

FINANCIAL BACKGROUND OF INFRASTRUCTURAL DEVELOPMENT OF RURAL MUNICIPALITIES IN HUNGARY

A VIDÉKI ÖNKORMÁNYZATOK INFRASTRUKTURÁLIS FEJLESZTÉSÉNEK PÉNZÜGYI HÁTTERE

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ABSTRACT

Due to the under-financing of infrastructural developments of municipalities, rural areas are not able to implement the necessary investments. The financial background must be established from different resources. State subsidies must be completed by commercial bank loans, funds from tenders and subsidies from the EU.

ELMIB Inc. accomplishes infrastructure investments through municipalities in whole Hungary. Data of 35 municipalities was investigated (with questionnaire-survey) in three regions, where the company made investments. The paper analyses the differences between operational and developmental incomes and expenditures in the three regions in 2002 and 2003.

KEY WORDS: infrastructure, ELMIB, investments, municipalities, subsidies

ÖSSZEFOGLALÁS

Az önkormányzatok infrastrukturális fejlesztéseinek alulfinanszírozása következtében a vidéki térségek nem tudják a szükséges beruházásokat elvégezni. A szükséges anyagi hátteret több forrásból kell összeszedniük. A kevés állami támogatást kereskedelmi banki hitelekkel, pályázati pénzekkel és EU-s támogatásokkal egészíthetik ki.

Az ELMIB Rt. az ország egész területén végez infrastrukturális beruházásokat az önkormányzatokon keresztül. Az ELMIB Rt. által végzett fejlesztések köréből kérdőíves felméréssel három területen 35 önkormányzat adatait vizsgáltuk 2002-es és 2003-as időszakban, a három térségben eltérőek voltak a fejlesztési források és kiadások, ezek megoszlását elemzi a cikk.

KULCSSZAVAK: infrastruktúra, ELMIB, beruházások, önkormányzatok, támogatások

RÉSZLETES ÖSSZEFOGLALÁS

Az önkormányzatok infrastrukturális fejlesztéseinek alulfinanszírozása következtében a vidéki térségek nem tudják a szükséges beruházásokat elvégezni. A szükséges anyagi háttérrel több forrásból kell összeszedniük. A kevés állami támogatást kereskedelmi banki hitelekkel, pályázati pénzekkel és EU-s támogatásokkal egészíthetik ki. Az ELMIB Rt. (Első Magyar Infrastruktúra Befektetési Rt) az ország egész területén végez infrastrukturális beruházásokat az önkormányzatokon keresztül. Az ELMIB Rt. által végzett fejlesztések köréből kérdőíves felméréssel három területen 35 önkormányzat adatait vizsgáltuk 2002-es és 2003-as időszakban, a három térségben eltérőek voltak a fejlesztési források és kiadások, ezek megoszlását elemzi a cikk. A fejlesztéseket sürgeti az is, hogy tapasztalatok szerint ott számottevő a tőke vonzása, ahol az infrastruktúra adott, vagy gyorsan megteremthető. Az önkormányzatok igen sokféle támogatásban részesülnek, de ezek eltérő irányultságúak, eltérő alapelveken nyugszanak.

A nyolcvanas évek végén a megyék között mérhető infrastrukturális különbségek úgy csökkentek, hogy a kistérségek közötti differenciák növekedtek. Magyarországon az alapvető infrastrukturális hiányok megszűnésével ill. visszaszorulásával a kistérségek gazdaságfejlesztési potenciálja jelentősen növekedett. Az örökölt fejlődésbeli különbségeknek köszönhetően az elmúlt évtized negatív és pozitív gazdasági fejleményei az egyes térségeket jelentősen le ill. fel értékelték. A kistérségek között infrastrukturális kiegyenlítődés és jövedelem differenciálódás zajlik. A támogatások elaprózták a megyén belüli differenciákat csak az infrastruktúrában mérséklük [1].

A vizsgált térségekben először az összes bevételek és kiadás arányát vizsgáltuk abban a vonatkozásban, hogy milyen arányban van jelen a fejlesztési bevétel és kiadás. A három kiválasztott területen összesítve a 2002-es és 2003-as adatokat megfigyelhető, hogy átlagosan minden bevétel és kiadás növekedett. A vizsgálatokból kitűnik, hogy az ország infrastrukturális színvonala nem megfelelő, az önkormányzatoknak csak korlátozott anyagi lehetőségeik vannak a fejlesztésre. Mindez teret nyújt az ELMIB Rt-hez hasonló tevékenységet folytató cégek számára, akik saját nevükben vesznek fel hitelt kereskedelmi bankoktól, és ezt a pénzforrást komplett fejlesztési programok finanszírozására elérhetővé teszik a vidéki önkormányzatok számára. Az ELMIB Rt. az önkormányzatok infrastrukturális fejlesztésében jelentős mértékű beruházásokat tud megvalósítani, mivel az önkormányzatnak nem kell közvetlenül kereskedelmi banki hitelt felvenni. Az ELMIB Rt révén a piaci alapúnál sokkal kedvezőbb feltételekkel jutnak forrásokhoz,

