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Formation of small rural business in the republic of belarus

Abstract: The present article is devoted to the formation of small rural enterprises in the Republic of Belarus. An overview of the current state of small business is discussed, as well as its dynamic growth in the country is put forward. Next, this paper singles out the possibilities of state budget aid to the development of small-scale business in agriculture. In addition, the role of infrastructure as reliable support of small businesses in rural areas is highlighted. Finally, some prospective directions for the development of small business sector in agriculture at the national, provincial and local level are proposed.

Key words: entrepreneurship, small rural businesses, government support, agriculture, the Republic of Belarus.

Introduction

The modern program of rural development must take into account both the interests of the agrarian sector in totality and certain agricultural subsectors in particular. By means of appropriate economic efficiency measures, agricultural policy should seek to maintain the already-established split of production process and labor between small- and large-scale rural business units. The development of small rural entrepreneurship leads to economic stabilization, as its flexibility and mobility are of vital importance to market conditions.

In turn, in order to allow agrarian policy to influence the on-going processes in small rural businesses efficiently, and to regulate their development in a proper way, this economic sector requires relevant in-depth study. This need for thorough research is due to the fact that, even nowadays, small rural businesses are often undervalued.

Academic studies of development and improvement issues of small entrepreneurship have been abundantly covered in the research of many national and international economists [Myasnikovich 2008, Shimov 2009]. Still, the majority of scientific approaches are debatable [Zhudro 2004]. Many questions regarding improvement of small business development in the countryside are insufficiently researched [Gusakov 2007, Economical... 2005].

Moreover, Belarus has slightly moved up in the ranking of favorable business environment according to the World Bank report and the International Finance Corporation's study [Doing... 2012, p.3]. The findings of this research suggest that Belarus is ranked 58th among the 185 countries under the study, thereby enhancing its position last year by 2 rating points.

Nowadays, Belarus continues to be one of the most active reformers among its neighboring countries, having a significantly better position than Russia (112th) and Ukraine (137th) but slightly yielding to its Customs Union and Common Economic Space partner – Kazakhstan (49th) and to the nearest "Western" neighbor – Poland (55th).

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Besides, Belarus has once again been named one of the leaders among 50 world countries (the permanent participants of "Doing Business" study). It has conducted major research into creating a more favorable regulatory environment for local entrepreneurs since 2005, and has retained third-place ranking.

That said, the acquired experience demonstrates that not all of the theoretical and practical problems of small business in general and in rural areas particularly are being solved. In this context, there is a need for research investigation into the viability and the objective necessity of forming small rural businesses in the Republic of Belarus.

The aim of the study

The main goal of this study is to analyze the formation of small business in agriculture. The focus of the paper is the emerging small business sector in rural areas under the framework of the transition process (2007-2013) in the Belarussian economy, and more generally, the overall study of challenges that small rural businesses face in the Republic of Belarus.

Material and methods

Materials and methods of investigation are based on the research results of foreign and national investigators into the formation and development of small business in particular, and agrarian economics in general, policy documents of government structures of the Republic of Belarus on economic and commercial issues, annual statistical report summaries on industries and sectors of the national economy.

In data collection and processing methods of dialectical logic, scientific abstraction, induction and deduction, analysis and synthesis, as well as comparative and other methods of economic analysis were used.

Problems

Recent years have shown a positive trend in the share of small business employment with regard to the total employment rate in the economy: it has grown from 28.6% in 2007 to 31.4% in 2012.

A universally recognized indicator of business activity in the country and its regions is represented through a number of small business entrepreneurs - legal persons, representing 1000 resident population of working age (on the basis of the annual calculation). The results of the author's research show that for the creation of a competitive environment in the market economy of the republic at least 100,000 business entrepreneurs are required. In addition, the positive experience of economically developed countries should be taken into account, where there is one private company for 100 residents.

In Belarus, the highest level of business activity can be observed in the Minsk region – 27 small business entrepreneurs - by 1000 resident population of working age (national average in the Republic – 16.6), while the lowest can be outlined in the Gomel region - only 11 [Small... 2011, p.56].

Over the last few years, certain work has been done in the liberalization of necessary conditions for economic activities, in eliminating unnecessary government intervention in business entities, and the abolition of administrative barriers for effective business development. The state, in its turn, also plans to support small and medium-sized business entrepreneurs by means of informative provision, as well as property, financial and other types of state aid.

Recently, the State Program for Small Business for 2013-2015 has been adopted in the country [State...2012]. The key actions for its realization presuppose, in particular:

- improvement of legislative system regulating the activities of small businesses;
- financial support for small entrepreneurship;
- improving the efficiency of infrastructure as the core element in small business support;
- expansion of industrial cooperation and partnership in industry between small and large enterprises, international cooperation and development of foreign trade in small business sector, etc.

It is planned that as a result, the growing index of employment in the business sector, including individual entrepreneurs, would attain 1.55 million people in 2013, in 2014 - 1.68 million, and in 2015 – 1.8 million.

Unfortunately, due to lack of funding for the program, the planned number of indicators would be not an easy challenge to achieve. Thus, in 2013, for the program of business support the state budget will allocate 4.5 times less aid than for the maintenance of the Permanent Committee of the Russia-Belarus Union State.

