

**Small enterprises
benefitting from START credit**

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Teréz Laky

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SME RESEARCH BOOKLET



HUNGARIAN
FOUNDATION FOR
ENTERPRISE PROMOTION

Small Enterprises

Benefitting From

Start Credit

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Teréz Laky

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Introduction

While from the end of the 1980s there are more and more small sole family enterprises we have less and less knowledge about their activities, sizes, actual economic values and the social origin of the entrepreneurs. In 1989 making statistics of the private sector (artisans, retailers and other individual enterprises) had been stopped and since the very beginning of the economic-social transformation there have been no or hardly any competent information about these units which are however the smallest ones of the economy but getting stronger in numbers.

In lack of relevant information about their situation and activities even extremely optimistic ideas could spring up – in political declarations above all – more than once using the mere figures as means to prove its being a prosperous group of the economy.

Maybe just this sudden increase should have awakened doubts: does it indicate success or is their coming into existence – as an English researcher had suspected it with good reason even in the interwar period – not the corn seeds of the economic renaissance but the chaff of the recession... (Foreman-Beck, 1985.)

Corn seed or chaff? In the process of the development of the market economy the knowledge about the actual situation of the small sole enterprises would be essential. For the moment – lacking a better one – we have to try to put the authentic picture together from the slowly-coming mosaics of the different part-knowledge.

That is the only aim of this work. It tries to convey knowledge about a particular small-sized group of entrepreneurs which start up their businesses with the help of the preferential, long term credit called Start. The group of some 3200 does not represent the people of several thousands with entrepreneur licence – but gives a picture of the people who try to start up the business life as an entrepreneur – or mostly as a self-employer – and they have undertaken the credit both with its advantages and disadvantages. To be more exact: the following study deals with the people who had been found viable by the banks among those applying for the credit. Therefore the „sample” was taken by the banks.

This sample which is small in size and different in many aspects from the characteristics of the ordinary Hungarian enterprises however provides an excellent opportunity (considering the conditions of becoming entitled to the Start-credit) to examine

- who (of what age, sex, business) get the possibility to start an enterprise or expand the existing enterprise with the help of the preferential credit?
- which areas of the economy are considered to be useful in long-term. What are the activities which are regarded by the entrepreneurs (and the banks) as capable to generate enough income of which the entrepreneurs will be able to pay off the credit and the interests?
- how well the enterprises are provided with capital. How large the invested capital is to what the credit was ordered for as an addition or help?

The figures of the examination were collected from the loan application forms. The form which had been originally worked out by National Association of Craftsmen required a lot of information about the entrepreneur: its former activity, business management, results, financial condition; about the activity which he wanted to develop with the credit, market situation to be expected; and a business plan about the following years, etc.

The original „Application form for START-CREDIT” was completed by the creditor banks with more questions according to their own crediting experiences. The banks had different requests; some of them wanted documents of the entrepreneurial past, others asked for a detailed description of the professional career.

The application form and the additional information were proved to be a very rich source.

The figures from the forms were entered to standard codeforms with the help of the banks participating in the research. The coding was done by the employees of the banks – mainly those who knew the cases thoroughly. At one bank beside the accepted orders for the Start-credit 272 refused orders were processed too. Their figures are occasionally used for control and comparison. We got hold of only these anonym codeforms, in this way we could perfectly meet our responsibilities for the banking secret and personal data-protection. However the collecting of data in this way beside the richness of the same-structured data carried in itself one of the serious limits of our examination: we could find no way to specify and complete the information we got on the codeforms. For this reason in some places the part-results we got had to be treated with reservations.

From the order-forms we did not ask for all the information (for example mother's name, place of birth, the number of the identity card, telephone number, tax number, etc. which are usually required in identifications or those related to the outstanding debts etc.) that are important for the banks but did not help our research. On the other hand we used up the special figures related to educational level, the existing and the planned number of the staff of the enterprise.

We have got this application form containing 279 codes from every applicants. The collecting of data took place between May and October 1993 (one bank sent its final data in the spring of 1994). Beside the data we received this way we used up different available information about enterprises.

One of the direct sources of information was the steadily processed database and evaluation of the same group of entrepreneurs who received Start loan at National Small Enterprise Development Office (NSED0).

The two types of the data processing – and partly the evaluation – have a lot in common but differ entirely in many aspects.

– Though the group of entrepreneurs is the same in both cases none of them is comprehensive. Some banks – in spite of the contracts – sent late or did not send the reports on the awarded credits. Therefore the sample of NSED0 could not be comprehensive.

To our research we received data from banks that failed to hand them over to NSED0 previously and two banks did not want to participate neither in our research. For that reason the data – according to our knowledge – of some 150–160 entrepreneurs do not appear in our sample which means that neither our is comprehensive.

– The data processing of ours and of NSED0 differed in many ways. NSED0 provided information directly to the Hungarian National Bank, first of all from the aspect of bank financing (though its analysis generally touched upon some important questions too). We ourselves concentrated on the three mentioned groups of questions and adjusted the aspects of the processing according to that (for example we classified the activities according to international classification system which has already been legalised in the Hungarian statistics too; we used less aggregate figures etc.). As a consequence of that we hope that we could succeed in providing new connections and knowledge even for those who found the carefully, extensively and reliably processed data of NSED0 satisfying.

The study consists of three chapters.

The first part presents the sphere of Hungarian entrepreneurs with a wide survey; mainly on the basis of the data of the Internal Revenue Service and with the use of two former analyses about the social-economic characteristics of the entrepreneurs. This chapter serves as a background to the examination of the entrepreneurs with Start-credit.

The second chapter sums up the credits targeting small entrepreneurs – Start-credit belongs to that – and this part calls the attention for the great difference between the credit supply and the entrepreneurial demand.

The third chapter is about the entrepreneurs who succeeded in receiving the Start-credit (comparing occasionally with the refused credit applicants). In the subchapters we present the characteristics of the new entrepreneurs and those who has already gained entrepreneurial experience and we show the crediting practice that judges the different activities.

We have to express our acknowledgements to many people for being able to prepare this examination. From the very beginning the research was supported and incited by National Association of Craftsmen, where Pesti Albertné was of a great help of us; the managers of OTP and Budapest Bank who were ready to offer their participation at our first appearance; Pulai Miklós who initiated to introduce the plan of the research to the Association of Banks and the representatives of the banks concerned; all the managers of the banks who gave us the opportunity to collect the data. We owe special thanks to the colleagues of the banks for always finding time to fill the codeforms beyond the mass of their daily work.

The whole work could come into existence with the help of the Hungarian Foundation for Enterprise Promotion above all – the prestige of the Hungarian Foundation for Enterprise Promotion could overcome the hesitation of the banks and undertaking the expenditures allowed us to carry out the research in practice.

The first summary of the research that can be regarded as a work material was discussed in June 1994 by a selective expert meeting consisted of the representatives of the banks concerned, researchers involved and the representatives of the National Association of Craftsmen and Hungarian Foundation for Enterprise Promotion. Several of them sent

their report in writing. The notes, comments helped the development of study and work out its final version. (As I declared in the meeting: the control of the data had been still in progress then. After the control many figures had changed and only the data which are published here can be considered competent.)

The manuscript – in different versions – was read and helped with advice to be more clear and exact by my three voluntary instructors: Fazekas Mária (Budapest Enterprise Agency), Pesti Albertné (National Association of Craftsmen) and Rónaszegi Bella (Hungarian Association of Banks). They helped me with patience to find the right way in the world of credit extension practice which I had hardly known before. I hope I managed to understand and accept their comments and advice.

Hereby I want to thank all the support I received. In return I believe that I can provide such knowledge that can be useful both in the economics and in forming the public opinion and perhaps even in the every day practice of the entrepreneurs and the banks.

Budapest, August 1994.

Teréz Laky

1. ENTREPRENEURS AND ENTERPRISES IN THE BEGINNING OF THE 1990s

In the autumn 1990 when the German government offered its help in reorganising the Hungarian economy there was a general confidence in the rapid development of the enterprises. Though the economy showed some signs of the recession (the collapse of the Eastern markets became obvious and May 1990 was the first time when the number of the unemployed people was greater than the number of the vacancies) state-owned firms were transformed into companies in large numbers, foreigners came with the intention to buy or establish a firm, a lot of small-sized companies, sole enterprises spread up.

The number of the corporations had doubled within a year (from 15 thousands in 1989 to more than 29 thousands in 1990), the number of the limited companies grew from 4 and a half thousands to 18 thousands. The appearance of the firms without legal entity and sole enterprises accelerated: in 1989 there were 30 thousands more sole entrepreneurs registered than in the previous year, in 1990 73 thousands more.

It seemed natural that this development claimed capital to invest especially in a relatively poor economy in what the citizens saved money, kept gathering for years to be able to buy a car, for decades to buy a flat and if somebody had more money he rather spent it on a journey, a better car, a better flat and in no case on a questionable-fated enterprise depending on the unforeseeable changes of the policy.

Though the offer of credit of the banks was seemingly plentiful the credits were practically impossible to attain for the small and sole entrepreneurs because of the high rates of interests moving together with the rate of the inflation and because of the conditions that served the safety of the creditors.

In this very situation came the credit limit offered by the German government that promised relief and was aiming – according to the principles declared at the beginning of the negotiations – to the starting small- and middle-sized companies in order to support them.¹

1.1. A few characteristics of the sphere of the sole entrepreneurs

In Hungary the sole enterprise became a civil right again in January 1990; the law on sole enterprise was passed in the Parliament this time (1990. V. Act).

The owners of the sole entrepreneur licences which could be taken out under the law embarked on accomplishing economic – businesslike as the law says – activity constantly in own name, for own risk in order to make profit.

In the great progress of structural transformations and firm foundations the sole entrepreneurial sphere which was becoming larger in numbers bore on itself all the marks of both the 40-year-lasting repression and the backwardness of the Eastern-European planned economies.

In the following we survey some of them; and try to sketch out whether a perceptible change happened in any of its characteristics.

1.1.1. The size of the sphere of the sole entrepreneurs

As everyone knows the private sector winked at only under the pressure of necessity for ideological-political reasons was unimportant till the first years of the 1980's. Its only typical and comparable indicator was perhaps the number of the employees.

In 1981 from the then 5 millions economically actives only 180.3 thousands belonged to the private sector, the 3.6% of the economically actives. The number of the employed people here includes the self-employers, the staff and the assisting family members.

The sole entrepreneurs who gradually obtained wider space, better functional possibilities consisted of three groups: the craftsmen who had the largest number, the retailers and the agricultural entrepreneurs amounting to one or two thousands.

As the operation-limiting rules slackened (for example workshop, employee limit, employee tax etc.) the sole enterprises started to grow slowly, carefully.

The great change took place after the transformation of the system; while the number of the employed people in sole private enterprises grew by 167.1 thousands within 9 years between 1981 and 1989 the pace of the increase within three years between 1990 and 1992 has risen twice: 360 thousands people. By the 1st of January 1993. 17% of the economically actives had worked for sole enterprises.

¹ A part of the report of the spokesman of the Government: „The Government had discussed the project related to the employment of the preferential credit amounted 100 millions offered by the Government of Germany... the German Government aims with the sum to support the starting small- and middle-sized enterprises.” (Népszabadság, 22th February 1992.)

Table 1

Numbers of the economically actives employed in soleenterprises in 1981-1993

in thousands

Year	Sole entrepr.	Family members	Staff	Total	% of the total actives
1981	118.2	61.8	0.3	180.3	3.6
1982	119.9	56.7	2.5	179.1	3.6
1983	129.4	55.6	6.1	191.1	3.8
1984	144.3	54.6	9.9	208.8	4.2
1985	158.1	59.0	11.5	228.6	4.7
1986	167.5	61.6	19.7	248.8	5.1
1987	176.5	64.0	25.6	266.1	5.4
1988	194.3	67.7	32.4	294.4	6.1
1989	218.4	81.0	48.0	347.4	7.2
1990	332.2	80.1	71.0	483.3	10.1
1991*	no data	no data	no data	620.9	13.3
1992	no data	no data	no data	644.8	15.2
1993	no data	no data	no data	668.4	17.3

* since 1991 the numbers of the first three columns have not been reported separately. The statistics of the Social Security give - partly - information about them.

Source: Central Statistical Office, the condition of labour in the 1980's and the balance of labour of 1991, 1992, 1993

As it is obvious from the data above the rate of the growth of the number of the sole entrepreneurs has been the same since 1991; about 24 thousand persons per year. The rate is about the same as the rate of the growth of number which is registered since 1984; it means that after the acceleration which followed the change of system the rate of growth returned to its normal level.

1.1.2. The occupational conditions of the sole enterprises

The statistics above focused on the working-aged people who work for the enterprises as a full-time employee (the working age for women is 15-55 year, for men 15-60 year).

However the circle of the participants in the enterprises is far wider: on the one hand many people accomplish entrepreneurial activity as a part-time job; on the other hand even people over working age embark on that (usually continuing their former profession).²

In Hungary the percentage of the retired entrepreneurs and those who carry out entrepreneurial activity as a part-time job is traditionally high beside those who live from their entrepreneurial income and build their existence upon this. We present the small-scale industry by way of illustration the occupational conditions of which were published fully by the Central Statistical Office till 1989. Since then there have been available data from Social Security and Internal Revenue Service but they differ in some ways because of their different aspects and purposes. First the data of the Central Statistical Office are recited.

Table 2

The entrepreneurs in the private small industry working as a full-time and a part-time entrepreneur, 1981-1989

in person

Year	Full-time job	Retired	Part-time job	Total	In the ratio of full-time job %
1981	68 915	12 208	30 837	111 960	61.6
1982	73 048	12 935	35 417	121 400	60.2
1983	76 518	14 340	40 945	131 803	58.1
1984	76 113	15 633	47 204	137 950	53.0
1985	77 281	17 143	51 159	145 583	53.1
1986	78 260	17 843	54 561	150 664	51.9
1987	83 350	18 035	53 226	154 611	53.9
1988	90 299	18 866	53 052	162 217	55.7
1989	100 386	20 003	54 448	174 837	57.4

Source: annual statistics of Central Statistical Office

It is important to notice that within the presented 9 year list of the number of the persons in full-time jobs grew by 31.4 thousands persons but the number of the persons in part-time jobs who have not taken themselves upon making their living by an enterprise (so far) also increased by 23.6 thousands.

Otherwise the approximately 60:40 ratio of the full-time jobs to the part-time jobs was characteristic of the small industry first of all. In the case of the retailers the part-time jobs did not occur so often because of nature of the activity (the necessity of the continuous presence resulting from the opening hours of the shops). No research on the agricultural entrepreneurs was - according to our knowledge - made.

² Here naturally only the enterprises can be taken into consideration which work legally and have entrepreneurial permits in their possessions. According to the every day experiences it is supposable that the circle of the entrepreneurs working illegally is rather wide; its size can however hardly be estimated. From the point of view of our subject the circle of the illegally operating entrepreneurs can be neglected; only registered entrepreneurs can get credit.

The data of the Social Security and the Internal Revenue Service refer to the fact that in 1990-1991 the ratio of the part-time jobs decreased somewhat to the full-time jobs. In 1992 the data show again the growth of the number of the part-time jobs.

Table 3

Sole entrepreneurs in full-time and part-time jobs, 1990-1992

1. The average of the number of the economically actives entitled to social security

	1990	1991	1992
Sole entrepreneur	193 768	254 295	no data
Agricultural entr.	40 289	42 406	41 365
Intellectuals	19 123	22 037	no data
Total	253 180	318 738	384 180

2. From which in the tax statistics of the Internal Revenue Service appear*

	1990		1991		1992	
Sole entrepreneur	241 969	100.0	317 218	100.0	338 766	100.0
Within it:						
Full-time job	159 042	65.7	184 503	58.2	184 183	54.4
Part-time job	61 438	24.5	103 954	32.7	124 068	36.6
Retired entr.	21 489	8.9	28 761	9.1	30 525	9.0

* The Internal Revenue Service takes into account here only the entrepreneurs among all the tax statement presenters who pay the personal income-tax. The persons who failed to send in their tax statement or who made a false, unprocessable statement - 50-60 thousands people per year according to the appraisal of the Internal Revenue Service - did not appear in the report. The entrepreneurs who pay corporate tax were left out too. Their number in 1993 was some 7 thousands; and those who were obliged to pay the VAT, their number in 1991 was 143.3 thousands, in 1992 141.6 thousands. Though the latter (letters of for example flat or other kind of real estate) are subjects of taxation, from the point of view of occupation they are not considered entrepreneurs.

The data refer to the fact that in 1990 many persons who had former part-time jobs changed to continue their activity in full-time job.³ Because of the worsening of the economic circumstances though many people has redeemed their entrepreneur licence the number of people who hope additional income from the enterprise or only want to save the costs by its deduction from tax is growing.

According to the evaluation of the Internal Revenue Service even the changes in the rules contributed to the relative growth of the number of the part-time jobs. Namely lawyers, notaries, engineers, experts became entrepreneurs in large numbers, the latter mainly in part-time jobs. (Adózási tapasztalatok II., in the 6th January 1994 issue of Figyelő, a Hungarian weekly magazine of economics.)

The existence of legal part-time jobs has a different importance in the different periods of the economy. In the 1980's it remedied deficiencies in several areas of the economy, bettered the supplies of goods and services and it made the individuals to try to be inde-

pendent and gave them a chance to go over to the private sphere. In the beginning of the 1990's both parts were modified. In the economy especially the much-sought, prosperous activities were given a chance (for example at intellectual occupations); to the individuals it gave a hope of a legal occupation and additional income. However its constant role remained: establishing and increasing own clientele (market) with the sale of the own supply.

1.1.3. The sizes of the sole enterprises

The sole enterprise - as it follows from its name - based on a sole activity. It is typically assisted by the family members, mainly the wives and husbands, sometimes the chil-

dren can participate in its everyday operation in many ways. Those who are involved as their full-time job have a status in accordance with the right of labour; have a share in the income of the enterprise and become entitled to social security.

Beside using the family labour the sole enterprises can have employees too. However the full-time job of the employee is characteristic only in some certain businesses (for example construction industry) in what the family can not present an assisting expert. The sole enterprises would not give work to employees with pleasure because on one hand it is expensive on the other hand the steady collaboration of the employer and the employee is conditioned upon a mutual and strong confidence. (Especially in the trade in what the whole stock has to be left to the employee without direct control for hours or days.)

In consequence of all these things in the sphere of sole entrepreneurs the units which are small in terms of number of employees are traditionally characteristic.⁴ In the 1970's the work of employees was punished by special tax. After 1986 when this tax was repealed there was a sudden increase in the

³ We notice that the majority of the part-time jobs connect with the joint enterprises that do not have a legal personality. Numbers of employees and retired became members of these companies mainly because of the former taxational advantages. According to the data of the Social Security 71% of the members of the economic enterprises worked in part-time jobs in 1992.

Table 4

The number of the sole entrepreneurs, their employees and assisting family members paying personal income tax in 1992

Name	Persons (based on the processed tax statements)	%
Sole entrepreneur*	338 776	100.0
Within it:		
– full-time employee	184 183	54.4
– part-time employee	124 068	36.6
– retired	30 525	9.0
Employee	104 562	100.0
Within it:		
– full-time employee	88 111	84.3
– part-time employee	13 169	12.6
– retired	3 282	3.1
Assisting family members	39 683	100.0
Within it:		
– full-time employee	28 992	73.1
– part-time employee	8 023	20.1
– retired	2 668	6.7

* Without the entrepreneurs who pay corporate tax

Source: Internal Revenue Service

number of the employees but the sizes of the units remained still small. In the small-scale industry that involves the majority of the sole enterprises the average of the number of the employees was 1.7 persons in 1989 and in retail business this number was 1.4 persons.

The reason for the difference in the numbers is that 88% of the small industrial units had no employee at all for example in 1988. In 1989 15% of the 73.5 thousands employees of the small industry were given work to by bricklayer craftsmen. The two further businesses that have the most employees are house-painting (7054 employees) and charring (6118 employees). These three businesses employed the third of all the employees in 1989. (Kovács G. J., 1990.)

Table 5

The number of the sole enterprises according to the type of the enterprise

	1990		1991		1992		1993	
	number	%	number	%	number	%	number	%
Intellectuals	–	–	137 994	27.0	165 689	27.3	191 423	28.0
Artisan	–	–	222 987	43.7	237 687	39.2	242 686	35.6
Retailer	–	–	146 676	28.7	199 047	32.8	238 115	34.9
Agricultural entrepr.*	–	–	2 804	0.6	3 784	0.6	10 301	1.5
Total	393 450	100.0	510 459	100.0	606 207	100.0	682 525	100.0

* having tax number

Source: 1990: The Structural System of the National Economy, Internal Revenue Service; 1992. page 9.; Since 1991, Internal Revenue Service Monthly Reports

The sizes did not change in the 1990's. According to the above statistics of the Internal Revenue Service related to the tax statements in 1992 338 766 thousands sole entrepreneurs who had presented valid tax statement and paid personal income tax had 104 562 employees and 39 683 assisting family members at their disposal. This value is less by 8% then it was one year before in the case of the employees and by 39% in the case of the family members. The average number of the employees and the assisting family members per sole entrepreneur was 0.3 and 0.1. This fact shows that the entrepreneurs are typically self-employers.

1.1.4. The functional areas of the sole enterprises

On 31st December 1992. 606 207 sole enterprises were registered, in what 668.4 thousands persons were employed. The intellectuals (advisors, accountants, lawyers, artists) who had not been independent before but members of different teams, associations (established sometimes involuntary) appear as a new category in the registrations. They became sole entrepreneurs voluntary or also involuntary after their becoming independent or – more often – with the possession of entrepreneur licence they became entrepreneurs in part-time jobs.

The numbers above involve all the sole enterprises apart from the fact whether the entrepreneur carries out full- or part-time job or it is a retired.

⁴ Just like in the case of the professions, the rules of division of labour follow the old samples. Bácskai Vera (1988.) wrote up the domestic tax assessment which among many other things contains different data about craftsmen and retailers from the former period of 170 years. The period craftsmen formed the 20% of the town tax paying households. As Bácskai states: „The performance of the craftsman workshops was very limited either servicing activity or an activity which resulted new products; the majority of the masters who were assessed performed their activities alone or with the help of just one servant; and only a little bit more than one third of them (38%) employed permanently or temporarily a servant. The number of them was one in 75% of the total cases; 20% of the masters employed 3 to 5 servants; the number of the masters who employed more than 5 servants was only 173 (1.7% of the total number of masters). The majority of them (60%) was bricklayer, carpenter or a craftsman who performed other constructing industry activity.” (page 79.)

The pattern of the internal division of labour is unchanged in the middle of the 20th century: the National Statistical Office registered 169 329 craftsmen at 31st December 1948; they employed 26 622 employees; it means that one master employed only 0.2 employee (but they employed 41 156 apprentices). At the same time there were 23 thousand family members participating in the work as full-time employee. (Statistical Data Summary on Hungarian Private Sector 1938–1960, Statistical Periodicals KSH, 1961/6.)

The total data show that among the sole enterprises the small industry has been losing its importance continuously in consequence of the expansion of the retail. The number of the retailers – as everyone knows – started to grow quickly after the decentralisation of the big state-owned trade companies and the privatisation of the units that can be purchased independently (preliminary privatization) from the end of the 1980's.

The main groups of the entrepreneurs in the data of the Internal Revenue Service:

	person	%
– intellectuals	29 933	8.8
– craftsmen	169 344	49.9
– retailers	137 493	40.7
– agricultural entrepreneurs	2 006	0.6
TOTAL	338 776	100.0

We can compare the changes in the different groups of businesses and where it is possible we can present the tendency of the changes in the case of the intellectuals on the basis of the detailed processed data of the Social Security and in the case of the small industry and retail on the basis of the data of the Central Statistical Office processed until 1989 and the tax statements in 1992 processed by the Internal Revenue Office.

We have to mention in advance that though the data are exact figures they are from different database therefore they do not result thorough and precise comparison. The databases of the Social Security and the Central Statistical Office are complete but the database of the Internal Revenue Service on the basis of what the comparison can be made is not; it covers only 72% of the persons who have entrepreneur licence. (The ratio is better if we take into consideration the fact that in the whole year 347.5 thousands enterprises functioned which are almost three quarter of 469.2 thousands that had to present a tax statement or a balance-sheet.)

The comparability is diminished by the fact that the Internal Revenue Service registers the sole enterprises according to their taxational obligation.⁵ Therefore the data of the enterprises with higher income (about 7 thousand persons) and those with the most income

and double entry book-keeping (163 persons) – who pay corporate tax – were left out from the comparison.

In this way the data of 73% of the total 339 thousand registered sole entrepreneurs who pay personal tax were compared together with the data of the Central Statistical Office and Social Security.

In addition the comparisons have different relations in time in the case of the different activities; but this fact has no influence on the consequences that can be concluded.

The size of the samples seems to be big enough so the tendencies of the important differences could appear.

After all – as we saw above – more than half of these people (54.4%, 184 183 persons) were entrepreneurs as their full-time job.

In the following part we sum up the changes according to the groups of the main activities.

1. Intellectuals

In 1990 the Social Security registered 19 thousands persons among the full-time employees; they were the intellectuals who became sole entrepreneurs, though with such a denomination only 6500 persons; lawyers, advisors (3340 persons), artists with no active engagement (6700 persons) and people in other occupations are registered separately. In 1991 the number of the people regarded as intellectuals was 22 thousands. By 1992 the separated group disappeared – the intellectuals became a part of the sole entrepreneurs.

There is an increase by 8 thousand persons in the data of 1992 of the Internal Revenue Service compared with the number reported by the Social Security in 1991. Among the tax statement presenters the main groups are the following: 1.600 doctors, 520 veterinarians, 1.160 designers, 1.400 tax advisors. Only 18 writers and poets and some 500 other artists (for example painters, sculptors) presented tax statements as entrepreneurs.

The greatest number was amounted to by the many kinds of activities which were placed to the „other“ category (22 thousand).

⁵ The sole entrepreneurs can belong to three taxation categories:

- The most of the sole entrepreneurs pay personal income tax on their net revenues; 462 thousand of the 469,2 thousand sole entrepreneurs who were operated in 1992 belonged to this category; 406 of them made a statement of taxes but 67 thousand of them were not correctly filled a therefore they could not be processed and analysed. The 339 thousand statements which were processed represented 73% of the entrepreneurs who belonged to this category.
- The sole entrepreneurs whose annual net revenues were under 50 million HUF could pay their taxes according to the rules of corporate tax if they used single entry bookkeeping. (The entrepreneurs can decide on which form of taxes do they use.) Ther were 7.000 entrepreneurs in this category.
- The entrepreneurs whose annual net revenues exceeded the 50 million HUF had to use double- entry bokkeeping and pay their taxes according to the rules of corporate tax. The number of the entrepreneurs who had such a high revenues was 163 in 1992.

Only 1863 intellectuals of the 30 thousands gave work to employees; a total number of 4060 persons and 1200 of them were assisted by 1550 family members.⁶

60% of these enterprises were profitable, 30% of them ended up with a loss.⁷ (The rest of them had neither profit nor loss.)

2. Craftsmen

According to the data of the Internal Revenue Service the greatest group of the craftsmen which included the half the sole entrepreneurs is the group of the transporters (41.6 thousands people), the second one is the construction industry which involves about two dozens businesses (34.8 thousands people), 25 thousand sole entrepreneurs worked for the personal servicing which congregated different kinds of businesses. The other groups of businesses employed less people: in the car repairing and maintenance sector 8 thousands, as technicians 7 thousands, in the leather, fur and shoe industry 3 thousands and in the food industry 4 and a half thousands people worked.

Not more than 20 thousand craftsmen from the 170 thousands gave work to total 52 thousands employees and almost 18 thousands were assisted by 23 thousand family members.

More than three quarter of the ventures of the craftsmen were profitable and not more than 17% had a loss.

In this place we can examine the changes of some basic tendencies. We use the data of 1984 of the Central Statistical Office referring to the small-scale industry. It gives enough time to examine the movements.

The data of both the Central Statistical Office and the Internal Revenue Service contain all the entrepreneurs who have entrepreneur licence and trade licence apart from the fact whether they carry out their activity as their full-time job or as their part-time job or they are retired.

Within the category of craftsmen three main forms of activities are included: the traditional businesses of the small industry, the construction industry and the road transportation of passengers and goods.

The number of the people who perform one of these main activities increased by 30 thousand businessmen since 1984 and the proportion of the different activities compared with each other changed remarkably.