és egyúttal megmarad a lehetőségük arra, hogy párhuzamosan más forrásokból további fejlesztésekbe is belekezdjen az önkormányzat. Az ELMIB Rt.-én keresztül végzett beruházás futamidejének lejártá után a költségek csökkennek és jelentős megtakarítás érhető el.

INTRODUCTION

The continuous under-financing of municipalities makes difficult not only the operation of the institutional and resource allocation system of rural development, but the whole operation of the municipality system as well. Investments are urged by the fact that – according to experiences – the accumulation of capital can be significant only in places where infrastructure is given or can be established rapidly. Municipalities receive many subsidies, but these are for different aims and based on different principles.

At the end of the '80s, the infrastructural differences among counties decreased, the differences among small regions increased. The economic development potential of small regions increased significantly in Hungary, diminishing basic infrastructural deficiencies. Due to the differences in inherited developing abilities, the negative and positive economic developments in the last decade have significantly over- or undervalued individual small regions. There is an infrastructural equalization, while income-differentiation is also experienced among small regions. Subsidies are partitioned, the differences within a county are lessened only in infrastructure [1].

The role of regional policy has increased during the preparation for EU accession. Among the new member countries, only Hungary had a rural development act which was harmonized with the relevant EU regulations. The regional development policy is based on the 7 established regions in Hungary, although these regions have not become administrative units, the counties reserved their roles in public administration [5].

Regional development policy can build on the comparative benefits of individual regions. By diminishing the difference among the development levels of the seven regions, they could improve their economic efficiency and development possibilities. For this, not only local, but federal and international (mainly EU) programs are necessary for subsidies.

The development of infrastructure with foreign capital plays an important role in the decrease of the differences among the regions. Developments are urged by the fact that – according to experiences – the accumulation of capital can be significant only in places where the proper infrastructure is or can be established rapidly, where settlements have some industrial traditions and residents

are skilled adequately. The differences in advancement among the regions have not decrease since the end of the '80s, they have even shown further increase. The stopping of this tendency is important for national economic reasons. The regional equalization process depends on the growth of the GDP and on funds available for regional development purposes [5].

The role of municipalities in investments

The financing of municipalities should be improved, so that all of them should have sufficient funding to fulfil their functions. Further funds should be provided for rural development aims and investments. The sum of subsidies and own resources should cover their costs. This result can be achieved if both municipalities and other actors involved in rural development take part in financing public investments. Investment subsidies are necessary when a local developmental aim helps to solve a national problem, when the expenditures are high and other funds are not available and when the time needed for recovery of the investment is too long [3].

Functions and funds of municipalities in regional policy

There was a great change in Hungarian regional policy in the last ten years. Division of resources among local municipalities displaced the former centralised system (used before the '90s). Local municipalities have several functions and funds for developments nowadays. A lot of independent municipalities (3200) were established in the early '90s, with limited power to impose taxes. Counties (with historical background) lost most of their privileges against local municipalities. That is the reason why greater pressure is placed on local governments to apply to central government for subsidies. This results in a strong vertical functionality.

The rural development act in 1996 and its modification in 1999 enacted a new rural development system, which counts with the new situation. The task of the established macro regions is the implementation of regional policy and the co-ordination of functions. The European Union had a great influence on forming this new system, because an appropriate territorial structure is essential in terms of the allocation of funds from Structural Funds and pre-accession funds. Regions are supposed to play a major role between central and local level. Allowing for the fact that regional development institutions are functioning simultaneously with the current administrative structure, the new system causes disorder. The reason of the disorder is that the division of responsibility among developmental and governmental institutes is not clarified.

Hungary is one of the less decentralized countries in terms of the distribution of budgetary funds. Compared to other East- and Central European countries, there are big differences in budgetary funds, although, these

differences are more or less balanced with the system of subsidies. This system is exaggerated and inaccurate, it does not decrease regional differences and it hardly encourages municipalities to improve the efficiency and the quality of public services. Balance should be made between national and local financing with budgetary reforms [3].

Introduction of ELMIB Group

ELMIB (First Hungarian Infrastructure Investment) Inc. was founded in April 2000 by MFB (Hungarian Development Bank) to take an active, coordinative part in the infrastructural development of the country, preparing for EU accession. After several changes, the current ownership structure is the following:

- ÁPV Inc. (Hungarian Privatization and State Holding Company): 99,98%
- Treport Ltd. (a company dealing with capital outlays): 0,02%.

