

LOCAL GOVERNMENT DETERMINANTS OF BUSINESS DEVELOPMENT AND THE CONCEPT OF SUSTAINABLE DEVELOPMENT

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Славінська М., Черевко Г., Черевко Д. Локальні державні чинники розвитку бізнесу і концепція зрівноваженого розвитку

Всезростаюча увага приділяється важливості розвитку бізнесу в сучасному світі. У статті подано результати дослідження зусиль уряду щодо розвитку підприємництва на локальному рівні на прикладі Люблінського воєводства Польщі в світлі реалізації концепції зрівноваженого розвитку.

Ключові слова: зрівноважений розвиток, місцеве самоврядування, економічна активність.

Sławińska M., Cherevko G., Cherevko D. Local Government Determinants of Business Development and the Concept of Sustainable Development

More and more attention is paid to the importance of business activity in the modern world. The study pointed to the example of the Lublin voivodship in Poland, how governments stimulate entrepreneurship at local level. Stimulation of development in its institutionalized form should be fully compatible with the concept of sustainable development.

Key words: Sustainable development, local governments, economic activity.

Славинская М., Черевко Г., Черевко Д. Локальные государственные факторы развития бизнеса и концепция уравновешенного развития

Все возрастающее внимание уделяется важности развития бизнеса в современном мире. В статье представлены результаты исследования стараний правительства по развитию предпринимательства на локальном уровне на примере Люблинского воєводства Польши в свете реализации концепции уравновешенного развития.

Ключевые слова: уравновешенное развитие, местное самоуправление, экономическая активность.

The subject of interests of economics is business activity that contributes to the economy. Economics uses the achievements of non-economic sciences, especially the science of law. Pursuant to the act on freedom of economic activity, economic activity includes paid, profit-oriented, manufacturing, construction, trade, service and prospecting, exploration and extraction of minerals from deposits, as well as the mixing activity in the field of liberal professions, done in an organized manner and continuously.

Inherent in the economy are entrepreneurs and business units, which operate on the principle of small and medium sized businesses, co-creating SMEs or corporations (large enterprises), which operate on quite different principles. The ability to take up new activities, to turn ideas into action is commonly called entrepreneurship. Entrepreneurship is a

necessary component of the market mechanism. The entrepreneur, according to idea of A.J. Schumpeter, can move the whole system and provide a foundation for the development of the theory [T. Gruszecki, 2002, p. 195].

Veblen T. proclaimed that economy does not seek balance and is a set of transactions and constantly changing institutions which are shaped by a wide range of non-economic factors. In modern economies, the institutions are often created by the state. State intervenes to reduce the cost of operation of the market, ie. transaction costs. The concept of transaction as the basic unit of analysis was introduced by American institutionalists (eg Commons). In modern interdisciplinary institutional economics attempts are made to synthesize the theories of neoclassical economics alternative, creating Williamson's neo-institutional theory of enterprise. The company's strategy is based on

bounded rationality in action, strong opportunism and the constant search for a compromise between the various stakeholders, taking into account the legal consequences for the company and the market.

In Poland businesses are entities of commercial law, private law in force (civil law based upon it) and public (upon which the administrative law is based). Public institutions should on the one hand ensure the business freedom, on the other hand they should put certain restrictions on the freedom of economic activity in the form of rules and responsibilities.

The concept of sustainable development includes proper development of the proportions between the three types of capital – economic, human and environmental – and the continued improvement of quality of life for present and future generations (Economics and Sustainable Development, p. 22). The concept of sustainable development was first used in 1987 in the report *Our Common Future*, developed by the World Commission on Environment and Development. The scope of sustainable development was defined in detail during the United Nations conference entitled “Environment and Development” in Rio de Janeiro in 1992 and covers three main areas – environmental, social and economic.

The concept of sustainable development is implemented at the macro level, since individual countries introduce concepts of a politico-institutional character. Achieving sustainable development on a global basis will be possible only with the sense of community of interests between countries. It is necessary to ensure active participation of the public in decision-making and enacting legal solutions. From the point of view of paradigm of sustainable development, the real enrichment takes place only when the multiplication of one type of wealth is not at the expense of others [B. Poskrobko, 2011, p. 21]. Thus, the concept of “homo oeconomicus” is contrary to the concept of “homo sustinens”, anthropological creation, which says more about the state of consciousness of business units [D. Kielczewski, 2011, p. 80].