Table 6

The main areas of the activities of the artisans

	Central Statistical Office 1984		Internal Revenue Service 1992	
	person	%	person	%
Industrial and servicing activities	72 830	52.4	92 864	54.8
Constructing activities	43 191	31.1	34 834	20.6
Transporting activities	22 929	16.5	41 646	24.6
TOTAL:	138 950	100.0	169 344	100.0

The increase by 20 thousands persons within 8 years in the number of the people who carried out traditional industrial and servicing activities was only a small change. The circle of the people who accomplished constructing activities became more narrow partly because more and more small companies gathering many businesses sprang up in the construction industry. In the road transportation we can observe the remarkable growth of both the modernisation and the private sphere (the number of the transporters with carts decreased by 75 percent, from 3600 to 900, however the number of the transporters of goods and passengers increased from 6 thousand to 24 thousand and from 3500 to 15 thousand).

Remarkable changes took place in the groups of the industrial and servicing businesses. All of them involved more – sometimes more dozens – businesses and it depended on many factors that which of them were chosen by more or less people. The data show first of all the structural rearrangement of the sole enterprises. In 1984 15% of the craftsmen worked in three groups of businesses: most of them (41.6%) in one of the businesses of the light industry. The second most popular group of businesses was the engineering industry and 13% of the craftsmen were involved in the personal or economical servicing.

By 1992 the number of the sole enterprises decreased nearly in all the businesses of the light industry and despite of a slight growth in the engineering industry the proportion of the businesses of the engineering industry was reduced. However the number of the people who provided personal or economical service doubled and in this way by 1992 three groups of businesses with nearly equal proportions evolved in the sole entrepreneurial sphere which can be said to be traditional.

⁶ We are going to notice that the statements of tax required data about the annual average number of employees. Therefore the employers had to count the number of the half-day or seasonal employees over the number of full-time employees.

⁷ The data which were reported aimed the Internal Revenue Service and a smart cost-accounting could have been in the background of the losses. Therefore we can not draw conclusions from it.

Table 7

The change of the groups of businesses within the industry, 1984-1992

	1984		1992	
	person	%	person	%
Industry total	72 830	100.0	92 864	100.0
Within it:				
- Metallurgy	746		396	
- Engineering industry	21 853	30.0	26 700	28.8
Within it:				
- vehicle industry	5 066		8 113	
- household's goods repairer	480		1 027	
- radio and TV technician	1 457		1 432	
- precision engineering	5 298		7 274	
- metal mass production	9 552		885	
Building material industry	525		784	
Chemical industry	750		1 565	
Light industry	30 308	41.6	26 848	28.9
from which:				
- wood-working industry	8 570		8 437	
- paper-industry	153		246	
- printing industry	278		326	
- textile industry	3 988		3 595	
- leather-fur-shoe industry	3 476		2 949	
- handicraft industry	2 564		2 831	
Other Industries	4 637		6 651	
Food industry	3 818		4 537	
Personal and economic services	10 193	13.1	25 383	27.3

It results from the data if we consider the minimum investment of capital (workshop, machines, materials, special implements) which is needed to carry out the businesses that the number of the sole entrepreneurs increased - with a few exceptions - in the activities which require no or hardly any investment of capital. There are several such businesses in every main groups of activities (for example domestic appliance mechanics working at the customer or vehicle-electricity mechanics, chassis repairers, several kinds of technician businesses in the engineering industry, bookbinders in the light industry, sign-painters, door-to-door salesman etc.) but it is typical among the personal and economical servicing activities (hairdressers, manicurists, cosmeticians, char-women, luggage porters, window-cleaners etc.).

The data listed above within the groups of the businesses shows obviously this tendency. (For example, in the engineering industry the number of

the entrepreneurs grew by 5 thousand persons, in the vehicle industry which belongs to that industry the number of the enterprises in the different businesses worked out in the following way: the number of the mechanics grew from 1417 to 3318, the number of the polishers from 346 to 546, the number of the vehicle-electricity mechanics from 179 to 750, the number of the chassis repairers from 530 to 1325. There were 131 household's goods repairers in 1984 and 1027 in 1992.)

Moreover the majority of the entrepreneurs does not work in a full-time job. Their existence is not based on their entrepreneurial activities.

3. Retailers

The most dynamic growth was produced by the retail among the different sectors of the sole enterprises.

In 1989 the number of the retailers was 43.6 thousand. This figure grew 199 thousand until 1992 according to the data of the Central Statistical Office, 137.4 thousands of them presented tax statement.

The distribution of the latter group in the different businesses of the retail:

		%	
- Contracted business	3 012		} 20.3
- Food	24 877	18.0	
- Clothing	16 530	12.0	
- Chemicals	6 444		
- Ironworks, glass	6 484	4.7	
- Culture	3 151		
- Other (tobacco, souvenir, flower, second-hand etc.)	14 436	10.5	} 12.8
- Fuel, building material	1 154		
- Wholesaling	1 709		
- Foreign trade	361		
- Restaurants, bars	4 247	3.0	
- Coffee-houses, snack-bars	4 172	3.0	} 15.0
- Pubs, buffets	11 807	8.6	
- Billets	346		
- Services (renting, showman, agent)	38 082	27.6	
- Buying up	681		

Approximately 20 thousand retailers reported 48 thousand employees and 13 thousand of them reported 15 thousand assisting family members. That is surprisingly few.

40% of the retailers were profitable and nearly 50% of them had a loss.

The expansion of the retail has been lasting since 1989, the increase was rather slow before. (In 1985 28 341 retailers were registered including the stallholders and the hucksters.)

Since 1989 the sole entrepreneurs have been appearing in all branches of the retail. The internal structure of the retail – as it turns out of the data of 1989 – has changed greatly.

According to the data of the Central Statistical Office the distribution of the different businesses of the retail was fairly steady till 1989; 90% of the retailers belonged to four groups of businesses:

- sundries	30%
- hospitality	24%
- food	18%
- clothing	17%

According to the data of 1992 the servicing enterprises became the most popular group, the second one is the food, the third one is the hospitality and the former category of sundries was followed by the growing network of the specialist's shops.

An important manifestation of the development of the retail is the more or less significant necessity of the capital invested, sometimes big sums in the case of starting up, or purchasing a shop as it was shown at the auctions for the shops which were put up within the preliminary privatisation. Even in the shops formed in garages of the family houses people needed money for purchasing the equipment, the stock. Billions of saved money of families, individuals established the growing of the retail trade. (However until the spring of 1992 the Existence-loan which could only be used to the commercial preliminary privatisation was employed by only approximately three thousand entrepreneurs.)⁸

At the same time a lot of entrepreneurs without capital appeared in the sphere of the retail mostly under the pressure of necessity. More than 35 thousand agents above all (because at several agent networks the only condition of the employment is to have entrepreneur licence). In addition the showmen (412 persons in the data of the Internal Revenue Service); the bottle and flask collectors, litter and secondary product collectors in the „buyers” group (681 persons) belong to the trade services which means that more than a quarter of the entrepreneurs who had presented tax statements for the Internal

Revenue Service exists in the periphery of the enterprises.

4. Agricultural entrepreneurs

According to the labour balance of the Central Statistical Office in 1st January 1993 123.5 thousand working-aged economically actives participated in the sole enterprises of the agriculture. The Social Security reported the number of the agricultural entrepreneurs separated until 1991 which was 42 406.

However the greater part of them is not a subject of taxation, because the sole producing in the agriculture was tax-free until 1992 if the income was under of 500 thousand HUF. (The limit in 1993 was 750 thousand, in 1994 one million HUF.) There were 2006 agricultural entrepreneurs with income over the limit in the reports of the Internal Revenue Service. (A bit more than 50% of them dealt with plant cultivation mostly. But the investigation of the Central Statistical Office about the peasant farms found the animal breeding more profitable than the plant cultivation.) Harcsa István (Central Statistical Office, 1994. page nr. 8.)

143 farmers employed a total number of 476 employees (most of them probably seasonally). It is also surprising that only 66 of them reported about a total number of 94 assisting family members. (The investigation of the Central Statistical Office among rural entrepreneurs made in November and December 1992 presented remarkable data about the labour utilisation of the farm operated as a family enterprise. It is shown from the data that – as it is general in Western-Europe – many kind of entrepreneurial activities are performed in a rural enterprise beside farming – for example pension, catering, food-buying up and processing etc. – and the family members – if it is possible – are employed in a job that ensures fixed income.) (Central Statistical Office, 1993.)

Approximately one third of the agricultural entrepreneurs were profitable and 46% of them had deficit.

Two more data of the analysis of the Internal Revenue Service are worth to examine. One is: 60% of the sole entrepreneurs were profitable and 40% of them had a loss. The half of the entrepreneurs who worked in part-time jobs, two fifths of the retired and a third of the persons working in full-time jobs had a loss.

⁸ The NSEDO made a regular analyses of the use of Existence loans. The analysis of the situation in October 1992 stated: „The division of the credit according to the amounts is instructive. The relatively small average sums refer to that (especially if we consider the 50 million upper limit which was valid until this spring) the E-loan has been mostly used for the privatisation of smaller ventures (shops) so far. The division of the sums among the value categories supports this assumption; the value of 63,37% of the E-loans which were signed was less than 2 million HUF and within it 40,82% was even less than 1 million HUF.; 14,33% of the credits belonged to the 2 to 3 million HUF category, 9,36 of them to the 3 to 4 million one and only 5,1% were above the 5 million HUF mark.”

Table 8

Result per enterprise and the number of enterprises

Main business	Number of the enterprises	Earning per entrepreneur in thousand HUF
Industrial businesses total	169 344	71.0
Contracted industrial services	488	309.1
Constructing industry	34 834	120.8
Ironwork industry	8 854	101.8
Vehicle industry	8 113	60.6
Wood industry	8 437	58.8
Leather-fur-shoe industry	2 949	27.5
Textile industry	8 464	11.0
Trade businesses total	137 493	-59.5
Fuel and building material ind.	1 154	+102.4
Services*	38 082	-17.9
Food	24 877	-76.6
Clothing	16 530	-89.5
Restaurants	4 147	-146.5

* Agent, procurement, renting, slot-machine etc. Published in 6th January 1994 issue of Figyelő (Egyéni vállalkozások '93 Adózási tapasztalatok II.)

The other data which is interesting in terms of our subject is: according to the statements of costs only 17 thousands people used credit which is 0.5% of the sole entrepreneurs.

1.2. Entrepreneurs and self-employers

In Hungary almost for a decade the categories of „small enterprise” and „small entrepreneur” were called to hide the economic activities based on private ownership with respect to the ideology. (In the spirit of this every small-sized economic units – even the state-owned ones too – were included in this category.)⁹

Since the change of the system – and especially after the birth of the act about the sole entrepreneurs – the

independent participants of the economic life became sole entrepreneurs. The categories now disregards the fact that the majority of the sole entrepreneurs – according to their actual situation, activities – in the strictest sense of the word is not entrepreneur but 'self-employer'. That is their name also in the international practice apart from the fact whether they have employees or not.¹⁰

The distinction in their name refers mainly to their economic behaviour. Both the corporate law and the rules of taxation make a clear distinction between the venture based on business principles and self-employment. (Having legal entity or not; there could be a line drawn between the assets and the income of the enterprise and the household wealth, and separate them according to the accountancy and the taxational rules dependent upon income.)¹¹

In the case of the sole entrepreneurs (self-employers) there is no way to separate the assets of the household and the enterprise because the income of the activity is the income of the household at the same time – that is what the whole family lives from. Moreover it is true only in the case of independent existence; in the case of people working in part-time jobs that the entrepreneurial activity is an addition to the income coming from the full-time job.

1.2.1. Difference in the economic behaviour

However it is not the only difference between the self-employment and the enterprise. According to the Hungarian experiences at the time of the first large-scale appearances of the „small enterprises” I tried to sum up the characteristics of the surplus work utilises (part-time jobs), the entrepreneurs and the self-employers (called small producers by me) as a model. (Laky, 1987.)

The three different types according to the most important characteristics are presented here only in a schematic way. (The models can be found in the Appendix.)

⁹The use of the 'small entrepreneurs' category often resulted and results to misunderstanding in the negotiations with the Western experts. The Hungarian party think about small shops, often for the workshops which use the old machines that were scrapped from the big state companies; on the other hand the Brits, the Germans, the Austrians, the Frenchs think about the small-scale enterprises which are equipped with up-to-date electronics and high-tech appliances.

¹⁰According to the definition (which is very much unsatisfying and therefore highly disputed) the unincorporated business activity, the worker who works for his own account, the member of the cooperatives that performs productive activity and the non-paid family employee all belong to the 'self-employing' category. According to the statistics of the International Labour Organisation apart from the items mentioned above those persons also belong to the 'self-employing' category who work as permanent or temporary employee or apprentice or unpaid assistant in an activity that is owned by the self-employing entrepreneur. (M. Loutfy, 1992.)

The OECD classifies the members of the partnerships also to the self-employing category apart from those which were mentioned above. They consider 20 persons as the maximum number of the employees of the self-employing entrepreneurs and they add that if they had more than 20 employees the activity is very likely to become a registered company. (F.J. Bayliss, 1990)

The definitions are primarily based on employment policy aspects and therefore they consider the main difference (somewhere) between the employees (wage-earners) and the self-employing people as important. Due to the permanently high rate of unemployment which took for almost 20 years in the most of the industrially developed countries the governments assist and initiate the establishment of self-employment; however they try to make clear differences between the registered companies and the self-employing entrepreneurs in the business life, in the tax-system and in the social security.

¹¹As it is known the owners of the companies with legal entity are responsible for the activity of it up to the sum of invested capital; for instance in case of bankruptcy the creditors can not claim their private (family) wealth.

The typical purpose of the entrepreneurs who sell excess work (working in part-time jobs) is to get surplus income. While it is possible they do not give up their full-time jobs. They „undertake“ in their free time, carry out usually the same activity as in the full-time job legally with the possession of entrepreneurial licence: repair, assemble, teach language, programming, give advice etc. On the one hand the activities are determined by the realisable knowledge, the carrying capacity, on the other hand by the available time. In general investment (workshop, office, equipment) is not needed to carry out the activity, small investments may occur (a tape-recorder to teach language, new tools to repair with, a personal computer, a car) but they are not risky because they can be kept for the household, or for personal usage and can be utilized even if the „enterprise“ is liquidated.

The main purpose of the income coming from the enterprises accomplished in a part-time job is to increase the level of the personal and family consumption and to follow the leading social circle's consumption habits.

Under the pressure of circumstances people who work in full-time jobs may rise from this growing group which amounts 250-300 thousands people including the participants with the same status of the joint enterprises. There are some who make preparations for becoming independent by amassing capital. The entrepreneurial activity carried out in part-time jobs is a good education to that and what is more important: it establishes the clientele, the market of the future enterprise.

The small producers-servicers represent the usually largest sphere of the self-employers in the less developed economies.

Millions of small existence, average people that constitute the basis of the economies appear in the world of demands with their own small-scale supplies. Schumpeter's classic sentence: the butcher tries to sell his commodity to the tailor, the tailor to the bootmaker, the bootmaker to the person who produced the meat to the butcher. (Schumpeter, 1980.) Even if the sentence sounds a bit naive because of the growing of the mass-production the main point did not change: also the present small producers-servicers adjust themselves into the circulation of the whole economy with the demand and supply of their small markets. Moreover their importance is growing again: the mass-production is

replaced again by the demand for special needs; the network of the small, outside working, specialised units is getting wider beside the large-scale industry.

Though it is also not a homogeneous group from social point of view, its great part is represented by the acraftsmen and the retailers – the number of which is growing – in the industry and service.

Undertaking an independent existence is a characteristic of this type. Those who undertake it want to do it forever those who give it up do it because of the pressure of circumstances.

Expertise, professional knowledge that can be obtained with long training are not expected to the servicing-small producing activities. Even capital is not required for several activities; some tools, equipment can be enough sometimes. The activities in the businesses which require expert knowledge in most cases demand an own workshop, special machines, equipment, sometimes large amount of capital investment.

An important characteristic is that the self-employers – if necessary – that they can invest more or less capital to be able to work. The capital invested is valued in the function of the performed work: in the amount of the income realised from the combination of work and capital the work is the determinant factor.

Their main purpose is to ensure enough for the family to live on, to follow the consumption habits of their reference group, to reach their level. Their economic activities are subordinated to this purpose. They react on the changes of the demand only within the given group of activities, and the space of the existing fundamentals (invested capital, established labour organisation). Moderation or rather conservatism are characterising their economic decisions. They grow their workshops, business only carefully even in the case of satisfying demand and take good care of the balance of the family wealth and the investment, because the main purpose of the activity, the family existence must not be risked. Mostly the competition can urge them to invest more capital, purchase more efficient implements, modernise the shop. (That is why it is a problem in our country that the competition had not urged them to modernise, renew the business. Although all over the world the many new technical inventions were employed first in the small workshops while continuously growing the potential of the economy.)

At the time of the collapse of the demand the majority tries to maintain the level of their income which is usually still higher than the income of the average Hungarian family – disregarding the state or the consumers.

The greater part of the self-employers are contented if they can maintain their business, and if the income of the business is able to sustain their family. However in the case of a favourable economic situation the organisations that are ready to grow and develop (enterprises) are bred from this circle.

The entrepreneur. The main participant of the enterprise is the capital; the person who operate the capital is the entrepreneur. The main characteristics and the definition of the enterprise which is the most accepted one were defined by Schumpeter after Max Weber. (Schumpeter, 1928.)

The entrepreneur looks for the activities that seem to be the most profitable ones and organises them. If the given enterprise do not realise the surplus expected over the sum of the investment then withdraws the capital and invests it in somewhere else. So the entrepreneur participates in any economic activity till it gives hopes of profitability.

Consequently an essential condition of the enterprise is the capital, the active participation of the investment that can be expressed in money or any numerical value in the economic activities. The investment which could be omitted or only could have the role of helping the labour work in the former types becomes the main participant in the enterprises and making profit from the capital invested becomes the most important economic purpose. In the earnings – coming from the combination of the capital and the labour work – the determinant factor is not the labour work anymore – the „work” can be substituted for the „idea” – but different circumstances: quick alignment with the demand, the ability of creating new demands, determination in liquidating non-profitable activities.

The most important purpose of the enterprise is to maintain not the activity but the profitability, able to diversify the products, services, organisational sizes flexibly – according to the demand. In the case of great demand the enterprise is able to grow its supply, capacities, complete own assets with foreign

capital. Employing credit – with reasonable interests – may be a part of the rational assumption of risk.

The participants' interests in the economic successes of the enterprise are stronger than their interests in the prestige available in their direct social environment: They would like to be well-known in their business in this country and abroad. The personal consumption is subordinated to the prosperousness: if the enterprise requires investment, the family and all the needs of the household lose its importance. (It is another thing that in case of success the level of the household and the personal consumption surpasses the level of the entrepreneurial sphere.)

However year by year the determinant part of the earnings gets back to the enterprises, to a never-ending development, to new opportunities, to the implements that are always newer and more efficient. In the case of the steady failure the enterprise is liquidated and the still realisable capital is tried to be invested again in an other, more promising enterprise.

The behaviour of the self-employers and the entrepreneurs does not depend on the sizes (the number of the employees, the amount of the capital invested). Both small and big ones can behave as a self-employer or an entrepreneur but even the best provided artisan workshop or the most elegant restaurant are not enterprises if the income goes to the family and only a little capital can be enough for an enterprise if it is operated according to the rules of the capital return.

It is not typical but sometimes may occur that a part of the self-employers – because of the favourable circumstances – becomes entrepreneurs.¹²

The typical thing is that the majority of the self-employers remains self-employers till the end of their lives. What we can wish considering our conditions is that as many of the present self-employers as possible should develop into any of the advanced forms of the enterprises that has legal personality and separates the household from the business activity.

The main differences between the types are not value judges, only emphasise the gap between them. The economy needs both the small existence which form the basis of the economy and appear in the world of demands with their small-scale supplies and adjust

¹² The Hungarian sphere of entrepreneurs which was effected by special circumstances shows several examples for it. The majority of the famous and successful entrepreneurs of today started as part-time entrepreneur in collectives for economic activity (GMK), small-co-operatives and they needed a few years to taste the real appetite of being an entrepreneur and realise their entrepreneurial faculties. They were the entrepreneurs who accumulated their income from their small enterprises systematically and invested into businesses with newer and newer activities. But the majority of self-employers can not and do not want to shift; their accumulation serves the establishment of the better living standards of the family; occasionally the wasting consumption. This last one was mainly typical in the 1980's, it accompanied their insecure economic situation. There are more rational investment opportunities today if the people have enough income for them.

themselves into the circulation of the whole economy with their small markets, and the enterprises that renew the demand and supply of the economy. However the difference must be made obvious.

One reason to this is that according to the international comparisons the proportion of the self-employment is an index of the level of the development of the countries.

According to the international data – that show naturally the conditions of the market economies based on private ownership – in the EFTA countries and in the USA only 7–8% of the people working in the industry and the services were self-employers in 1990; 13% in 12 countries of the European Community. In the latter the proportion grew by only 2% within ten years, while in the USA it did not change, in Japan it decreased by 2%. (In the countries of the European Community the higher proportion of the self-employment than in the other developed countries caused by the still relative high proportion of the agricultural employment in the southern countries.) In the southern countries of the European Community the proportion of the self-employment is high not only in the agriculture: in Italy and Greece more than 20% of the workers in the industry and services, in Spain and Portugal more than 15%. The proportion in the northern countries was less than 10%,

though in Holland and the United Kingdom the number of the self-employment grew by 15–20% every year between 1983 and 1991. However in these two countries at least one from ten people had to give up this status every year. (Employment in Europe, 1993. p. nr. 9–10.) In the United Kingdom the self-employers amounted 11% of the 28 millions of economically active people (including the registered unemployment) in June 1993. (Employment Gazette, December 1993, p. nr. 510.)

The Hungarian data can not be compared with the

international data because of some (methodical) reasons. (For example in most countries the working age is longer, there is no company without legal personality, only people working in full-time jobs are taken into consideration, data are reported about the self-employers according to the main sectors – agriculture, industry, services.)

Therefore the data reported here serve as only information. The data of the sectors (that include only the working aged people in full-time jobs) show the high proportion of the self-employment in some sectors.

The self-employment has spread on a large scale in the commerce, construction and agriculture where the activity mostly can be based on the participation of the family (commerce and agriculture) and the small labour organisation (construction).¹³

Though in the present situation of the economy the growing of the number of the small private enterprises is essential but as good its role in the employment is as warning it is from the point of view of the development of the economy. Instead of the growing of the proportion of the self-employment – which is caused by the under-development of the services and the unemployment going with the

Table 9

The number of the economically actives in the sole enterprises and in the joint enterprises without legal entity on 1st January 1993.

from which

Sector	Economically actives total	Enterprise without legal personality*	Sole enterprise*	Total	Ratio in the national economy
Industry	1119.3	35.3	149.5	184.8	15.5
Construction	255.8	15.9	78.9	94.8	37.1
Agriculture	391.9	2.4	123.5	125.9	32.1
Transportation	272.5	6.1	62.8	68.9	25.3
Telecomm., post.	75.2	0.3	–	–	–
Commerce	574.5	30.9	213.9	244.8	42.6
Water economy	51.9	0.1	–	–	–
Other material act.	17.1	1.4	–	1.4	8.2
Pers. and econ. serv.	223.1	15.0	37.1	52.1	23.4
Health-soc. cult. serv.	636.2	2.3	2.7	5.0	0.7
Commun. administrat	249.4	2.2	–	2.2	–
Nation. economy total	3866.9	111.9	668.4	780.3	20.2

* With employees and assisting family members

Source: Data of Central Statistical Office labour balance, 1st January 1993. Table nr. 2.2 (p.12)

¹³ It probably increases the attractiveness of trade that there are more and more successful merchants. The Internal Revenue Service registered 37 sole entrepreneurs among the 100 citizen with the highest reported taxable income (their income was between 12,7 million and 67,7 million HUF) and 17 of them was a merchant. There were 35 merchants among the 100 wealthiest sole entrepreneurs. (Taxation experiences I, 22nd December 1993. issue of Figyelő. On the other hand it makes the trade also attractive that there are a lot of activities which do not require capital investment.

economic recession – the growing of the number of the independent, more developed entrepreneurial types separated from the household would be desirable; and in the group of the self-employers the increase of the number of the people who work in full-time jobs.

Distinction is worth to be made between self-employment and other economic activities in order to examine in the following: what economic behaviour can be expected from the people who got the Start-credit.

From the beginning the self-employers called as small entrepreneurs were considered to be the grantees of the Start-credit according to the purposes of the Hungarian negotiators, the Start-credit tried to help them in establishing the conditions of the self-employment.

1.2.2. The social stratum of the sole entrepreneurs

The social conditions, the social stratum, the career in the past and other social circumstances of the sole entrepreneurs are in close relation to their economic role.

This entrepreneurial circle – as everyone knows – has a lot of strata. Among them we can find stallholders with entrepreneurial permit, hucksters, servicers who are actually without capital and employ other people's labour, expertise (charwomen, house-painters, intellectual free-lances etc.) entrepreneurs with a very little amount of capital (those who use the family car for taxi, some artisans etc.) and also enterprises with a very large amount of capital invested, well-equipped workshops, private sanitarium provided with modern instruments carrying out health service.

We do not have too much relevant information about this stratum. However some more comprehensive inquiries give us a chance to examine their social situation.

a) Craftsmen, retailers in the beginning of the 1980s

One of the first most comprehensive analysis based on the mobility-inquiry of 1983 of the Central Statistical Office was made by Vajda Ágnes. (Vajda, 1987.)

The many-sided analysis showed that the observed industrial servicing artisans and retailer after an average of 17 years of employment, over 34 years of age took out their licence and at the time of registration they already had been sole entrepreneurs for generally 8 years. Their average age was nearly 43 years, more by 5 and a half years than the average age of the group in the comparison, the so-called urban wage earners working in the same industrial, constructional, transportation, commercial and hospitality branches.¹⁴

The inquiry stated that becoming independent was influenced more by external economic-political conditions than the decisions and abilities of the individual. A 34 year-old person had much different opportunities to become independent in 1960, in 1970 and in 1980 and the averages of 1983 inquiry were formed by the different opportunities of the people in different age-groups.

What was the difference between the artisans, retailers working in the beginning of the 1980's and the other actives?¹⁵

Some important differences compared with the groups of urban wage earners, in %:

	Retailer, artisans	Urban wage-earners
Sex: – male	63.2	61.5
– female	36.8	38.5
Education:		
– maturity examination at least Qualified	20.7	11.2
(+skilled worker with mat. exam.)	75.9	69.1
Married	81.1	70.5
The partner's occupation:		
– intellectual	26.2	23.9
– skilled worker	17.9	27.4
– independent and assisting fam. mem.	21.5	1.5
– dependent	10.5	4.3
Father's occupation (at the age of 14 of the questionee)		
– artisan, retailer	17.7	3.9
Income per person (Ft per month)	4142	3499
Had a small farm	67.1	73.0
Housing conditions:		
– 3 and more rooms	26.9	18.1
– with modern conveniences	73.6	65.0
– average density of people	1.9	2.2

¹⁴ Since the enterprises characteristically developed in larger amount in the settlements that offered bigger demand, the urban wage earners were the most suitable group for the comparison.

¹⁵ Apart from the urban wage earners they made comparisons with other active groups as well, for instance, with the non-agricultural manuals, the agricultural manual workers and the intellectuals. In spite of the consideration of the other groups makes the differences more remarkable we are going to deal with just the indicated comparison here.

Besides these facts some more circumstances are worth to emphasise.

One is: stable family background, the role of the partner: a fifth part of them worked in full-time job in the enterprise and probably the „dependent” wife assisted in the enterprise.

The other is: the better financial situation of the independent entrepreneurs related to the other groups in the beginning of the 1980's (even the people in intellectual occupations were left behind with their average income per person amounted to 4008 Ft); and their housing circumstances that surpassed all the other groups'. That refers to the fact that becoming independent, emergence, promises of new chances could be realised at certain periods. Anyway the analysis makes it obvious that it is self-employment behaviour; the higher amount of the income was spent on increasing the standard of life (for example on building a house).

This is a typical Eastern-European symptom; the remuneration of the production-services was revalued under the conditions of the economy of lacks and deformed, artificially pressed scale of the earnings. In the more developed countries the income of the skilled workers – especially the intellectuals – outnumbered (even as an employee) the average income of the artisans, retailers. The relative high proportion of the agricultural producers is probably a Hungarian feature – their income from the small farm after the agricultural manual workers (3263 Ft) is the highest (2078 Ft). It is just possible that in their case the agricultural producing is not only a safety-growing, saving activity but implements of investment and accumulation.

The analysis separated the enterprises that does or does not require expertise, professional knowledge (for example carriers, sawyers, hucksters in the latter category) supposing that the activities that require professional knowledge require at the same time capital (for example the equipment of a workshop) and they need longer preparation, more capital accumulation than the „non-trades”. The data of the inquiry did not reinforce this statement, because several repairing-servicing businesses can be done without too much investment of capital.