The activity of the company focuses on three main areas:

- build-up and operation of gas-supply systems in areas without gas systems
- participation in the build-up and operation of public sewage systems
- modernization of obsolete public lighting systems, thereby the rationalization of energy utilization, and the operation of the complete systems

The capital stock of the company is worth 4,0 billion HUF, the number of employees is 24, most of them are engineers and economists [4].

Gas-service

The situation of Hungary in this field is more favourable than the European average – considering both the ratio of settlements and residents having access to the gas supply network. At the same time, the building-up of gas-supply systems in small settlements is uncertain, because it does not assure the expected profit for privatised gas-service companies. The aim is that settlements, where the indicators of this investment are much worse than the average, could also get access to the gas service. Hungarian Gas Service Ltd. started its operation in March 2001 as a legal successor of DELTAGÁZ Ltd. [4].

Public lighting

Power-companies own the public lighting network of cities and villages. Networks are obsolete, the energy

consumption of bulbs is high. Service companies are not interested in the modernization of the network, because that would mean decreasing their income. Municipalities do not have sufficient investment funds, so they have to pay the high-cost energy bills. The company accomplishes its duties through its affiliated company, KÖZVIL Inc.

The municipality buys a business-share in the public light service company, so it becomes a joint-owner. The price of the share is the net value of the reconstruction (investment). The municipality can pay the price in instalments, so it can be paid from the savings on energy consumption due to the improvement. When the investment is financed by loan, the service company takes it over from the municipality, so there will be no credit problems for further developments planned by municipalities [4].

Modernisation of heating systems

In order to finance investments in the heating systems, ELMIB Inc. is connected with two companies, which are planners, implementers and market researchers at the same time:

- DÁMFI ENERGY SAVE ENGINEER Ltd.
- OROSTHERM Bt.

One of the two companies makes a tender for ELMIB and ELMIB makes a financial offer. If the offer is accepted by the municipality, they sign a contract. Planning and implementing is carried out by one of the two above-mentioned companies. ELMIB Inc. controls continuously the implementation and after completion the company accepts it [4].

MATERIALS AND METHODS

Investments (through ELMIB) of 35 municipalities in three areas of the country were investigated. The questionnaires were about the incomes and expenditures of the settlements in 2002 and 2003 (planned figures). It contained questions about the amount they could spend for investments and whether they need loans or have to sell assets for financing investments or not. Three areas were examined in the present paper. The area signed with regional code 1 is in the West- and South Transdanubian Region, regional code 2 means an area in the North Hungarian Region, and the area with regional code 3 belongs to the North Plain Region (Figure 1.). Data were summarized and compared in each region (total and per capita figures as well). During the assessment, we counted with the population of each settlement.

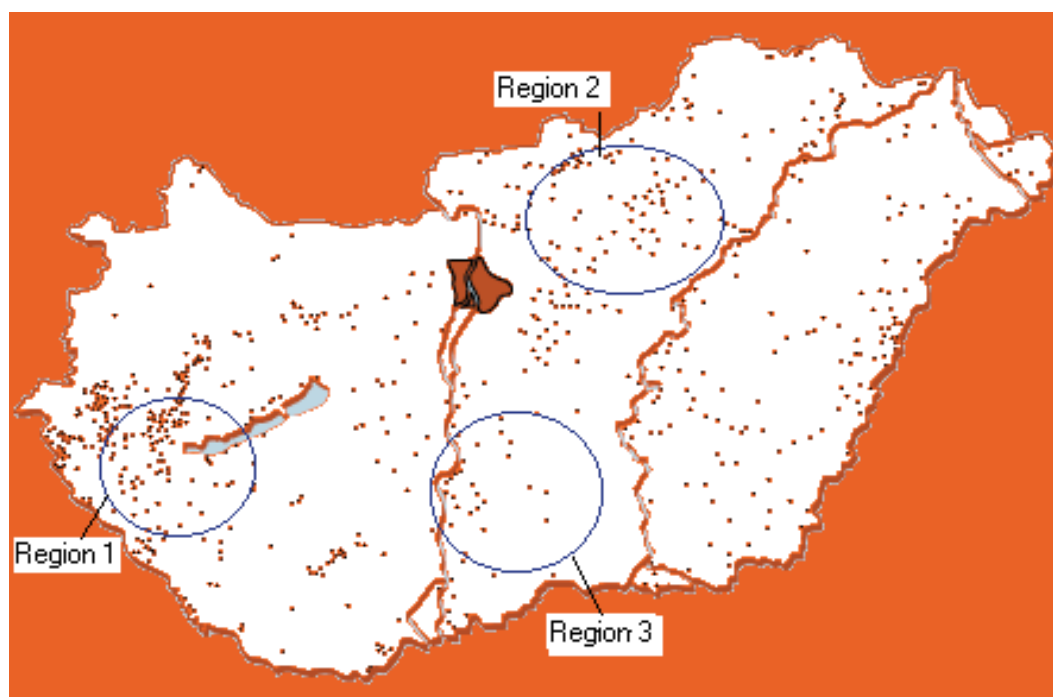


Figure 1: Location of the investigated regions (Source: ELMIB's project)

