

The Role of Local Governments in the Development of the Local Economy: International Findings in Light of Hungarian Case Studies

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Abstract This paper evaluates the economic development activities of several Hungarian local governments (LG), by taking into consideration the analogous measures assessed worldwide. Based on the summary of the literature we show that the role of local governments in local economic development (LED) has become strategic over the last few decades, as local governments have been able to mobilize resources and coordinate the stakeholders of local development in line with local requirements as a result of their position. For evaluation purposes, five dimensions of LED are applied. A typology of local economic development strategies is developed by using a conceptual scale ranging from (a) demand-oriented strategies, which focus on the satisfaction of the needs of the population, to (b) supply-oriented strategies, which focus on business support and the promotion of local investment.

Keywords: • local governments • typology • business-oriented development • holistic development • community-focused development

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1 Introduction

The term 'Local Economic Development' in the 1990s predominantly involved activities like the elimination of obstacles hindering economic growth, the management of the problems that arise from the imperfect operation of the market, and the creation of jobs (Farágó 1991; Bingham and Mier 1993; Blair 1999). However, more recent approaches¹ have defined local economic development (LED) as a conscious strategy by which local stakeholders and institutions aim to promote the most efficient use of local resources (Capková 2005; Bajmóczy 2011; Lengyel and Bajmóczy 2013). As such, the focus of LED is broader than merely meeting economic goals. It is aimed at implementing quality changes such as transforming the employment structure, managing social problems, or improving quality of life (Puljiz 2004). This paper uses the latter, broader concept of LED.

The focus of local economic development is constantly changing in line with economic, social and environmental challenges (World Bank 2004). From the 1960s to the early 1980s, LED concentrated on investing into physical infrastructure. During the second wave of LED – from the 1980s to the middle of the 1990s – the focus was on the preservation and growth of existing businesses. From the 1990s onwards, the concept of LED concentrated on soft infrastructure investments, public private partnerships, network-building and organizational development. Regarding the actors involved in local economic development, the role of local government has been strengthened during the last decades to the extent that – according to certain approaches – economic development is the primary responsibility of local governments. Based on this concept this World Bank publication aims to evaluate not only the activities of local governments (LGs) in economic development, but also LED as a strategic tool for managing local challenges. The analysis focuses on LGs operating in areas with complex structural disadvantages, as this situation puts particular emphasis on LED.

2 Conceptual framework and theories

Should the state interfere with economy and, if so, to what extent? This question continues to be subject to debate. Numerous researchers have claimed that these two sectors exist in a mutually complementary relationship, and that the state evidently depends on the economy as it needs income to operate. However, the issue of the necessity and extent of state interference is subject to controversy (Block and Evans 2005). Proponents of *laissez-faire* philosophy claim that the economy works optimally if the state does not interfere. In contrast, many economic sociologists (i.e., Weber, Polányi, and Granovetter) have proved that the economies of different cultures are deeply embedded in social and political structures and institutions. Block and Evans (2005, 505) – among others – also add that embedded institutions change dynamically due to innovation, and this reflects on the relationship between the state and the economy.

During the last 20–30 years there has been a shift in Western Europe and the USA towards a new kind of development policy – governments have realized that they are now 'forced' to deal with economic problems (high unemployment rates, low real wages, budget deficits, and so on) and to interfere with the operation of the market. Although there are debates regarding the consequences of this process, interfering with local economies is today a global trend.

In the USA this is typically undertaken by providing support for the research activities of companies and for industrial modernization, and also by providing capital and training to companies and small businesses (Bartik 1991). Since 1979 the UK has been following a 'third way' policy that promotes equal opportunities and the involvement of citizens in the government. The importance of LGs has increased in economic development since the 1980s due to the need to address local priorities and demands, and the system of governments and EU funding (Bennett *et al.* 2004, 211).

As for the countries of Central Europe, the shift came after 1990 due to comprehensive social and economic changes when social and economic problems culminated. The liquidation or transformation of large industrial and agricultural companies, increasing unemployment, and growing social inequality forced LGs to extend their activities; namely, to fulfil their increased social duties by facilitating local development. This was not the typical case in these countries until this time.