The high proportion of the businesses that require no or hardly any capital is one of the main characteristics of the domestic self-employment.

After all we can state that there were no remarkable difference in the standard of life in the social group of the artisans and the retailers in the beginning of the 1980's. Though there were some well-to-do people – mostly in the construction industry according to the data of that time – the period was not favourable to the accumulation of capital and to start a capital-intensive enterprise. (There was only one group that managed to rise: artisans who produced for foreign markets. They had been exempted formerly from all the restrictions that afflicted others: limit of the employees, tax rules. However only a small portion of the sole entrepreneurs belonged to this group.)

We got an other comprehensive information connected with the independent participants of the economy from an inquiry we have done together with the Central Statistical Office.¹⁶

b) Small entrepreneurs in the end of the 1980s

The questionnaire inquest in the end of 1988, at the beginning of 1989 embraced almost 4000 persons who represented 3% of the members of the small co-operatives and the independent members working in full-time jobs of the forms called then „small enterprises”.

Though the members of the joint forms which were preferred at that time especially the small co-operatives following from their social-economic situation represented the waking private sector together with the sole entrepreneurs, this time I report the important features of only the artisans and retailers.

Almost half (45.1%) of the whole sample were artisans and retailers. The sample included only the people who worked in towns (we started from the fact again that the typical place of an enterprise is the town that offers a wider circle of the customers.) In the sample that contains a breakdown by profession the proportion of the people living in Budapest is 43%, in the country 57%. The inquest distinguished the people who became independent after 1982 and those who former.

¹⁶ A group was formed in the Labour Research Institute in 1982 at the same time with the starting of the small enterprises. This group saw the beginning of the most important economic changes in the rebirth opportunity of the small enterprises and they tried to trace the process of the change systematically. The members of the group (Bakcsi Ildikó, Kovács Géza József, Kuczi Tibor, Neumann László) with the guidance of the author of this study won a financial support as one of the subjects of the social researching competitions for the examination of the social groups of the small entrepreneurs. The survey was coordinated by Ágnes Varga at the National Statistic Office, the questionnaire-survey was implemented by the expert team of the National Statistic Office. The closing study of the survey was developed by Tibor Kuczi and Ágnes Vajda. (Kuczi T.-Vajda Á., 1990)

In setting up the questionnaire one of our purposes was to make the data to be as comparable as possible with the above reported data of the Central Statistical Office.

According to the data the period before becoming entrepreneur did not shorten very much: compared to the 17 years of employment that was stated in the inquest of 1983

- the old artisans after 13.3 years
- the new artisans after 16.6 years
- the old retailers after 15.7 years
- the new retailers after 17.8 years

of employment became independent. But the long employment before undertaking was naturally not a predetermined, conscious preparation for becoming

What was the difference between the artisans and retailers working in the beginning of the 1980s and the artisans and retailers working in the end of the decade?

	1983.		1988.		<i>in percent</i>	
	Artisan-retailer	Artisan old	Artisan new	Retailer old	Retailer new	
Sex - male	63.2	81.3	82.0	40.3	35.5	
- female	36.8	18.7	18.0	59.7	64.5	
Education						
- maturity exam.	20.7	42.3	54.3	55.4	59.4	
univ. degree		6.0	9.4	8.6	10.8	
Profession (+skilled with matur. exam.)	75.9	71.9	63.5	33.1	45.7	
Married	81.1	83.1	84.1	66.2	75.6	
Partner's occupation						
- intellectual*	26.2	36.3	42.7	23.0	34.8	
- skilled worker	17.9	16.4	15.1	13.7	15.4	
- indep., assist fam.	21.5	27.6	23.4	41.8	36.9	
- dependant**	10.5	7.8	7.9	12.2	7.3	
Father's occupation (at the age of 14 of quest.)						
- artisan, retailer	17.7	21.3	11.5	23.0	15.2	
- agric. entrepreneur	-	9.0	5.3	5.7	4.4	
Income of household is higher than domestic average	-	62.3	50.1	56.5	57.9	
Had a small farm	67.1	39.2	33.7	18.0	30.3	

* The inquest in 1988 distinguished the people with leader position, we here do not separate them.
 ** In the inquest of 1988 the category of dependants included those who had no household or data could not be explained.

independent. It is rather about that they needed so much time to collect enough professional experience, connection, hope and courage to venture to become independent. Accordingly the average age did not decrease perceptively; the average age of the old artisans is 44.9 years, the new artisans 38.3, the old retailers 48.4, the new ones 39 years.

The lower age of the new ones showed first of all the fact that even younger people dared to shoulder the independence in an atmosphere where the private sector was not judged so hard.

The comparable data show a group of artisans and retailers that had changed from many aspects. Though there seem to be a lot of differences between the old and new ones working in the 1980's, it is conspicuous that women appeared in large numbers, they are more educated, among the new ones every tenth had a university degree.

Their families were non-entrepreneurial families - as in the beginning of the decade; only a few of them could bring entrepreneurial knowledge, abilities, behaviour from home.

The proportion of the marriage partners in leader position had grown in almost every group. And what more typical is that much higher proportion of the family members joined in the activities that meant the basis of the existence of the family, the family feature of the enterprises became obvious.

The questionnaire did not ask for the incomes, since they are always unreliable, underestimated in questionnaires. Instead of this it asked: how people found the income of their household compared to the average Hungarian households. Most of them judged it higher, especially one part (old artisan: 20.1, new artisan: 13.7, old retailer: 16.5, new retailer: 14.6%). That shows that mainly the old ones could keep their advantage in income in spite of the fact that there were some people who found their income lower than the average

(old artisan: 10.9, new artisan: 16.1, old retailer: 9.4, new retailer: 13%). It refers to a great change in the way of life that in the circle of the sole entrepreneurs in the 1980's the small farming had lost its safe, income-growing role for the most part. At the same time more than 80% of them had goods that referred to higher standard of life than the average (living room in the flat, video and other entertaining electronics, maximum 5 year-old western car, personal computer, cottage). 59% of the old artisans, 45% of the new artisans, 50% of the old retailers, 53% of the new retailers had at least two of these goods.

The inquest in 1988 gave us a chance to examine the conditions of starting and operating an enterprise.

Why did they choose independence? As we said it before, only a few of them because of the family traditions. The example and the influence of their social sphere, relatives, friends, colleagues are remarkable. These effects urged 55% of the old artisans, 43% of the new artisans, 62% of the old retailers, 47% of the new retailers. In the beginning several of them had got concrete support from their environment: place, capital, clientele, professional and other kind of help. From 20% of them who were supported every fourth got capital.)

In the case of 50% of them the main reason of their becoming independent is that they wanted to be on their own; every other reason is more rare. (The exceptions: 34% of the old artisans wanted to realise their old professional imaginations, 23% of the new retailers had the same reason. 30% of the old retailers chose the independence because of their family circumstances.)

The fact that the capital required at the start was available for the majority from their own savings refers to the hand-made feature of the workshops, to the simple equipment and stocks of the shops. Relatively many people utilized however the then cheap OTP loan, bank credit (old artisan: 20.6, new artisan: 22.8, old retailer: 20.9, new retailer: 32%). The questionnaire did not ask for the purpose of ordering for the credit and the amount of the loan (whether they took up the loan for building a house or in order to develop the business). But it asked the external conditions that made their operation harder. And while the majority even at that time complained of the high tax, problems with purchasing, lack of required demand, growing competition only a few of them repined against the lack of capital or credit (old

artisan: 5.8, new artisan: 6.8, old retailer: 5.0, new retailer: 11.2%).

Not only the capital but even the staff was not absent. Among the many supporting, assisting conditions of the enterprises only a few people mentioned the increase of the staff (old artisan: 13.3, new artisan: 12.8, old retailer: 6.5, new retailer: 8.6%).

For the majority of them becoming independent meant remaining inside the frameworks of the individual, family activities and probably as much work as the family could be sustained from.

In choosing independence at the same time the (hoped) financial possibilities played the most important role at most cases though the majority did not want more than holding the former living standard, subsistence. Most of them managed.

At the inquiry the old artisans had been worked for more than 6 years; 47% of them thought that the business was formed according to their imaginations, 2% of them found it better than they had expected which is equal to the proportion of those who said that their businesses did not reach the expectations (21%) or it was variable, sometimes better, sometimes worse (28%).

43% of the new artisans had been worked as independent for maximum 3 years, 33% for 4-5, 24% for 6-8 years. Only 38% of them were satisfied, but 29% of them were not and 31% thought the business was changeable, unstable.

All the old retailers became independent further than 6 years. 40% of them said that things were according to their imaginations, 3% of them thought it was better than they had hoped. The majority was disappointed also here (24.5% said it was worse, 32% unstable).

From the new retailers 25% were beginner, less than 1 year before became independent, 42% of them had been worked for 2-3 years and 33% of them for more than 4 years. The proportions of their considerations were almost equal: 31% as they had expected, 2% found it better, 31% were disappointed, 34% said it was unstable.

In spite of this most of them wanted to go on, moreover they saw a chance in their enterprise for their children (old artisan: 71+8%, new artisan: 77+4%, old retailer: 64+4%, new retailer: 70+7%).

Beside the artisans and retailers who form the majority of the entrepreneurs there are comparable data neither about the bottom, marginal groups (servicers without expertise, capital, place, hucksters, stallholders etc.) nor about the top group of the sole entrepreneurs. (On the top – as we said before – according to the data of the Internal Revenue Service and the tax statements of 1992 – there were 163 entrepreneurs and they were followed by 7000 corporate tax-payer companies.)¹⁷ Several of them has been well-known for years (though some of the names were in the news paper just because of their bankruptcy.)

Generally this is the picture about the social-economic situation of the self-employing individuals and entrepreneurs. The relatively beginner entrepreneurs who applied for the Start-credit came from this circle and this is the circle what the entrepreneurs who applied for the credit want to join to.

We are going to analyse this question hereinafter.

But first we are going to overview the loan constructions that are similar to the Start loan and also available for the small entrepreneurs and the interest in them where it is possible.

¹⁷ There were 17 merchants among the 37 sole entrepreneurs who belonged to the 100 citizen with the highest reported taxable income; the rest of them was mainly craftsmen. To see it from a different aspect: the 100 wealthiest sole entrepreneurs reported an income which was between 7 and 67,7 million HUF. The same person was on the top of both lists, a sole entrepreneur. (Sole Traders (93 Taxation Experiences I., the 22nd December 1993 issue of Figyelő)

2. THE LOAN SUPPLY FOR SMALL ENTREPRENEURS IN THE BEGINNING OF THE 1990s

Before 1990 there was only one loan construction to promote the start up of new enterprises. This loan construction which has been the most popular and most successful one up to the present day in terms of creation of jobs was offered paradoxically by the State Office of Wages and Labour, the predecessor of the Ministry of Labour in 1989; it was called Restart loan. Preparing the assumed large rate of unemployment the State Office of Wages and Labour offered a 400-thousand HUF flat loan to all of those unemployed people who wanted to establish an enterprise.¹⁸ They had to start the repayment of the loan after a 3-year repayment holiday; the interests were paid by the Employment Fund which was separated in the country's budget. But there was no unemployment in Hungary in 1989; it happened for the first time in May 1990 that the number of unemployed persons (38 155) exceeded the number of vacancies (37 938). The rate of unemployment did not exceed 0.5 percent at the end of 1990. In this situation there were a lot of people who were preparing for the private business and were succeeded to be classified unemployed so they became qualified for the support. The applications for the loan became very frequent therefore its amount was reduced to 300 thousand HUF; 42-43 thousand people who received Restart loan became self-employing and they created 65 to 68 thousand jobs. The State Office of Wages and Labour and then the Ministry of Labour terminated the extension of Restart loan in 1990 because they did not have enough money for it and thought that it is not the task of the Ministry of Labour to finance the establishment of enterprises.

The loan constructions which applied the market economy principles of credit returns took over the place of the flat loan while the rate of inflation was increasing.

In 1991 both the National Small Enterprise Development Office (NSED) and the SEED Foundation which was established for supporting the small enterprises published detailed information bulletins about the

preferential loans available for small and medium enterprises. The bulletins introduced more than 20 kind of different loan constructions which were financed from Hungarian and foreign sources.¹⁹

The 14 loan opportunities which were financed from foreign sources and which were offered by the Hungarian banks were without exception serving the incitement of the purchase of the investment goods of the funding country and they could only be used for this purpose. This condition made the Hungarian small entrepreneurs who were mostly self-employing from the very beginning uninterested in applying for the foreign credits since this chance was too far away from their realistic needs.

The foreign loans remained mostly unused.²⁰ The only exception is the Phare loan which was available through the Local Enterprise Agencies which were founded by the Hungarian Employment Development Fund. This loan construction is similar to the Start loan. The upper limit of the credit is 10 million HUF if the whole sum is planned to use for the purchase of machines, otherwise it is 5 million HUF. The interest rate is preferential, less than the interest rate of the commercial loans by 2 to 3 percent. There were 432 applicants for the Phare loan and 280 of them received it until December 1992; and there were an additional 375 applicants and 166 of them was successful until November 1993.

Although they mentioned the small and medium enterprises among the beneficiaries, several of the Hungarian preferential loans were in real terms targeting the dynamically developing and improving, export-oriented businesses which were well provided with capital. (the Energy Rationalisation Programme which means that „the loans can be extended only to those ventures which can ensure more than 18 percent return”; the Export Developing System which essentially stimulates the banks because the 70 percent of the loans that extended on the successful applications which were sent to the

¹⁸ As the letter of the National Bank of Hungary which was written to the first version of this study remarked: The Restart loan can only be considered to be a flat loan that the interest (the long-term refinancing rate of the central bank +1 percent, currently 26 percent) which was paid by the client was refunded by the Ministry of Labour in the first four years of the term.

¹⁹ Apart from the information sources above I was extensively using the overview compiled by Pesti Albertné which was published in the issue 6th August 1992. of the Figyelő.

²⁰ „Since Hungary would not primarily need import financing but export markets the rate of use of the credit limits is very low. ...The underdeveloped Hungarian credit market is also the reason of the low use of credit limits. The official negotiations are still in progress about extending the unused or expired credit limits. (The credit agreements of Bavaria and Baden-Württemberg were not extended.)

The newspaper also presented the use of credit limits:

Funder	Credit limit	Rate of use (by September 1993)
Bavarian	250 million DEM	18%
Baden-Württemberg	250 million DEM	14%
Finnish	100 million USD	13%
Swedish	150 million USD	36%
Italian	200 billion ITL	11%
English	5 million GBP	no application recorded
Turkish	50 million USD	0,2%
Canadian	15 million CND	3%
Japanese	5 billion JPY	30%
Australian	52 million USD	no application recorded
French	50 million FRF	48%
Norwegian	150 million NOK	no application recorded

Source: National Bank of Hungary

(Reported about: 'Parlagon heverő nemzetközi kölcsönök', an article in the 2nd March 1994. issue of Népszabadság (a Hungarian daily newspaper)

Inter-Governmental Committee of Export Development is refinanced by the National Bank of Hungary; the Technology Developing Innovation Support extended by the National Committee of Technology Development with the assumption of the 50 percent of the interest payments; and the so called 'Reorganisation Interest Payment Support' which was given to the credits that support the purchase of the assets of the co-operatives that were transformed or were under bankruptcy or liquidation process.)

An important role was assigned to the Existence (E) loan which was planned to use comprehensively from the very first moment.²¹ This loan could only be used for the purchase of assets or business shares which were in state property. The loan required a contribution of internal resources. According to the rules of that time, 2 percent of internal resources were required up to 5 million HUF, 15 percent to 10 million HUF and 25 percent over 10 million HUF. (The conditions of loan application (including the rate of internal resources) were eased several times primarily due to the humble interest and because of the financing of the Employee Joint Proprietorship Programme started in 1992 which was similar to the ESOP.)

Primarily those small entrepreneurs applied for E-loan who were interested in the retail and in the catering sector during the privatisation of the smaller units of the big trade and catering companies which were in state ownership. (The individual sell of the shops which were separated from those companies which had a large shop-network was called preliminary privatisation; this preceded the privatisation of the companies which had bigger shops (too).

Despite of the assumed remarkable advantages of it the E-loan did not proved to be attractive for the targeted groups. The real supply was small in 1991 and the applicants could only get the right for rent in case of a few shops. Apart from the requested guarantees of the banks the interest of the entrepreneurs were dashed by the 15–16 percent interest rate which significantly exceeded the profits of an average business. The Deputy-Chairman of the NSEDO reported about the early experiences of the credit extension that the interest was very high but they lost their interest in it after became familiar with the conditions of the loan. There were only 9 persons who received E-loan in the first couple of month (the 29th May 1991 issue of *Népszava*, a Hungarian daily newspaper).

The interest remained humble. They extended 374 million HUF loan within 148 agreements by the end of July 1991; the proportion of purchase of business shares and acquisition of rights for rent was equal. According to the report of the NSEDO 77 of them wanted to operate their capital as a joint business and 71 of them as a sole enterprise. „It was quite frequent that the whole family joined together for the purchase of a venture; even it happened once that there were 5 applicants for the same catering unit... When they signed the loan agreements 73 persons were employee, 64 persons were entrepreneur and 11 of them belonged to the other category.” (the 22nd July 1991. issue of *Népszabadság*, a Hungarian daily newspaper).

The total number of loan agreements increased to 2857 in 1992 and the total amount of extended credits was 6,2 billion. At the date of the signing of the agreement 1440 of the names were sole entrepreneur and 1082 of them were employee. There were already 4 unemployed persons among the names. (the statistic summary of NSEDO about the E-loan extensions, 14th January 1993.)

The demand of small entrepreneurs for the E-loan did not increase significantly although the supply increased, the interest rate decreased remarkably and they could also use the compensation vouchers. (The owners of the compensation vouchers who wanted to get cash sold them for 50–60 percent of the face value.) Neither the more favourable conditions stimulated the small entrepreneurs: there were only 3305 of them who received credit during the preliminary privatisation. The introduction of the new privatisation techniques (self-privatisation, Employee Joint Proprietorship Programme) created the real demand for E-loan: the total amount of extended loan which was 20 billion HUF until the end of 1993 was primarily used for the purchase of (bigger) ownership shares in companies and the purchase of companies within the Employee Joint Proprietorship Programme.

As the analysis established: „... the establishment of a company which is independent from the state property was the most familiar way for the expansion of the private businesses, not the privatisation. Neither the E-loan could have a significant impact on it.” Referring to the opinion of the banks the analysis drew to the conclusion that „the (credit) supply is exaggerated; in relation with the number of

²¹ The governmental regulation (97/1990. (IX.27) about the establishment of the Existence Fund was made at the end of 1990. The „equivalent HUF sum of the amount of loan which would Germany extend to Hungary for the expansion of the Hungarian enterprises” was named as one of the initial resource of the Fund. Later it became one of the sources of the Start loan and at the beginning of 1991 another regulation (governmental regulation nr. 27/1991) was made which among others changed the name of the Fund to E-loan.

both the companies which were offered for a bid and which can be sold for a good price and the entrepreneurs who have the appropriate cover for credit, internal resources and entrepreneurial experiences". (Privatizáció hitelből; the 9th September 1993. issue of Figyelő.)

The E-loan meant an assistance for the small entrepreneurs during the preliminary privatisation and maybe it will receive a role in the selling of the assets of the companies that are under liquidation or settlement process.

Due to the narrowness of the existing credit supply there were several attempts for the development of loan constructions that are more appropriate to the needs of the small entrepreneurs.²² The interest representing organisations of the entrepreneurs were among the first who attempted it. The National Association of Craftsmen wanted to establish an individual bank. After years of unsuccessful attempts it finally made an agreement with Budapest Bank from which its members received 100 to 400 thousand HUF short term (6 month) loans on the recommendation of the Association. The National Association of Entrepreneurs made a similar agreement with the Postabank. The members of the Entrepreneur Club of the National Association of Entrepreneurs could receive a half year to one year long, 3 million HUF loan if the share of the Hungarian private capital was over 60 percent in the equity money of the venture and if the previous year of the company was successful and its revenues exceeded 1,8 million HUF. Neither the loan which was available with the help of the National Association of Craftsmen nor the one of the National Association of Entrepreneurs included interest preferences but the membership of the interest representing organisation or in case of the National Association of Craftsmen the ethical guarantee was the condition of the credit extension.

The National Association of Craftsmen-Budapest Bank construction became immediately attractive: during its existence (from 1st January 1991 to July 1993.) 4670 members used it. The important figure for us: the amount of the average credit extension was 300 thousand HUF.

The offer of the Entrepreneur Club of the National Association of Entrepreneurs did not become so popular. There were 250 people who received loan between 1990 and 1992; they were the applicants who fulfilled the criteria of the creditability test which was completed by Postabank. The average amount of loans was 1,8 million HUF and there were only 19 names who received less than 500 thousand HUF.

The Micro Credit Scheme of the Hungarian Foundation for Enterprise Promotion was the next really popular loan construction among the small entrepreneurs. In 1992 the Hungarian Foundation for Enterprise Promotion started the establishment of its Local Enterprise Agencies. According to the conditions of that time the ventures which were not operating for more than two years, employed less than 10 persons and had less than 1,5 million HUF equity capital could apply for a humble amount of credit (300 thousand HUF) at the appointed bank branches of the particular county. Apart from the loan the entrepreneurs who applied for a loan to purchase fixed assets or to increase the stock of goods could receive 50 thousand HUF non-refundable support.

In 1992 there were 730 applications for loan and 280 entrepreneurs who received Micro credit at the Enterprise Agencies which operated at that time in 6 counties. In 1993 there were 1333 applications for Micro credit registered in the Enterprise Agencies which operated in 12 county and it was extended to 1240 applicants (total amount of it was 399 387 thousand HUF) until 31th December 1993.

²² The Craftsmen's Association of Tatabánya and its area and the OTP Directorate of Komárom-Esztergom County made an agreement on a loan which was not preferential but quickly available in 1991. „According to our agreement the members of the Craftsmen's Association may receive a loan which is combined with several advantageous conditions and we did not set an upper limit of credits. The entrepreneurs will receive loan if the Craftsmen's Association takes responsibility for them and their activity.

The interest rate of the loans within year will be 35 percent and will be 36 percent in case of the loans over year. The Craftsmen's Association itself controls the use of the credit and the implementation of the investment. The OTP will not set a bar against the extension of loan if the Craftsmen's Association supports it. The sole entrepreneurs can receive loan for investment, purchase of working assets and stock of goods or the surmounting of liquidity problems even within a couple of days. It is interesting and unique in the Hungarian practice of credit extension that the OTP confines itself with a 150 percent cover for credit instead of the regular 200 percent and the debtor may mortgage the machine that is planned to be purchased or the investment that is about to be implemented to the bank for 50 percent of its value if it is requested.

Another new feature of this construction that the bank also accepts inhabited estates (detached house, privately owned terraced house) as cover for credit but in this case the bank requires a „statement of reception” from a third party. ...The bank received 15 applications within a couple of days and there has already been loan extensions. The smallest amount of credit was 300 thousand HUF and the biggest was 2 million HUF. In contrast of our expectations there was no request for the surmounting of payment difficulties among the applications. But there was an application for a 8,2 million HUF credit. The entrepreneur wants to equip his workshop with German sewing-machines because he received a large-scale order from a Western country.”

(Tatabányán nem vártak a Start-hitelre', in the 23rd September 1991 issue of Népszabadság)

We can say as a summary that the use of the loans which were really targeting small, mostly sole enterprises worked out as follows:

Non-preferential loans with the conditions that ensure the extension:

Postabank-Entrepreneur Club of National Association of Entrepreneurs	250 persons
Budapest Bank-National Association of Craftsmen	4670 persons

Preferential loans:

E-loan	3305 persons
Phare-loan	409 persons
Micro credit	1574 persons

The 3283 Start credits joined to the 10 208 credit extensions above.²³

The total number of 13 500 names was only 2 percent of the 682,5 thousand sole entrepreneurs registered in 1993. (It would improve the results if we considered only the full-time entrepreneurs. The Social Security registered 383,1 thousand self-employed sole entrepreneurs in 1992; if we compares the number of names with this figure than their share was 3,5 percent.)

There is no opportunity for making other suitable comparisons on the available data. (There were 60,7 thousand companies without legal entity in 1992 and 98 thousand in 1993; they were also potential names of loans. Or: 91 percent of the companies with legal entity employed less than 50 people at the end of 1993 and more than half of it employed less than 11 persons and about 80 percent of it employed maximum 20 people. These companies were not necessarily private enterprises, they could have been smaller units which were separated from the big state companies and which had not been privatised yet.)

It means that only a very small part of the small enterprises used (could use) preferential loan to their activities. (We only know the relative numbers of the use of the non-preferential credits. According to these

figures the small enterprises used 15 percent of the investment credits over year and 5 to 6 percent of the investment loans within year.)

There are a lot of more or less well-known factors which were often analysed behind the relatively abundant credit supply and the humble use of it. We are going to mention here a few of them as a remark.

In spite of it consisted a lot of preferences the credit-supply created only a few constructions which made the use of loan to a realistic chance for development and to an integral part of the management for the masses of Hungarian small entrepreneurs. (The voluntarily attempts of the National Association of Entrepreneurs and the National Association of Craftsmen aimed the attainment of credit but did not include interest or other sort of preferences.)

Apart from the E-loan which was preferential but its employment was very narrow we can only consider the Phare-, the Micro-, the Start- (and the Japanese Start loan which overtook its place) as preferential from the more than 20 kind of credit constructions. (We have to notice that all of them was initiated by foreign countries.)

Above all the credit limits of these loans were rather humble: the credit limit of the Start loan was about 10,6 billion HUF; the annual limit of the Phare loan was 1,5 million ECU in 1990, 1 million ECU in 1992 (1 ECU=117 HUF); the limit of the Micro loan was 250 million HUF in 1992; the programmes were also financed from these credit limits in 1993.²⁴

The supply of the preferential loans which were primarily aimed to the small enterprises was not really abundant. The banks had to refuse a part of the applicants due to the tightness of the credit limits.

But at the same time the strict credit extension conditions of the banks also restricted the use of the tight limits. It was obvious that the banks wanted covers since they extended the money of their depositors. But the potential preferred group (the big majority of the self-employed entrepreneurs who features the sphere of Hungarian businesses) could not fulfil the requirements of the banks which wanted

²³ As it is known the so called Japanese (Start) loan was planned to overtake the role of the Start loan construction from the middle of 1993. This loan construction consisted two parts: the loan from the source of the National Bank of Hungary and the loan from the source of Japanese banks. A significant change in its conditions was that it could be used by small and medium joint businesses and joint ventures which should not essentially be starting enterprises. The cesser of the loan from Japanese sources (in case of the Hungarian Credit Bank) is 31 October 2007 with a 3-year repayment holiday. The upper limit of the amount of credit extension was the equivalent HUF sum of 10 million USD. The cesser of the loan extended by the National Bank of Hungary was 15 years with a 2-year repayment holiday and the upper limit of credit extension was 30 million HUF. The interest rate conditions are almost the same.

²⁴ ("The Role of MicroCredit in Hungarian Lending Schemes for SMEs; Hungarian Foundation for Enterprise Promotion, July 1994. This study was made by Tibor Hári.)

to validate the regular conditions of credit returns primarily due to the lack of private wealth that would have covered the amount of extended loan appropriately. Therefore the number of the ventures that received preferential loan remained necessarily humble.

In case of the older businesses the entrepreneurs had to prove the successful operation of the previous years and a relatively high annual revenue (1,8 million HUF - Entrepreneur Club of National Association of Entrepreneurs) was required. Due to the lack of the results of the previous years in case of the beginners the banks required such a big amount of wealth as cover for credit which was only available for the smaller part of the applicants.²⁵ And although a part of the banks later eased the very strict cover requirements which were developed by themselves (at least because of the difficulties in the credit extension) and required only a 150-200 percent cover for credit, the chance of a loan did not appear for the masses of the entrepreneurs who owned just a very small amount of wealth or nothing at all.

This circumstance was very important even if the guarantee funds were meanwhile established for the credits extended by the banks.²⁶ The undertaking of guarantee was also regulated by strict rules (for instance the evaluation of business plan). In case of the Start credits there were 210 credit extensions among the approximately 3300 loans to which the Guarantee Fund provided cover until the end of 1993, primarily because there were only a few requests for Start guarantee. (It was added to it that the procurement of the internal resources caused a huge difficulty for the majority of the self-employing small enterprises. Moreover the application for guarantee slowed the whole loan extension process and even the banks preferred those ventures which were creditable without the assistance of the Guarantee Fund.)

