these,—disregarding the fact that they raise awareness for self-employment—their role in employment policy is minor. Regional factors are decisive here, since the branch offices of these ventures—with few exceptions—are limited to county centres and places in their vicinity or to larger towns. That is why there is a right reason for making a way for developing enterprises from financial support through this tender in order to extend employment.

### **Differentiating factors of success and failure**

Becoming self-employed is considerably designated by regional aspects since the will to venture largely depends on the geographical location, infrastructure, demand for services and existing human factors needed for the enterprise in the places in question.

The above differentiating factors are valid for enterprises in general; but the case of the self-employed is somewhat different. Here, differentiating factors are much rather linked to inner aspects than to outer ones. Most of the successful venturers are single, they became unemployed through resignation or termination of working places. As the reasons for becoming self-employed, they did not put force but a definite business plan or the possibility to work independently. This planned way of life is backed by the fact that their starting capital is from previous personal savings or from selling a former enterprise. Previous venture experience—even if the business activity ended in a failure—is naturally an advantage.

Those entrepreneurs considering themselves unsuccessful are bound by a family, have tighter obligations and securing the living of the family is a burden for them. Their enterprise is also occasioned by force. Failure is coded in their way of life, since they became unemployed because their former employer dismissed them. Unplanned way of life is backed by the fact that they could not accumulate finances earlier and starting capital—besides the support from employment centers—was procured by their families. They lack proper motivation for self-realization and do not believe in the future of their enterprise.

## **4. Conclusions**

It all became clear from the middle of the 90s that in Baranya it is the regions of Szentlőrinc, Szigetvár and Sellye that are not able to respond positively in any way to the social crisis most severe in these regions. The will to venture or to become self-employed largely depends on the geographical location, infrastructure, demand for services and existing human factors needed for the enterprise in the places in question. That is why we find that a more complex assistance would be appropriate for enterprises established in this region.

The largest significance in reducing regional differences of self-employment and in the diffusion of enterprises can be attributed to a well-formed framework, improved infrastructure and increased support of micro- and small ventures. Yet, one has to consider, by all means, the creation of

a micro-regional counselling office and a network of financial services which—besides continually monitoring market capacities—would facilitate co-operative links between enterprises. Obviously, it cannot be carried out without the co-ordinating role of the county centre. Either Baranya County Centre of Entrepreneurs or Pécs-Baranya Chamber of Trade and Industry can undertake this co-ordination. Through selecting, training and employing the job starter and trained unemployed with the right skills one may facilitate the strengthened development of the primary labour market in under-privileged counties more precisely counties with accumulated disadvantages in microregions that have gone through industrial structural reform and have a rural economy. Lately, a new phenomenon has got stronger in institutions of higher education: graduates with a regular university degree find it more and more difficult to get out on the labour market; the number of graduates leaving universities yet finding no employment has risen. For ten applicants, the Institute of Geography of Pécs University could take on the training, organisation of employment and quality security in connection with carrying out their work. In practice, the institute has already included material about regional labour market in its courses.

In areas with a large number of enterprises started, it is a paramount objective to have the ratio of successful ventures increased. Venturers' self-assurance and belief in the success of realizing their projects could be fortified through orientation for success. It would be expedient to complete entrepreneurial skills with an intensive group training, which could, in a due degree, increase motivation for the realization of business plans.

A great part of unsuccessful venturers had no prior experience, the business activity does not match their original profession in many cases. That is why it is worth completing courses on entrepreneurial skills with profession specific training, with a specialised training.

The present form of support lacks reform, too. Through cancelled or partly kept obligations of reimbursement, self-employment support could be acknowledged as a real form of support matching the principles of employment act, similarly to further implements. Yet, it is right to know that even in the case of non-reimbursable support, applicants are to have security funds, which is generally problematic. A job starter unemployed can hardly apply for the support without a proper family background. As an additional obstacle, financing in advance, which is a general pre-requisite of forms of support and is present here, too, makes it impossible for the entrepreneur to carry out larger, one-item investments.

The tender announcement practice of employment centers is to be reviewed in the future. We are to consider the possibility of providing support for already existing family enterprises, which would prevent some of the risks of abuse against the self-employed.

It is with right reason to offer opportunity within the tender to develop enterprises through financial support in order to expand employment. It would pre-suppose support schemes built on one another. Training and investment support could be completed with an employment-expanding support in the case of a strengthened enterprise.

It is worth reconsidering the practice of resource distribution. The supplementary appearance of ESF supports makes way for financing projects initiated individually. It could by all means increase the ratio of Labour Market Employment Fund Subdivision spent on self-employment support. On a long term, the limit on the amount to be distributed would not have to be set necessarily.

Every year, nearly half of the winning applicants do not contract at all. It means that applicants realize the sense of responsibility right before signing the contract. More eye-strikingly, a large number of those attending the trainings do not hand in any applications. One cannot disregard the role of those instructors who teach entrepreneurial skills when it comes to encourage handing in applications containing viable projects. At this point, it is reasonable to include quality warranty so that teaching entrepreneurial skills should not get trapped and petrified as national vocational training did.

It is worth assessing applications and business projects as thoroughly as possible. Filtering should select not only on the basis of limitations on number but also on that of market viability. One should consider the possibility of spending a part of self-employment support on the costs of operation and financing current assets, since increased energy prices considerably augment the expenses of the enterprises. Offering reductions to the venturers on social security dues—at least in the first years—could help applicants get through the initial difficulties.

Dues and costs of value estimation mean a similar burden. Guidance as wide as possible is necessary to prevent entrepreneurs from having to cover the initial expenses unexpectedly. It should be considered if these costs could be embedded in the category of private expenses.

In the expansion of entrepreneurial culture, we find it useful to have the institutions concerned (chamber of trade and industry, centre of enterprises) co-operate with local governments and organise regional counselling and consultation. In the co-ordinational and preparatory works the Institute of Geography at Pécs University could offer professional assistance.



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[1] In this type of school the first year is dedicated to teaching a foreign language and the ensuing years, students are taught all subjects in that particular language.