The negative impacts of the economic and social transformation from socialism were felt more strongly in rural areas where the gap left by the liquidation of uncompetitive state-owned companies was not filled, or only gradually filled by new investors and local businesses with significant employment capacity (Buček 2005; Lengyel and Bajmóczy 2013). Local governments that found themselves in a difficult situation due to structural changes (mainly in industrial locations) were forced to deal with social problems alone, while increasingly having to meet the challenges of the market (Pearce and Mawson 2003; Capkova 2005). Central Europe was characterized by a policy of decentralisation with the main goal of integrating local needs into governance. As a result of these processes, the role and responsibility of LGs increased significantly with regard to economic development (Capkova 2005).

In general, globalization trends have increased the significance of the local: solutions aimed at dealing with problems locally are gaining in importance, and municipalities are being forced to specialize to benefit from their comparative advantages (G. Fekete 2013). Local governments play a strategic role in this process as the organizations that are in a position to include, mobilize, and coordinate different stakeholders: the local population, businesses, NGOs, companies, and volunteers (Bennett *et al.* 2004; Capkova 2005). Therefore, the involvement of LGs is a necessary but not sufficient condition since LGs are dependent on government, other stakeholders and funds, and, as such, cannot engage in local development alone (Pearce and Mawson 2003; Bennett *et al.* 2004; Mezei 2008).

3 Trends and facts

3.1 Decentralization and LD

For several decades the relationship between the level of decentralization and the rate of economic growth has been investigated as a focal question in international research into local government and local economic development. Countries that implemented decentralization policies have a multi-tiered system of government wherein lower levels have independent tasks, competencies and budgets. Local governments play an important role in distributing funds as they have more information about the needs of local residents – provided that the principle of subsidiarity is adequately implemented within the government structure (Vigvári in Tóth 2014).

However, research shows that although fiscal decentralization contributes to economic growth to a certain extent, beyond a certain level the relationship becomes negative (Thiessen 2003). Furthermore, the effect of decentralization is greater when it is supported by a reliable, high-level institutional environment (Buser 2011; Kyriacou *et al.* 2015). Nevertheless, there is some controversy regarding the relationship between decentralization and territorial disparity, and many researchers have attempted to identify the direction and defining factors of these relationships (Canaleta *et al.* 2004; Rodriguez-Pose and Ezcurra 2009; Kyriacou *et al.* 2015). Some researchers have found that an increase in fiscal decentralization leads to a decrease in regional disparities (Ezcurra and Pascual 2008). Other papers show the more complicated interdependence between the degree of decentralization and territorial disparities and draw attention to the fact that other conditions are also decisive in this matter (for example, the level of economic development, and the state and quality of institutions). Rodriguez-Pose and Ezcurra (2009) found that there is a strong correlation between the results of fiscal decentralization and the level of economic development, and the degree of redistribution and the level of regional disparity within the affected country. In high-income countries, the delegation of governance to a local level results in a decrease in regional disparities, while in low- and medium-income countries fiscal decentralization increases regional disparities.

According to a paper that evaluated local development efforts in the context of the EU, the structure and comparison of local and central government spending is a suitable indicator for highlighting the role LGs play in development (Rusu 2014). In the EU, an average of 11% of local-level budgets are dedicated to tasks related to the economy. In some Member States (for example, the Czech Republic and Ireland) this proportion is over 20%. General public service spending (for example, the operation of political organizations, and general public administration spending) is important from the perspective of local economic development. These factors account for 20% of local budgets, on average, within the EU, albeit with significant differences among Member States (Rusu 2014).

Our analysis which is based on the following case studies on the LED activities of Hungarian settlements support the hypothesis that the delegation of responsibility for governance to lower, local levels has a notable effect on sustainable economic growth and development. However, the extent of this effect largely depends on the characteristics of the governance and institutions and on territorial disparities.

3.2 Roles of local governments

Most countries have no legally binding rules that specify whether local governments are required to be involved in local economic development. If a LG takes on this role, it is added to its responsibilities as an additional function. Such LGs perform an 'integrated economic development role' (Pugalís and Tan 2017, 6). The participation of LGs in economic development may vary greatly. The extent and type of interventions depend on a number of external and internal factors such as demographics, the characteristics of the economic environment, and the available financial and human resources and decision-making factors that have an effect on economic development. The economic development activities of local governments are traditionally divided into two categories: (i) grants designed to incentivize businesses that have the potential for greater economic development, and (ii) strategic initiatives for changing tax, budget and government policies to facilitate the growth of the local economy (Bartik 2003).