It was the most typical characteristic of the whole of the credit supply that the loan constructions far more fitted to the credit extension principles and practice of the developed markets of the Western countries (especially if the source of the loan was provided from

abroad) than to the level of development, the developing market relations and to the internal and external circumstances of the operation Hungarian economy which had been worsening for years. (I am going to refer to only one but basic difference instead of the detailed analysis. The level of economic development of Hungary according to the Gross Domestic Product per person ratio (GDP) was about 30 percent of the United States (USA=100), 55 percent of the European Community countries (the Twelve), 50 percent of Austria and 60 percent of the European market economies (including Turkey) at the end of the 1980's. These rates have remarkably worsened in the 1980's: Hungary fell behind the level of development of the market economies.) (Ehrlich-Révész, 1993.)

Apart from a few exceptions the credit supply neglected the fundamentals of the economy and within it the fact that the sphere of Hungarian small entrepreneurs were basically self-employing.

The credit policy based on a dream-image of the innovative small entrepreneurs of the developed market economies and the illusions which were suggested about them by the politics and the media instead of the real needs of the people who tried to take a grip as self-employing entrepreneurs in the transitional economy which had slumped into a deeper and deeper crisis for years.

The loan constructions which were offered to the Hungarian small entrepreneurs and which has been operating in the market economies successfully despite their advantages were a few years (decade?) ahead of the reality.

The loan demand reflected the same. Unfortunately we do not know any data (number of names, the amount of the loans, the size of their enterprises, etc.) about the entrepreneurs who received non-preferential bank term credit for investment but we can assume that the majority of them was a real entrepreneur; differently from the self-employing persons who were interested in a smaller sum of loan. But the mass of demand were without any doubt tending to the small amount and even cheaper

²⁵ As it was mentioned in the Introduction we had an opportunity at one of the banks to process almost 300 refused application. One of the most important characteristics of the refused applications was the lack of the required credit. About 45 to 50 percent of the applicants could only offer an unmobile estate (his own flat) as cover; or an estate with a small value which did not reached the 100 percent of the value of the loan.

²⁶ As it is known before the start of the Start loan the Hungarian Foundation for Enterprise Promotion established the Start Guarantee Fund which undertook to become an aval for maximum 80 percent of the amount of credit.

At the beginning of 1993 the state with the assistance of several banks established the Credit Guarantee Co. The company gave 3,7 billion HUF bail for 6,6 billion credit until the end of the year. Half of it was in relation with the Existence loan and another quarter of it with the reorganisational loans. „Having an aval does not mean that the entrepreneurs should not mortgage their estates and assets. Generally they have to provide 100 percent cover for the credit and the Credit Guarantee Co. just complete it up to 150 percent which is required by the banks.” (Voszka, 1993.)

credits; to the 300 to 400 thousand HUF sum of the Restart loan.²⁷ The data available show that a significant demand appeared only for the relatively small amount of credits which is in accordance with the structure of Hungarian entrepreneurs. As we referred to it, almost half of the people (46 percent) who participated in any of the loan constructions which were targeting small entrepreneurs applied for Micro credit or the credit which was supported by the National Association of Craftsmen and many of the entrepreneurs who participated in other sort of loans applied for smaller sum of credit. (Unfortunately, the analyses available considered 1 million HUF as the limit of the smallest value category; the smaller amounts were not indicated. According to our figures 12 percent of the names of the Start loan (370 persons) which was originally aimed at a long-term development credit received a maximum 500-thousand HUF loan.)

The figures which were presented beforehand indicates that even the half of the entrepreneurs who applied for a loan successfully needed only a small amount of credit since their plans were humble too. We can consider them as rational, they are the entrepreneurs who evaluated their opportunities. In recession and inflation and during the decrease of demand people only dare advance ahead carefully and step by step because they are afraid of uncertainty, risks and failure. To see it from another aspect: the number of those small entrepreneurs who start up or develop their enterprise from a bigger amount of loan is quite humble.²⁸

It does not change the characteristics of the demand: the small entrepreneurs generally do not like the credits and also according to international experiences

they are averse to use loans. In almost all countries of the world they start up their enterprises from the money that they received from the family members or friends if capital was necessary to the activity at all.

It is the same in Hungary. According to the inquiry of the researchers of the Bristol University the bank loans make up only 7 percent of the initial capital of the Hungarian small enterprises; the remaining part comes from other resources, mainly from the private and family savings.²⁹

Apart from a lot of other reasons (like the business conservatism, the avoidance of undertaking burdens) the small entrepreneurs are careful with the use of loans because the banks are strict creditors and they endanger the independence of the entrepreneurs; they want to know their business plans, their activities and they can control their books.

Above all the use of loan is accompanied with strict conditions: the interest payment and loan repayment obligations. But once someone decided to use a loan he can mostly face with a supply which exceeds his needs and opportunities in Hungary.

The fact that the supply and demand of credit could not meet each other and the use of loan could not become the assistance of the development of those businesses which wanted to develop slowly and to undertake only small burdens is a serious failure of the economic policy. The state of the economy including the sphere of entrepreneurs and the internal and external circumstances of economic operation which had been worsening for years add to it. Apart from a few exceptions the supply of credit neglected the economic fundamentals.³⁰

²⁷ In 1991, before the start of the Start loan more than 42 people purchased the credit application form which was developed and distributed by the National Association of Craftsmen but the knowledge of the conditions dashed their interest. The estimated number of the refused loan applications also refers to that there were only twice or three times more applicants (about 6 to 9 thousand people).

²⁸ At the beginning of 1994 the representatives of ten banks discussed in the Association of Banks what was the reason that only 17 million USD had been used from the 100 million USD credit limit which had been opened by the World Bank at the end of 1992 to develop the trade. There were of lot of reasons mentioned, for instance the strictness of the loan conditions. [the 1st March 1994 issue of the *Népszabadság* (a Hungarian daily newspaper)] But it did not turned out of the statement whether did they take into consideration the situation and characteristics of the Hungarian retailers when they developed the loan conditions.

²⁹ The inquiry was made in July 1993 among 160 entrepreneurs; 60 of them was sole enterprise, 40 of them was company without legal entity (unlimited company, partnership) and 60 of them was company with legal entity (50 limited companies, 10 small-cooperatives). ('Resolutions of a Survey-Small Enterprises in Hungary', Figyelő)

³⁰ The 5-billion HUF credit limit which is offered by the Hungarian Foundation for Enterprise Promotion for the development of the small and medium enterprises in the fall of 1994 seems to be a small step ahead. They separate the half of the credit limit for the starting entrepreneurs who can receive maximum 10 million HUF credit with a preferential interest rate. Apart from this the Phare and the Hungarian Foundation for Enterprise Promotion provide 1580 million HUF for the continuation of the Micro Credit Scheme.

3. ENTERPRISES USING START CREDIT

Although the whole story of the loan construction would be a good subject of an analysis (from the offer of the German government to the mutual agreement of Deutsche Ausgleichsbank and the National Bank of Hungary; from the ambivalent participation of a few Hungarian Banks to the disappointment of the organisations for safeguarding of small entrepreneur's interests) but we must be content with dealing with only those circumstances herein that are considered to be important regarding the subject of this report.

3.1. Interest in the Start Credit

The beneficiaries (small enterprises in private ownership that starting-up their activity) could have used the Start Credit since 1st August 1991 after a fairly long preparatory work. According to the rules those entrepreneurs could use the loan who were just about to start up their enterprise and who were absolutely beginners or those who did not run their businesses for more than 3 years but did it as a full time job. The maximal amount of loan was 10 million HUF in 1991-92, 12 million in 1993 and 15 million in 1994.³¹

The entrepreneur should have had 30 percent of internal resources in the development costs but two-third of the internal resources could have been covered by the investments which were spent on the particular investment and required only 10 percent of cash contribution.

Although the television and press campaign which was several month long attracted a lot of interest there were only a few applicants who had a real chance for a loan. Until the beginning of December 1991 there were only 326 applicants who received loan.

The huge interest was diminished by a lot of things: the credit limits which were portioned among the banks were quite small, the shortage or inefficiency of private wealth in case of starting entrepreneurs, they were lack of experience in making a business plan which was required by the banks, the strictness of

the banks in the assessment of the estates which were offered as cover for credits, the uncertain chances of the guarantee of the Hungarian Foundation for Enterprise Promotion.³²

Moreover, the very first experiences have immediately shown that the benefited entrepreneurs were underdeveloped; those persons show a real interest in the loan who were self-employing or those who wanted to be. As one of the first analysis noticed „the main obstacle to the born of new and successful enterprises was not money but the lack of marketable product, idea or solvent demand”.³³

The analysis described the first applicants as follows: „It is characteristic that the majority of the applicants would apply for the Start Credit to perform trendy, fashionable and in some sense overstocked commercial and catering activities like establishing bars, restaurants, pensions or opening car trade businesses. There were relatively few applicants who wanted to start industrial manufacturing enterprises and there were even less who applied for the loan in order to introduce new technology or a new competitive product. Those entrepreneurs who wanted to manufacture export products to the Western markets were very rare among the applicants.

Summarising the experiences, it seems like that the majority of the sphere of new entrepreneurs invests in order to get a quick return on his money therefore prefers those enterprises which offer bigger profits in a short-term but does not assess whether the market is overstocked or not and does not count with the potential market competition either”.

The Deputy Chairman of the National Bank of Hungary has reported on the results of 1991: „With the use of Start Credit, after a long dispute, finally 1500 entrepreneurs could raise a credit and the total amount of it was approximately 4 billion HUF”. [Ismét startol a Start-hitel, the 13th January 1992. issue of *Népszabadság* (a Hungarian daily newspaper)] The 1500 entrepreneurs mentioned was that time rather the number of applicants than of the names.

³¹ According to the conditions of the loan: The Beneficiaries: natural persons who are Hungarian citizens and who have permanent residence in Hungary and who have been running a sole enterprise for not longer than 3 years at the date of the loan application or participating in a joint business or overtake a part or the whole of such enterprises in order to secure their existence or their full time job.

The duration of loan (with the maximum 2-year payment moratorium): in case of construction work maximum 15 years, in case of machine and appliance purchases maximum 10 years, other purchases 8 years.

The maximum amount of the loan: the equivalent HUF sum of maximum 250 thousands DEM; the share of the Start-loan can not be more than 70 percent of the development costs. Therefore the internal resources of the entrepreneur should be 30 percent but two-third of this can be financed from other loans.

Interest-rate: The interest rate of the refinance credit is 75 percent of the base rate to which the banks can add their interest-marge. This marge can be 1 percent to the part of the loan which is guaranteed by the Guarantee Fund and 2 percent to the non-guaranteed part of the loan or part of loan. The guarantee fee can be 4 percent.

³² According to the report which was in the 21st December 1991. issue of the HVG (a Hungarian weekly magazine) there were 154 applications for guarantee delivered to the Hungarian Foundation for Enterprise Promotion and 93 of them were accepted.

³³ Bella Rónaszéki: After Start - Total Fund will be used up this year; the 21st November 1991. issue of *Figyelő*.

There were more experience both on the sides of the banks and the applicants during the portion of the 2-billion HUF credit limit in 1992. The „specialists” who could deliver business plans which met the requirements of the banks appeared as assistants of the applicants side and on the other hand the bank officials learnt how to judge a loan application.

Apart from this there was no remarkable change in the loan application of small entrepreneurs. As Figyelő reported about it referring to the National Bank of Hungary: „The majority of the entrepreneurs is complaining about not having too much preferential loan and the interest rates of the banks are simply inpayable. Meanwhile the banks just narrowly decreases the interest rates due to the high risk of loan extension and they hardly find promising projects and reliable names. This strange stalemate situation reflects in the following figures of the report of the National Bank of Hungary in March 1992 which contains the most important credit-raising and bank deposit data of the small entrepreneurs”.

Table 10

The bank loan debits, bank deposits and net positions of the small entrepreneurs

	Amount (in billion HUF)	
	1 January 1992.	31 March 1992.
Loan debits*	52,2	55,9
Bank deposits	33,8	55,3
Net position	-8,2	+3,4

* Both short-term and long-term

Table 11

The share of small entrepreneurs in the total amount of corporate bank loan debits and bank deposits

	31 March 1991.	1 January 1992.	31 March 1992.
The share loan debits of small entrepreneurs in the total amount of corporate bank loans (in %)	6,6	7,2	8,0
The share of bank deposits of small entrepreneurs in the total amount of bank deposits (in %)	10,8	14,3	14,7

Source: Lots of Money, Few Loans, 6th August 1992. issue of Figyelő.

The National Small Enterprise Development Office (NSED0) makes regular statistics about the extension of the E- and Start credits. According to the Summary of NSED0 issued on 13th October 1992. the users of the Start loan have increased only moderately (although as we noticed in Chapter 1.1.1. the number of the sole entrepreneurs who run their businesses as a full time job increased by 100 000 persons in 1990 and this increase have continued in the following years in a more consolidated way).

A few remarks from the assessment of the NSED0:

„There were 1768 Start credits according to the records of the NSED0 in the beginning of September 1992. The total amount of these loans was 3595 million HUF.³⁴

In the financing of the projects which used Start loan the share of internal resources was 36%, the share of other foreign liabilities was 1% and the remaining 61% was the share of Start credits. Consequently the names have exceeded the compulsory 30% of internal resources by 6 percent.

The use of the bailing of the Start Guarantee Fund was very low in the statistics: 4% of the total number of loans and 5% of the total amount of loans. The guarantee covered 63% of the sum of the loans where bailing was used (the maximal rate was 80%). The low rate of the use of the bailing of Start Guarantee may refer to that the banks preferred those applicants who had the appropriate properties as cover for credits. It was quite rational considering that the interest marge was only half (1%) of the regular if the banks used bailing. The occurrence of this ... also refers to that presumably not the real beginners were who primarily received this loan although they are who need such preferential loans and its joint guarantees desperately and who were targeted by this loan.

When the loan agreements were signed 81% (1431 persons) of the applicants were already entrepreneur, 11% of them were employee (199 persons), 6% of them belonged to other categories (pensioner, etc.) and 2% (36 persons) of them were unemployed. Regarding the purpose of the loan, the majority of the names (80%; 1422 persons) of them established a new enterprise, 7% (126 persons) of them overtook an other enterprise and 12% (220 persons) of them used the loan to buy a share in someone else's enterprise.

The biggest part of the Start credits were received by ventures operating in the trade (47%) and they were followed by those which were interested in the industrial services (12%). The third biggest loan receivers were the industrial enterprises (9.91%) and the fourth were the businesses in the food industry (5.89%). It was pleasing for instance that the health care servicing enterprises also participated from the loans (5.64%). More than two third of the amount of the loans (70%) was less than 2 million HUF and 45.47% of them was bellow 1 million HUF. Only 7.7% of the loan agreements exceeded the 5-million-HUF mark. Analysing the average amount of loan according to the purpose of the loan, it becomes obvious that the smallest sums were received in order to start up an enterprise (1933 thousands HUF), the amount was a little bigger when the name wanted to overtake an existing company (2135 thousands HUF) and the biggest amounts were paid to those who wanted to buy a share in an existing company (2556 thousands HUF). Due to the small proportion of the last two categories in the number of the loans it would result a mistake if we wanted to draw conclusions from these figures”.

³⁴ As the report notices the statistics of NSED0 about the Start credits are not fully comprehensive due to the hostile behaviour of a few banks but represents about 70-75 percent of the total amount of loans. Therefore the data almost surely reflects the main characters of the total amount.

By the end of 1992 2241 Start loan agreements were signed and the value of these agreements was 4,7 billion HUF. (Summary of NSEDO, 14th January 1993) Neither the composition of the names nor the purposes of the enterprises have changed significantly in comparison with the data of last September.

1993 was virtually the last year in the use of the 10,6-billion-HUF credit limit of Start loan. By the end of 1993 another 1000 applicants have received loan. According to the statistics of the NSEDO 3283 entrepreneurs have received Start loan until the end of 1993 (31st December 1993.).³⁵ The banks can give further credits from the repayments but they give a quite narrow opportunity for the loan extension.

3.2. The registered data at the NSEDO

The main characters of the names did not changed during the 29 months of credit extension. We can notice the strengthening of a few of those tendencies which were observed at the beginning of the process by the regular Summaries of the NSEDO.

3283 entrepreneurs applied for the loan; 78 percent of them did it to start up an enterprise; 14 percent of them received the loan in order to buy a share in an enterprise and 8 percent of them wanted to overtake an existing enterprise.

The trade was the activity of the enterprises in almost the half of the cases (47,6%) and 45% of the total

credit amount went there; 10 percent of the loans went for industrial activities and 8 percent of them for industrial services; the enterprises that belonged to these two categories have received 20 percent of the total amount of credit. Only 118 applicants received a loan to implement agricultural activity (3,6%) which made up a little bit less than 3 percent of the total amount of loans.

The most of the names received a loan which was less than 1 million HUF (42%) and another 25 percent have received less than 2 million HUF; 14 percent of them was in the 2-3 million category, 6 percent was in the 3-4 million category, 5 percent was in the 4-5 million category and 8 percent received more than 5 million HUF.

The average amount of loan was 2184 thousand HUF.

The amounts of loan that the names received were basically independent from their activity – the sums of loan were a little bigger in the tourism and in the food industry and the lowest in the agriculture.

The majority of the names (57%) was older than 41; an additional 31 percent was between the age of 31 and 40. The humble participation (12%) of youngsters (under the age of 30) refers to that the people start up their enterprises after having a relatively long career or to that mostly the people over the age of 40 applied for a loan to establish an enterprise.

The average age of the names was 39,9 years (based on the figures of NSEDO).

Table 12

The structure of the Start Credit Scheme in the different sectors at 31 December 1993.

Sector	min.	max.	average	number	%	in HUF	
						amount	%
Industry	300 000	10 437 000	2 648 338	328	10.0	868 655 000	12.1
Agriculture	200 000	11 000 000	1 705 471	119	3.6	202 951 000	2.8
Food Industry	500 000	10 000 000	3 182 180	111	3.4	353 222 000	4.9
Health services	300 000	12 700 000	2 378 614	101	3.0	240 240 000	3.4
Tourism	50 000	10 000 000	3 268 281	64	2.0	209 170 000	2.9
Trade	11 000	13 000 000	2 062 989	1566	47.7	3 230 641 060	45.1
Services	150 000	11 651 000	2 125 516	446	13.6	947 980 056	13.2
Others	164 000	16 050 003*	2 038 134	548	16.7	1 116 897 306	15.6
Σ			2 183 904	3283	100.0	7 169 756 422	100.0

Source: NSEDO

* The amount is bigger than the upper limit of the loans. It is possible that the allowed limits were exceeded in the practice.

³⁵ As we noticed before, although the statistics of NSEDO are not fully comprehensive we consider these published figures standards.

The internal resources of the entrepreneurs was 36 percent in the total amount of investments (the minimum was 30%).

There were 210 entrepreneurs who did not have the appropriate wealth as cover for loan therefore they used the Guarantee Fund for bailing.

3.3. The enterprises that received Start Credit – the data of our survey

As we mentioned before, our figures can not completely be compared with the data of NSEDO. Therefore we do not make a comparison although we have the same figures in both analyses and there are a lot of coincidences in terms of the main trends.

In accordance of the purposes of the inquiry, our figures are a lot more detailed than the data of NSEDO which were collected with different goals. We are going to show the reasons of the differences during the detailed analyses where our data made the figures of NSEDO more accurate or modified them.

First we are going to overview the main characters of the credit extension and the entrepreneurs and enterprises who received loans. Than we are going to give an overall picture of the three main scopes of the survey mentioned in the Introduction (Chapter 3.4.—3.10.). Finally we are going to summarise a few characteristic features of the entrepreneurs and their enterprises (Chapter 4).

The most of the Tables are included in the analyses; the remaining ones are in the Appendix.

3.3.1. The main characteristics of the entrepreneurs and their enterprises

The 11 banks which participated in our inquiry have extended credit to 3187 entrepreneurs since the

Start loan programme was started. The total amount of loans was 7.7 billion HUF. (As we mentioned before, the majority of our surveys were made in the middle of 1993 therefore they reflects the conditions of that time.) The banks which participated in the inquiry accepted 1267 applications in 1991 (which is 40% of the total number of accepted applications), 1705 applications in 1992 (53%) and they accepted the remaining part in 1993 by the date of our inquiry. The amount of loans which were extended to entrepreneurs were between 164 thousands and 12 million HUF. The biggest part of the names (38%) received less than 1 million HUF which made up 11 percent of the total amount of loans. An additional 24 percent received less than 2 million HUF. It means that more

Table 13

The amount of received loans in thousand HUF

Total amount	Total amount in thousand HUF	Total amount in %	The number of applicants	The share in the number of applicants in %
under 500.000 HUF	170 350	2.2	370	11.7
500 001–1 000 000	691 935	8.9	837	26.3
1 000 001–1 500 000	541 037	7.0	402	12.6
1 500 001–2 000 000	694 998	9.0	370	11.6
2 000 001–2 500 000	468 956	6.0	202	6.3
2 500 001–3 000 000	683 091	8.8	235	7.4
3 000 001–3 500 000	348 314	4.5	103	3.2
3 500 001–4 000 000	406 496	5.2	104	3.2
4 000 001–4 500 000	236 835	3.0	55	1.7
4 500 001–5 000 000	798 014	10.3	161	5.1
over 5 000 000 HUF	2 727 498	35.1	348	10.9
Total	7 767 524	100.0	3187	100.0

than 60 percent of the names received only 27 percent of the total amount of loans. 11 percent of the total number of names received more than 5 million HUF; it was 35 percent of the total amount of loans.

The average amount of the received loans was 2437 thousand HUF but the real amounts depended on the activity and on the type of the enterprise. The sole entrepreneurs received 2.4 million HUF on average and the members of joint businesses received 2.9 million.

There were 1776 entrepreneurs who wanted to start up his enterprise from the loan; the majority of them wanted to run his business as a sole enterprise and 279 of the entrepreneurs as a member of an existing or a potential joint business. The remaining 1411 entrepreneurs (most of them were also beginners with only 1 or 2 year of experience) wanted to use the loan for expansion or modernisation; 997 of the businessmen were a sole entrepreneurs and 414 of them were (partly potential) co-owners of joint businesses; 20 percent of the total number of names participated in joint businesses.

Table 14

The number of starting and existing enterprises among those who received Start Credit according to types of enterprises

	Starting number	%	Existing number	%	Total number	%
Sole enterpr.	1497	84.3	997	70.7	2494	78.3
Members of joint businesses	279	15.7	414	29.3	693	21.7
Total	1776	100.0	1411	100.0	3187	100.0

During the process of credit extension the starting enterprises received 55 percent of the whole of the credit limit. The starting and already existing sole enterprises have received 75 percent of the loans.

Consequently, according to our figures and in contrast to the data of NSEDO, 55 percent of the loans went to start up an enterprise, 40 percent for the expansion or development of the existing enterprise and 4 percent for joining to or overtaking existing enterprises.

Table 15

The form of activity of the sole entrepreneurs who received Start Credit (self-classification)

	Number	%
Sole entrepreneur	1460	58.5
Craftsman	187	7.5
Retail	587	23.5
Small-scale agricultural producer	79	3.2
Intellectual	83	3.3
Other	64	2.6
Wrong code, no answer	34	1.4
Total	2494	100.0

It would have been evident to compare the proportion of the main groups (intellectual, small-scale agricultural producer, craftsman, retailer) of the sole entrepreneurs who received Start loan with the published figures of the National Statistic Office but there was no way to do it because the entrepreneurs preferred to use the 'sole entrepreneur' category instead of the clear definition of their activity. This was likely to happen because the 'sole entrepreneur' category has a much higher prestige for them than the 'craftsman' or the 'retailer' although more than 50 percent of the names belonged to these two categories according to their activity.

Those who wanted to establish or to participate in joint businesses, regardless of the type of the company, could only individually receive loan in accordance with their personal creditability. (It is another question that in case of the assessment of the applications which related to existing companies the banks considered the assets of the company, its profit and its bailing as well.) More than 60 percent of the companies had legal entity (limited partnership and small-co-operative*) which means that these companies had their own assets. These assets were independent from the personal wealth of the members of the company. (The Start credits which were extended as personal credit had to be covered by the personal wealth of the name.)

* [The categories of the Hungarian Corporate Law follows the classification of the German Corporate Law and not the categories of the Anglo-American Corporate Law therefore the types of the Hungarian businesses often do not have Anglo-American equivalents; I indicate the abbreviations of the Hungarian equivalents where it is possible in the following Table to enable the possible identification - the translator.]

Table 16

The members of joint businesses

	Number	%
Limited company (KFT)	406	58.6
Small co-operative	5	0.7
Collective for economic activity (GMK)	44	6.3
Deposit partnership (KKT)	4	0.6
Unlimited partnership (BT)	186	26.8
Intellectuals' society and other societies	48	7.0
Total	693	100.0

More than three quarter of the cases the activity of the planned or existing enterprise (using the Hungar-

Table 17

The activity structure of the accepted loan applications

Industry	Number of loans		Amount of loans in thousand HUF	
	number	%	HUF	%
Agriculture, hunting and forestry	156	4.9	316 556	4.1
Manufacturing	598	18.8	1 761 309	22.7
Construction	50	1.6	134 745	1.7
Sale, maintenance and repair of motor vehicles, motorcycles and personal and household goods	158	5.0	552 641	7.1
Wholesale*	124	3.9	315 065	4.1
Retail*	925	29.0	1 837 818	23.6
Hotels and restaurants	448	14.1	1 374 862	17.1
Transport, storage and communication	129	4.0	399 215	5.1
Financial intermediation	18	0.6	13 876	0.2
Real estate, renting and business activities	248	7.8	407 983	5.3
Education	10	0.3	38 225	0.5
Health and social work	117	3.6	246 990	3.2
Other community, social and personal service activities	154	4.8	286 990	3.6
Not known	52	1.6	81 980	1.1
Total	3187	100.0	7 767 524	100.0

* Except of motor vehicles and motorcycles.

ian statistic system which is in accordance with the classification system of international statistics)³⁶ was some kind of service; only 5 percent of the activities was agricultural and 18 percent of them belonged to the processing industry. The leading industry within the services was trade (wholesale and retail together), another 14 percent of the activities belonged to the accommodation services and catering industry. About 70 percent of the accepted Start loan applications were services (35 percent of them were trade activities and 18 percent were accommodation services and catering). The processing industry had a 23 percent share; 156 applicants received loan for agricultural activity (which was 5 percent of the total number of accepted applications) and their share in the total amount of loans was only 4 percent.

More than three quarter of the enterprises operated in cities (33 percent of them were in county centres, 32 percent of them were in other cities and 12 percent of them in Budapest); 21 percent of the enterprises operated in villages. (A few enterprises were in hamlets and there were no data about 2 percent of the enterprises.)

3.4. Occupational and demographic structure of the entrepreneurs using Start Credit

The first question of our inquiry was, as we mentioned before, who (what was the sex, age, occupation etc. of these people) wanted to start up or expand their enterprise with the use of loans in the beginning of the 1990s.

The demographic features which we are going to analyse in this part of the study gave us the overall picture that in case of the Start credits the average creditable entrepreneur was typically a 35–44 years old male, at least with a secondary school qualification and business experiences mainly in trade, catering or in different services.

Where it is possible, we are going to compare the characteristic demographic and career data with the conclusions of the former inquiries which were described in Chapter 1. Due to the different bases of the samples we could only draw conclusions about the trends from the comparison.³⁷

The people who are in the sample can be divided into two main groups regarding their entrepreneur career. The entrepreneurs who are absolutely beginners belong to the bigger group; they wanted to start up their enterprises with the use of Start loan. Those entrepreneurs who belong to the relatively smaller group had a brief, mainly 1 or 2 year experience. Among the members of the second group there are 184 persons who were already entrepreneurs in 1989.

First we are going to describe the demographic features of the two main groups together and then we are analysing the occupational characters of the new entrepreneurs individually.

³⁶ The sectorial classification system graduates the economic activities into four levels. The first and highest level of aggregation is the industry level; most of the tables using the classification of this level. The second is the sector level, the third is the sub-sector level and the fourth is the branch level. Most of the calculations are made on the branch level.

³⁷ We are going to remind that the sample in 1983 was representative and based on the mobility analysis of the National Statistic Office; the inquiry in 1989 was also representative in which the main emphasis was on the joint businesses (including the small-co-operatives). Our inquiry by no means can be considered representative regarding the small enterprises, it only relates on those which received Start loan.

a) Division based on gender

Table 18

The gender of the entrepreneurs

	number	%
male	1969	61.9
female	1185	37.2
no data	33	1.0
Total	3187	100.0

The 62 percent share of males was almost the same as it was in 1983 (63%) but significantly decreased in comparison with the results of the survey in 1989 (68%).³⁸

In our sample it looks as if the importance of females was increased. It is possible although the banks referred to that the entrepreneur licences (therefore the loan applications as well) were bearing the wife's name due to several reasons. Although this, it is still possible that there are more females among those who use Start loan to establish their enterprises than the representative samples of the former inquiries have displayed. An increasing number of females became entrepreneur and even the data relating to the creditability of the females show the same: the names undertook such activities in which the females and the males had equal chance for success or in which a lot of female worked before.

