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Abstract

Under current conditions, an important role in the formation of an effective, socially-oriented economy is assigned to entrepreneurship. The development of entrepreneurship contributes to creating the necessary conditions for the integrated development of rural areas, solving social problems in villages, and ensuring food security of the country. The article deals with the issue of state support for small business development in rural settlements and presents the outcomes of the conducted theoretical analysis of the small business development laws in rural areas. Based on the results of the expert survey, the mechanisms, tools, and means of implementing the state policy for the development of small business in rural settlements are identified, as well as the characteristics of the state policy for the development of small business in rural settlements are presented along with the consideration of the European experience in concerned field.

Keywords

Small business – Rural settlements – Rural areas – State policy – State support

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Introduction

Currently, the small business sector is one of the most important and most dynamic elements of the contemporary economic system, which ensures structurally balanced development and high competitiveness of economic complexes, as well as the formation of a competitive environment¹.

Taking into account costs, small business entities are mobile, agile, and efficient. They are characterized by lower investment volumes into the business, and because of this, faster payback of costs, the ability to respond faster to changes in demand. They do not require large initial investments and are more active in terms of innovations. Given these advantages, in almost every economy in the world, the number of small business entities significantly exceeds the number of other forms of economy management.²

The importance of the entrepreneurial activity of small business entities in the economic structure and the dynamic development under the impact of a significant number of factors led to the constant and increased attention of researchers to its various aspects. Davidsson P. et al.³ consider small business as an independent (at its own expense) systematic innovative activity of citizens involved in entrepreneurship, as well as of small enterprises at their own risk to obtain entrepreneurial income (superprofits). Rogers M.⁴ believes that when determining the small business, it is necessary to take into account not so much quantitative criteria (the number of employees, the amount of capital, profit, monetary circulation, gross output, sales, etc.) but rather qualitative characteristics with basic criteria, such as legal independence, unity of ownership and direct business management, the nature of relations between owners and subordinates, full responsibility for the results of management, and a small sales market. Nelson B.⁵ believes that the etymological criteria for small business are not only the relatively small sizes of the enterprise and the scale of economic activity but also aspects of risk, innovation, economic responsibility, personalized and flexible management approaches to obtain the maximum entrepreneurial income per unit of capital spent.

¹ I. V. Leskova; G. I. Osadchaya y T. N. Yudina, "Lifestyle of Moscow Dwellers: System of Values, Behavioural Patterns, And Social Practices Published", In: WLC 2016: World Lumen Congress. Logos Universality Mentality Education Novelty (Lumen 15th Anniversary Edition). 2018 y V. A. Biryukov; O. V. Dmitrieva; V. B. Frolova; L. K. Nikandrova y A. B. Arkhipov, "Formation of a Tourism Entrepreneurial Environment in the Conditions of Competition", Journal of Environmental Management and Tourism Vol: 10 num 8 (2020): 1779-1784.

² R. Blackburn y A. Kovalainen, "Researching small firms and entrepreneurship: Past, present, and future", International Journal of Management Reviews Vol: 11 num 2 (2009): 127-148; T. Y. Mazurina; Y. S. Matkovskaya; K. L. Neopulo y T. M. Rogulenko, "Studying the impact of the depreciation policy on the development of innovation potential of industrial enterprises", Entrepreneurship and Sustainability Issues Vol: 7 num 3 (2020): 1513-1526 y A. E. Suglobov; O. A. Repushevskaya; A. V. Tkach; L. P. Dashkov y E. I. Balalova, "E-Commerce development prospects in the entrepreneurship of the Russian Federation", Revista Inclusiones Vol: 7 num Especial (2020): 342-349.

³ P. Davidsson; L. Achtenhagen y L. Naldi, "Small firm growth", Foundations and Trends in Entrepreneurship Vol: 6 num 2 (2010): 69-166.

⁴ M. Rogers, "Networks, firm size, and innovation", Small Business Economics Vol: 22 num 2 (2004): 141-153.

⁵ B. Nelson, "Small business profiles offer valuable insight into states' economies", The Small Business Advocate Vol: 34 num 2 (2015): 1-8.

Studies of small business in the spatial and territorial context⁶ provide an opportunity to find the most effective levers of influence on its development in the conditions where its representatives operate. The expediency of taking into account the territorial aspect is primarily important in the context of, on the one hand, weaker opportunities, and therefore the need for greater support for small business entities, and, on the other hand, the higher socio-economic and social role of small business in remote rural settlements.