Based on international studies (ICMA² data collected in 2004), the most typical economic-development-related activities of local governments are providing support for private investments and job creation. However, as recent research shows, there is a growing trend for LGs to take on activities beyond their traditional role that serve wider social interests (meet the needs of minorities, disadvantaged groups, and so on) and to promote the fairer distribution of the costs and benefits of economic development (Morgan 2009, 2).³

As far as everyday practice is concerned, local governments may play a very varied role. On an international scale, the most typical areas of activity are the following (Pugalís and Tan 2017): infrastructure development and wealth creation; the business-friendly planning of land use; business support; cooperation; networking; lobbying and promotion; the strategic planning of economic development; undertaking feasibility and capacity studies; developing business cases; and conducting sector-based research and stakeholder mapping exercises.

Leight and Blakely (2017, 139–141) have identified four roles of local governments: LGs are 'coordinators' of different actors; they are 'facilitators' regarding their attempts to improve the environment of the local community; they are 'stimulators' as they can promote the creation of local businesses; and LGs are also sometimes 'entrepreneurs or developers.' LGs can use common land or buildings for economic purposes to benefit the community.

LGs may perform their LED activities through different structures: some LGs have a planning department to implement economic development functions (an ‘in-house model’), while others outsource these activities to external service providers (for example, NGOs) (an ‘arms-length model’). Numerous LGs use a mixture of these two models and vary the method used for economic development based on changing circumstances, requirements and priorities (Parker and Donaher 2012).

As demonstrated by various studies, the spectrum of the roles of local governments is extremely wide; there are significant differences between countries but there is a common trend for LGs to increasingly promote partnerships, cooperation and innovation. Additionally, it is now an important task of LGs to collect and use local knowledge and to support, empower and coordinate existing and potential economic operators to increase the effectiveness of their cooperation (Bartik 1991; Pearce and Mawson 2003; Bennett *et al.* 2004; Capkova 2005; G. Fekete 2013; Pugalis and Tan 2017, etc.). Best practices show that networks based on common interests may prove to be a stable form of coordination if membership is limited to the partners that may contribute to local economic development with significant resources, especially if the roles of members are balanced. Local governments often act as catalysts in such partnerships (Tello 2010).

In Hungary over the last 6–7 years the government has manifested a strong desire for local governments to organize farming. This preference has been manifested in various tender-based subsidies offered for local governments. As result, the roles of local governments have expanded to include this new task, themselves becoming market actors (See e.g. Lendvay and Nagyné 2013; Váradi 2015; Molnár *et al.* 2018).

4 Comparative case studies

4.1 Assessment criteria and LED Factors

The selection criteria for the location of case studies were that the settlements should be located in a disadvantaged area, and that the respective local governments should act according to a complex model of settlement development. In the selected case study settlements local economic development is based on the cooperation of numerous institutions and local interest groups (e.g. local government, cooperatives, and non-profit organizations), while the above-described stakeholders in development use a sophisticated system of development tools, including participating in domestic and EU-funded programs and launching local initiatives with a focus on the training of human resources. Based on our preliminary research into the orientation of local government participation, we have chosen different types of cases that cover several types of LED strategies. In particular, we wanted to include into our sample both demand-oriented strategies that focus on citizens’ needs, and also supply-oriented LED strategies that focus on the interests of local businesses. The aim of this qualitative research was thus to create

a typology of LED strategies through analysing the complex economic development practices of municipalities of disadvantaged settlements in Hungary.

The LED Factors taken into consideration were as follows:⁴

1. The main characteristics of the settlement, such as the size of the settlement; factors arising from determining geographical features and endowments, infrastructure and other physical factors; the social characteristics of the settlement and the main characteristics of the population;
2. Resource endowment (financial resources; human resources; institutional resources; technological resources);
3. Strategic planning, the system of tools of the LED (governmental roles; form of strategic planning; direction of development; objectives and devices);
4. Cooperation and coordination (local actors involved in LED; extent and type of cooperation; methods of promoting co-operation; means of coordination);
5. Innovation and sustainability (innovative elements of LED; sustainability factors and predictors).