According to the assumptions of the neoclassical growth theory clean air, water and labor are, thanks to their abundance of resources, almost free. Economic activity and development have no boundaries, and ecological and social losses are treated as an instrument

necessary to achieve the common objectives of enterprises such as profit maximization, survival or gaining a competitive advantage. Recent natural disasters, social unrest and crises in financial markets are the result of the neoclassical model. The collective annual demand of mankind for natural resources surpassed the Earth's regenerative capacity for the first time more than thirty years ago, when the rapidly growing local demands on environmental systems, combined with unlimited economic growth was globally adopted. On the one hand we have a number of market participants who recognize threats to the natural environment, society and the financial markets due to the use of existing paradigms. On the other hand, global trends in consumption and production are becoming more and more distant from the declarations [W. Przychodzeń, 2013, p. 58].

In Poland, the company is one of the main actors and regulators of the economy. Ministry of Economy promotes entrepreneurship policy development, defining the company as the creators of sustainable economic growth and new jobs. The current government supports the implementation of the concept of sustainable development, among others, by developed “vision of sustainable development for the Polish business in 2050” and “Sustainable business. Handbook for small and medium-sized enterprises”¹.

The concept of sustainable development in the activities of local governments

The issue of sustainable development is the rule laid down in the Constitution of the Republic of Poland [Dz. U. 1997 nr 78 poz. 48]. There is no other definition of sustainable development in EU law, rather than that which operates in international law, formulated in the report “Our Common Future”. It is believed that sustainable development is largely a guide to public policy, but there are doubts on the basis of EU law concerning normative character of this principle. The wide presence of the concept of sustainable development in the standards adopted by the European Union and its implementation by the Member States means that we can regard it as a principle of law. It should be stressed, however, that the normativity of the part which comprises protection of the environment raises the least doubt in literature

¹www.mg.gov.pl (14.01.2014).

of the subject. [J. Kielin-Maziarz, 2013, s. 48]. This means that public authorities should be guided by the principle of sustainable development in the implementation of its core functions, but they must not restrict the rights and freedoms of the individual based upon this principle [B. Rakoczy, 2006 p. 192].

Public administration bodies, including local government bodies, support the development of entrepreneurship, creating favorable conditions for the taking up and pursuit of business [Ustawa o swobodzie działalności gospodarczej, 2004]. Thus, they assume that economic development should not be hindered, but driven by technological progress, so that efficiency in the use of raw materials, labor, etc is improved.

Local governments are responsible, among others, for the environmental dimension of sustainable development aspects of the economy, placing the responsibility on the man's state of the environment and use of resources. Both environmental fees charged to local businesses as well as the obligation to export waste, the so-called. "Junk Act" [Ustawa o utrzymaniu czystości i porządku w gminach, 1996], rests on self-government units. The social dimension of sustainable development economics involves, among others, satisfying the basic needs of the population, health care, access to the environment and its resources, and recreation in contamination-free environment.

In Poland, there is a growing tendency to decentralize power, but the transfer of responsibilities to local governments depends on the willingness of state structures to the divestment of part of powers to the local governments.

Local Government determinants of economic development

There is a growing importance of local government in the sphere of local affairs since government entities receive income alone and may put some relief on it. However, by adopting a new regulation on the revenue of local government units, it was decided not to grant local governments share in indirect taxes [A. Szewczuk, 2003, p. 401]. Currently on Polish territory operate fourteen Special Economic Zones (SEZs) in which 1506 permits were issued for running a business, and entrepreneurs have invested nearly 84 billion dollars. With a view to improving the investment attractiveness of Poland and the ability to use the entire limit of the SEZ (i.e.

20,000 hectares), the prospect of action of the zones until 2026 was introduced in 2013. Extending the operation of the SEZ is essential for sectors with a low rate of return, which often choose business in the SEZ. The use of tax preferences, state aid and spending of EU funds in the next financial perspective on the business environment institutions will contribute to the construction and development of technology parks and industrial parks, creating business incubators, thanks to the support of corporate investments will bring real economic benefits, especially in connection with intelligent specializations, internal potentials of regions.