1. ábra: A vizsgált régiókódú területek elhelyezkedése (Forrás: ELMIB Rt. feldolgozása)

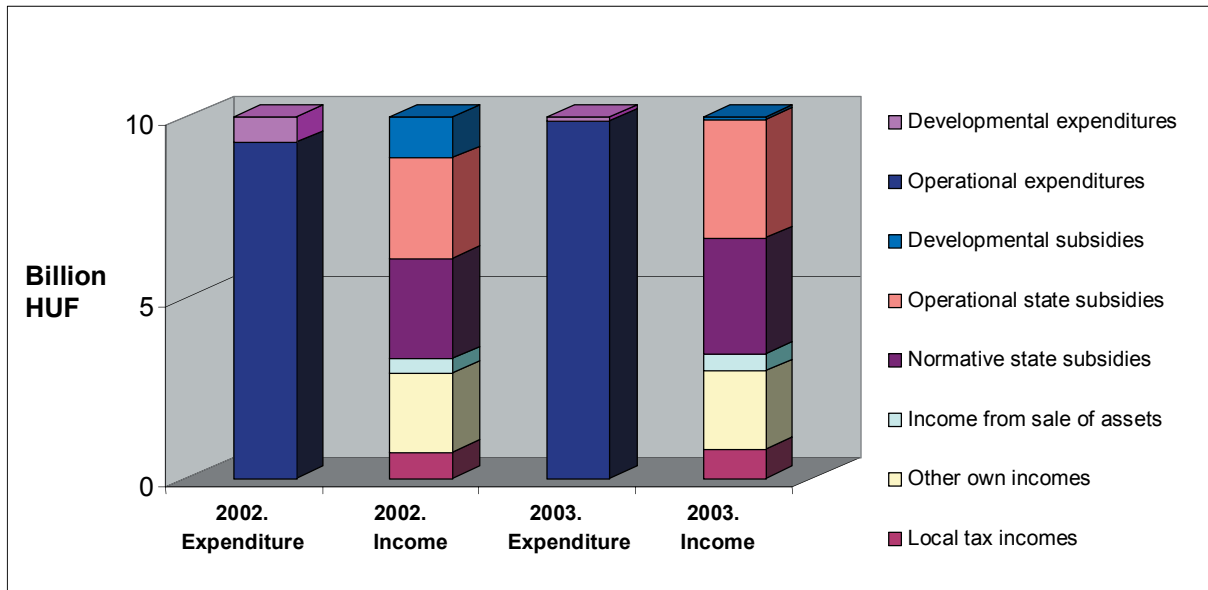


Figure 2: Summarized incomes and expenditures of the municipalities in 2002 and 2003 in the three regions (Source: authors' own investigation)

2. ábra: A 2002-es és 2003-as év összesített bevételeinek és kiadásainak összetevői a három vizsgált területen (Forrás: saját adatgyűjtés)