5 The Bácskaháza case study⁵ – 'Business-oriented' development

5.1 Main characteristics and available resources of the settlement

Bácskaháza is a district centre in the south of Hungary near the Serbian border. The settlements in this area are faced with a complex set of disadvantages. The population of Bácskaháza is in constant decline. In line with local endowments and traditions, the majority of businesses are active in the field of agriculture and food. The system of local public service institutions is comprised of several participants, and most institutions are operated through inter-municipality cooperation. The municipality has a kindergarten, an elementary school, a cultural centre and a 'training' swimming pool. The infrastructure of social and health-care institutions is well established. A family assistance office, an employment office and a clinic are also available. Besides the relatively large population (6853 people in 2018), the reason for the well-established infrastructure is the idea of the local government that providing sufficient quality public services is a precondition for stopping further population decline and fostering the development of the local businesses that create jobs.⁶

5.2 LED orientation and strategies

The economic development activities of the local government have two dominant elements: on the one hand, they involve implementing measures to improve the employment- and income-generation conditions of the local population, while on the other hand they support local businesses by sustaining the conditions and business services necessary for their operation. In recent times, the priorities within these two elements have varied depending on changes in the macroeconomic environment. In the wake of the crisis of 2008, the priority was to help those employees who had lost their jobs on the primary labour market. Following this, in the last few years the economic development activities of the local government have focused on providing support to local businesses. Beside developing existing enterprises, the local government has paid more attention to motivating those economic actors who were either looking for local (Bácskaháza) employees or intended to establish a company within the settlement.

5.3 LED toolkit

From the beginning, LED was based on a process of collective systematic thinking founded on a knowledge of local capacities. As the economic crisis of 2008 unfolded, the local government started to offer jobs to employees who had lost their jobs on the primary labour market. These were agricultural jobs in the framework of various public employment programs, financed by central government funds. A large number of these jobs were created and maintained by the agriculture-oriented public employment programme 'START' which started in 2011. Most of these workplaces were created on the fifty hectares of land and farm buildings owned by the local government. As a part of the program financed by central sources, the nearly 200 workers in public employment started cultivating arable crops, fresh vegetables, hothouse vegetables and producing seeds and raising plants under the management of agricultural experts.

The goods locally produced were primarily used for local consumption: products were sold to local mass catering institutions and directly to locals. A common brand was created (*Bácskaháza Portéka*) for the locally produced food and craft products which has also supported the marketing of the products of local businesses, such as goat cheese, meat products, and craft products. A local shop was opened exclusively for branded products, which are promoted at local and national events and on the internet. To facilitate local consumption, the local government operates a voucher scheme to provide locals with non-monetary aid. In spite of such measures, the lack of demand is the current challenge of this LED strategy, which is based on food production. Therefore, the local government must find and create sales channels that go beyond local markets.

5.4 Coordination and partnerships

During the last decade, the legal form and the ownership structure of the economic activities of the local government have undergone changes. In the first years LED activities were undertaken by the employees of the local government. Later, a non-profit limited company was founded (owned exclusively by the local government) that creates vegetable-based products with the involvement of the locals that take part in the public employment programme. Additionally, a few years ago the local government established a cooperative to process vegetables and fruit and to sell products. Subsequently, the LG established another social cooperative with a new profile: this initiative offers various services to businesses active in the agricultural sector (e.g. outsourcing workers, or providing services using farm equipment). The local social cooperatives have received considerable funding from external sources.

The local government has taken steps in recent years to extend economic relationships with entities outside of the village by contacting the municipalities, businesses, manufacturers, and consumers of the LEADER community of the area.⁷ The goals were the following: organizing the network of product producers, exploring regional markets, aligning manufacturing, and offering a competitive product portfolio.

5.5 Innovation and sustainability

The employment of agriculture and food industry experts has been a top priority for the local community. This was regarded as a precondition for creating high quality products and of mobilizing local, existing resources, such as assets of arable land, real estate, knowledge and traditions. Operational risks have been reduced by organizing activities into clearly separated organizational units. As a result of this, the operation of the overall system has not been endangered, even though one of the co-operatives has experienced problems. While the local consumption of locally produced goods is the focus, the key to the sustainability of the Bácskaha economic development program is reaching external markets. For this purpose, steps have been taken to identify market partners with greater demand for products.

Due to the macroeconomic changes of recent years, the focus of LED has changed in Bácskaha. Today, the primary goal of the local government is to create a business environment that supports local businesses that have the potential to create a significant number of new jobs. Additionally, the LG promotes external enterprises that are willing to utilize local resources. This is a change compared to the previous strategy of the LED, which was focused on directly satisfying labour needs. This change of direction in local development strategy has been reflected in the institutional background, in the infrastructural characteristics, and in the resulting partnerships.