Within the regional aid investors are given the opportunity of exemption from income tax in respect of capital expenditure and the creation of new jobs. The offered preferential conditions for doing business mean also exemption from property tax or professional legal assistance in completing the necessary formalities associated with starting a business in the SEZ. The maximum amount of aid depends on the regional factors such as location of the investment, the amount of incurred expenses or costs of employing new staff and the size of the company applying for tax exemption. Additionally, the allowable amount of regional aid is designated according to the regional aid map, which determines the percentage of aid in the costs eligible for this assistance.

In budgetary terms, the importance of local government units in CIT tax credits for investors is small. In the zone there was a significant increase in revenue from taxes on income and property. The influx of businesses attracted by tax breaks contributed to the registration of the following, which also had a positive impact on the diversification of industry and local entrepreneurship [Nowakowska 2009, p. 35.] Tax incentives in SEZ are therefore relatively small share of the total value of tax preferences granted from the state budget in Poland, 0,10% of GDP.

One of the investment incentives available to businesses in municipalities is exemption from local taxes and fees [Ustawa z dnia 12 stycznia 1991 r. o podatkach i opłatach lokalnych], so that local councils have the power to shape the tax rates and establish these exemptions provided for in the taxes and fees. Essential for entrepreneurs is exemption from property tax. The municipal council by resolution may establish an exemption from property tax for

businesses, as a form of public assistance. The effective threshold of *de minimis* aid was established in the amount of 200,000 euro and 100,000 euro in the road transport sector, for the single economic entity, for the next three financial years.

The statutory duties of supporting the development of entrepreneurship and SMEs, can not be reduced only to the exemptions and allowances. Local governments stimulate economic activity in the forms of local action groups, mainly in the form of associations, as well as in the form of incubators, foundations, lenders. Most attention is paid, however, to public-private partnerships, which have operated in Poland since 2009. Business environment institutions comprise advisory, training and information institutions (training and consulting, business support centers, business support centers and associations of employers), finance institutions (local loan funds, guarantee funds, loan guarantee funds), business support institutions in the early stages of their business (business incubators, technological, academic), technology transfer centers, technology parks and industrial parks, science and technology, and institutions involved in the provision of venture capital the so-called venture capital funds.

Activities in the local market may be determined by inhabitants. A large majority of

local authorities in this public consultation are required to submit their plans for changes or adoption of new legislation or other local projects that will have an impact on society.

Local factors in the development of economic activities on the example of Lublin voivodship

Local government units (LGU) in the province of Lublin in 2012 year reached the total income amounted to 9358,9 million PLN. The structure of the aggregate income of LGUs province differed significantly from the national structure. Own expenditure constitutes the largest part of the revenue of the country (49,1% of the total), while in the Lublin province it accounts for only 34,3% of total revenue, with the dominant role of external transfers. These include general subsidy and specific grants. In 2012 the average per 1 inhabitant own income accounted for 94,06 PLN and was lower than the national average of own revenues by 75,90 PLN.

The dominance of the three types of own revenues and a negligible share of the fees and local taxes indicate the limited capability of the proposed reliefs or exemptions aimed at developing the local market. The major groups of own income (PIT, CIT and others) in various districts of the Lublin province are presented below (Figure 1).