It will become obvious in the analysis of activities that the female entrepreneurs who used loan did not only nominally participated in the family business. Most of them operate in trade, in accommodation service and catering. More than 40 percent of those entrepreneurs who run their businesses in the economic servicing sector and those doctors who set up in private practice were female.

The 60:40 ratio between males and females is not so remarkably different from the breakdown of the economically active population of the country by sex: in 1st January 1993., 48.5 percent of the economically active population were females.³⁹

b) Age

Our survey enabled us to make a more detailed analysis of age features than NSEDO did. Therefore we can correct two of NSEDO's conclusions: the average age of the entrepreneurs was slightly higher

(40.9 years instead of 39.9 years) and it is obvious that although the majority of the entrepreneurs (over 70 percent of them) were in the 30–44 year age bracket, the biggest part of them (43 percent) were in the age of 35–44 years.

Table 19

The structure of entrepreneurs according to their age

Age	number	%
24 or younger	181	5.7
25 to 29	290	9.1
30 to 34	416	13.1
35 to 39	700	21.9
40 to 44	674	21.1
45 to 49	482	15.1
50 to 54	274	8.6
55 to 59	69	2.2
60 to 64	44	1.4
not known	57	1.8
Total	3187	100.0

There is no significant change in terms of the average age in comparison with the data of the former inquiries (1983: 42.9 years; 1989: 40.3 years). The new entrepreneur sphere become a little younger in comparison with 1983 which is likely to indicate that it is easier and more simple to start up an enterprise. On the other hand it is still true that the gaining of experience and the preparation is still important in order to initiate a business. It is possible that the people whose enterprise grow out of compulsion could set up goals and make a business plan that was acceptable for the banks since they could have established a proper base for their enterprise due to their age. The data relating to the qualifications and career steps also refers to such preparedness.

c) Qualification in education

In the process of loan application assessment each bank had its own practice, therefore they asked different supplemental information which were not in the application form. They did not always ask information about the applicants' qualifications in education (career information), especially not in the early phase of credit extension therefore we have data just about 80 percent of the entrepreneurs.

³⁸ Here and hereinafter we are going to refer to the analyses introduced in Chapter 1 by defining only the date of the inquiry.

³⁹ The statistics consider the following people 'economically active': the employed people, those who receive children-care aid and payment and the unemployed people.

Table 20

The entrepreneurs' highest qualification in education

Qualification	number	%
did not complete the primary school studies	8	0.3
completed the primary school studies	118	3.7
completed a practical worker's course	63	2.0
completed the practical worker' school studies	571	17.9
completed the secondary school studies	896	28.1
graduated in a college	247	7.7
graduated in a university	587	18.4
no information	697	21.9
Total	3187	100.0

The data which are not fully comprehensive refer to that the educated persons were more frequent among the creditable entrepreneurs. According to the survey in 1983, 20.7 percent of the small entrepreneurs finished the secondary school studies and 59 percent of them completed practical worker's school studies. According to the inquiry in 1990, 25 percent of the entrepreneurs have finished their secondary school studies and 20 percent of them graduated in a college or a university. The share of people with lower qualification significantly decreased and the number of university or high school graduates increased in the sample. There were more than 800 persons interviewed and most of them performed an activity which requires a diploma (most of them performed intellectual activity), indicating the increased importance of self-employment in these professions.

d) Careers

We have a few data about the career of the starting entrepreneurs that preceded their decision of becoming an entrepreneur apart from the strictly demographic data.

It is not surprising that a great majority (67%) of them started up his enterprise in his profession with the same activity. Another 15 percent of them continued a similar activity to his former profession. Only 18 percent of them wanted to start up his enterprise with a different activity than his former profession was.

Most of the new entrepreneurs were working in the trade or in an other servicing sector.

Table 21

The former scope of work of the new entrepreneurs

Sector	number	%
Industry	151	8.5
Constructing industry	68	3.8
Agriculture	168	9.5
Transporting	28	1.6
Trade	535	30.1
Other service	445	25.1
Other	234	13.2
Career starter	22	1.2
No information	125	7.0
Total	1776	100.0

Their activities were also connected with trade and services:

Table 22

The type of the new entrepreneurs' former activity

Activity	number	%
Manufacturing	246	13.9
Services	496	27.9
Trade	517	29.1
Manufacturing+services	55	3.1
Manufacturing+trade	92	5.2
Services+trade	74	4.2
Manufacturing+services+trade	75	4.2
Others	182	10.2
No information	39	2.2
Total	1776	100.0

The third of the new entrepreneurs (588 persons) had some kind of connection with enterprises beforehand; 282 of them were employees in someone else's enterprise; 137 of them participated in family enterprise and 169 of them assisted in a different way.

The majority of them was working under the supervision of someone else in their last job before started up their enterprise.

Table 23

The position of the new entrepreneur in his (last) job

	number	%
Worked in the management	371	20.8
Worked under someone else's supervision	751	42.3
Career starter	32	1.8
Other	174	9.9
No information	448	25.2
Total	1176	100.0

When they applied for the loan, 60 percent of them was already an entrepreneur, another 33 percent of them was still an employee and 7 percent of them wanted to start his enterprise as unemployed (69 persons) or were already under notice (57 persons). Only 6 unemployed people wanted to invest his pecuniary compensation into the enterprise (maybe there were no other unemployed people who received pecuniary compensation).

The preceding career of the new entrepreneurs generally explains the great share of trade and services in the chosen activities – the biggest part of them tried to start up a business in a profession in which they had experience. To see it from a different aspect: having a private enterprise was primarily promising for those who worked in the trade and servicing sectors; they were likely to generate steady income even with using loan.

We do not have similar data about those who had previously been entrepreneurs (1411 persons in our sample). All we know is that 50 of them were running a private enterprise before 1989, another 134 of them started up his enterprise in 1989. If we added the two figures together, it gives us that 5.8 percent of the total number of entrepreneurs in our sample were working in their private businesses before 1990. Therefore the majority of entrepreneurs had only 1 or 2 year experience.

The 71 percent of the entrepreneurs operated as sole entrepreneurs, the remaining 29 percent of them participated in joint enterprises. The members of limited companies made up a remarkable part of the latter group (284 of the members of joint businesses (the total number of them was 414) were holding shares in limited companies); another 100 persons were holding shares in unlimited partnerships. Apart

from the limited companies there was one small co-operative with legal entity, the other types of joint businesses were without legal entity (which means that the members were universally liable for the whole activity of the company).

The members of the joint businesses could only receive loan as sole entrepreneurs (it did not made a difference whether they have already been running a joint business or just wanted to participate in one of them), therefore the company could not undertake neither the capital repayment nor the interest payment. The loan meant a bigger burden for the entrepreneur as well (the sole entrepreneurs could write off from their tax and the members of joint businesses had to pay it from their net income). Although this, 12 percent of the names belonged to this latter group and received 25 percent of the total amount of loans.

Those entrepreneurs who had some kind of experience in running a business were performing their activity in almost all the sectors of the economy but most of them were also operating in different parts of the trade or servicing sectors. (We are going to analyse their activity in the following part.)

The huge majority (87%) of them wanted to continue their preceding activity and applied for the loan because of that reason.

3.5. The promising enterprises

Those people who receive a loan count on that their revenues would not only cover the regular expenses of the business but would ensure a steady income for them and it would also cover the capital repayment and interest payment.

What sort of enterprises were those, according to the names, that would earn enough profit in this period of the Hungarian economy when the recession was deep and the companies were suffering from a significant decrease in market demand? About the potential success of which activities could they convince the banks? (We could not make an in-depth analysis of how serious did the banks take the business plans or did they considered them only documents which were evidences of having the formal requirements but which could not give any important information during the assessment of creditability. In reality, the permanent worsening of

the economic environment makes the long term profit calculations quite questionable.)

Although these facts, the entrepreneurs believe in that there always were, are and will be activities that are profitable enough. Those applicants who were running an enterprise for a longer time considered their one like this.

3.5.1. The previously established enterprises

The 1411 persons who were entrepreneurs at the date of the application were performing a few-hundred kind of activities.

Later we are going to make a more detailed analysis of their activities therefore we make here only an aggregated summary of the activities in accordance with the statistic sectorial classification.

Table 24

The fields of activity of the previously established enterprises

Industry	Number	%
Agriculture, hunting and forestry	78	5.5
Manufacturing	264	18.8
Construction	31	2.2
Wholesale and retail trade; repair of motor vehicles, motorcycles and household goods	574	40.7
Hotels and restaurants	155	10.9
Transport, storage and communication	71	5.0
Financial intermediation	10	0.7
Real estate, renting and business activities	111	7.9
Education	5	0.4
Health and social work	41	2.9
Other community, social and personal service activities	71	5.0
Total	1411	100.0

Three quarter (76%) of the enterprises had only one activity (manufacturing 10.9%; servicing 28.7% and trade 36.4%) and every fourth of them had more than one activity, combining manufacturing, trade and servicing.

For about eighty percent of them the main market was the private consumption and for 50 percent of

them that was the only market. It is an important figure that 45 percent of them supplied other enterprises (but the other enterprise was a sole market for only 9 percent of them) and the budgetary institutions were only very small consumers of them. Only 1.7 percent of them were solely working for a budgetary institution and 25 percent of them had budgetary institutions among their consumers.

The market meant domestic market for a significant part of the enterprises but 12 percent of them exported as well (although this, only 1.6 percent of them had a sole or a main market in a foreign country).

More than 50 percent of the previously established enterprises (754 persons, 53 percent of them) had some kind of connection with suppliers; the activity of the others did not require suppliers (or the answer relating to this question was missing).

Three quarter of the 754 enterprises purchased only from domestic suppliers; within them there was 21 percent who purchased only from small and sole enterprises, an additional 28 percent had small and sole enterprises among their suppliers. This is a very important indicator of the connection between small enterprises although the really significant thing would be (if we knew) that how much did the big companies purchase from the small companies.

There were only 15 enterprises who reported that their only supplier was a foreign company and there were another 119 enterprises who told that they had foreign suppliers beside the Hungarian ones. Adding up these two figures, 18 percent of the enterprises had connections with foreign suppliers. (Unfortunately, we can not exactly tell from those data what does the purchase from a foreign supplier mean for these enterprises; it is possible that they just purchased products of foreign countries, e.g. drinks, cosmetics, Amway products, etc.)

About three quarter of them is satisfied with the current level of demand although the definition of „it is already good” is an indication for the banks. Another 9 percent of them hopes that the demand will significantly increase within 1 or 2 years. There were only 5 percent of them who assessed the demand as stagnant or decreasing. There was such an enterprise in almost all the sectors; they had the biggest share in the processing industry (8%). In the different fields of trade this ratio was about 5 percent. Half of those enterprises that had a stagnant or

decreasing demand tried to extend the demand of the existing enterprise with the help of the loan and the other half of them tried to start up a new business or join to an existing enterprise or to change the profile.

The majority of the enterprises did not feel the concurrence determinant. Only 11 percent of them considered the concurrence as strong; a third of them considered it as normal and according to about 40 percent there was only a slight competition or there was no competition at all. (In case of about 20 percent of the entrepreneurs the question was not relevant or there was no answer.)

We examined whether there was any connection between the intensity of the market competition and the performed activity or the area where they perform their activity.

There was occasionally strong concurrence indicated from very different activities but in the reality it was characteristic only in three activities: among the cab drivers and the road transporting industry (19 percent), among the wholesalers (19 percent) and in the food industry (17 percent). All three were generally known as very popular among and more or less overstocked with small enterprises.

It was a little bit surprising that a strong market competition was barely indicated by the entrepreneurs who operated in accommodation servicing and catering (8.4 percent), in retailing (9.5 percent) and in the constructing industry (9.6 percent).

The intensity of market competition did not depend on the type of settlement where the enterprise operates: 6.4 percent of the enterprises operating in a county centre had to face with a strong concur-

rence; this figure was 6.1 percent in Budapest. About 3 percent of the enterprises that operated in small cities and villages had to experience what is a strong market competition like.

The entrepreneurs had to report about the enterprise's earning before taxes in their application. (Only the members of joint businesses chose the corporate tax as the form of taxation, the others paid personal income tax.) We do not know whether the banks asked the balance sheets and the tax statements of the previous years or simply accepted the statement of the applicant. There can be a significant difference between the two figures. The Internal Revenue Service should know about the least possible sum of money and it is useful to report about the highest possible to the banks. The existing enterprises had to give financial information about the last three years of their operation on the application form.

At the date of application most of the existing enterprises has not been operating for three years; most of them did not have a year experience either. During the credit extension which started at the end of 1990 and finished in 1993, there were relatively few entrepreneurs who could report about the „previous years”. Those who operated within a joint business obviously reported about the earning of the company. The big earnings in most cases belonged to the companies.

We are going to summarise the financial figures of the enterprises in the following table.

Although the figures can not be added up due to the occasional accumulation, we can distinguish two remarkably different groups of the figures: those enterprises that generate very small and those that

Table 25

The enterprises' profit before taxes

Year	The number of reports on the profit	The amount of profit in thousand HUF									
		under 500		500-1000		1000-3000		3000-5000		over 5000	
		number	%	number	%	number	%	number	%	number	%
1988.	10	6	60.0	-	-	-	-	1	10.0	3	30.0
1989.	101	56	55.4	10	9.9	2	2.0	1	1.0	32	31.7
1990.	458	203	44.3	39	8.5	42	9.2	5	1.1	169	36.9
1991.	566	250	44.2	67	11.8	65	11.5	33	5.8	151	26.7
1992.	337	156	46.3	41	12.2	47	13.9	19	5.6	74	22.0

Table 26

Profits before taxes in 1991

	sole entrepreneurs			joint businesses			total	
	profit in thousand HUF	nr.	%	profit in thousand HUF	nr.	%	nr.	%
under 500 000 HUF	37 389	210	57.4	6 445	40	20.0	250	44.2
500 001-1 000 000	25 304	34	9.3	25 372	33	16.5	67	11.8
1 000 001-3 000 000	47 060	29	7.9	73 620	36	18.0	65	11.5
3 000 001-5 000 000	41 086	11	3.0	84 262	22	11.0	33	5.8
over 5 000 000 HUF	6 833 065	82	22.4	3 127 786	69	34.5	151	26.7
Total	6 983 904	366	100.0	3 317 485	200	100.0	566	100.0

generate very significant profits. (If there were companies that had loss among them, it did not turn out of the applications.)

Maybe the profits which were under 500 thousand HUF were only displayed to the Internal Revenue Service since it would mean that the enterprises generated approximately 42 thousand HUF profit per month - before taxes!

On the other hand there were enterprises which reported that their profits before taxes exceeded 5 million HUF. The number of such enterprises rapidly increased in 1990 and in 1991 and although their

share decreased in 1992, they still represent a quarter of the total number of enterprises.

It was another characteristic that even if there were not too many enterprises in the over 1 million HUF category (the share of this group is about 25-30 percent), there was a tendentious movement away from the low profits towards the high ones.

We examined whether there was any characteristic differences between the enterprises with the smallest and the biggest profits. To avoid the overlappings we are going to present the figures of only one year. This year would be 1991 because we had the most data about that one.

Table 27

The number and the ratio between the enterprises under 500 thousand and over 5 million HUF profits in 1991

Industry	number of enterprises	reported profits in 1991			
		under 500 thousands HUF		over 5 million HUF	
		nr.	%	nr.	%
Agriculture, hunting and forestry	78	16	20.5	3	3.8
Manufacturing	264	38	14.4	27	10.2
Construction	31	7	22.6	3	9.7
Wholesale and retail trade; repair of motor vehicles, motorcycles and household goods	574	101	17.6	76	13.2
Hotels and restaurants	155	26	16.8	19	12.3
Transport, storage and communication	71	14	19.7	10	14.1
Financial intermediation	10	-	-	-	-
Real estate, renting and business activities	111	21	18.9	5	4.5
Education	5	2	40.0	-	-
Health and social work	41	9	22.0	3	7.3
Other community, social and personal service activities	71	16	22.5	5	7.0
Total	1411	250	17.1	151	10.7

We think that the table speaks for itself: significant part of the sole enterprises reported a very small profit; although there were a lot of joint businesses which had a very small profit as well, the significant profits consistently occurred at the joint enterprises. (About two third of the sole enterprises did not necessarily have such a small profit but they had several opportunities not to display the real sums while the companies are more obliged to do it due to the bookkeeping and balance statement obligations.) The polarisation, the serious differences between the entrepreneur groups are quite obvious.

If we analyse the data according to activities, the biggest number of entrepreneurs who were under 500 thousand HUF in 1991 operated in the trade sectors and the least number of them were in the education. Those entrepreneurs who reported the biggest profits were also interested in the trade sectors. It indicates how different the chances can be in the same sector depending on the size of the enterprise, the place of it, its profile and a lot of other things. Otherwise the ratio between the enterprises with a small and a big profit is quite balanced in the same economic sectors.

The most of the sole enterprises had a small organisation. They employed together with the joint businesses 3584 persons which included the full-time and part time employees and the assisting family members.

Table 28

The number of employees in sole enterprises and joint businesses

	in the 997 sole enterprises	in the 414 joint businesses	total
total full time employees	1953	1224	3177
part-time employees	145	91	236
assisting family members	124	47	171
Total	2222	1362	3584
Average number of employees	2.2	3.28	

It means that those enterprises which were established preceding the applications, both the sole enterprises and the joint businesses typically employ 2 or 3 persons similarly to the small enterprises of the country. In our sample there were 124 sole enterprises which obviously consisted only the family

members and 25 of the joint businesses also operated as family enterprises. (Unfortunately, we have very few comparable data but from those we have, it seems like that the average number of employees of the sole enterprises increased just very slowly. For instance, in 1988, according to the summary of the National Craftsmen Association, 56 percent of the craftsmen were working alone and another 22 percent of them with one employee. The average number of employees in a workshop was 2.01 persons at that time. The average number have increased to 2.19 persons by the beginning of 1990. The number of entrepreneurs who operated in trade and in the accommodation and catering sector was significantly bigger than the number of craftsmen among the names of the Start loan and their activity by its nature (e.g. opening hours, serving the customers, etc.) would have required a bigger number of employees. Therefore the figure of the average number of employees (2.2) did not indicate a significant increase among the Start loan applicants either. Consequently, neither of the group of entrepreneurs which really wanted to develop its activity could absorb a remarkable amount of employees.)

The entrepreneurs who had already established their businesses, as we noticed before, wanted to expand their current enterprises and asked the loan for this purpose.

Table 29

The purpose of the Start Credit

	number	%
Expanding, developing, modernise the existing enterprise	1229	87.1
Change	123	8.7
- the profile	42	
- join to other existing businesses	58	
- individual enterprise connecting to another existing enterprise	23	8.7
Other form of development	51	3.6
No information	8	0.6
Total	1411	100.0

About half of those who wanted to expand or develop their existing activities simply said about the goal of the Start loan that he wanted to increase the existing business. We know more about the proper purpose in

case of the other half of entrepreneurs. The introduction of a new product (199 persons, 16%), a new service (202 persons, 16%) and a new scope of business (165 persons, 13%) and the combination of these three (136 persons, 11%) were all among their purposes.

A lot of enterprises can diversify their activities with developments and expansion. As we noticed before, a quarter of these enterprises has been performing different activities so far; 28 percent of them wanted to perform two kind and another 8 percent of them tried to perform three kind of activities with the use of loan. (One of the extreme cases: economic consulting, marketing, trade of second-hand goods, pancake frying, retailing bottled drinks – within one enterprise.) Unfortunately, we could not fully transform this diversification of data during the survey since we had proper data only about the second and third activity of the enterprises. The second activity was generally the supplement of the main activity: for example, in case of the trade of consumer's goods this was the repairing of the particular product (e.g. bicycle, sporting-gun, glasses etc.); or the fattening of pigs and the running of a slaughter house or, also as a frequent pair of activities, running a pension or a camping and a restaurant, etc. The third activity generally added the retail of miscellaneous goods, the services that support economic activities and the car retailing and maintenance to the first and second activities.

3.6. The activity of the enterprises developed and established with the use of loan

We are going to overview the activity of the new and the already existing enterprises according to their main activity which was marked first.

Perhaps the most surprising result of the analysis was that there was no remarkable difference between the main trends of

the activities of the new and the already existing enterprises; the appearance of the 1776 new entrepreneurs did not changed the proportions of the activities at all. We are using the aggregated sectorial classification to the overview again.

As it is obvious from this table, the change in the most of the industries was only a few tenths of a percentage. The rate of the change was about 3 percent in just two industries: the popularity of the public vehicle and fuel trade, repairing and maintenance of household utility goods have decreased a little but the popularity of the hotel service and restaurant industry increased – at least in the credit assessment of the banks. [We notice, that more than half of those applications which were refused related to the establishment or development of such enterprises which operated (or planned to operate) in the trade (34.4%) and to the hotel and restaurant industry (18.8%). About 20 percent of the applicants operating in these fields of activities were already existing enterprises.]

The young entrepreneurs considered the similar enterprises promising than the older fellows. There were 181 entrepreneurs who were under the age of 25 in our sample and 42 percent of them hoped to

Table 30

The proportion of activities among the entrepreneurs benefitting from Start Credit in the different industries of the economy

Industry	older entrepreneurs		old and new entrepreneurs using Start loan		difference in %
	number	%	number	%	
Agriculture, hunting and forestry	78	5.5	156	4.9	-0.6
Manufacturing	264	18.8	598	18.8	-
Construction	31	2.2	50	1.5	-0.7
Wholesale and retail trade; repair of motor vehicles, motorcycles and household goods	574	40.7	1207	37.8	-2.8
Hotels and restaurants	155	10.9	448	14.0	+3.2
Transport, storage and communication	71	5.0	129	4.1	-1.1
Financial intermediation	10	0.7	18	0.6	-0.1
Real estate, renting and business activities	111	7.9	248	7.8	-0.1
Education	5	0.4	10	0.3	-0.1
Health and social work	41	2.9	117	3.6	+0.8
Other community, social and personal service activities	71	5.0	154	4.8	-0.2
No information	-	-	52	1.6	-
Total	1411	100.0	3187	100.0	

generate a steady income from the trade and 19 percent of them from the catering; 18 percent of them were interested in the manufacturing industry – and about the half of them in the food industry. The rest of them performed other, completely different activities (only 1 or 2 of them in each activity), apparently without any kind of tendency.

We could notice several, more delicate changes within the industries but due to the small number of cases we can refer to only a few remarkable occurrences of them.

The most remarkable observation related to the agricultural enterprises; these ventures attracted our attention since they were extremely diversified.

There were 156 entrepreneurs within the agricultural industry and they were performing about the same number of activities: they wanted to purchase irrigation systems, warm-houses, raw materials, trucks and machines for growing asparagus, mushroom, tobacco, broomcorn, cauliflower, fruits, grape, flowers, etc. with the help of the loan; they wanted to purchase breeding animals, equipment, slaughterhouses and animal transporting vehicles from the loan in order to breed poultry, sheep, goose, horse, horned cattle, bee, rabbit etc.; 33 of the agricultural entrepreneurs operated in joint businesses.

The food industry had the biggest importance in the manufacture industries (the branch sectors of the manufacturing consists the production and repairing of 148 kinds of products): almost 40 percent (231 persons) of the 598 entrepreneurs who operated in the manufacture industry and received Start loan wanted to start up or already had an enterprise in the food industry. There were entrepreneurs for the production of all sorts of foods from the production of dried fruits, coldly moulded oil, dry pasta (*pasta asciutta*), beer, powder ice-cream to the establishment of Flemish bakery, milk processing plant and distillery.

The other activities of the manufacture industry were not so popular. The second of the sectors with the most numerous entrepreneurs was the timber industry but it consisted only 48 businessmen; the third was the metal processing (47 persons) which included activities from the manufacturing of boilers and radiators to the production of pocket-knives and the daggers. There were only a few successful loan applicants in all the other activities of the manufac-

turins industry. There were 164 entrepreneurs among the names of the manufacturing industry who were members of joint businesses.

In the constructing industry which split into a lot of small organisations in the past few years, there were 27 of the total number of names in this industry (50 persons) who applied for the loan in order to join to or to buy a business share in a limited partnership. The sole entrepreneurs were either performing some kind of special activity (fancy tinning, carpenter-timbering) or wanted to complete the planning and implementation work together.

The trade, repairing and maintenance of public vehicle and personal and household goods industry as its name indicates consists three big groups of activities; these three sectors were the most popular scope of activity of the enterprises.

The total number of 1207 Start credits were divided among the three sectors as follows (we are using the statistic sectorial classification in our analysis):

The nr. of sector	Activity	number of entrepreneurs using Start loan	from it: members of joint busines.
50	Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	158	36
51	Wholesale trade and commission trade (except of motor vehicles and motorcycles)	124	63
52	Retail trade, (except of motor vehicles and motorcycles; repair of personal and household goods)	925	151

The sector nr. 50 includes seven sub-sectors: beside the trade of cars and vehicles, the repairing and maintenance of them as well, the wholesale and retail of car parts, and the wholesale and retail of fuel.

The small entrepreneurs appeared in all of the sub-sectors apart from the wholesale of fuel. The repairing-mechanics made up the most numerous group of entrepreneurs of this industry. The remaining part of the entrepreneurs can be divided into two groups: the car merchants belonged to the bigger one and the smaller one was the car parts merchants' group.

There were 19 entrepreneurs who received loan to build a petrol filling station.

Those entrepreneurs who dealt with cars and vehicles had generally more than one activity: they not only sold the cars but also sold car parts and it was the same situation with the repairing-mechanics.

The most of the names received the loans in order to work out the appropriate premises (shop, service etc.), to buy, rebuild or build up and furnish the necessary estates.

The wholesale activity (sector nr. 51) means all sorts of goods, from the foods to the combustibles. There were only three entrepreneurs who wanted to deal with foreign trade (but it was named as second or third activity several occasions). The foreign trade means in this level that, for instance, someone sell poultry nutriment to Rumania. Those who dealt with some kind of foreign trade activity were members of joint businesses and there were several names who wanted to joint to existing enterprises by purchasing a share in them.

The retailers (sector nr. 52) make up the biggest group of names with the same activity. Although the names applied for a loan from almost all retailing activities, the majority of them (450 persons) asked it for the miscellaneous trade of foods and consumer utility goods. (The range of goods were occasionally quite mixed: for example, there were toys, sporting goods, candies and bottled drinks in the very same shop.) The other major groups of retailing activities were: boutiques (clothes and textile material shops; 135 persons), the different specialised shops (from the herb-shops to the jewellery shops; 130 persons). There were 19 entrepreneurs who received Start loan for repairing services (from the clothes to the telecommunication appliances).

It was not surprising that more than half (53%) of the entrepreneurs who had businesses in the retail sector were female.

Summarising the experiences, the retail seems less popular for the entrepreneurs in comparison with the old enterprises or maybe it was just the result of the assessment of the banks who sensed the overstocked markets. From this sample we can not draw a reliable conclusion for this question but it seems like that the interest of entrepreneurs would strengthen rather in the accommodation services and catering industry.

The hotel and restaurant industry is traditionally one of the main field of activity of the sole and the family enterprises. The number of those entrepreneurs who wanted to earn a steady income in this industry was significantly under the trade but considering the ratio between the two industries the scale of this one exceeds the trade industry by a little.

The quarter of those entrepreneurs who operated in this activity asked for financial support to build up and furnish a hotel, pension, camping; a few of them applied for a loan in order to build a bigger hotel (12 of them within a joint business), others just wanted to establish the conditions of rural tourism. This activity often matched with catering.

Three quarter of the names wanted to run a restaurant, canteen, confectionery, pizzeria, pub, wine-garden, hash-house, ice-parlour etc.; 49 of them were members of joint businesses; 40 percent of the names were female; there were 665 females running enterprises in trade and catering and they made up more than the half of those 1185 females who were in our sample.

Most of those (about two third of them) who started up an enterprise in the transporting-warehousing industry undertook road transporting and applied for the loan in order to buy an appropriate vehicle. There were very few entrepreneurs who applied for (or received) a loan to cab-driving; it is likely that the private (family) car was enough as capital investment to this activity. There were only 5 persons among them who participated in a joint business.

The supplemental activities of transporting were a little more popular: e.g. organising transportation and travelling; there were 40 entrepreneurs who applied for a loan to perform such activities and 6 of them wanted to participate in joint businesses.