6 The Tófalva case study⁸ – ‘Holistic development’

6.1 Main characteristics and available resources of the settlement

Tófalva has a population of 780. The village is situated in an area of small villages with extremely unfavourable economic and social indicators. Tófalva itself is among the more fortunate, medium-sized municipalities in the area. The reason for its better economic situation is partly the four-star “wellness” hotel that opened twenty years ago, and partly the relatively large number of businesses that were founded after 1990 on the ruins of the state farm of the village. After the transition, the state farm was privatized and the resulting businesses (mainly animal breeding and cereal-producing enterprises) have since been run by skilled agronomists who previously worked for the state farm (Keller 2016). According to the mayor, another decisive factor is the Swabian⁹ origin of the population and their proactive mentality.

However, the depopulation trends of the area have affected Tófalva too – the number of inhabitants has decreased by 200 over the last 20 years. The most important goal of the local government is to stop the depopulation of the village. A complex system is in place to support this goal, including reduced rents, favourable conditions for buying real estate, and recruitment assistance. As a basic concept, the programme looks for young families with the skills to meet local demand who are open to staying in the village for the long term. They do not try to hang on to those highly skilled young people in the village who cannot find jobs that match their qualifications nearby (a widespread strategy in other places).

Another condition of eligibility for support is that applicants should send their children to local educational institutions, as keeping these open is a priority for the mayor. While closing different institutions and rationalization was a trend in previous decades, Tófalva has managed to keep its primary school and kindergarten open. A doctor (a general practitioner), a post office and a library are also available in Tófalva. The majority of local services (public lighting, wastewater treatment, a village bus, and so on) are operated by a successful non-profit limited company (with six or seven permanent employees) that was founded by the local government. Thus, the local government is able to provide services that are not financed from the state budget in such small villages any more – for example, a post service. Moreover, although primary schools are now managed by the state due to the centralization efforts, the primary school of Tófalva offers some extra options that make the institution and the students more competitive (for example, by providing infrastructure for IT training that meets the requirements of the twenty-first century).¹⁰

6.2 Local development policy

Local development policy aims to both serve the interests of the community and create a business-friendly environment (a holistic approach). This is clearly seen, for example, in local infrastructure development measures and from support for business development. While the local government makes great efforts to serve the needs of the local population in a comprehensive manner, it is not forced to make great sacrifices to provide jobs as unemployment is very low (four people are currently involved in the public employment programme and three in another employment programme).

In 2011 a social cooperative was initiated by the mayor in Tófalva using EU funds,¹¹ with the participation of six locals. The cooperative employs disadvantaged locals and produces fruit and processed goods. The cooperative is currently at the financial break-even point and is expected to generate a profit in the next one-to-two years by developing sales channels. The next phase of the programme will aim to involve disadvantaged persons from neighbouring villages: the cooperative will buy and sell the goods that are produced and collected by participating families. The concept is under development currently. The plan is to provide microcredit to families so they can buy the necessary seeds and tools, and to hire an expert to help them with agricultural activities.

The mayor is committed to elaborating and implementing a long-term strategy and has invited an expert team – a professor and students from Corvinus University of Budapest – to facilitate local development by drawing up detailed plans and suggesting areas for local co-operation. Since the activities of the local cooperative are seasonal a contract was created with the local wellness hotel to provide employment for the members of the cooperative during the winter season. Experts are currently working on defining the conditions of a microcredit scheme.

6.3 Coordination and cooperation

The key to the success of the mayor is his openness to cooperating with a wide range of local stakeholders, including the above-mentioned social cooperative, the non-profit limited company, some local consultancy businesses that offer support for innovation and writing tender applications, and local NGOs which are active at organizing local events. The mayor also maintains close relationships with neighbouring villages and their local governments. These municipalities are taking part in several tenders together and the primary school is shared with the neighbouring village.

6.4 Future: innovation and sustainability

The settlement has a complex municipality development programme which has been built on expert insights. Some elements of the programme are innovative, such as the activities of the non-profit limited company devoted to improving education and supporting IT

knowledge. Similarly, the agreement between a big local enterprise and the social cooperative regarding agricultural workers' seasonal employment and the sale of local products in the wellness hotel can be regarded as innovative. Together, the local government and the cooperating institutions and experts make up an alliance that is able to react to new challenges in a flexible manner and enables the village to maintain its leading role and favourable economic situation in the region, despite its small size.