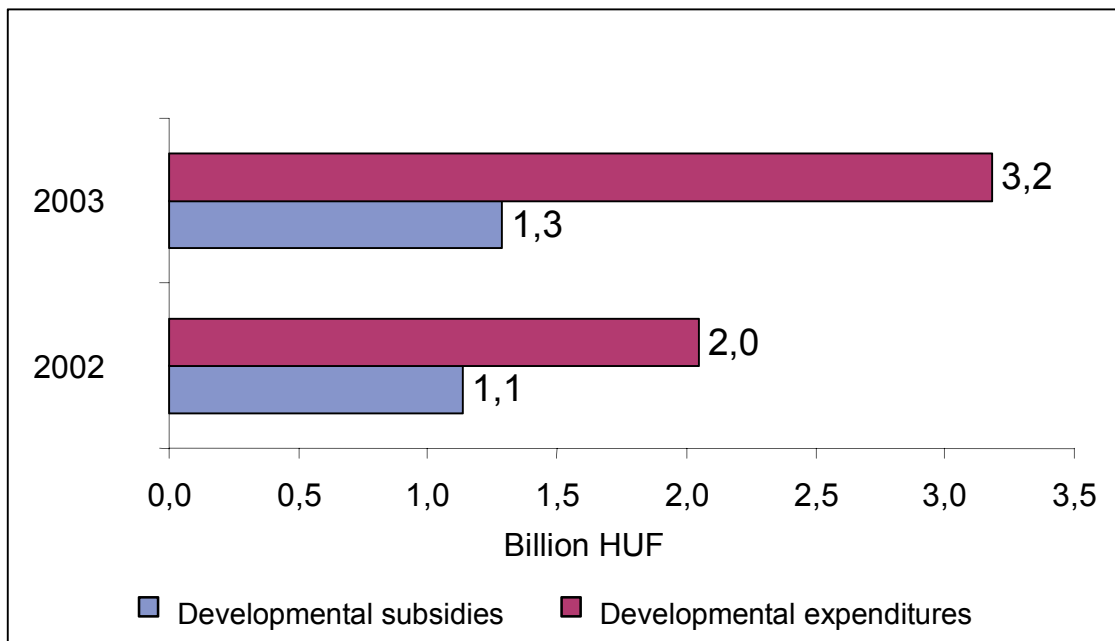


Figure 3. Summarized developmental subsidies and expenditures (Source: authors' own investigation)

3. ábra: Összesített fejlesztési támogatások és kiadások (Forrás: saját adatgyűjtés)

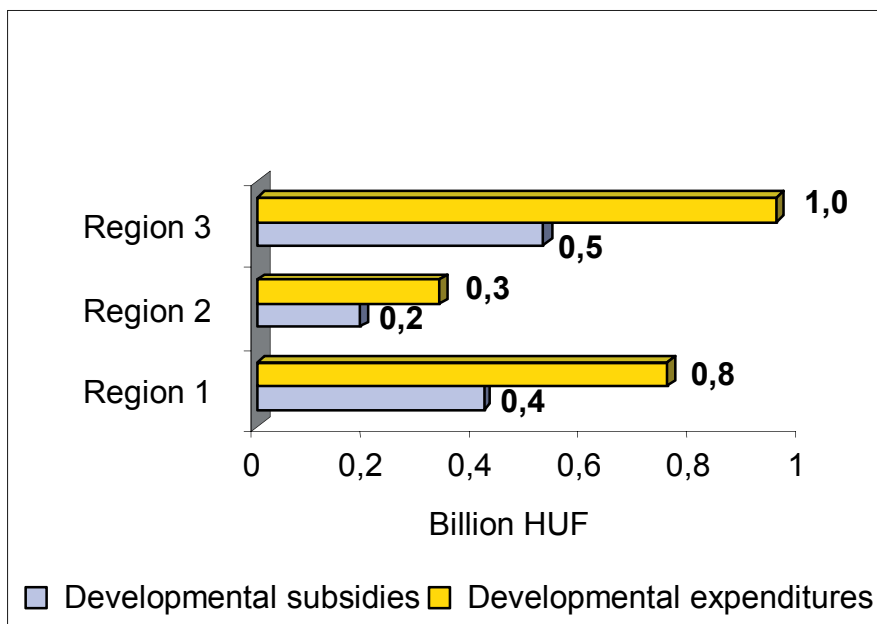


Figure 4. Developmental subsidies and expenditures in 2002 (Source: authors' own investigation)
 4. ábra: 2002-ben a fejlesztési támogatások és fejlesztési kiadások viszonya (Forrás: saját adatgyűjtés)

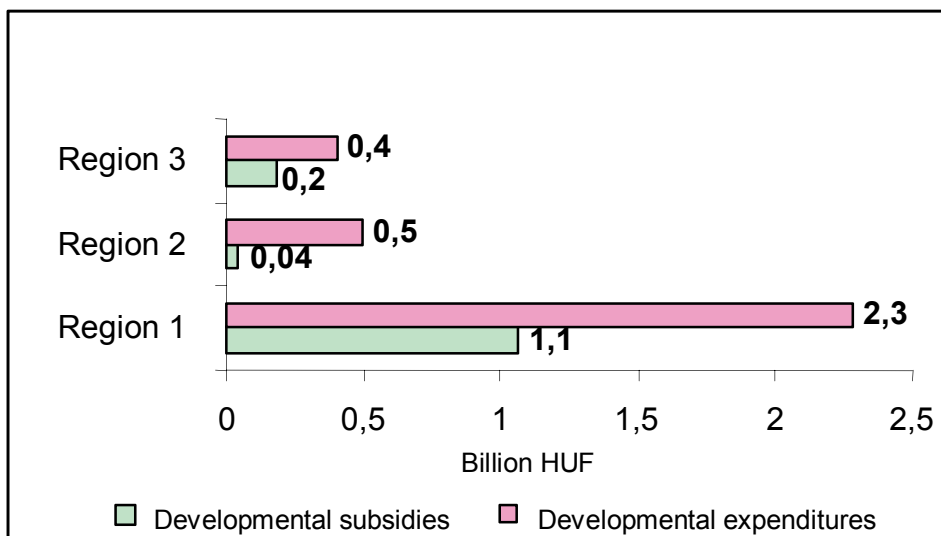


Figure 5: Developmental subsidies and expenditures in 2003 (Source: authors' own investigation)
 5. ábra: 2003-ban a fejlesztési támogatások és fejlesztési kiadások viszonya (Forrás: saját adatgyűjtés)