In the estate business, renting and business activities industry the last activity was the most important and within it the legal practice. There were 248 Start loan names of this industry and more than 50 percent of them wanted to establish and furnish a private lawyer office (which is a condition of starting up a private praxis) from the received loan.

Those who worked in other professions of the services that support economic activities (tax advisers, market analysts, architects, designers etc.) also applied for the loan in order to establish a private

office or to purchase a bigger computer. There were 51 entrepreneurs who wanted to perform their activities within a joint business in the services supporting economic activities sector.

There were two main groups of names in the health and social work industry: the doctors and the dentists. All of them tried to establish a private surgery and applied for a smaller or bigger loan in order to implement the construction work or to buy furniture and appropriate equipment. There were also entrepreneurs in this professions who preferred the joint businesses, 24 of them applied for Start loan.

And finally, there were another industry which attracted several people: the entertaining, cultural, sport and personal services (laundries, chemical cleaning shops, hairdressers, beauty centres and other services). We could find the most different services within this industry from the giant water-chute to the disco, from the bowling alley to the carpet cleaning and from the solarium to the fitness centre; 25 of them wanted to operate as joint business.

We can draw a few general conclusions from the overview of activities.

Above all, we have to say that the small enterprises consider the servicing of the public as their main role: they mainly interested in the food industry which based on the people's daily consumption, in the catering and in the personal services. This is a realistic assessment of their situation; they can expect a steady income from such activities. It is a different question that when and how large risk could they take in order to start up and develop. As we mentioned before, the amount of loans was not really big (in 38 percent of the cases it was less than 1 million HUF and 60 percent of the total number of credits was under 2 million HUF). (We are going to analyse the connections between the activities and the amount of loans later.)

The analysis of the activities refers to two important trends: the specialisation and the use of potential combinations. Both choices helps the adjustment to the market conditions. First, we sensed the intention for create a special supply from the agricultural production to the private services. On the other hand, the combination of activities is widely spread like a complex chain of activities that links the production with the trade and services and like a supply of a lot

of different activities within one enterprise. The latter one typically shows a less determined market orientation and the hope that one of the activities would be viable or that the several sources would earn an acceptable amount of revenue.

The activities also indicate how the private enterprises spread among the intellectuals like lawyers, doctors, pharmacists, dentists and more and more of them thought seriously about the establishment of a private praxis and undertook the capital investment that it requires. A significant number of them occurred in our sample because they are members of a social group that can quickly orientate and because the banks extend credit for them with pleasure. Anyway, it is expected especially in the health services, that the first step which was the acquisition of the entrepreneur licence would be followed by the spread of capital investment.

We also consider important that more than 20 percent of the loan applicants were members of joint businesses. It was a little less popular decision among the new entrepreneurs than among the old ones (as we mentioned, 29 percent of them was operating within joint businesses) but the companies as the type of enterprise are still very attractive for both the entrepreneurs and the banks (especially if we are talking about companies with legal entity which are liable for their activity with the business assets).

The companies of which the wholesale was the main activity had the biggest share (68 percent) among the companies which participated in the joint businesses; it was likely to happen because the participation of a few entrepreneurs ensures the capital that this activity requires. The group of the companies which were interested in the constructing industry was the second biggest one (57 percent). In this industry the joint businesses that hold several professions and activities together were born in large numbers following the split of the big organisations. According to our sample, the transition from sole entrepreneurs to joint businesses in the construction industry is still going on.

The share of joint businesses was the lowest in the transporting industry (4.6 percent); the old and new enterprises of this industry are typically sole entrepreneurs. The accommodation service and catering industry obviously also maintains the form of individual, family enterprises; in these sectors 12-12 percent of the names belonged to joint enterprises.

And finally, we can draw the conclusion from the overview of activities that the majority of the enterprises required minimal capital investment to start up and to develop. Maybe it is not a too risky conclusion that the names of the Start loan due to the undertaking of the obligation that comes with the loan slightly decrease the high share of those who operate without capital investment in the sphere of self-employing entrepreneurs.

3.6.1. Business expectations

The names had to describe the market environment of their planned activity, the expected demand, the perceptible intensity of market competition on the application form. So the banks wanted to test how much were their ideas in touch with the reality.

Table 31

The targeted customers of the enterprises

targeted customers	older enterprises		old and new enterprises together	
	number	%	number	%
the public	682	48.3	1698	53.3
other enterprise	128	9.1	202	6.3
public institutions	25	1.8	29	0.9
the public + other enterprise	220	15.6	355	11.1
the public + public institution	63	4.5	144	4.6
other enterprise + public institutions	81	5.7	145	4.5
the public + other enterprise + public institutions	212	15.0	494	15.5
others and no answer	-	-	120	3.8
Total	1411	100.0	3187	100.0

Table 32

The main market of the activity

The market	older enterprises		old and new enterprises together	
	number	%	number	%
only domestic	1040	73.7	2546	79.9
only foreign	7	0.5	16	0.5
mostly domestic, but also export	56	4.0	168	5.3
mostly export, but also domestic	15	1.1	31	1.0
both domestic and export	88	6.2	317	9.9
no information	205	14.5	109	3.4
Total	1411	100.0	3187	100.0

We noticed a difference between the entrepreneurs who established their enterprise preceding the application and the new entrepreneurs in terms of the market structure: the targeted customer of the new ones is even more the public.

As the table says, the market share of the public as the main market have increased to 84 percent (including the values in the combinations as well) but the share of the supplying connections with other entrepreneurs decreased (from 45 percent to 37 percent). The share of the public institutions as customers slightly continued its decrease.

It is a logical consequence of the activities that the targeted customers are mainly belong to the public and the increase of the importance of domestic trade is also a result of this.

The total share of those who were connected with export markets is about 17 percent. The „export market” meant in a lot of cases that the entrepreneurs who performed different services (legal, accountant, market and research poll analysts etc.) work (also) for foreign customers, the doctors, dentists, hair-dressers, cosmeticians, even the hotel and pension employees received foreign guests (too) and the car drivers participated in international transporting, the travel-organisers, the guides also travelled abroad etc. We can presume a real export activity only in case of a few agricultural producers, some of the enterprises of the manufacturing industry and a small number of wholesalers with export-import activity. (There were only 7 enterprises which reported the foreign trade as their main activity.)

About half of the entrepreneurs had some sort of connection with the suppliers. Almost 80 percent of the suppliers were domestic companies and the share of the small and sole enterprises is about 25 percent. Only 1 percent of the enterprises were supplied exclusively by foreign companies and another 7 percent of them had foreign partners among their suppliers.

Primarily the car and vehicle merchants (6 of the 158) and 6 of the export-import

wholesalers purchased their goods from a foreign company; only 16 of the 925 retailer sold foreign goods (e.g. coffee, cosmetics etc.) from their own source of supply. The enterprises classified the purchase of medical and dental equipment and the slot machines, the fitness equipment as import goods in their loan application. There were 25 enterprises in the manufacturing industry that indicated import products (e.g. the purchase of raw materials, parts and appliances).

Only the smaller part of the enterprises considered the current level of prospective demand as satisfying and the enterprises with a few years of experience are satisfied with the existing demand. The others mostly just cross their fingers:

Table 33

Expected demand

Demand	number	%
already satisfying	1483	46.5
promising in short-term 1 or 2 years necessary to the expansion	912	28.6
not known	379	11.9
others	286	9.0
no information	29	0.9
Total	98	3.1
	3187	100.0

A lot of enterprises did not know and therefore they could not assess the potential concurrence but just a few of them sensed a strong market competition.

Table 34

Potential concurrence

Concurrence	number	%
not yet experienced	911	28.6
exist but weak	878	27.6
exist and medium level	610	19.1
exist and strong	213	6.7
do not know	445	14.0
other	24	0.7
no information	106	3.3
Total	3187	100.0

Not surprisingly, the enterprises operating in the economic activities sector and in the constructing industry have complained primarily about the strong concurrence but only a little more than 8 percent of

them did it. The enterprises who sensed that the competition is bigger than the average were interested in road transporting and in agriculture (7.7 percent each) and in the hotel service and catering industry (7.3 percent) – they were likely right. Really surprising was that just a few enterprises sensed strong competition in the retail (5.2 percent) and more than we expected in the manufacturing industry (7.3 percent).

The planned number of employees increased with the growth of the number of the organisations but hopefully a bit more rapidly. Since there was no question in the loan application which related to this, we have information only about the intentions of those enterprises that reported about this in the additional information which were required by the banks. About 40 percent of the applicants reported about this question. According to these information the applicants wanted to employ almost 9.000 persons after the planned developments, most of them would have been full-time employees while in the older enterprises were only employed 3.600 persons.

Table 35

The planned number of employees

	Sole Enterprises		Joint		Total number of enterprises of receiving Start credits	
	number	%	number	%	number	%
Full-time employee	5420	90.7	2663	95.4	8083	92.2
Part-time employee	221	3.7	109	3.9	330	3.8
Assisting family member	332	5.6	18	0.7	350	4.0
Total	5973	100.0	2790	100.0	8763	100.0

The number of those enterprises that employed only assisting family members increased from 149 to 378.

The most important information about the planned number of employees is that the three quarter of the answers reported that the owner of the enterprise do not plan the future as being the only full-time employee; although this the half of the businesses would still employ less than 3 employees.

Table 36

The planned number of full-time employees

number of employees	at sole enterprises		at joint enterprises		Total	
	number	%	number	%	number	%
1	296	29.4	13	5.1	309	24.5
2	208	20.6	47	18.6	255	20.2
3	109	10.8	26	10.3	135	10.7
4	65	6.5	29	11.4	94	7.5
5	88	8.7	16	6.3	104	8.3
6-10	131	13.0	54	21.3	185	14.7
11-15	40	4.0	30	11.9	70	5.6
16-20	25	2.5	9	3.6	34	2.7
21-25	16	1.6	5	2.0	21	1.6
more than 25	29	2.9	24	9.5	53	4.2
Total	1007	100.0	253	100.0	1260	100.0
No information	1487	-	440	-	1927	-
Total	2494	-	693	-	3187	-

3.7. The planned investments

The development of the existing activities and the start up of new ones, as it turned out of the loan applications as well, could mean a lot of concrete investments from the purchase of estate and buildings to the purchase of wide range of machines and appliances or even the filling up of the working assets.

The reasons why the capital is required could depend on the planned activity, the age of the enterprise, the circumstances of its operation or the ambitions of the entrepreneur.

What did the entrepreneurs asked loan for? First, we have to say that the total amount of applications (18 billion HUF) was more than double of the amount that the entrepreneurs indeed received after the assessment of the applications.

The entrepreneurs had to make a list of development purposes in the loan application. We are going to introduce the development purposes of the entrepreneurs and the investment costs in accordance with this.

A significant part of the loans financing investment costs would use to purchase of estate and building; 65 percent of the entrepreneurs wanted to invest in estate with different purposes (see as follows).

Table 37

Development purposes and their costs

	in HUF		
	Total amount of loan application	the ratio between the applied amount and the total amount (in %)	number of applicants
Investment costs	12 425 883	68.6	
its items:			
- purchase of estate, building	6 977 435	38.5	2053
- machines & appliances	4 103 160	22.6	2149
- other	1 345 288	7.5	1043
Working assets	3 069 107	16.9	1873
Other investments	2 622 099	14.5	
its items:			
- purchase/overtake of share in business	2 063 205	11.4	493
- other non refundable sum of money (duty, VAT), overtake of right for rent	445 843	2.5	361
- interest (interest of incomplete investm.)	113 051	0.6	182
Total demand of resources	18 117 089	100.0	

Table 38

Estate investments

The purpose of the loan	number	%
Build up a new buildin	644	20.2
Rebuild the estate purchased for the business	523	16.4
Rebuild the entrepreneur's (family) house	334	10.5
Build up a temporary building	12	0.4
Reconstruct premises	182	5.7
Other	358	11.2
No such item	1134	35.6
Total	3187	100.0

The entrepreneurs mostly wanted to build new buildings for the planned hotels, pensions or the connecting restaurants etc. (the entrepreneurs who operated in the hotel and restaurant industry

represented themselves with the greatest number among the applicants who asked the loan for estate investment) but for example the building of a smaller department store was also among the plans. Although this the huge majority of applicants wanted to rebuild an existing building in order to work up the office, the workshop or the surgery suitably.

The investment into private estates still had a safe deposit function or could increase the value of it at least according to the calculations of the families. They could increase the value of the estate with the investment even if the particular enterprise was unsuccessful.

The amount of loan applications were between 15 thousand and 95 million HUF (although according to the rules of Start loan the maximal amount of loan was 10 million HUF in 1992, 12 million in 1993 and 15 million in 1994); 38 percent of the entrepreneurs who planned an investment wanted to spend less than 1 million HUF for it and almost 60 percent of them planned that the investment would be under 2 million HUF. The entrepreneurs who were interested in the restaurant and in the hotel sector had the biggest share (117 persons) among those who planned that the estate investment would be over 5 million HUF; 26 percent of the entrepreneurs who operated in the catering or in the accommodation service sector applied for more than 5 million HUF and they represented the third of this loan-category. There were 45 car and vehicle merchants (28.5 percent of the total number of them) who wanted to invest a bigger sum of money in estates. The intention to invest more than 5 million HUF into estates was far less frequent in case of other activities [for instance, in the manufacturing industry there were 55 such persons (9.2 percent), in the retail there were 60 entrepreneurs (6.5 percent), in the health services there were 14 persons (12 percent) etc.].

About two-thirds of the entrepreneurs applied for a loan in order to buy machines and appliances and there were a few of them who had more than one purpose. The smallest sum of money was 30 thousand and the biggest was 8.7 million HUF.

The most of them (1492 persons; about half of the total number of entrepreneurs) planned the purchase of different appliances from the loan. There were 533 entrepreneurs who wanted to purchase manufacturing machines, 377 of them wanted to purchase transporting vehicles and 674 persons wanted to

purchase machines and appliances that are essential to the planned service (e.g. medical instruments); 204 of them planned to purchase computers and 300 of them the purchase of communication appliances (telephone, fax etc.).

There were 118 sole entrepreneurs and 39 members of joint businesses who planned to purchase such machines and appliances for more than 5 million HUF. The most of the entrepreneurs operated in the food industry (12 percent) who wanted to purchase high-value appliances with the use of the loan.

There were 1873 entrepreneurs who wanted to use the loan as working assets; more than 40 percent of the total amount of loans were applied by merchants. In the 1200-person group of wholesalers and retailers, car and car parts merchants there were 658 entrepreneurs who applied for a working-assets loan but 70 percent of them wanted only a relatively small sum of money up to 1 million HUF (There was another 9 percent of them whose loan application was less than 1.5 million HUF.).

The loan applications for other investments were quite rare. There were 493 persons who wanted to overtake a whole business or just a share of it; 361 entrepreneurs wanted to overtake other non refundable sum of money (duty, VAT) or right for rent and there were 182 persons who applied for a loan for financing the interest payment of their incomplete investments.⁴⁰

The banks accepted less than half of the loan applications due to they had a very tight credit-limit and they wanted to meet the strict criteria of creditability assessment.

3.7.1. The accepted loan applications

We described in Chapter 3.3. how the amounts of loan which were extended to the applicants were distributed among them. We are going to introduce further facts herein about the purpose of loans and the distribution of them.

Although the purposes of the loans were different, the proportion of them was similar in all the value categories. But if we watching to whole picture, we can see that the smaller sum of loans were the more dominant: 49 percent of the existing enterprises that wanted to develop their activity, 46 percent of the entrepreneurs who wanted to joint to existing

⁴⁰ There were such categories in the loan application form like loan for VAT refund and loan for the interest payment of incomplete investment but the rules of Start loan were framed to avoid the opportunities of credit extension for such purposes. We can not tell from our figures that these items originated from the operation process of the banks or from loans received on a different legal title.

Table 39

The purpose of the accepted loan applications

	number of persons	amount of loan in thousand HUF	%
Existing enterprise within it	1411	3 610 855	46.5
- development and expansion of existing enterprises	1229	3 208 215	41.3
- change of profile of existing enterprises	42		
- join to an existing enterprise or develop it in another way	140	402 640	5.2
Start up new enterprise	1776	4 156 669	53.5
Total	3187	7 767 524	100.0

enterprises and 52 percent of those who wanted to start up a new business received less than 1.5 million HUF. On the other end of the value category scale, the entrepreneurs who wanted to join to existing enterprises were represented with the highest number among the persons who received more than 5 million HUF loan.

If we examine the proportion of loans according to activities we find that it is almost commensurate with

the number of employees as we presented in Chapter 3.3. The symmetry is the result of the tightness of the credit limits and the aspects of the loan assessment.

The banks did not evaluate everyone with the same measure during the loan assessment process: they were less strict with the bigger enterprises than with the smaller ones, they considered those sole entrepreneurs more reliable names who were doctors or lawyers than the drugstore owners.

The proportion of asked and received loan according to the different activities refers to this:

The difference between the amount of the applied and received loan is not likely to indicate where did the entrepreneurs plan realistically and where were they too exaggerating but rather how large part of the applicants found the banks creditable enough. According to the figures, the banks satisfied the most of the loan demand of those entrepreneurs who dealt with publishing services, real estate businesses and rent of chattels; and they satisfied the least of it (only 21 percent) of those who were interested in manufacturing of instruments and devices. The next table will present the rate of accepted applications in comparison with the total number of applications (the ranking within the categories follows the sectorial classification and do not indicate the accurate level of it).

Table 40

The proportion of loans according to the entrepreneur's purposes

Value categories	the entrepreneurs who decided to							
	Develop, change the profile of the existing enterprises		Join to existing enterprises		Start up new enterprise		Total number of enterprises	
	nr.	%	nr.	%	nr.	%	nr.	%
under 500 000 HUF	159	12.5	9	6.4	197	11.1	365	11.5
500 001-1 000 000	320	25.2	40	28.6	477	26.9	837	26.3
1 000 001-1 500 000	141	11.1	15	10.7	246	13.9	402	12.6
1 500 001-2 000 000	157	12.4	13	9.3	200	11.2	370	11.6
2 000 001-2 500 000	97	7.6	7	5.0	98	5.5	202	6.3
2 500 001-3 000 000	76	6.0	6	4.3	153	8.6	235	7.4
3 000 001-3 500 000	40	3.1	5	3.6	58	3.3	103	3.2
3 500 001-4 000 000	47	3.7	5	3.6	52	2.9	104	3.3
4 000 001-4 500 000	24	1.9	4	2.9	27	1.5	55	1.7
4 500 001-5 000 000	70	5.5	13	9.3	78	4.4	161	5.1
over 5 000 000 HUF	140	11.0	23	16.3	190	10.7	353	11.0
Total	1271	100.0	140	100.0	1776	100.0	3187	100.0

Table 41

The requested and received amount of loans

Activity	Asked of loan in thousand HUF	Received	Proportion of received amount of loan (in % asked)	Average amount of loan
Agriculture	835 816	316 556	37.9	2029.2
Manufacturing within it:				
– food industry	1 317 882	670 867	50.9	3180.7
– manufacturing of textiles	330 933	162 825	49.2	4522.9
– cloth manufacturing, fur currying and colouring	138 735	71 455	51.5	2232.9
– leather currying, manufacturing of leather goods and shoes	38 640	20 450	52.9	2272.2
– wood-working	290 059	145 051	50.0	3021.9
– manufacturing of paper and paper products	17 585	12 000	68.2	2400.0
– editorial and publishing activity	172 834	146 103	84.5	3844.8
– production of chemical substances and products	57 857	39 940	69.0	2102.1
– manufacturing of rubber and plastic products	85 471	53 800	62.9	3362.5
– manufacturing of non-metallic products (glass, ceramic etc.)	74 697	47 192	63.2	3630.2
– manufacturing of metallic products	158 848	102 535	64.5	2501.2
– manufacturing and repairing of machines and mechanical appliances	121 912	69 400	56.9	2776.0
– manufacturing and repairing of electronic machines and appliances	10 608	7 396	69.7	2465.3
– manufacturing and repairing of instruments and devices	304 188	62 729	20.6	2987.1
– manufacturing and repairing of non-road vehicles	165.077	86 573	52.4	3091.9
– manufacturing of furniture and other manufacturing industry products	89 218	62 993	70.6	1908.9
Construction industry	226 843	134 745	59.4	2694.9
Trade, repairing, and maintenance of road vehicles	1 319 359	552 641	41.9	3497.7
Wholesale (without the trade of road vehicles and fuel)	598 658	315 065	52.6	2540.8
Retail (without the trade of road vehicles and fuel)	3 564 205	1 837 818	51.8	1986.8
Hotel services	1 120 111	352 575	31.5	3390.1
Restaurants	1 952 554	1 022 287	52.4	3015.6
Transporting and its supplemental activities	783 109	399 215	51.0	3118.9
Financial intermediations	18 160	13 876	76.4	770.9
Real estate business, rent of chattels	147 580	124 062	84.1	3181.1
Services supporting economic activities	485 400	283 921	49.1	1365.0
Education	77 981	38 225	49.0	3822.5
Health care	428 978	246 259	57.4	2122.9
Sanitary service	9 087	5 150	56.7	735.7
Entertaining and sport activity	165 785	107 110	65.0	2975.3
Other services	287 902	156 730	54.4	1521.7

Table 42

The rate of accepted applications

Rate	Activity	Average amount in thousand HUF
over 80%	Editorial and publishing activity	3844.8
	Real estate businesses, rent of chattels	3181.1
70 to 80%	Financial intermediations	770.9
	Within the manufacturing industry:	
	- manufacturing of furniture	1908.9
60 to 70%	Within the manufacturing industry:	
	- manufacturing of paper and paper products	2400.0
	- manufacturing and repair of electrical machines and appliances	2465.3
	- production of chemical substances and products	2202.1
	- manufacturing of rubber and plastic products	3362.5
	- manufacturing of non-metallic products	3630.2
	- manufacturing of metallic products	2501.2
	Entertaining and sport activity	2975.3
50 to 60%	Within the manufacturing industry:	
	- food industry	3180.7
	- cloth manufacturing	2232.9
	- leather currying, manufacturing of leather goods and shoes	2272.2
	- wood-working	3021.9
	- manufacturing and repairing of machines and mechanical appliances	2776.0
	- manufacturing and repairing of vehicles	3091.9
	Constructing industry	2694.9
	Wholesale	2540.8
	Retail	1986.8
	Catering	3015.6
	Transporting and its supplemental activities	3118.9
	Health care	2122.9
	Other services	1521.7
under 50%	Agriculture	2029.2
	Textile manufacturing	4522.9
	Trade, repairing and maintenance of road vehicles	3497.7
	Hotel services	3390.1
	Services supporting economic activities	1365.0
	Education	3822.5
	Manufacturing and repairing of instruments and devices	2987.1

The amount of the extended loan is another question. The 36 entrepreneurs who dealt with textile manufacturing received the highest average amount of loans (4522.9 thousand HUF) although they received only the half of the applied amount of loan. The next group who followed them were the enterprises operating also in the manufacturing industry and within it in the editorial and publishing sector (39 persons, 3844.8 thousand HUF average loan) and the third was the 10-person group of those entrepre-

neurs who operated in education and received almost the same amount (3822.5 thousand HUF).

The entrepreneurs who performed sanitary services received the smallest amount of loans (6 persons, 735.7 thousand HUF average loan). The amount of loan was similarly small in the case of those entrepreneurs who needed this money in order to purchase the equipment which enables the utilisation of their mental capacity and they did not want a lot more than they finally received: the 18 persons who

were interested in financial activity and its supplemental services received 770.9 thousand HUF (76.4 percent of the applied loan). The numerous group (216 persons) of those who performed services supporting economic activities like economic consulting, accounting, legal representation etc. received the third smallest average amount of loan (1365.0 thousand HUF, the half of the applied amount).

the most important problem even for those entrepreneurs who wanted to start up or develop their enterprise with the use of loan. And since the estates which they could offer as cover for credit was quite limited they could only make limited developments. As we mentioned before, the sole entrepreneurs received 75 percent of the total amounts of loan and the joint businesses did 25 percent of them. It was a

Table 43

The 10 biggest and smallest average amount of loans according to the activities

Biggest		Smallest	
The average amount of loans: 2437.3			
Textile manufacturing	4522.9	Sanitary service	735.7
Editorial+publishing activity	3844.8	Financial intermediation	770.9
Education	3822.5	Services supporting economic activities	1365.0
Manufacturing of non-metallic products	3630.2	Other services	1521.7
Road vehicles and fuel trade	3497.7	Manufacturing of furniture	1908.9
Hotel services	3390.1	Retail	1986.8
Manufacturing rubber and plastic	3362.5	Agricultural production	2029.3
Real estate businesses, rent of chattels	3181.1	Production of chemical subst. and products	2102.1
Food industry production	3180.7	Health care	2122.1
Transporting and its supplemental activities	3118.9	Cloth manufacturing	2232.9

The number of activities which were under and above the average was almost the same. It seems like that we can not draw a conclusion about neither the intentions of the entrepreneurs nor the banks from the proportion of activities. It is because the banks decided about the amount of loans after a double-filtration. The first filtration happened at the application when the banks accepted or refused the loan applications. One of the main principle of the acceptance was that the banks had to prefer the activities of the processing industry, especially to the trade and catering activities. Instead of this, while the applications were accepted, the number accepted applications of the processing industry were only third of the accepted applications of the trade and catering industry. (It is also possible that the proportion of the applications was the same.) And when the banks decided on the loan applications which was the second filtration and which determined the final proportions the exact amount of loan did not only depended on the intention of entrepreneurs but rather on the banks' assessment of the offered cover for credits.

It was also obvious that neither the average amount nor the highest average amount of loans can not be considered really high. Therefore we can only draw the simple conclusion from the analysis of the applied and received loans that the creditability was

more important indicator that the sole entrepreneurs had an 80 percent share in the loans which were under 2 million HUF; therefore the proportion of the joint business increased in those who received a bigger amount of loan.

Table 44

The proportion of the members of sole enterprises and joint businesses according to the amount of loan

Value categories	the proportion of		Total (in %)
	sole entrepreneurs in the total amount of loans (in %)	joint businesses (in %)	
under 500.000	85.1	14.9	100.0
500 001-1 000 000	80.0	20.0	100.0
1 000 001-1 500 000	81.2	18.8	100.0
1 500 001-2 000 000	81.8	18.2	100.0
2 000 001-2 500 000	68.4	31.6	100.0
2 500 001-3 000 000	76.9	23.1	100.0
3 000 001-3 500 000	70.8	29.2	100.0
3 500 001-4 000 000	70.3	29.7	100.0
4 000 001-4 500 000	76.0	24.0	100.0
4 500 001-5 000 000	80.9	19.1	100.0
over 5 000 000 HUF	68.0	32.0	100.0

The members of those joint businesses had the biggest share in the total amount of loans who were interested in education (where relatively few entrepreneurs operated) and in supplemental financial services (in these sectors 75 percent of the loans went to the joint businesses); the members of joint businesses received 62 percent of the loans in the constructing industry and they received 54 percent of it in the wholesale businesses.

The decisions on the applications also displayed that the banks preferred those names who had the assets of the joint businesses behind to the sole entrepreneurs whose background was a lot more uncertain.

3.8. The financial background of the enterprises

The third question of our inquiry was that what sort of capital investments (internal resources, loans) happened in order to organise a new enterprise. Unfortunately, we have only rare information related to this question.

There are no data for the public about the financial situation of the small (and bigger) companies.⁴¹ The existence of equity capital was only a condition of establishing a company with a legal entity. In case of enterprises without legal entity the private (family) wealth and the capital used for operating the enterprise are often interwoven with each other and sometimes they can not be separated. (For instance, the personal computer, the car, the premises used for business purposes, the garage can both used for business and personal goals.) Apart from this, as we mentioned in Chapter 1, there were a lot of repairing-servicing activities which require only appropriate tools (for example, repairing plumbs, central heatings or gas ovens etc.) and it was the same in case of beauty services (hairdresser, beauty treatment, etc.). And there were activities which required only mental capacity (expertise), for instance, the education, consulting, legal representation etc. It is another question that these enterprises were also equipped with other devices (fax, telephone answering system, computer etc.) to provide better service.

The manufacturing activities which postulates the machines and equipment that are necessary to the manufacturing have a very different capital requirement. At the end of the 1980's several professional groups of the National Association of Craftsmen (which was called that time National Association of

Artisans) made estimations of the minimal amount of capital that was required to start up an enterprise, the investment costs of the necessary machines and equipment. The values of the estimations are irrelevant today since a wide range of machines and equipment became accessible (or at least potentially accessible) including the imported high tech machines. (The starting entrepreneurs of the 1980's could get mostly the eliminated machines of the mammoth state companies, often in the 'MÉH-plants' (=places where all sorts of recyclable junks were collected) unless they received something from abroad as a present.) The prices also changed significantly due to the import of production instruments and the high rate of inflation.