Even though the municipality is small, the conditions for the success of local development seem to be in place – the local government has a relatively large budget due to local business tax and tourism tax income and development is based on sound strategies and business-oriented thinking, while the needs of local people are also taken into account. (A holistic approach; see Bennett *et al.* 2004). The mix and mentality of the local population is favourable, and development work is supported by an adequate infrastructure and institutional background and highly qualified experts. Local institutions are involved in the LED process (such as the cooperative, a non-profit Ltd., the school, etc.), as well as entrepreneurs, NGOs and external experts too. Local stakeholders and institutions are well embedded in local society, the community is balanced, and the local government is able to play the role of a catalyst in this cooperative effort (Tello 2010).

7 The Zsákfalva Case Study¹² – ‘Community-focused’ development

7.1 Characteristics and resources of the local government

The current village was built on a previously uninhabited area at the beginning of the twentieth century and was mostly inhabited by low-income agricultural workers (servants). The small village with its limited road connection has been an independent municipality only since 1993. All (100%) of the current population are of Roma ethnicity, with a low level of education and poor financial situation. The settlement was classified as “less favoured” in government decree No. 105 of 2015. In the village there is only one enterprise: a small shop. The elementary school in the village was closed in 2015 but the kindergarten was refurbished to a high standard in 2011 using EU funds. In 2013, a community centre was also built using EU funds. Education and health-care services are available in another settlement six kilometres from Zsákfalva, which serves as the centre of the sub-region. Social care professionals (child protection nurses and family carers) also come from here to provide services to the families in Zsákfalva.

Similarly, to most small villages in Hungary, the local government is the biggest employer in Zsákfalva, providing jobs to a large number of locals as part of the public employment programme. As the tax income of the local government is minimal (the village has a single active small business) the village is highly dependent on state and EU funds and sources. The majority of the locals have worked in different, primarily agriculture-related production and manufacturing programs. The local implementation of

these programs is personally coordinated by the mayor. Most of the locals have never entered the primary labour market, but this has changed significantly in recent years due to increasing labour shortages and the vicinity of the county seat. Consequently, for locals who had gained experience in the public employment program the chance of finding a job has increased. As a result of this, the number of participants in the public employment programme may decrease.

7.2 Local development strategies and tools

The local government has been actively farming on its own land and on leased land since 2011. Additionally, it has created a beekeeping business and a carpentry workshop by using various funds. These produce a small amount of goods for sale, but the primary objective has always been to supply the institutions of the village and to provide jobs for locals. Growth and business development were continuous until 2015. Since then there has been a decrease in the jobs provided by the local government and in the production of local goods. This is a consequence of the fact that the local government relies heavily on central budget funds and the government changed employment policy, its aim now being to enforce more economically sustainable operations and to “push” people towards the primary labour market.¹³

The mayor of Zsákfalva is undertaking all leadership tasks alone and manages all projects single-handed. One of the reasons for this is the low level of education of the local population: no one in Zsákfalva has a university degree, and the number of people with a high school diploma is also very low. Consequently, it is hard to find people who can undertake tasks that require qualifications, leadership, or professional skills. The local government is able to find local employees for administrative tasks, but it has inevitably had to hire external resources to fill the positions of kindergarten teacher, community house manager, and manager of the beekeeping business.

The development concept of the mayor can be said to be ‘community-focused’ because it mainly focuses on satisfying local people’s needs, creating local employment, and developing local reliable and responsible employees and community building. In the last eight years, programs were built on one another following strategic goals: expanding the lands owned by the local government, acquiring the necessary assets, hiring expertise, training local workforce, and developing community social services.

7.3 Coordination and cooperation

In the field of development, the mayor concentrates mainly on the municipality (instead of inter-municipality cooperation) and manages and coordinates locals, institutional stakeholders, and external experts with an all-encompassing, caring disposition.

Locals are employed by the local government farm which as part of the program also provides them with seeds and tools to start vegetable gardens at home. Excess vegetables are produced on the local government farm that are not consumed by local institutions are available for locals to buy at a reduced price (and even on credit for those who need it). Lunch is available free of charge (using state funds) and the village has a passenger van to provide transport to locals who need to visit the nearby town to deal with administrative matters. The community house (operated as a part of an Integrated Child Opportunities Programme¹⁴) provides social and community services. The method of coordination is typically paternalist; however, according to the testimony of various interviews undertaken with locals, the authority of the leader is based on respect. The local government undertakes all roles;¹⁵ it is not only a coordinator, but also a market actor.