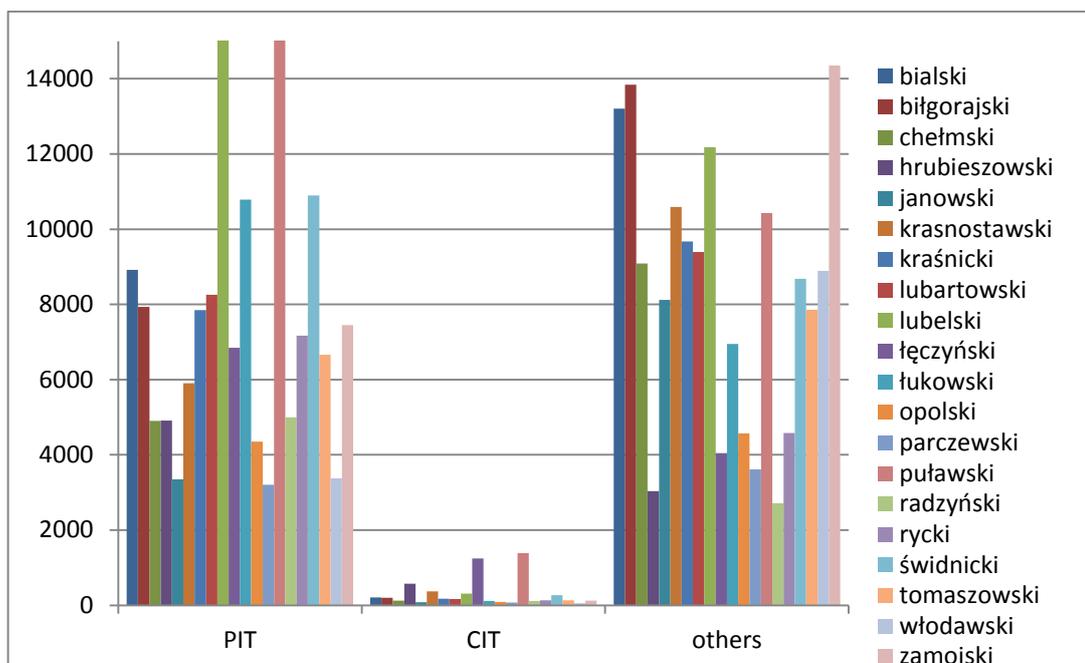


Fig. 1. Major groups of own income in 2012 in Lublin voivodship.

Source: own study based on: *Budżety jednostek samorządu terytorialnego w województwie Lubelskim w 2012 r.*, Urząd Statystyczny w Lublinie, Lublin 2013, p. 32.

The REGON register of the province of Lublin in 2013 revealed 168,3 thousand entities including 128,0 thousand natural persons conducting business activity, 10,2 thousand commercial companies (including 8,1 thousand limited liability companies, 1,6 thousand partnerships, and 0,2 thousand limited liability companies) and 9,8 thousand civil partnerships. The number of commercial companies with foreign capital was 1,3 thousand. In addition, the register contained 1,1 thousand cooperatives and 5 state-owned enterprises. In comparison with 2012 there was an increase in the number of entities in total by 3,3% [Podmioty gospodarki, 2013].

In 2012, after two years of growth, a decrease in capital investment enterprises established in the Lublin province. The number of ongoing investments was the same as in 2011, and their estimated value was lower. Investors in the region began implementation of 1891 of new investments with a total estimated value of 1687,6 million of PLN (previous year 1891

started new projects with a value of 1965,3 million PLN).

Comparison of capital investment in the country and the province of Lublin in 2005-2012 are presented in Fig. 2.

There are three sub-function special economic zones located in the area of Lublin voivodeship: SEZ EURO-PARK Mielec (Lublin-118 acres, 35 ha Zamość, Radzyń Podlaski-acres), SSE "Starachowice" (Puławy – 99,63 acres) and Tarnobrzaska SEZ EURO-PARK WISŁOSAN (Łuków – 27,29 acres, Kraśnik – 23,48 acres, Janów Lubelski – 18,51 acres, Tomaszów Lubelski – 10,56 acres, Poniatowa – 5,6 acres, Horodło – 5,30 ha and 4,45 ha Ryki). The regional aid map of Lublin voivodeship, which determines the percentage of aid in the costs eligible for this assistance, is 50%. Tax incentives in SEZ are therefore relatively small share of the total value of tax preferences granted from the state budget, in the Lublin province there are unused SEZ still awaiting (including Tomaszów, Lublin, Zamosc, etc.).