We can probably use the results of the estimations to find out that the different activities require different amount of capital investment and the scale of investment depends on the social-economic environments even in case of similar activities: on the area where the activity is performed (the capital or a small village); on the market competition (which may change the attitudes of the customers) but it is especially important because it can stimulate the enterprises for modernisation.

Unfortunately, we can not examine these effects comprehensively because our sample only enables us to draw a few conclusions.

Above all, those 1411 persons who were entrepreneurs before the application had to make a statement of business assets in their loan application. It seems like that it was not required by all the banks because there were relatively few entrepreneurs who had such document. Only those entrepreneurs had to make a statement of business assets who had to present a balance sheet (the entrepreneurs who paid taxes according to the rules of corporate taxes). The sole entrepreneurs who make up the majority of our sample and who had to pay personal income tax were not obliged to make a statement of business assets. They provided data in their loan application if the banks had wanted them. However, only a small part of the enterprises that received Start loan reported about their business assets, the rate of it was the highest in 1991 when 40 percent of the already existing companies made a statement of business assets. We can only draw conclusions about the main trends from the relatively few data in which mixing up those that relate to the capital used for operating

⁴¹ The Internal Revenue Service have obligated a certain part of the entrepreneurs including the companies without legal entity and the sole entrepreneurs who paid taxes according to the rules of the corporate taxes to present a statement about the business assets of the enterprise since 1989. (The term of corporate taxes has only been used since 1992 in Hungary; the similar type of tax was called 'entrepreneurial taxes' before.) There was not a summary of the data collected in this way on this subject published with our knowledge. There were 900 entrepreneurs in our sample (28%) who paid taxes according to the rules of corporate taxes, the others paid only personal income tax on their revenues.

the enterprises that interwove with the family wealth in case of the entrepreneurs who pay personal income tax and those that relate to the value of the bigger sole enterprises and joint businesses which have real assets and which can accurately be fixed from the statement of business assets of the enterprise.

The value of the working assets, the net value of the fixed assets, the amount of investments, accounts receivable and liabilities and the capital net worth as an individual item occurred among the questions which related to the financial situation of the particular enterprise. We made an individual analysis of the financial information related to net value of the fixed assets and the capital net worth apart from the profit before taxes data which were previously presented. We think that these information can give an overall picture of the financial strength of the entrepreneurs and their enterprises. (The other financial information like the balance of accounts receivable and liabilities, the assessment of investments etc. could also be interesting but the data related to these subjects are quite rare and would require a deeper evaluation which were not performed, according to our present knowledge, by the banks either.)

We have received data about the value of the business assets since 1988 but the number of them was quite few. The annual figures consisted the aggregate value of the business assets (which are likely estimated) of both the newly established and the older enterprises. (Unfortunately we could not determine how much did the banks consider these

figures as important and take them seriously. They probably wanted to clarify just the realness of the data related to the estates which were offered as cover for credits during the assessment of the entrepreneur's creditability.)

Although it could seem practical for the entrepreneurs to show a favourable picture of their financial situation, the overall picture similarly to the overall picture of the revenues basically shows a group of small entrepreneurs with a small value of business assets.

To be accurate, the heterogeneous data have set two poles again: the group of entrepreneurs whose business assets value is less than 1 million HUF and those whose capital net worth is over 5 million HUF. (We would like to remind that the value of the 1988 and the 1993 business assets would be comparable with each other if only they were cleared from the influence of inflation. Since we do not have an opportunity to do it, we will simply present the figures reported by the entrepreneurs.)

These figures first and foremost shows the inflow of the companies that have a small capital net worth between 1989 and 1991. While there was hardly any enterprise in 1988 which had virtually no business assets, the share of the enterprises of which the capital net worth was under 1 million HUF was 34 percent in 1989, 46 percent in 1990 and 38 percent in 1991. This share have decreased since 1992 (27 percent in 1992) but it was still 22 percent in 1993 which meant that every fifth entrepreneur had a very limited amount of business assets.

Table 45

The capital net worth

Value category	1988		1989		1990		1991		1992		1993	
	nr.	%	nr.	%	nr.	%	nr.	%	nr.	%	nr.	%
under 500.000 HUF	4	6	34	25	123	28	106	20	50	17	26	15
500 001-1 000 000	1	2	12	9	77	18	98	18	29	10	12	7
1 000 001-1 500 000	-	-	11	8	47	11	68	13	25	9	13	8
1 500 001-2 000 000	8	13	11	8	22	5	35	7	17	6	13	8
2 000 001-2 500 000	9	14	13	10	24	6	26	5	18	6	10	6
2 500 001-3 000 000	10	15	11	8	20	4	24	4	25	9	9	5
3 000 001-3 500 000	4	6	6	4	11	3	13	2	9	3	6	3
3 500 001-4 000 000	14	22	13	10	16	4	13	2	8	3	3	2
4 000 001-4 500 000	-	-	2	1	6	1	11	2	10	3	5	3
4 500 001-5000 000	2	3	-	-	8	2	8	1	5	2	4	2
over 5 000 000 HUF	12	19	23	17	77	18	138	26	95	71	71	41
Total	64	100	136	100	433	100	540	100	291	100	172	100

Our figures apparently reinforce the experience that the entrepreneurs who started up their private businesses in the beginning of the 1990's were coming from such social classes (they were mostly employees) where they could not save money and therefore they could not invest a considerable sum of money into their enterprises. The fact that the number of these enterprises decreased in 1992 and 1993 in our sample refers to that the enterprises which had no business assets possessed no chance for the bank loans either.

On the other pole, the growth of wealthy enterprises seems more and more powerful as the years go by. While between 1988 and 1990 only 20 percent of the capital net worth of the entrepreneurs exceeded 5 million HUF, they share have increased since 1991 and in 1993 they made up 41 percent of the entrepreneurs who made a statement of business assets. This could be the mistake of the loan assessment again but it may also indicate that the persons who established a successful business could increase the value of their business assets year by year. Moreover, a significant part of the total value of business assets was concentrated in this category: in 1988 about 40 percent of the total capital net worth belonged to the wealthiest enterprises and they share of it was 58 percent in 1989, 69 percent in 1990, 81 percent in 1991 and 88 percent in 1992. The amount of average capital net worth per person ratio has always been increasing in this category: the average was 8 million HUF in 1988 and 18.2 million in 1993.

It means that the polarisation was quite remarkable at least among those old enterprises which reported about they business assets; the wealthy enterprises more and more separated from those that have only limited amount of business assets. We are going to separate three categories in order to compare them according to the average capital net worth per person ratio: the entrepreneurs whose business assets were under 1 million HUF, those who were between 1 and 5 million HUF and those who exceeded the 5 million HUF mark.

The table above includes both the data of the members of sole enterprises and the joint businesses. The share of joint businesses increased year by year in the entrepreneurs who reported about the capital net worth; it was likely to happen due to the obligation the statement about business assets were available for the companies. The fact that the sole enterprises were in majority among the entrepreneurs who reported about the capital net worth was probably because of the request of the banks. It did not necessarily mean that the revenues of the sole entrepreneurs exceeded the 50 million HUF (and therefore they were obliged to make a statement of business assets), maybe it just shows that they knew that their report about the capital net worth could positively influence the bank's opinion during the decision on the loan.

To watch this question from a different aspect: it is obvious that the polarisation was enacted among the companies too. It is out of question that the business

Table 46

The average capital net worth per person ratio

Year	capital net worth												
	under 1 million			between 1 and 5 million			over 5 million			Total			
	nr.	sum of assets per person (th HUF)	share of assets in the total (%)	nr.	sum of assets per person (th HUF)	share of assets in the total (%)	nr.	sum of assets per person (th HUF)	share of assets in the total (%)	nr.	sum of assets per person (th HUF)	share of assets in the total (%)	Average sum
1988	5	415.2	0.9	47	3039.5	59.2	12	8 053.2	39.9	64	241 322	100.0	3771
1989	46	318.0	3.3	67	2604.6	38.8	23	11 323.2	57.9	136	449 569	100.0	3306
1990	200	458.5	5.9	156	2436.5	24.6	77	13 954.3	69.5	433	1 546 283	100.0	3571
1991	204	509.7	3.5	198	2270.5	15.2	133	18 090.8	81.3	535	2 959 605	100.0	5532
1992	79	415.1	1.9	117	2551.3	17.2	95	14 829.7	80.9	291	1 740 114	100.0	5980
1993	38	338.4	0.9	63	2528.4	10.9	71	18 213.5	88.2	172	1 465 304	100.0	8519

assets which were over 5 million HUF were mostly in the ownership of joint businesses and the total sum of business assets in the ownership of such companies well exceeds the total sum of the sole enterprises' one. But, at the same time, the majority of the current and potential members of joint businesses who reported about the capital net worth of the company belonged to the other two categories (under 1 million HUF and between 1 and 5 million HUF) especially between 1990 and 1992.

The picture that is outlined from the figures is very much in accordance with the everyday experiences. As it is known, the companies without legal entity (which are obliged to make a statement of business assets) do not have a minimum limit of equity capital.

The individual wealth and the business assets of the members of such companies are also interwoven with each other. From the car that is (also) used for the purposes of the enterprise to the bookshelf which was described as the equipment of the office and from the personal computer to the telefax a lot of things can be considered as the asset of the enterprise, especially if the tax law allowed it (for instance the whole or just a part of it can be accounted as expense for the company). The companies without legal entity became so popular because the capital investment is not compulsory but they allow the entrepreneur to avoid the tax payment.

We can not draw conclusions about the financial situation of the whole masses of the entrepreneurs

who used Start loan either from the trends that we analysed but they indicated that the entrepreneur's sphere is very much polarised now and a part of them accumulated a remarkable amount of business assets.

We are going to make a detailed analysis of the statements of business assets of 1991 which was the most numerous of all and the data of which can fairly well illustrate the facts above.

In 1991 according to the activities of the enterprises (using the aggregated sectorial classification of activities) the companies that had the highest amount of business assets operated in wholesale and in agriculture: 9 percent of the members of each industries belonged to this category. Their share in the construction industry and in the processing industry was 6 percent. Although they are represented in almost every industries their proportion is a lot smaller there.

Apart from the capital net worth, as we mentioned before, the statement of business assets could consist the data related to the net value of the fixed assets. Very few of the 1411 persons who were entrepreneurs before the loan application reported about the net value of the fixed assets which provided the technological background of their operation (it is likely to happen because not all the activities required fixed assets).

Although the first data which related to this question were reported in 1988 but there were only 423 per-

Table 47

The capital net worth of the enterprises that reported about in 1991

Value categories	Number of persons				Capital net worth			
	sole	joint	total	%	total	average per person		
						sole	joint	total
under 500 000 HUF	90	16	106	19.6	24 312	235.6	202.6	229.4
500 001-1 000 000	64	34	98	18.2	79 658	748.2	943.2	812.8
1 000 001-1 500 000	30	38	68	12.6	84 019	122.2	124.2	123.6
1 500 001-2 000 000	23	12	35	6.5	60 777	175.9	170.6	173.6
2 000 001-2 500 000	10	16	26	4.8	58 641	217.9	230.3	225.5
2 500 001-3 000 000	15	9	24	4.4	68 177	286.6	280.0	284.0
3 000 001-3 500 000	7	6	13	2.4	42 470	324.8	328.9	326.7
3 500 001-4 000 000	10	3	13	2.4	49 331	384.0	364.5	379.5
4 000 001-4 500 000	8	3	11	2.0	47 177	425.2	438.7	428.9
4 500 001-5 000 000	6	2	8	1.5	38 968	428.8	500.0	487.1
over 5 000 000 HUF	60	78	138	25.6	2 406 075	1597.7	1958.1	1743.5
Total	323	217	540	100.0	2 959 605	384.6	811.2	548.1

sons even in 1991 who reported data about the estimated value of their fixed assets; it was about 20 percent of the older entrepreneurs.

According to our small sample those companies were in majority until 1992 which had a relatively small amount of assets. (If we raise the limit to 3 million the

Table 48

The net value of fixed assets

Year	numb. of reports	value in thousand HUF										total value of fixed assets	average per enterpr.	share in the total amount of ass.
		under 500		500-1000		1000-3000		3000-5000		over 5000				
		nr.	%	nr.	%	nr.	%	nr.	%	nr.	%			
1988	6	3	50.0	1	16.7	1	16.7	1	16.6	-	-	6 115.0	1019.2	25.2
1989	53	22	41.5	10	18.9	12	22.6	5	9.5	4	7.5	96 755.0	1825.6	21.5
1990	311	123	39.6	75	24.1	65	20.9	25	8.0	23	7.4	596 010.0	1829.6	36.8
1991	423	131	30.9	63	14.9	101	23.5	37	8.7	91	25.6	1 645 853.0	3890.9	55.6
1992	277	57	20.6	37	13.4	82	29.6	37	13.4	64	23.0	1 209 068.0	4364.9	69.5
1993	178	27	5.2	25	14.0	56	31.5	23	12.9	47	26.4	1 102 999.0	6196.6	75.3

We notice that the data of consecutive years could contain accumulations and could relate to the assets which were accumulated before the start up of the enterprise especially in 1992 and 1993.

It is obvious from the table similarly to the results presented in Chapter 3.4.1. that the average net value of fixed assets per person ratio of the entrepreneurs who reported about it increased year by year and it made up bigger and bigger part of the business assets, at least, for the 20-25 percent of the older entrepreneurs. A group of entrepreneurs developed (but their number was not so significant) whose business assets more and more based on the valuable fixed assets. It is important that the majority of the fixed assets belonged to the companies' business assets. But we can draw conclusions for only two main trends from the figures of the table.

One of them is that the share of the enterprises of which the business assets were relatively small (under 500 thousand HUF) decreased after a few year and the number of those of which the value was over 5 million HUF increased consistently.

The other consequence is that although there were businesses in all of the value categories the enterprises could be classified into two major groups: those of which the business assets were under 1 million HUF (which was less than the price of an average car) and the group of those who were above the 5 million HUF.

majority of such companies became more obvious: 69.7% in 1991; 63.4% in 1992 and 60.0% in 1993).

We overviewed the question that how large the value of business assets was in case of different activities in reflection of the data from 1991.

In 1991 more than 60 percent of the reported total value of fixed assets were concentrated in just three industries: in the trade (31 percent), in the manufacturing industry (21 percent) and in the transporting industry (10 percent). Moreover, the agricultural activities had a 8.5 percent share and the enterprises that performed personal services (laundry, chemical cleaning, hairdresser, beauty treatment etc.) had 6.8 percent in it. The entrepreneurs who were interested in other industries reported only rarely about having business assets.

The sectorial proportion above was mostly formed by the number of enterprises performing the particular activities (for instance, the 40 percent share of those who were interested in trade). The average value per person ratio describes the situation more exactly. We calculated the ratio by just counting with the data of the older enterprises in the different sectors. The ratio was the highest in agriculture: 3466.6 thousand HUF and in the health care services (2955.3 thousand HUF). The ratio of the manufacturing industry was a little smaller: 2457.8 thousand HUF indicating the relatively low value of the productive equipment. There were numerous industries where

the ratio was also around 2 million HUF and in the wholesale, in the retail and in the transporting industry it did not exceed the 1.5 million mark. The lowest value of the ratio was in the activities which did not require big investments into the assets (education 132 thousand HUF, services supporting economic activities 247.5 thousand HUF which was about the value of a PC).

We could only overview the financial situation of the enterprises in reflection of the small amount and uncertain information above. But these figures are in accordance with the everyday experiences: there were very few of the entrepreneurs among the loan applicants who could report about a remarkable amount of business assets. It is very likely that the older entrepreneurs could report about a better financial situation than the average because they counted the family wealth into their business assets and not because of they had significantly better technical background within their enterprises. To say it in a different way: the entrepreneurs were wealthier than their enterprises.⁴²

The purpose of the use of Start loan was exactly to develop their enterprises.

3.9. The internal resources and the covers for credit

We could gain information about the financial situation of the entrepreneurs from two additional sources: the internal resources offered to the loan and the private wealth offered as cover for credit.

As it is known, the banks provided 70 percent of the money that were necessary to the implementation of the development and the entrepreneur had to add his internal resources to it (which had to be 30 percent of the total amount). During the assessment of the internal resources the banks could count in the investments up to 20 percent which were spent on the particular development and therefore they required only 10 percent cash contribution. (The investments which were spent on the particular development could be the purchase of business share, the purchase of right for rent, a construction work that was already initiated, purchase of machines and appliances etc.). The minimum 10 percent of cash was also more favourable than the generally required 20–25 percent; the entrepreneurs

could implement a 1 million HUF development with only one hundred thousand HUF cash. The number of items which were counted as internal resources influenced the amount of loan which the entrepreneur could apply for.

The banks required a 150 percent cover for the credit which were extended. (In the first year there were banks who required a lot more than this.) The assets that were offered as cover for credit is not or just partly coincided with those ones that were reported in the statement of business assets because not all the items are acceptable for the banks as cover and there were only as many assets included in the loan application which could cover the sum of money which would be extended. But the items that were offered as covers are significant by themselves.

Before we start the analysis of these items we are going to notice that the banks required a detailed 4-year financial business plan about the profitability of the enterprise to the assessment of loan application. The business plan had to detail the revenues, the costs (within it the material costs, the wages, the social security costs, the depreciation, the costs of the bank interest etc.), the profit before taxes, the taxes, the profit after taxes and the repayment of loan for the next 4 years.

For the great majority of the small entrepreneurs it was the first time that they had to calculate the profitability for the following years and it is the achievement of the Start loan that the completion of business plans became standard in case of the credit extension for the small entrepreneurs. (As we mentioned before, the number of those people who are undertaking the completion of business plans have increased remarkably since then.)

The control of the profitability calculations would have meant a huge task also for the bank officers if they had considered the evaluation of them as really serious one. A few-year long plan for the profit before taxes could be necessary and useful in case of settled circumstances of economic activity; but in the Hungarian economy the calculations for years ahead are quite uncertain due to the recession, the inflation, the change of tax rates and even bank conditions. Although they required the completion of business plans the banks knew themselves that the value of them were very uncertain. Therefore in case of the examination of the marketability of small

⁴² According to the published data of the analysis of living conditions and lifestyle and within it the degree of supply of the households with cultural equipment and household appliances completed by the National Statistic Office in 1992 and 1993, apart from the manager's household, the household of the craftsmen and merchants who operated in the private sector were the most well-equipped with modern appliances between 1986 and 1993. We draw the conclusion from these data that the members of these social groups had better opportunities for the increase of their wealth than the others during this period (1986–1993). (Harcza, 1994)

enterprises (e.g. drugstores, bakery, breeding rabbits, transporting etc.) they used the profit estimations of the first one or two years; the main principle was that the entrepreneur had to have enough and appropriate cover for the credit.

Therefore we also find that the profit plans were not worth to be processed, their items were just seemingly accurate figures of the unforeseeable future.

As we noticed, the first condition to receive a loan was to have 30 percent of internal resources.

We are going to remind that the entrepreneurs originally applied for more than twice of the amount that they finally received. Therefore the sum of the planned loan was in the applications and the entrepreneurs counted the 30 percent internal resources on this amount.

Table 49

The internal resources offered to the loans

Value category	Total amount	number	%
under 500 000 HUF	317 910	1000	31.1
500 001-1 000 000	598 298	786	24.7
1 000 001-1 500 000	521 335	410	12.9
1 500 001-2 000 000	403 946	224	7.0
2 000 001-2 500 000	427 976	191	6.0
2 500 001-3 000 000	403 023	143	4.5
3 000 001-3 500 000	231 192	71	2.2
3 500 001-4 000 000	222 915	59	1.9
4 000 001-4 500 000	176 040	41	1.2
4 500 001-5 000 000	254 662	53	1.6
over 5 000 000 HUF	3 028 604	209	6.6
Total	6 585 901	3187	100.0

As the data show, almost third of the entrepreneurs wanted to offer only 500 thousand HUF internal resources, more than the half of them less than 1 million HUF and about 70 percent of them was below the 1.5 million HUF mark. (The smallest offered amount was 40 thousand HUF.)

This points out that the entrepreneurs originally believed in receiving only small sum of loans. The most of them planned a smaller scale of development or did not have more internal resources to receive bigger amount of loan to establish their start up or development.

There were 172 sole enterprises and 59 joint businesses which could offer more than 5 million HUF internal resources.

Apart from the amount of internal resources we can draw conclusions to the financial situation of the entrepreneurs from the property assets giving security to the loan.

The names could offer different property assets as cover for the credits.

Table 50

The property assets giving security to the loan

The property assets	Offered by entrepreneurs*	
	Number	%
Mortgage on the development	1216	38
Mortgage on estate	2610	82
Aval	41	13
Start-guarantee	191	6
Other	542	17
within it:		
- stock of goods	199	6
- vehicles	193	6
- machines and appliances	466	15

* Since the total cover for credit may consist several items the numbers and percentage figures indicate that how many of the 3187 applicants offered the particular property asset.

The mortgage on the devices that were under development was offered by 38 percent of the entrepreneurs; it was one of the most frequent property assets since the devices (machines, appliances, equipment etc.) which were purchased from loans were the covers of themselves; and the banks considered them similarly.

We could only examine from these data that what were the typical developments which were mortgaged.

It was obvious from the analysis of activities that the offer for mortgage did not depend on the activity performed but on the nature of the development: in most cases the machines, equipment that the entrepreneurs wanted to purchase were offered as (a part of the) cover for credit. While 28 percent of the ventures operating in the processing industry offered the development which would be implemented from the loan as cover, in the chemical industry, in the telecommunication industry etc. the proportion of those who wanted to purchase machines, equipment

and offered them as cover was about 80 to 100 percent; the proportion was 56 percent in those businesses which wanted to purchase car or vehicle and 90 percent in case of the ventures that performed computer related services etc.

The amount of mortgage was not in connection with the amount of loan.

Table 51

The proportion of received loans in the ventures that wanted to mortgage the development

Value category	Total amount	Number	%
under 500 000 HUF	46 779	98	8.1
500 001-1 000 000	230 255	276	22.7
1 000 001-1 500 000	210 451	156	12.8
1 500 001-2 000 000	297 977	158	12.9
2 000 001-2 500 000	156 289	68	5.6
2 500 001-3 000 000	294 240	101	8.3
3 000 001-3 500 000	137 883	41	3.4
3 500 001-4 000 000	193 839	50	4.1
4 000 001-4 500 000	120 653	28	2.3
4 500 001-5 000 000	426 785	86	7.1
over 5 000 000 HUF	1 188 029	154	12.7
Total	3 303 180	1216	100.0

82 percent of the entrepreneurs offered estate as cover for credit. The first significant fact was that a remarkable part of them owned an estate which they could offer for cover.

They had to attach a copy of proprietorship register (not older than 3 month) and the official evaluation of the estate. As the data show, two-third of the businesses had estate which was worth more than 5 million HUF. But 2 or 3 years ago those estates which were in the country and were worth 2 or 3 million HUF represented a significant value and 68 percent of the entrepreneurs who applied for loan had an estate which was worth more than 2 million HUF. Although we had the pre concept that the members of the joint enterprises as the co-owners of the company's equity offered the estates with a higher value we had to notice that almost three quarter of the owners of the most valuable estates were private persons.

Table 52

The proportion according to the value of the offered estate

Value category	Total amount	Number	%
under 500 000 HUF	13 303	34	1.0
500 001-1 000 000	99 541	123	3.9
1 000 001-1 500 000	267 638	207	6.5
1 500 001-2 000 000	324 380	182	5.7
2 000 001-2 500 000	396 626	173	5.4
2 500 001-3 000 000	408 833	144	4.5
3 000 001-3 500 000	224 276	88	2.8
3 500 001-4 000 000	354 140	93	2.9
4 000 001-4 500 000	336 829	78	2.4
4 500 001-5 000 000	337 302	70	2.2
over 5 000 000 HUF	8 845 675	635	20.0
there was no such property asset	-	1360	42.7
Total	11 608 543	3187	100.0

It is likely to justify the experience which was mentioned several times that a part of the entrepreneurs' sphere lives in better circumstances than the average of wage-earners. On the other hand it was also true that these families spend most of their savings for estate purchase.

Although our sample do not enable us to make an essential analysis we are going to remind: only a relatively small part of the loan applicants reported about the value of their fixed assets. (The highest number of reports was received in 1991: 423 businesses, 30 percent of the already existing ones.) The average value of the fixed assets in that year was 3.8 million HUF and it was 4.4 million HUF in 1992. The ownership of estates stands against this figure and its average value: 40 percent of the entrepreneurs offered an estate as cover for credit which was worth more than 4 million.

The entrepreneurs who had the estates with the lowest value were operating in the transporting industry (11%) and 5 to 6 percent of them were interested in the retail or were running a snack-bar. There is no connection between the activity and the value of the estates is case of other industries.

13 percent of the entrepreneurs (188 sole enterprise and 225 joint businesses) could name an aval (solvent companies well provided with capital) to his bank. It is known that being an aval means taking full responsibility for another venture which should

be based on trust, close family or business relationship and/or friendship. It is remarkable that usually those persons have such relationships who were applying for the bigger amount of loans although 41 of the 89 entrepreneurs who applied for more than 4.5 million HUF loan were members of joint businesses and they were likely to name the particular company as aval. However, it is also possible that the banks preferred those loan applicants who could name an aval.

Table 53

The entrepreneurs who named an aval

Value category	The number of entrepreneurs in this category		The proportion of those who named an aval		The sum of received loan in thousand HUF	The share of the entrepreneurs who named an aval in the names in %
	number	%	number	%		
under 500 000 HUF	365	11.5	42	10.2	19 946	11.5
500 001-1 000 000	837	26.3	93	22.5	72 792	11.1
1 000 001-1 500 000	402	12.6	44	10.7	57 334	11.0
1 500 001-2 000 000	370	11.6	40	9.7	74 102	10.8
2 000 001-2 500 000	202	6.3	32	7.7	73 977	15.9
2 500 001-3 000 000	235	7.4	32	7.7	93 296	13.6
3 000 001-3 500 000	103	3.2	15	3.6	50 980	14.7
3 500 001-4 000 000	104	3.3	15	3.6	59 164	14.4
4 000 001-4 500 000	55	1.7	11	2.7	46 440	20.0
4 500 001-5 000 000	161	5.1	31	7.5	153 455	19.3
over 5 000 000 HUF	353	11.0	58	14.1	511 243	16.4
Total	3187	100.0	413	100.0	1 212 729	100.0

The share of those ventures which could name an aval was the highest in the constructing industry and in the wholesale: every third businesses had an aval. The retailers (8,8%) and the entrepreneurs who were interested in the hotel service (9,5%) could name the least number of avals.

The number of machines and appliances was the most important item among the different kinds of property assets. In contrast of the estates there were very few entrepreneurs who offered producing equipment as cover for credit which is likely to happen because only relatively small part of the older entrepreneurs possessed such equipment. Moreover, the banks did not appreciate neither the producing equipment as cover because the devices can become outdated, they can not be sold etc.

During the extension of loan there was a special attention paid to those Start loan applicants who themselves did not have enough cover for credit. The Start Guarantee Fund which was established by the Hungarian Foundation for Enterprise Promotion in

order to enable these group of people to start up a business undertook to provide cover for the missing part of the 150% cover for credit as aval.

According to the data of NSEDO there were 208 ventures that received, among those applicants who made up our sample there were 191 who applied for Start guarantee.⁴³ The banks did not appreciate the clients who could only provide partial cover for the

loan. The share of the entrepreneurs who applied for Start guarantee was high in the refused loan applications. The application for guarantee extended the length of the loan assessment process and the Guarantee Fund could also refuse the request for support. Moreover, the participation of the Guarantee Fund decreased the chargeable 2 percent handling fee of the banks which was otherwise considered very low. The smaller banks did not want to deal with

the entrepreneurs who applied for Start guarantee and neither the bigger banks wanted to do it. There were only a few banks where the proportion of the entrepreneurs who received support from the Guarantee Fund reached 10 to 15 percent.

There are only such entrepreneurs in our sample who received the Start guarantee. A committee decided on whether to undertake the guarantee. Our figures principally show what sort of activities did the committee typically prefer and how large the guaranteed loans were.

There were 146 sole entrepreneurs who received support from the Guarantee Fund and 74 of them had been an entrepreneur for a longer time. There were 45 persons who wanted to participate in joint businesses and whose loan was guaranteed by the Guarantee Fund.

The activity of the Start Guarantee Fund was behind 7.4 percent of the total amount of credit extensions; the guarantee was given for both small and big loans.

⁴³ According to the summary of the Start Guarantee Fund of the Hungarian Foundation for Enterprise Promotion they received 448 applications and accepted 346 of them by 31st December 1993.