7.4 Future: innovation and sustainability

The development tools of Zsákfalva can be regarded as innovative in the sense that they are aimed at locals' (re)integration into the labour market, human resource development and the utilization of local products (see G. Fekete 2013). However, the mayor – who directs all these tasks alone – is about to retire and no longer wants to take risks, although risk is an essential component of innovation. The development and innovation of local products is currently not a priority, which may be one of the reasons why the sale of these products in external markets has recently declined.

In summary, the community-focused LED strategy of Zsákfalva has been successful since it has reached its goal: the standard of living of locals is increasing, and the village is developing. However, it seems that this small, disadvantaged village cannot run social enterprises according to market principles in a rational, economically sustainable manner. In order to establish such a regime, the village would need support. As far as the prerequisites of sustainable development are concerned, several essential factors are lacking: the local government is practically unable to generate any income and it currently lacks a stable local institutional system and the human resources that would create the sufficient administrative and professional background for fostering sustainable local development. Moreover, most local development projects are isolated and are based mainly on social principles instead of business-oriented ones. If – according to the leader's plan – a couple of local young people (currently two) are successfully educated and become able to lead the village projects, there will be a chance to continue with the LED program, but only with continuous external support.

8 Conclusions

This paper evaluates the activities of LGs in economic development as a strategic tool for managing local challenges. Based on the summary of the literature we show that the role of local governments in local development has become strategic over the last few decades, as local governments have been able to mobilize resources and coordinate the

stakeholders of local development in line with local requirements as a result of their position.

After providing an overview of the relevant literature, five dimensions of LED were described. Based on research, we believe that these are the ones that have the largest effect on the success of local economic development. The effects of these dimensions on local economic development was analysed through three cases, which represented the different types of orientation of local governments. A typology of local economic development strategies was conceived and employed by paying attention to settlement size. We operationalized this typology by using a conceptual scale ranging from (a) demand-oriented strategies, which focus on the satisfaction of the needs of the population, to (b) supply-oriented strategies, which focus on business support and the promotion of local investment.

Our research shows that while the disadvantages affecting municipalities are similar, the paths of economic development activities are very different. These development trajectories as a rule are influenced by many factors. In particular, the size of the settlement influences the number of potential actors and the other resources that can be involved in the development process. If the basic resources of economic development are lacking, then the activities of local governments primarily focus on supplying immediate needs. This situation was illustrated with the case-study settlement of Zsákfalva. A business-oriented approach to economic development is characteristic of bigger municipalities that have better infrastructure, a wider spectrum of local institutions and service providers and a more significant consumer base. This situation was illustrated with the case-study settlement of Bácskaháza. However, the history of the village, the legacy of former activities, and the stratification of local society are also influencing factors. This situation was illustrated with the case-study settlement of Tófalva where local people are relatively better qualified and in a better economic situation, and there are more institutions and services than in the less well-developed settlement of Zsákfalva. As a rule, the LED strategies of settlements with a better knowledge base are also characterized – beside their striving to meet pre-existing social goals – by a significant business orientation.

As far as coordination is concerned, in smaller municipalities without appropriate human resources power is more likely to be concentrated in the hands of one person: a local leader. This facilitates quick reactions when decisions have to be made, but in the long term poses questions about the sustainability of the local system of economic development. In these places, the output and pace of local development depends significantly on external resources, a fact which is also highlighted in local plans and strategies.

The predominance of state dependence in the development of smaller and weaker settlements has resulted in so-called institutional isomorphism (DiMaggio and Powell

1983). This means that in the examined regions the institutions created as tool of LED show a great deal of similarity. As an example, one characteristic organizational form of development is the local food-producing social cooperatives directed by local governments. Nevertheless, differences in choosing the legal forms and ownership structures of the organizations that operationalize LED do exist, and typically depend on local influencing factors.

One general observation is that LED involves network-building activity which is primarily based on the co-operation of local public and private stakeholders; external players are rarely involved. Network-building nearly always involves the development of an organizational background: the local government, acting as the coordinating body, creates new organizational forms that help to improve the utilization of resources, to mitigate operational risks, and to facilitate access to markets. In smaller municipalities the key players in the network are the representatives of public administration; in the case of bigger municipalities there is a more significant chance that partnerships will be formed that integrate representatives of the for-profit sector as well.