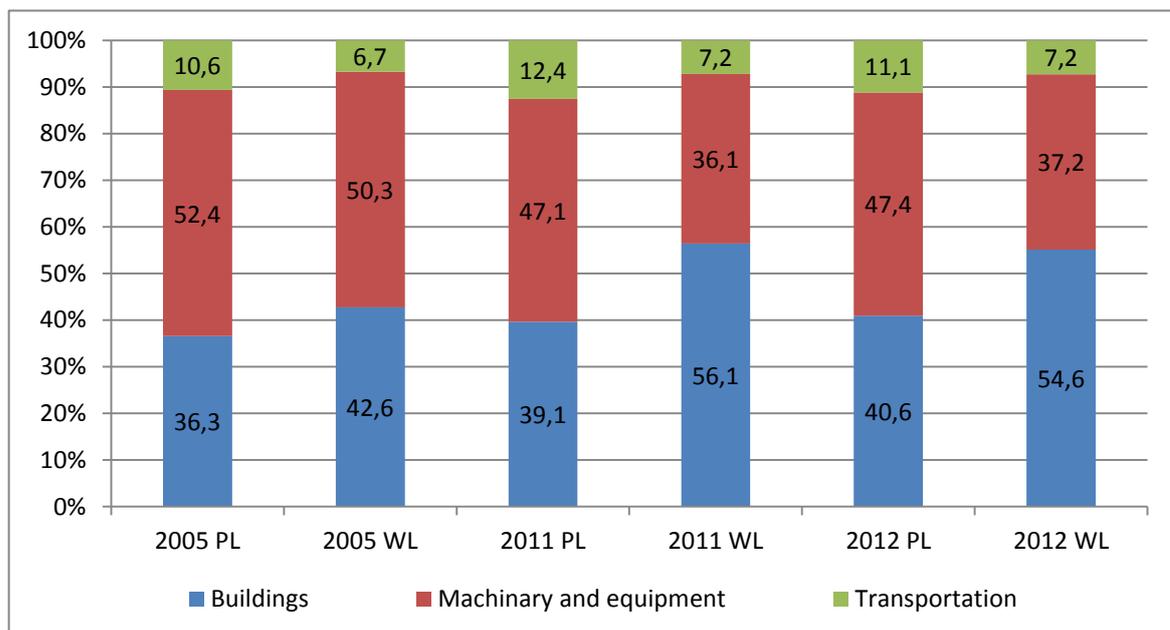


Fig. 2. Capital investment in Poland (PL) and Lublin voivodeship in 2005-2012, %.

Source: own study based on: Raport o sytuacji społeczno-gospodarczej województwa lubelskiego w 2012 roku, Urząd Statystyczny w Lublinie, Lublin 2013, p. 83.

Municipalities with local zoning plans are a much more attractive location for businesses looking to invest. In the case of the province of Lublin in the administrative division separated the 20 districts, 4 cities and towns (borough of the city of Lublin, Chelm, Biała Podlaska,

Zamosc) and 213 municipalities (16 municipalities, 21 city-rural municipalities and 172 rural municipalities) and 42 cities. Continue the process of adopting zoning plan is very long, half of the municipalities in the Lublin province have not prepared development plans (Figure 3).