Rural areas and settlements play an important role in the functioning of any state⁷. On average, rural areas make up 75% of the world's total area, inhabited by 51% of the world population. These areas produce 32% of the world's GDP⁸.

Business structures have significant impact on the development of rural settlements. Traditionally, the most common forms of small business in rural settlements are personal peasant farms, individual households, farming enterprises, individual entrepreneurs, and small businesses, i.e. limited liability companies.⁹

Today, studies related to this aspect of the analyzed problem are available in the literature. Thus, N. Fuller-Love et al.¹⁰ interpret the small business sector in rural settlements as a certain segment of the local economic complex, represented by private entrepreneurs and small businesses, i.e. legal entities of different sizes and types of activities that operate to meet their own income needs¹¹.

The key to the successful and effective development of small business is stable, well-founded, and comprehensive state support, which contributes to the activities of small business entities but does not contradict the principles of competition and competitiveness¹². It is the state assistance to small business entities in harsh economic conditions, in

⁶ X. Ye y M. C. Carroll, "Exploratory space-time analysis of local economic development", *Applied Geography* Vol: 31 num 3 (2011): 1049-1058; J. Lean, "Training and business development support for micro-businesses in a peripheral area", *Journal of European Industrial Training* Vol: 22 num 6 (1998): 231-236 y E. N. Muraya; V. R. Roganov; E. I. Skiteva; I. V. Evgrafova y I. L. Daudov, "Digital Entrepreneurship and Education: Support for Innovative Projects", *International Journal of Advanced Trends in Computer Science and Engineering* Vol: 8 num 6 (2019): 3304 – 3311.

⁷ M. N. Dudin; O. F. Shakhov; N. P. Ivashchenko y M. S. Shakhova, "Development of entrepreneurial competencies in the economy (evidence from digital entrepreneurship)", *Revista Inclusiones* Vol: 7 num Especial Enero-Marzo (2020): 54-68

⁸ T.-H. Morrison, "Pursuing rural sustainability at the regional level: Key lessons from the literature on institutions, integration, and the environment", *Journal of Planning Literature* Vol: 21 num 2 (2006): 143-152.

⁹ R. Newbery y G. Bosworth, "Home-based business sectors in the rural economy", *Society and Business Review* Vol: 5 num 2 (2010): 183-197 y I. N. Sycheva, "Economic potential and development prospects of small businesses in rural areas", *European Research Studies Journal* Vol: 21 num 4 (2018): 292-303.

¹⁰ N. Fuller-Love; P. Midmore; D. Thomas y A. Henley, "Entrepreneurship and rural economic development: A scenario analysis approach", *International Journal of Entrepreneurial Behavior & Research* Vol: 12 num 5 (2006): 289-305.

¹¹ T. P. Danko; V. M. Kiselev; L. A. Chaykovskaya; M. E. Seifullaeva; T. A. Tultaev; O. Rauskiene y V. D. Sekerin, "Marketing Approach to Environmental and Economic Assessment of National Development", *Journal of Environmental Management and Tourism* Vol: 11 num 5 (2020): 1163-1175.

¹² A. Atherton y P. D. Hannon, "Localized strategies for supporting incubation – strategies arising from a case of rural enterprise development", *Journal of Small Business and Enterprise Development* Vol: 13 num 1 (2006): 48-61.

particular, in economically less developed rural areas that can ensure the improvement of the economic situation and equalization of critical socio-economic imbalances.

The purpose of the article is to study the implementation of the state policy for the development of small businesses in rural settlements.

Research hypothesis is as follows: selecting effective mechanisms of state support for small business in rural settlements and implementing them in practice will enhance competition and innovative development of the economy, increase self-employment of the population and the level of its income, as well as create conditions for activating business.

Based on the research results, it can be concluded that the goal set in the study has been achieved.

Methods

The following general scientific methods were used to solve the tasks set in the study:

a) theoretical methods included analysis of peer-reviewed scientific sources on the research problem, used to clarify the features of state support for small business in rural settlements;

b) empirical methods included a survey of experts in the field of research.

The experts were assigned the following main tasks: to determine the basic mechanisms, tools, and means of implementing the state policy for the development of small business in rural settlements, to characterize the features of the state policy for the small business development in rural settlements, and to analyze the European experience in concerned field.