The economic development concepts of local governments are generally characterized by a high level of innovation. Due to the lack of internal resources, the economic development activities of LGs that operate in areas with disadvantages are characterized by constant experimentation. This results in innovative, often groundbreaking solutions that usually adapt to challenges in a flexible manner and create new combinations of public-private and public-civil partnerships. As for the sustainability of these development models, based on the case studies the decisive factor appears to be whether a concept essentially tailored to local needs is successfully aligned with the wider development regimes of the area.

Table 1: Comparative overview of local development strategies of the case study settlements

Municipality	Main characteristics of the settlement	Resource endowment	Strategic planning, LED toolkit	Networking, Partnerships	Innovation, Sustainability
Zsákfalva	Small village, servant-legacy, 100% Roma ethnicity, low level of education and living conditions, poor infrastructure, little available land.	Lack of institutional and human resources, lack of incomes, state dependency, EU support.	Strategic thinking, complex development aimed at self-sufficiency, retreat from the market.	LG produces for internal market and local people, characterized by isolated operation.	Social orientation, goal is self-sufficiency, depends significantly on funding, sustainability depends on individual successors.
Tófalva	Mid-size, Swabian traditions, layered society, presence of professionals and entrepreneurs, good infrastructure, economic centre of the micro-region.	Qualified human resources, good institutional resources, own incomes +state/EU support.	Complex development, strategic thinking, direction of development: both community- and market-oriented (holistic).	Business function is separated from LG, strong cooperation of 3-4 institutions, good connections with nearby municipalities.	Innovative ideas, good cooperation skills, flexible organizational structure, sustainability is an important consideration.
Bácskahláza	Large municipality, strategic position in the sub-region, layered society, rich institutional system, good infrastructure, plentiful municipal land.	Rich institutional system, qualified human resources, own incomes +state support.	Strategic thinking; the role of the market is increasingly important, separation of institutions.	Extensive cooperation between local institutions, the local government is involved in business activities, but organizational profile is being streamlined.	Innovative ideas, experimental phase, strong orientation towards new government policy.

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**Notes:**

¹ Local governments play a key role in the process of creating an adequate environment for local enterprises (Czene and Ricz 2010). However, recent approaches have attempted to define the concept of LED based on a wider group of participating actors (Martin 2000; Pike *et al.* 2015; Bajmóczy 2011; Áldorjai and Topa 2015). However, according to a narrower approach the local development process is inspired by local governments and other community-directed organizations (Blakely and Bradshaw 2002). More generally, LED is interpreted as a process whereby public, business, and NGO sectors co-operate in order to create more favourable conditions for the expansion of economic growth and employment (Swinburn 2006).

² International City/County Management Association (2019).

³ In Hungary, a strong social orientation characterizes local economic development initiatives (Czene and Ricz 2010; G. Fekete 2011). Characteristic forms of the former include social land programs and social cooperatives, which are also used by the local governments in our case studies.

⁴ The precise definition and the detailed content of these factors have been explained by the authors in another paper, which has been also published in the present volume (see Márta Kiss and Katalin Rác: An overview of factors and policy measures influencing Local Economic Development).

⁵ The name of the case study settlement is a pseudonym.

⁶ The local government tries to encourage young people to stay by providing settlement- and rent subsidies.

⁷ The LEADER program is a European Union initiative aimed at supporting rural development projects initiated at the local level to revitalize rural areas and create jobs.

⁸ The name of the case study settlement is a pseudonym.

⁹ German Hungarians are the German-speaking minority of Hungary sometimes called the Danube Swabians. There are 131,951 Germanic speakers in Hungary (according to the 2011 census).

¹⁰ The school, with the help of the local government, joined a Microsoft program that provides software and computers to institutions. Additionally, the IT training in the school includes a course on programming robots.

¹¹ Supported by the EU co-financed Human Resources Development Operational Programme (HRDOP), Subprogramme 1.4.1 -15 “Professional support for Integrated Child Opportunities Programmes”.

¹² The name of the case study settlement is a pseudonym.

¹³ In 2015, the local government employed 65 locals as a part of the public employment program, but the respective number had sunk to 24 by 2018. A carpentry workshop was closed due to a lack of demand for its goods. The beekeeping business faced some difficulties too, but at present seems to be surviving.

¹⁴ Human Resources Development Operational Programme (HRDOP) -1.4.1 -15 Professional support for Integrated Child Opportunities Programmes.

¹⁵ Such roles are: political, ownership, definition of norms, authority, communication, employer and market (see Lendvay and Nagyné 2013).

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