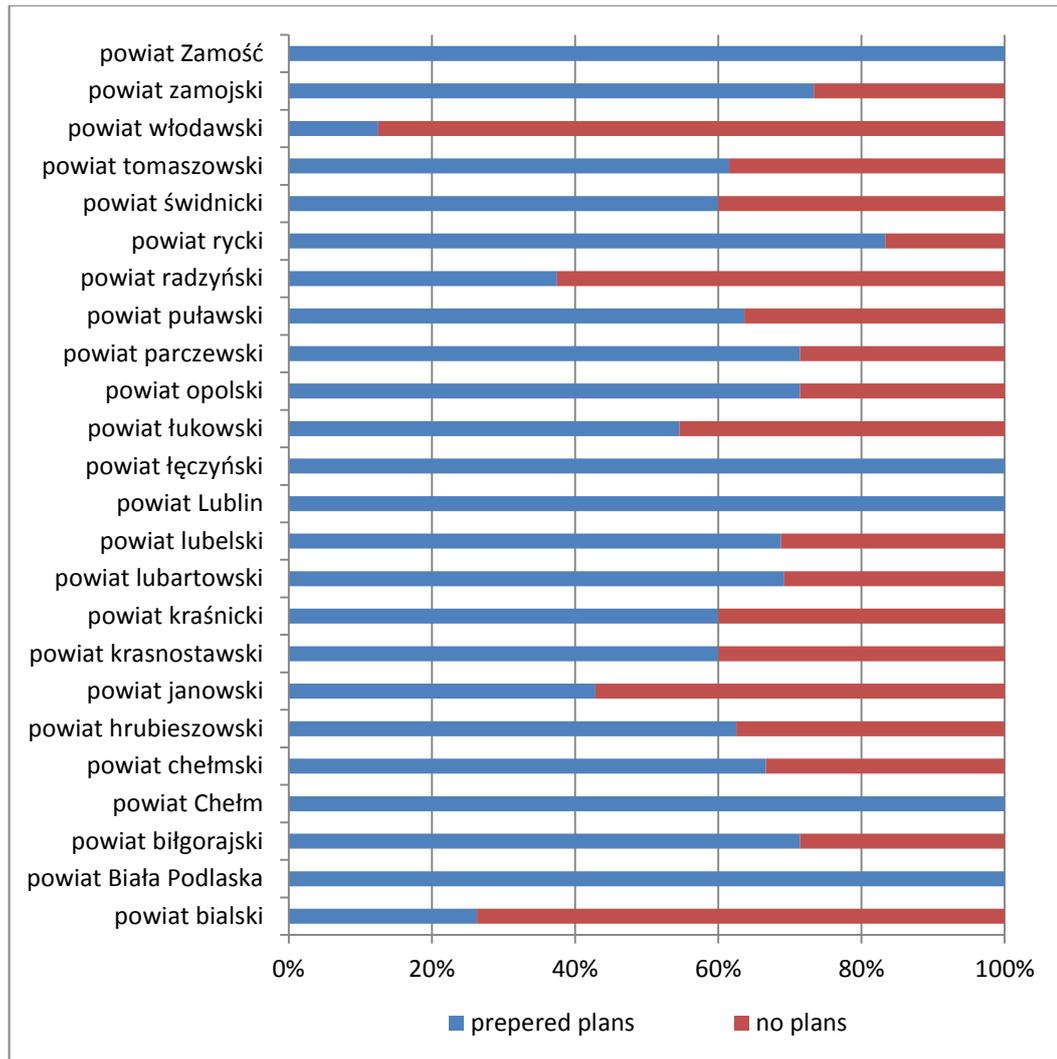


Fig. 3. Local zoning plans in Lublin voivodship in 2013.

Source: own study based on <http://planyzagospodarowania.pl/miejscowosci/lubelskie> (14.01.2014).

It is important that the preparation time was shortened because the plans are very helpful in shaping governance in space and implement the concept of sustainable development at the local market.

At the level of local self-government it is possible to conduct their economic policies. In the province of Lublin business environment institutions are relatively weak and do not form a coherent system of support to entrepreneurs (Figure 4).

While analyzing the location of business environment institutions the highest density in the capital region is noted – Lublin and 3 other cities with county rights. Positively on the background of the region are now also Pulawy and Biłgoraj. The most common are training centers – Consulting and chambers of commerce.

However, the presence of business environment institutions, in principle, limited to the largest cities of the region, and from the point of view of entrepreneurs their location should facilitate access to services and benefits assistance.

Summary. Companies compete on the level of quality and expertise, not only at the level of the price. From the point of view of economics of sustainable development, enterprises pay attention not only to how high is the profit achieved, but also how it arises, how it is shared. In a large extent local governments are trying to stimulate business development, because it is the local authorities that are obliged to monitor and promote the activities of local traders in line with the principle of sustainable development.