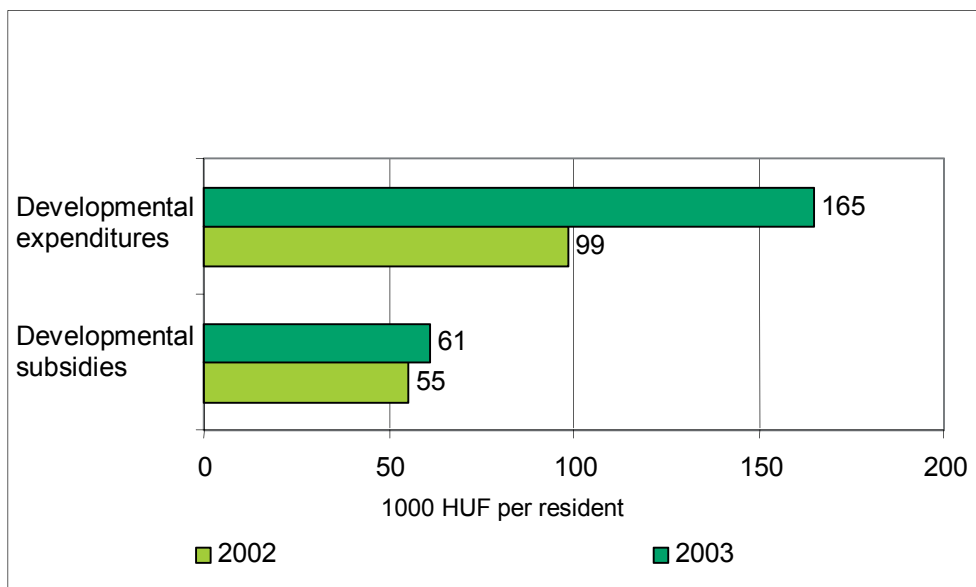


Figure 6: Developmental incomes and expenditures per resident in 2002 and 2003 in the three region (Source: authors' own investigation)

6. ábra: 2002-ben és 2003-ban az 1 főre jutó fejlesztési bevételek és kiadások összege a három régióban (Forrás: saját adatgyűjtés)

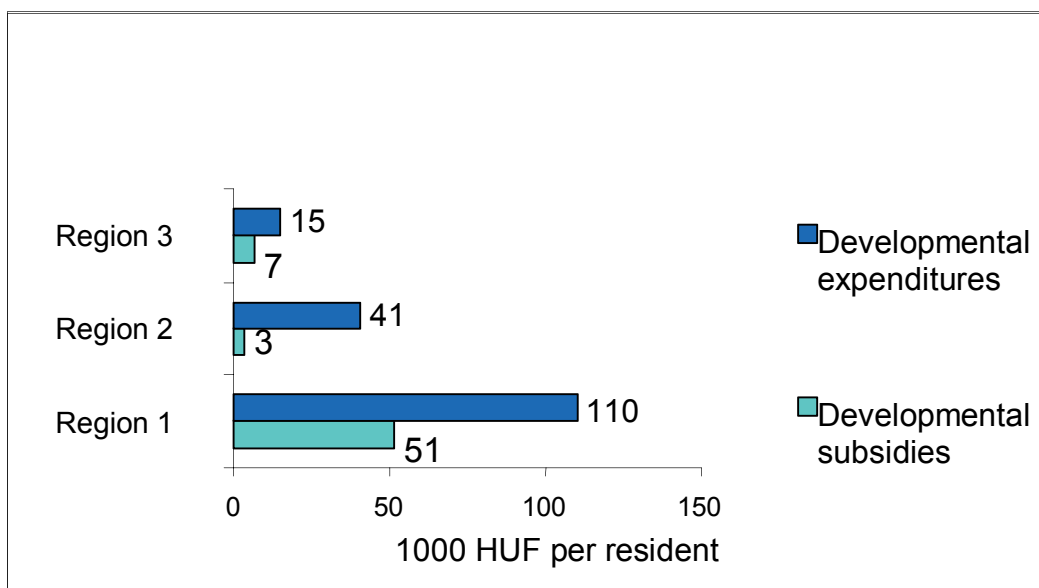


Figure 7: Developmental incomes and expenditures per resident in 2003 (Source: authors' own investigation)