On the basis of the Republican program a number of regional programs are outlined to support small business in 2013-2015. The majority of this money is directed at providing public financial support to small rural enterprises for investment projects by providing bank loans of budgetary funds, which had an interest rate of not higher than the refinancing rate established by the National Bank. Still, their size is below a percentage from the total income sum.

In accordance with the state support programs of small businesses, entrepreneurs can also get subsidies to compensate some part of the interest on bank loans. They are also able to recover some part of their cost leasing payments. Exhibition activity or organization of such events can also be provided with certain subsidies. But such cases are rather rare.

So far, the Grodno Oblast Executive Committee has allocated only 0.5 million USA dollars to support innovative business projects. This amount of money is directed to those priority projects that will be associated with the development of the service sector and the progressive transformation of the region. Appropriate changes have also been made to the regional budget. The following financial assistance can be obtained both by individual entrepreneurs and privately owned enterprises, in rural areas as well, if a valuable business projects is put forward. Applicants must subscribe to the Base Center for Small Business, where they can find help preparing a list of documents which are necessary for their project to be considered by the draft committee. If approved, the funds will be awarded in the form of soft loans in Belarusian rubles at the refinancing rate plus 0.5 walrus bank, which is significantly lower than on general conditions. Thus, the entrepreneur will be able to take a loan to buy equipment, to repair the leased premises, and to get some income, before

having to begin repaying the loan. However, the decision in view of the insignificance of the amount is unlikely to serve as a strong incentive to enhance entrepreneurship in the region.

Nowadays, a network of infrastructure units to support small and medium-sized businesses is widely spread all over the country. In 2012, 68.6 thousand people addressed the business support centers on various issues.

In the Stolin district, for example, a local fund "Support Center for Rural Development and Entrepreneurship of Stolin district" is successfully managed. The founders of the center also include rural residents, interested in the development of farms. Among the chief areas of activity of the center one can outline microcredit support for small producers, maintenance and support of the project proposals, organization of thematic information sessions, cooperation with small business holders. However, only four such institutions operate today in rural areas of the country.

In the framework of the State program of employment promotion, the state administration creates the necessary conditions and opportunities for unemployed citizens to disclose their business skills. Some entrepreneurs, being unemployed, were retrained within employment centers, received grants and loans and used preferential state credits as initial capital. Despite this, in 2012, less than 100 unemployed people set up their small businesses in rural areas with the help of the state budget fund social security.

In the business environment, entrepreneurship and business initiatives are largely due to the presence of available financial resources. Certain financial support to small and medium-sized businesses is made by the commercial banks, which in recent years have clearly stepped up their work in this direction. For example, BPS-Bank signed an agreement to open a line of credit to finance small and medium business for the amount of 25 million dollars with the Eurasian Development Bank, as well as an agreement with the European Bank for Reconstruction and Development - for 50 million dollars. These cases are not numerous and cannot testify about improving financial conditions for developing small businesses and enterprise business initiative.

An example of a business enterprise in the field of agricultural production with the use of bank loans is the farm "Fortune" Baranovich district. In 1993, it had only 2 hectares of land. Now, together with the peasant (farm) "Fortune Agro" (both farms work as a single set), there are 397 hectares of land. Their base activity is growing vegetables. To stock the products, three vegetable storages for 3.5 tons of vegetables are built, including the vegetable storage total capacity of 800 tons equipped with refrigerators. The Executive Committee, on the instructions of the farm "Fortune", put 18% of the vegetables into the off-season storage in 2011-2012. In 2009, a processing plant was constructed, which is equipped with a line for cleaning and vacuuming of vegetables. The construction of a new center of the same type has been launched in Baranovich, which should be completed in 2013.

However, such examples are not easy to find in the business environment. Thus, although small-scale businesses are considered to be the backbone of the whole agricultural production, they nevertheless fail to contribute fully to solving the common problems faced by the agrarian sector nowadays.

Proposals

Promising directions for small business development in the agricultural sector should be:

1. At the national level:
 - create efficient state infrastructure with the aim of supporting small rural business;
 - determine the mechanism for realising the ground legislation;
 - improve financial, credit and property relations along with taxation.
2. At the regional level:
 - aim legislative activity in this field of the economy at creating a favorable business climate in order to boost entrepreneurship in agriculture;
 - remove unnecessary administrative barriers;
 - provide equal conditions for all rural businesses whose goal is to enter the market;
 - provide concessional loans for all forms of small rural businesses;
 - allocate subsidies to the formation of social and productive infrastructure in rural areas;
 - improve the system of business training for rural entrepreneurs;
 - coordinate all vital matters relating to the development of small business in the field of agriculture.
3. At the local government level:
 - establish in-depth control over the use of budget funds and provided benefits;
 - organize information and advisory services;
 - provide property support in the form of allocation, sale and lease of property of bankrupt firms to small agricultural enterprises;
 - compile and disseminate best practices of agricultural production;
 - use performance as a guarantee in obtaining loans for small rural entrepreneurs.

Conclusions

To recapitulate, it is worth noting that many of the problems constraining the development of small rural businesses can be solved if the revitalization of business organizations were followed, if opportunities and methods of self-regulation were applied, and if authorities maintained a favorable attitude such endeavors. At the same time, state economic policies regarding small rural entrepreneurship should focus on improving the efficiency of institutional changes, forming a layer of real entrepreneurs, and creating an effective incentive mechanism to support the development of entrepreneurship.

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