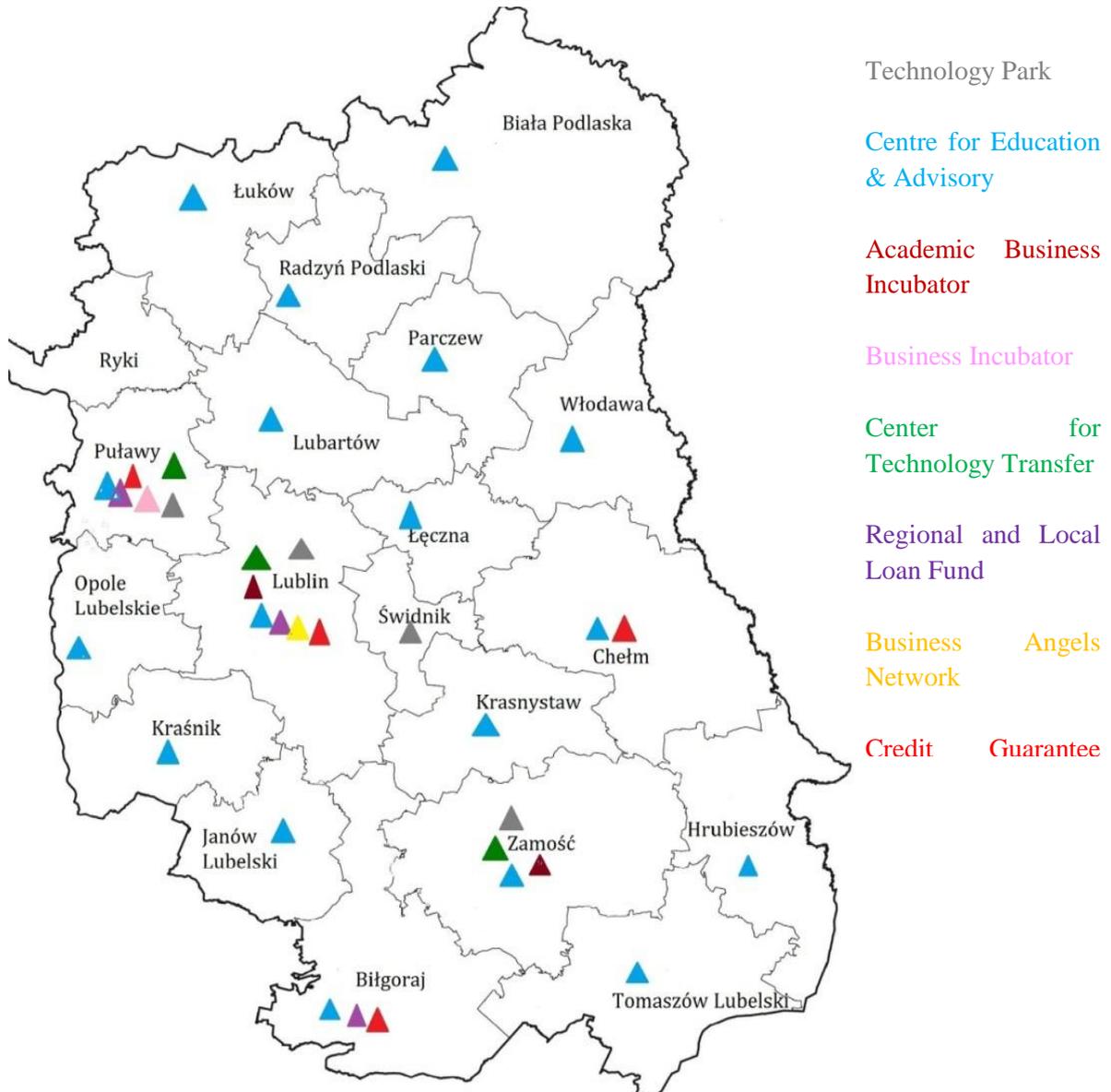


Fig. 4. System of support to entrepreneurs in Lublin voivodship.

Source: <http://www.rsi.lubelskie.pl/index.php/regionalna-strategia-innowacji> (14.01.2014).

Unfortunately, enthusiasm for stimulating your own activity and entrepreneurship at the local market depends on many factors, both political and legal dimension, socio-cultural and economic terms, hence in Poland there are observed differences between regions.

As stated above, entrepreneurship is a statutory obligation of administrations, many aspects of doing business in the provisions of the PSP (State Fire Brigade), environmental law, construction law, labor law, taxation, social security, etc. are resting on county and municipal public institutions. However, a huge impact on the implementation of the concept of

sustainable development by local governments is the general economic situation in the country, and the only buoyant economic growth affect the good investment climate created by the local authorities.

Whereas Lublin voivodship, it is assumed that governments will continue to make a greater commitment to action to create a favorable investment and tax relief, if only because of the requirement of improving the quality of life and reducing disparities between regions. Indeed, these actions are in line with the concept of sustainable development, but the long-term assessment is required because of the

recognizable changes in dependent relationships between the two groups of interest. It is assumed that there still need to be top-down stimulating

the local government to accelerate the implementation of sustainable development at the enterprise level.

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