7. ábra: 2003. évben az 1 főre jutó fejlesztési bevételek és kiadások (Forrás: saját adatgyűjtés)

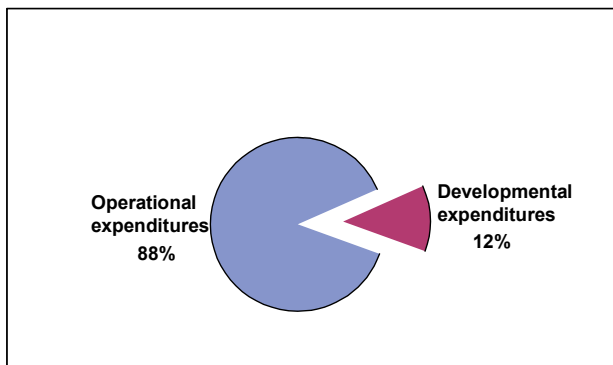


Figure 8: Expenditures in Region 1 in 2003 (Source: authors' own investigation)

8. ábra. Kiadások megoszlása az 1-es régióban 2003-ban (Forrás: saját adatgyűjtés)

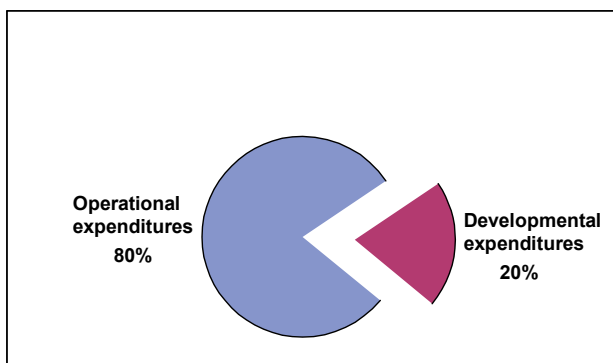


Figure 9: Expenditures in Region 2 in 2003 (Source: authors' own investigation)

9. ábra: Kiadások megoszlása a 2-es régióban 2003-ban (Forrás: saját adatgyűjtés)

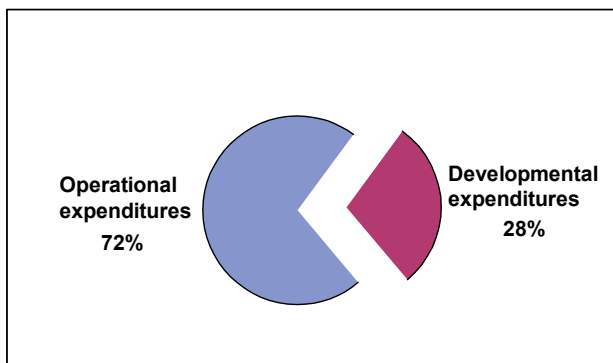


Figure 10: Expenditures in Region 3 in 2003 (Source: authors' own investigation)

10. ábra: Kiadások megoszlása a 3-as régióban 2003-ban (Forrás: saját adatgyűjtés)

RESULTS

Firstly, the ratio of developmental incomes and expenditures to the total incomes and expenditures (in the examined areas) was investigated. To summarize data of 2002 and 2003 in the three examined areas, we can see that both income and expenditure increased on average. From 2002 to 2003 the growth was 12,5% for incomes and 14% for expenditures. Revenues and expenditures can be either operational (related to the everyday activities) or developmental (related to investments and major improvements). Figure 2 shows that a great part of incomes comes from operational and normative state subsidies. Local taxes – as the municipalities' own income sources – mean only a very little proportion of the financial resources in the three areas. Incomes do not balance expenditures, so to decrease the deficit, municipalities need loans or they have to sell their assets. Developmental subsidies represent only a small proportion, although investments and developments could be implemented only from these resources. There is no a significant change in the sale of assets, the income coming from it is more or less the same in the two years. Most of the expenditures is operational. The sum of operational subsidies and expenditures exceed significantly the amount of developmental incomes and expenditures.

The income of municipalities can be divided into regular and non-regular incomes [2]. Normative state subsidies, income-tax supplement, automobile taxes, local taxes, incomes from the national insurance budget and from institutions are regular incomes. Subsidies from tenders, incomes from privatisation, enterprises and inhabitants are non-regular incomes [2].