Table 54

The entrepreneurs who received Start guarantee

Value category	The number of entrepreneurs in this category		The proportion of those who received guarantee		The sum of received loan in thousand HUF	The share of the entrepreneurs who named an received guarantee
	number	%	number	%		
under 500 000 HUF	365	11.5	13	6.8	6 300	3.6
500 001-1 000 000	837	26.3	34	17.9	28 412	4.1
1 000 001-1 500 000	402	12.6	30	15.8	40 217	7.5
1 500 001-2 000 000	370	11.6	11	5.8	19 922	9.0
2 000 001-2 500 000	202	6.3	27	14.1	61 525	13.4
2 500 001-3 000 000	235	7.4	17	8.9	48 145	7.2
3 000 001-3 500 000	103	3.2	5	2.6	17 400	4.8
3 500 001-4 000 000	104	3.3	3	1.5	11 500	2.9
4 000 001-4 500 000	55	1.7	5	2.6	21 012	9.1
4 500 001-5 000 000	161	5.1	17	8.9	84 800	10.6
over 5 000 000 HUF	353	11.0	29	15.1	236 150	8.2
Total	3187	100.0	191	100.0	575 433	100.0

The overview according to activities refers to that the committee did not have a principle to prefer certain activities and to refuse others. (According to the opinion of a member of the committee they had preferences: they wanted to promote the productive activities. But there were not too many such applications delivered and there were especially very few that satisfied all the requirements.) As a result of this we could find one or two businesses that received Start guarantee in almost all of the activities. If we examine this question in sectorial level we can say that 6.5 percent of the agricultural ventures received guarantee; it was 8.5 percent in the manufacturing industry (within it 9 percent in the food industry), 4.6 percent of the retailers and 5.6 percent of the entrepreneurs who performed some kind of economic service activity. It means that the committee decided on by considering the viability of the particular development and neglected the activity of the entrepreneur.

The whole of the (occasionally fractional) information about the financial situation of the entrepreneurs using Start loan refer to that the economic activity of almost the half of this small group of creditable entrepreneurs was established on a rather fragile financial basement. Although the different indexes that describes their financial situation (from the revenues to the items of property assets which were offered as cover for credit) give us quite rare information, it seems like **a)** that the financial situation of the entrepreneurs is better than of the

businesses and **b)** that there are entrepreneurs among the new ones who distinctly have a good financial background.

3.10. The use of the loans – the first experiences

Although we asked information about how the names complete their obligations towards the banks (did they start the repayment or did ask for a moratorium, did the enterprise go bank-

rupt or did it paid the whole money back etc.) in our questionnaire, the banks could only give a few definite answers since the majority of the enterprises did not have to start the repayment.

According to our data the majority of the entrepreneurs (2856 persons, about 90 percent of the total number of names) received the loan for a maximum 8-year term. There were 294 entrepreneurs who received the loan for a 10-year term and only 37 percent of them for 15 years. (About 3 percent of the names started the particular development before 1990; 1 percent of them planned to start it in 1990, 40 percent in 1991, 50 percent in 1992 and 6 percent in 1993.)

However, the first experiences relate to that the huge majority of the entrepreneurs who had to start the repayment started it correctly.

We visited the banks in February 1994 and asked them to summarise their experiences that they gained until that time. (6 of the 11 concerned banks undertook this and those two banks also reported about their experiences which could not participate in the inquiry).

Our request to the banks to tell us about their experiences was a bit early since they did not count on comprehensive experiences about the loan repayments earlier than the fall of 1994.

Table 55

The completion of the loan repayment obligations at the date of the inquiry*

	Number	%
Started the interest payment and the loan repayment correctly	1267	39.8
Asked for a moratorium	73	2.3
Went bankrupt	18	0.6
Sold or transferred the enterprise	5	0.1
Died and the business is not continued	4	0.1
Started the repayment before the obligation occurred	66	2.1
Repaid the loan	43	1.3
Did not have to start the repayment	1711	53.7
Total	3187	100.0

* The inquiry was held in the majority of the banks between May and October 1993, we received data (December 1993 and March 1994) later only from two banks

The rare information that they had at the date of our inquiry show that anything is possible from the bankruptcy to the success of the businesses but they could not tell the exact proportion between them.

However, their opinion was that the extension of loan was completed reasonably carefully; the high rate of correctly started interest payments and loan repayments indicates this.

Each bank has its own principles and process for the assessment of loan application and they primarily used them in case of Start credits too (it did not make a difference whether the assessment was completed at the branches or centrally).

Indeed, in the majority of the cases they acted more strictly because such persons applied for the loan who otherwise would have not become the clients of the bank if only because they did not (or just partly) have the required cover for loan or because they could not prove their aptitude for the business, the efficiency of their enterprises (in case of starting enterprises). (It means that although the loan was planned to help the starting enterprises the banks carefully watched out for to select such ventures of which they postulated the correct repayment of the loan. That is the reason why the entrepreneurs who

wanted to participate in companies which were well provided with capital and who were not absolutely beginners received 25 percent of the loans. It is likely that the selection aspects of the loan assessment set the rumours afloat about corruption. It was widely spread that those entrepreneurs received Start loan who knew how to buy the bank officers. The suspect could not be proved of course but it can not be excluded that it happened.)

Every bank counts with that the first main test will be the comprehensive initiation of the loan repayment for several reasons. The viability of the new enterprises is determined in the first 1 or 2 years; they have to start the repayment of the loan at the same time (After the first half of the repayment the interest payments significantly decrease.)

The banks similarly to other loans control the use of the Start credits. (It partly happens on the on-site controls when they watch whether the building which they financed is really implemented; partly controls upon the account rendered what the loan was spent on.)

According to the obligations of the Banking Act the banks should classify the debtors at least annually (but there are banks where in accordance with the internal regulations this process is performed in every 3 months). They take different aspects into consideration: above all they examine whether the debtor fulfilled his payment obligations on schedule but they also examine whether the enterprise is still operating or whether the cover lost its value, etc. The classification of debtors was initiated in most of the banks but their knowledge about the successful and unsuccessful cases are mainly based on the notice of the debtors.

They generally see as if the success is more likely in case of the entrepreneurs who were not absolutely beginners when they applied for the loan because they can realise the opportunities of their business better; and in case of those who have a good financial background and have enough reserves to survive the difficult periods which appear in the business life regularly.

The banks consider those enterprises from the aspect of repayment as successful who become good debtors: started the interest payment in order (which has been an obligation since the loan contract was signed) and initiated the loan repayment on sche-

dule. Moreover, the best debtors started the repayment before the payment obligation occurred or occasionally have repaid the whole sum of loan. Each bank has such cases and they know them very well and the number of such businesses have slightly increased after the collection of data. There were 2090 names at the 8 banks, 20 of them have completely repaid the loan and 150 of them have started the repayment before the payment obligation occurred.

The entrepreneurs who are interested in catering and in trade (e.g. car merchants) are in the top of both of the groups that can be considered successful; but there are numerous lawyers and doctors who are going to (and who can) get rid of the loan. There are also other activities represented (for instance, pig breeder, confectioner, baker, synthetic materials processing artisan etc.) but these are mostly unique cases.

The number of successful cases have increased in the past few months: the 8 banks registered 17 bankruptcies and 100 application for moratoriums.⁴⁴

According to the opinion of the banks the bankruptcy or the request for moratorium is most likely in case of the enterprises which could otherwise stay on their feet but

- they calculated the credit needs without margins; only applied for the money that exactly covers the implementation of the development although they would have needed working assets as well;
- did not evaluate the credit need properly. We could note especially in case of investments that they underestimated the costs and therefore they run out of money before the development was completed.

The most of the failures is not the result of the burdens which were undertaken in order to implement the development but the deterioration of the market conditions and the unforeseeable decrease of the demand.

The number of the concrete cases is not enough to justify or deny the above opinion about the general credit extension experiences. In some cases it looks like that the enterprise itself was not viable - they could not even fulfil their interest payment obligations although the repayment of loans would start

after this. There was a case when the entrepreneur put his money into a constructing company but the company went bankrupt. There are several businesses operating in the catering sector and in retail but there is also a bakery which shows that there were failed enterprises which had similar activity to the successful ones.

The banks trying to manage the cases when the entrepreneur asks for a moratorium to help the debtor to stay on his feet if possible. If they see that the reason of the delay, the non-payment is just temporary or the debtor indicates his difficulty of payment than the banks are tend to the rephrase, they think that one month of repayment which was not fulfilled can be retrieve soon. However, in 3 of the 8 banks that we asked there was nobody who asked for a rephrase of his Start loan and another bank reported as „it is not a typical request”.

It was more frequent at the 4 other banks that they have to find some sort of solution for the payment difficulties. The reasons are quite diversified: there are enterprises where the implementation of investment was protracted, others did not have the appropriate revenues. One of the big banks that started the loan extensions first reported that the „classified” claims (which become uncertain at least temporarily for some reason) made up about 10 percent of the extended credits.

The transfer of loans is not really frequent. The banks just very rarely, in special cases (for instance if the debtor died) approve to transfer the debt to someone else. There were 20 cases like this at the 8 banks. (For example, the owner of a drugstore sold his business, his house and then disappeared. The person who purchased the business overtook the loan too.) The most frequent (12 cases) was that the sole entrepreneur meanwhile joined to a company with legal entity. In such cases the company may overtake the loan formally but the debtor (the sole entrepreneur) has to repay the loan.

As we mentioned before, we can not draw any conclusion from these early experiences. The repayment obligations that would be due at the fall of 1994 will produce the first significant experiences about the successful or unsuccessful operation of the entrepreneurs who used Start loan; and than the remaining will turn out in the next years.

⁴⁴ One of the banks reported in its comments about the study: „Although the repayments are in an early phase, according to the classification of debtors of our bank, 4.45% of our clients who received Start loan were classified into the group of „endangered” entrepreneurs. It is highly questionable whether this figure would change progressively at the comprehensive initiation of the loan repayments”.

4. A FEW FINAL IDEAS

We are going to make a brief summary of the answers that we received for the three questions of our inquiry which we wanted to present from different aspect in the previous chapters.

As we mentioned in the Introduction, the entrepreneurs who used Start loan differ from the „average” Hungarian small enterprises in at least two characters: they tried to start up or develop their business with the use of bank loan and it depended on the banks’ decision who would belong to this group of entrepreneurs.

It is obvious that although they were confined from them they fit into the masses of Hungarian entrepreneurs due to several of their features; and their common criterion and identity are the more determinative.

1. The entrepreneurs who used Start loan did not differ in their demographic circumstances from the „average” self-employing Hungarian entrepreneurs who were analysed in the previous inquiries; they were typically 35–44 years old males, at least with a secondary school qualification. The females had a higher share among the entrepreneurs in comparison with the previous inquiries but the reason was not that they started up an enterprise more frequently but because of they undertook such activities in which traditionally a lot of female had been working so far (trade, catering etc.).

The proportion of entrepreneurs with a college or university degree was fairly high in the entrepreneurs who used loan. This is primarily the result of the changes which were initiated by the development of market economy: the spread of private businesses quickened in the activities which require a college or university degree (lawyers, accountants, tax advisers, doctors, dentists etc.).

Although the entrepreneurs with a college or university degree have appeared in the private sector since the early 1980’s (e.g. in the management of small-co-operatives), the number of them increased and their activities diversified remarkably in the 1990’s. One of the most significant change in the internal structure of the sphere of Hungarian self-employing small entrepreneurs which was mostly made up of craftsmen, retailers, individual agricultural farmers until the end

of the 1980’s was the inflow of the persons with college or university degree.

The change that happened in the capitalisation and in other features of this businesses did not altered remarkably the self-employing character of the small enterprises.

2. There are only a few activities in the Hungarian economy which promised to be successful: the trade, the catering, the transportation and the different kinds of personal services. Several factors explain their popularity. The everyday experiences show that the trade has been very attractive for a long time: there were several people who tried to run a grocery or a boutique in the late 1970’s. The split of the centralised units of the state’s trade activity and getting business premises in the preliminary privatisation gave a huge encouragement to the trade activities. A lot of families established their steady income to these bases. But the liberalisation of import, the eased conditions of travelling abroad and the appearance of the mass of imported (often smuggled) goods of the Western countries from the coffee through the cosmetics to the quality drinks also improved the chances of trade. The profit of illegal import of goods probably established the venture capital demands of several trade activities.

The popularity of catering originates from the capital and experience accumulating decades of gebiners and the renting system, the European level of catering culture and the relatively early and quick split of the state catering sector. The intention to introduce and establish the rural tourism which was partly originated from necessity adds to all of these factors. Therefore the biggest sum of capital was accumulated in the past few decades in the catering and in accommodation service (think about the million HUF tenders of state catering units).

The spread of transporting activity was also the result of the split of state monopoly and the relatively good availability of the vehicles which were sold with a lot of different allowances. (Before this, as it is known, the cab-driving was the most popular activity which was mostly performed as a second job until its conditions became stricter.) The background industry of the trade of cars and

vehicles and the transportation industry (the repairing services) which were than allowed for private enterprises have expanded.

We mentioned the new opportunities of the services which were performed within private businesses when we analysed the situation of the entrepreneurs with a college or university degree.

Maybe the mentioned facts can illustrate that the popularity of the activities which were thought to be promising was determined by two common factors (independently from the particular characteristics of the activities): first, the graduated authorisation of (small) sole enterprises in Hungarian economy as a result of the decades of reforms, especially in the mentioned enterprises; and the termination of the monopolised situation of state organisations which happened first in the mentioned activity.

It is not surprising that the entrepreneurs considered the chances of these activities promising since the number of self-employing entrepreneurs had been increasing in these activities for decades and even if not everyone could made his fortune but these activities offered steady income for a majority of them in the past and will offer in the future too.

Also refers to it that the majority of the entrepreneurs who started up an enterprise in such activities operated in one of them before; and their decision on the establishment of a business was a result of the successful decision of thousands before.

It means that the activities which were considered promising became popular as the result of the experiences of social-economic trends. (However, we can postulate that the promising opportunities would be completely exhausted soon in these activities.) There are also a lot of other macro-economic changes which determine the choices: the opportunity and compulsion of sole enterprises in the agriculture; the appearance of new consumer's demand in a lot of activities (from the discos to the giant water-chutes); the appearance of foreign capital (car saloons, filling stations) or possibly the privatisation or sometimes the unemployment etc.

3. The financial bases of the enterprises (i.e. how well were they provided with capital) was one of the most difficult questions. Partly because the different activities had different money capital requirement and the know-how and the work and time devoted for it can replace the investment of money in some degree. Moreover, the same activity may require different investments in case of the different demands of socio-economic environment, for instance a drugstore or a hairdresser in a big city or in a village, in the centre or in the suburbs etc.

It was very typical in Hungary that the most of the craftsmen, retailers and the other forms of private businesses started up with the least possible amount of necessary equipment at the beginning of their activity (even if it was 20 years ago).

Although these equipment accumulated during the years and they also invested to their enterprises but they did it very cautiously and it was always submitted to the main purpose, the establishment of the better living conditions of the family.

What do the data show about the financial background of the enterprises?

We have to be very cautious in drawing the conclusions because we are talking about a group of entrepreneurs who were previously tested and considered creditable by the banks and therefore we can not regard them to be typical. Moreover, the data about themselves and their businesses are partial and their value is quite uncertain, especially if they reported the same to the bank and to the Internal Revenue Service.

Therefore we are going to stress those tendencies from those which turned out of the different data which were remarkable enough and which rather strengthen the validity of the everyday experiences than denying them.

We could notice that the number of the new entrepreneurs who have a good financial background have increased. Although the majority of the starting entrepreneurs of today have a humble financial background (we can count all of those in this group whose wealth is smaller than 5 million

HUF since the added value of a private flat and an average car exceeds this limit) we could find wealthy or even rich entrepreneurs among those who received Start loan. The data of statement of business assets and the estates which were offered as cover for credit also refer to this.

The inflow of those who have a good financial background into the sphere of entrepreneurs is a new trend although there has always been wealthy people among the small entrepreneurs (we are going to remind to the data of the Internal Revenue Service which were cited in Chapter 1 and which say that there are several sole entrepreneurs and merchants among the persons with the highest income). The existence of the masses of wealthy businessmen is important for a lot of reasons: they make up the group of the entrepreneurs who can potentially increase and expand, their wealth can help their ventures to survive the lows of the business cycle etc. It is likely that we can hope from this group that the business profit would not serve the accumulation of private wealth and the purchase of another house, flat or car but would appear as invested capital in the economy.

But we can also see from this figures that there is no connection between the size of their personal wealth and the fact that how well equipped the enterprise even in the case of the rich entrepreneurs. The experiences of the past decades have shown that the small family enterprises were very cautious in developing their businesses and they undertook only the most necessary investments. (They had a very good reason for that: the ideological and political concessions which were made to the small enterprises could have been withdrawn; the productive private assets could have been renationalised and the entrepreneurs could have forced to join to the co-operatives.) Therefore the exhaustion of profit and the wasting consumption were the most general among the small entrepreneurs. Moreover the group of self-employing entrepreneurs tended to do it whose business profit was the income of the family and the base of their living. (That was the characteristic which was the most similar to the behaviour of the wage-earners. The wage earners if they could make savings they spent it for the improvement of the living conditions of their family. The Hungarian families similarly to the families of other former socialist countries did not

have an opportunity to make their savings work as capital in the business world due to the lack of an organised capital market.)

Although the situation have changed since 1990 and the older enterprises started to make more efforts for the improvement of the conditions of their businesses (e.g. the renovation of the business premises, the building of new, purchase of communication equipment, new machines etc.) and on the other hand the masses of those who established sole enterprises could gain the sum of money (loans from the family members and from friends) which was essential to the start up.

This process has just started. The humble rate of the business investments is indicated in the data related to the value of fixed assets. It is also true that the number of those who reported about it was low. It is an important aspect that a lot of activities do not require investments into valuable fixed assets. However, the amount of fixed assets have started to increase and to represent significant value just in the last couple of years.

If we consider these aspects, the increase of the number of the enterprises and the persons who are going to participate in companies is quite remarkable. There were 85 860 companies with legal entity and 98 036 companies without legal entity operating in Hungary at the end of 1993 (or at least they were in the records of the Registry Court). The type of the joint business enabled the entrepreneurs to share the burdens and risks of capital investment; to accumulate the small, individual capital into a joint fund. It is not accidental that 20 percent of the Start loan applicants participated or wanted to participate in joint businesses with the loan; today it seems to be the most secure establishment of business activity for a lot of people.

4. We could draw one more new conclusion from the data: the enterprises are growth-oriented.

Although the most of the older and new entrepreneurs who were in our sample was and remains self-employing (because as we mentioned before according to the international definition it does not make difference whether they have employees or not, the main point is that it is not registered as

institution with legal status), we sensed an intention for growth on the number of employees. Although we could only find data related to the planned number of employees in case of the half of the entrepreneurs, the simple intention to create more than ten thousand jobs was a little bit surprising especially if we consider the current state of the economy and the high rate of tax burdens on the wages. It is likely that the optimism was not only shown for the banks but the entrepreneurs themselves want to believe in the success of their plans due to their future. The future will determine the reality of their plans. However, in this group the moving from the activity performed alone toward the units that employs 3 to 5 people was significant and we should note that the rate of sole entrepreneurs who employ more than 25 persons was relatively high.

5. The overview of a few characteristics of the entrepreneurs and enterprises that received preferential Start loan unavoidably leads to the permanent problem of the credit supply of the Hungarian businesses. The contradictions of the supply and demand of loan which we overviewed in Chapter 2 accompanied the whole story of Start loan.

The Start loan was the first preferential loan which was available in a significant volume and could be used for the start up and the development of enterprises in the history of Hungarian credit supply. The appearance of the Start loan was not only accompanied with the satisfaction which was owing to the opportunity but a lot of dissatisfaction which originated from the several contradictions of the loan supply and which was revealed during the extension of Start loan. This dissatisfaction was reflected both in the behaviour of the interest representing organisations of the entrepreneurs and of the banks.

The interest representing organisations of the entrepreneurs which were fighting persistently but rather unsuccessfully for a loan with payable interest rate and which would be available for entrepreneurs especially for small entrepreneurs did not consider the Start loan as the expected solution.

The National Association of Craftsmen which carefully prepared for the arrangement of the

Start credit extension wanted to make a loan construction which would adjust to the requests of its members (mostly small amount of loans but with less strict conditions, easily available); but the rules that were applied by the banks just partly met their expectations. The National Association of Entrepreneurs which also participated in the early preparations of the construction denied any connections with the whole credit extension process by the time the conditions were set in their final form. The leaders of the National Association of Entrepreneurs simply described the Start loan as a „credit that is against the market demands and which only incense the people who want to establish an enterprise“⁴⁵ because, among others, the acceptable loan demand of one entrepreneur can be more than the 2 to 5 million HUF credit limit of a few small bank branches and because they considered the cover demands of the banks unacceptably high. The National Association of Entrepreneurs tried to persuade its members not to use Start loan.⁴⁶

The dissatisfaction due to the tightness of the credit limits and because of the cover request of the banks which was considered exaggerated and the different needs of the entrepreneur groups represented by the interest representing organisations reflected in their behaviour.

Neither the banks liked the Start loan. It was not because the chargeable costs and the relatively low profit was not in proportion to the troubles which had to bear from some loan applicants but especially because the majority of the starting entrepreneurs who applied for a small amount of loan „would never become the client of the bank“ if there was not the Start loan. The banks since they were worried about the safe returns of the placings tried to receive acceptable covers for the credits because this is the careful business process that can be expected from them. Although almost all entrepreneur groups were represented among the Start loan applicants and the banks dealt with the smaller ones conscientiously too, we can not be surprised that the banks following their sober business principles placed the most of the loans to companies (including companies with legal entity) which were capable for growth and which were applying for bigger amount of loans but had the

⁴⁵ The HVG (a Hungarian weekly magazine) cited the speech of Péter Szirmai, Deputy-Chairman of the National Association of Entrepreneurs in its 18th May 1991. issue.

⁴⁶ The speech of János Palotás, Chairman of the National Association of Entrepreneurs in the 19th December 1991. issue of the Figyelő.

appropriate covers for the credit too. Since they had limited amount of loans it meant that those companies were excluded again that probably needed the help the most.

The banks credit extension policy which was applied in case of the Star loan is just the consequence of the loan construction which did not consider the different characters of the Hungarian entrepreneur groups appropriately.

It is obvious today that the guiding principle of the further loan constructions would be the sharp distinction between the self-employing entrepreneurs and the registered companies (and the appearance of the Micro Credit Scheme is a promising sign of this realisation) and the preferential constructions could be developed for the two groups separately, and it would be expedient to develop the preferential constructions for the two groups separately. It is also obvious that both the smaller and the bigger enterprises need preferential loans.

But they should give up the ambitions for conciliating between the regular loan demands of the self-employing entrepreneurs and the principles and practice of the credit extension of the banks. There is a huge gap between the world of the typical Hungarian self-employing entrepreneurs and the world of the banks and forcing their relationship brings conflicts for both party. To say it briefly: not the commercial and credit

banks have to deal with the self-employing entrepreneurs who would not become the clients of the banks without the preferential loan and potentially would not be them. The Micro Credit Scheme shows one of the potential solutions.

6. Finally, just one more remark about the continuation of the Start loan. The Deutsche Augleichsbank who financed the Start loan together with the National Association of Craftsmen initiated a small and medium enterprise consulting programme. The purpose of the programme is to stabilise and make the new enterprises competitive; the consultants help the entrepreneurs by the development of business ideas, the analysis of the market situation of the enterprises. They pay half of the consultancy fee from the programme budget for the entrepreneurs who apply the help.

There will definitely be a group of entrepreneurs who would be pleased with the further opportunity; especially the owners of the well-established enterprises that want to develop. But there will be just a humble demand by the masses of small entrepreneurs who establish their enterprise on the public as their main market and who start up and develop their enterprise from a small loan - especially if they have to pay for the consultancy. It would be useful to seek an other solution that adjust to their circumstances better.

Budapest, September 1994.

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APPENDIX

I. The tables not presented in the text

The proportion of applicants according to place of operation and living place

County	Place of operation		Living place	
	number	%	number	%
Budapest	432	13.6	493	15.5
Baranya	186	5.8	184	5.8
Bács-Kiskun	209	6.6	206	6.5
Békés	153	4.8	148	4.6
Borsod-Abaúj-Zemplén	139	4.4	142	4.5
Csongrád	194	6.1	201	6.1
Fejér	116	3.6	108	3.4
Győr-Sopron	266	8.3	265	8.3
Hajdú-Bihar	137	4.3	138	4.3
Heves	91	2.9	90	2.8
Komárom-Esztergom	87	2.7	87	2.7
Nógrád	43	1.3	41	1.3
Pest	216	6.8	190	6.0
Somogy	205	6.4	192	6.0
Szabolcs-Szatmár-Bereg	138	4.3	135	4.2
Jász-Nagykun-Szolnok	130	4.1	131	4.1
Tolna	74	2.3	77	2.4
Vas	108	3.4	105	3.3
Veszprém	143	4.5	140	4.4
Zala	99	3.1	97	3.1
No information	21	0.7	17	0.5
Total	3187	100.0	3187	100.0

The distribution of place of operation according to the type of place

	number	%
County centre	1043	32.8
Other city	1024	32.1
Village	664	20.8
Hamlet	15	0.4
Budapest	376	11.8
No information	65	2.1
Total	3187	100.0

The place of operation and the living place

	number	%
- same	2536	79.5
- different	621	19.5
- not known	30	0.9
Total	3187	100.0

The starting date of the entrepreneurial activity

	number	%
before 1988	51	1.6
in 1989	134	4.2
in 1990	526	16.5
in 1991	1057	33.2
in 1992	980	30.7
in 1993	439	13.8
Total	3187	100.0

Type of taxation

	number	%
Personal income tax	1537	48.2
Corporate tax	900	28.2
Did not start up the enterprise at the date of loan application	750	23.6
Total	3187	100.0

The planned date of the completion of the development

	number	%
1991	826	25.9
1992	1662	52.1
1993	553	17.4
1994 or later	23	0.7
No information	123	3.9
Total	3187	100.0

II. The typical characteristics of the entrepreneurs who perform individual economic activity

The typical characteristics of the entrepreneurs who sell excess labour

1. Purpose: to generate excess income; following the consumption level of the reference group.
2. Economic role: satisfying the demand in the particular activity of the members based on their working faculties. The organisation reacts for the demand (market) changes in a narrow margin and in the scope and manner limited by the individual working capacity of the members. The demand of the organisation increases until the limit of the working capacity of the members.
3. Capital investment: zero. The type of the activity does not require and the interests of the members related to the short-term income-complement are also against it.
4. The profit is the result of the revenues of the individual working capacity of the member.
5. The members exhausted the income; their income appears in the market as consumer demand.

The typical characteristics of the self-employed entrepreneurs

1. Purpose: ensuring a steady income (for the family); on the consumption level of the reference group.
2. Economic role: satisfying the demand in the particular activity with the appropriate capital investment and work. They react for the demand changes in a narrow margin limited by the existing features of the particular activity (the amount of invested capital, developed organisation of work). The demand of the organisation increases carefully, on a rate which not endangers the financial bases. The organisation tries to establish and maintain a group of consumers who ensure its subsistence-survival and to stabilise its position instead of growing.
3. Capital investment: exists; only on a the minimum level (the machines, equipment, workshop that

are necessary to get and maintain a certain and stable market share). The existence of the concurrence forces the further capital investments and the modernisation of productive assets as the prerequisite of stability.

4. The labour is the determinative factor in the income that comes from the combination of invested capital and labour; the capital is used in relation with the labour investment.
5. The bigger part of the income serves the living of the members (family) and therefore it appears in the market as consumer demand. The smaller part (the least possible amount) returns to the sphere of production as capital investment.

The typical characteristics of the entrepreneurs

1. Purpose: the profit; the surplus over the value of the fixed and working assets.
2. Economic role: satisfying the demands of the activities that promise a profit; in the margin limited by the capital that can be invested. It reacts for the demand changes immediately, terminates and organises activities. It does not intend to stabilise its positions but tries to make use of each occurring chances.
3. Capital investment: exist; on the highest possible level in relation with the potential profits and risks. They are ready to mobilise external sources apart from their own capital in order to start up activities with higher profit rate and to develop the demand quickly and dynamically. When the profitability rate decreases they decrease or terminate the investment of the particular activity in order to invest it to another one that promises higher profits.
4. The capital is the determinative factor in the income that comes from the combination of invested capital and labour; the intellectual, physical, organising etc. work serves the utilisation and the profitability capacity of the capital.
5. The bigger part of the income returns to the production to extend the profitable activities and to organise new ones. The personal consumption remains on the level of the reference group and do not increase significantly in case of the quick growth of profit.

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