The Act on Municipalities in Hungary gives the right to the municipalities of the allocation of resources. The act determines the income sources as well. The determination of local taxes is the right of the local governments, too. These are the follows:

- Local taxes: industrial tax, business profit tax (80% of taxation incomes come from this), property-tax, tourism-related taxes. Half of the 3200 municipalities imposed industrial tax and third of them determined property-tax. Municipalities are allowed to determine the price of local services as well.
- Shared taxes: the most important is personal income-tax. In the year of the establishment (in 1990), the full income from this tax was left for municipalities. In 1991 only 50% of it was left for local governments (the other 50% was absorbed by the national government), while in 1993 the share of local governments decreased to 30% and increased to 40% in 1999.
- Central budgetary subsidies:

- a.) normative subsidies: 80% of all central subsidies
- b.) special state subsidies: 10% of all central subsidies
- c.) addressed state subsidies: 10% of all central subsidies

- Loans

The function of local governments is basically determined by the balanced distribution of central and local incomes. In Hungary, the share of local budgets is 13-17% of the national GDP, which is relatively high ratio in international comparison. In the period of 1991-1996, the financing of municipalities was deficient. After 1990, local budgets were affected by serious central budgetary restrictions. Local incomes, local taxes, privatisation programs and the cession for municipalities could not balance the 31% decrease in governmental transfers in the period of 1990-1998 and the incomes for local governments could not keep abreast with inflation. However, from 1996-1999, the assessed municipalities showed balanced budgets. They decreased their expenditures and increased their incomes, mainly by selling assets and privatisation. Income from privatisation covered local investments and decreased the level of indebtedness [3].

Figure 3 shows that 55% of developmental expenditures were financed by developmental subsidies in 2002. This ratio was only 40% in 2003. Regional data show that developmental expenditure is the highest in Region 3, which is mainly due to the fact that investments are needed mostly in this area. This region belongs to the North Plain (NUTS 2) Region.

Regional data about developmental subsidies and expenditures show interesting facts in the examined period. While in 2002, Region 3 received the highest amounts of subsidies followed by Region 1, Region 2 received only rather small amounts of subsidies (Figure 4.). In 2003 there was a change: Region 1 received 1,1 billion HUF, Region 2 received 42,3 million HUF and Region 3 received 0,2 billion HUF developmental subsidies (Figure 5.).

The summarized data for the three regions (Figure 6.) show that developmental subsidy per resident increased by 11%, developmental expenditure per resident increased by 67% from 2002 to 2003. In spite of the increase, developmental subsidies still do not cover expenditures. So municipalities have to utilise other funds as well. These could be funds from various tenders, commercial bank loans or the income of selling their assets.

The operation of ELMIB Inc. makes it possible for municipalities to implement investments without loans, because the company takes the loan burden over and provides a complex investment contract for the municipalities.

The developmental subsidy per resident is the highest in Region 1 (51,000 HUF/resident), it is 3,000 HUF in Region 2 and 7,000 HUF in Region 3 (Figure 7.). 46% of developmental expenditure was covered by subsidies in Region 1 and 3, while this ratio was 7% in Region 2 in 2003. The ratio of operational and developmental expenditures was also investigated in the three regions. In Region 1, 88% of expenditures is operational and 12% is developmental (Figure 8.). In Region 2, the ratio of operational expenditures is 80%, the ratio of developmental expenditures represents 20% (Figure 9.). In Region 3, the ratio of operational costs is 72% and 28% of expenditures is for development (Figure 10.).

The sum of incomes and expenditures in the three examined region shows significant differences. Operational expenditures represent the greatest part of municipal expenditures, while developmental expenditures represent only a small ratio. Regarding the fact that the infrastructural level of Hungary is low, the aim is to improve the above ratio, because the accumulation of national and foreign capital can take place only in locations where infrastructure is developed.

CONCLUSION

The level of infrastructure in Hungary is not appropriate and we can say that municipalities have only limited financial tools for development. This justifies the operation of infrastructure investment companies such as ELMIB Inc., which raise loans from commercial banks and give these funds to municipalities in the form of complex development programmes. Without these funds, municipalities can complete their developmental funds only by tender funds. Governmental subsidies are investment-centred and do not consider the operational problems arising after the completion of the investment. Municipalities can implement remarkable investments with the contribution of ELMIB Inc., because they do not have to raise loans directly from commercial banks. They receive funds (through ELMIB Inc.) under favourable conditions so they have the chance to start further investments financed from other funds. After the duration of an investment implemented through ELMIB Inc. the costs decrease and significant savings can be achieved. Because of economies of scale the unit costs of larger investment projects are more favourable: both operational and investment costs decrease.

The exiguous disposable funds available for municipalities to implement their investment plans can be enlarged significantly in the above way. Thus the level of infrastructure in rural areas can grow up to the European expectations, the living standard improves, all

for a liveable environment.

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