The survey included 40 experts from local government officials, as well as representatives of the business community whose business activities were carried out in rural settlements.

All participants were warned about the purpose of the survey, and the intention of the study organizers to publish further the results of the study in a generalized form.

Results

The results of the expert survey allowed revealing the basic mechanisms and tools for managing small business in rural settlements (Table 1).

No	Mechanisms, tools, and means of implementing the state policy for the development of small business in rural settlements	%
1	Forming the legal framework for effective functioning and promotion of entrepreneurship in rural areas	82.9
2	Implementing an effective state regulatory policy	71.4
3	Carrying out targeted programming for the development of small business areas and segments in rural areas (state, regional, and local programs)	62.9
4	Providing financial and credit support, and expanding the network of financial support institutions for small business entities	62.9
5	Developing an effective taxation system for small business entities	60.0

6	Shifting the focus of budgetary and financial support to the small business sector toward the regional and subregional levels	60.0
7	Providing professional development of personnel, training of the unemployed, and assisting in the development of human resources for business entities	57.1
8	Informing about changes in tax policy, taxation system, accounting, and financial reporting, and regulatory framework	
9	Informing about financial and credit as well as investment opportunities; advising on the participation of small business entities in public procurement, implementing state, regional and local needs, participating in competitions and grant projects	
10	Assisting in creating new businesses; professional consulting services; financial services (including loan guarantees); educational (including training) services; business promotion services; marketing and advertising services; services for commercialization of innovations, technology transfer, and the implementation of new management practices	
11	Providing organizational design of business relations; improving the efficiency and effectiveness of small business; facilitating various forms of legal and economic control; providing assistance to small business entities in financial services and business practices management	

Note: compiled based on an expert survey; * – percentage of expert mentions

Table 1

Basic mechanisms, tools, and means of implementing the state policy for the development of small business in rural settlements

At that, establishing the small business sector in rural settlements requires the use of several specific approaches in this area, whose implementation is focused on ensuring higher efficiency of state policy. The features of the state policy for the small business development in rural settlements are presented in Table 2.

Areas of regulation, state support, and promotion measures	Key features
Administrative and institutional regulation	<ul style="list-style-type: none"> • Establishing local taxes and fees (on preferential grounds) for small business entities; • Simplifying access to small business entities by regulating the rules of commercial and economic activity; • Establishing an online communication system with small business entities to solve their current problems and overcome obstacles in their activities
Financial and investment support	<ul style="list-style-type: none"> • Enhancing the development of financial and credit structures in remote areas, in particular, credit unions; • Creating favorable conditions to attract financial and investment resources of the population, and to develop cooperation; • Promoting affordable insurance services and alternative forms of financing in rural settlements
Creating a favorable macroeconomic environment	<ul style="list-style-type: none"> • Providing budget-grant support

Infrastructure and resource support	<ul style="list-style-type: none"> • Creating business incubators; • Developing rural settlement infrastructure; • Providing budget support for socially significant projects of small business entities in rural settlements
Organizational support	<ul style="list-style-type: none"> • Promoting the most accessible elements of business infrastructure in rural settlements; • Developing a system for training vocational employees in rural areas; • Promoting the system of affordable services for leasing, purchasing, and renting agricultural machinery, technologies, and equipment for individual economic activities in rural settlements
Informational and psychological assistance	<ul style="list-style-type: none"> • Developing and supporting consulting services to start and run a business in rural areas; • Assisting in starting a business, forming business plans and applications for loans and investments; • Providing free land plots, premises, ready-made investment projects for business implementation

Note: compiled based on an expert survey

Table 2

Features of the state policy for small business development in rural settlements

Discussion

According to experts, the selection of effective mechanisms of state support for small business in rural settlements and their practical implementation will enhance competition and innovative development of the national economy, increase self-employment of the population and the level of their income, create conditions for business activity, which, in general, is necessary to create conditions for sustainable socio-economic development of less economically developed and investment-attractive territories.

The state policy in the field of credit relations is one of the ways of financial provision of business projects of small business entities in rural settlements. According to experts, credit funds are attracted primarily by representatives of the banking sector. At that, the state can ensure the availability of loans needed for small business development, adopting appropriate state target, regional and local programs.

At the same time, experts note that rural areas are characterized by several specific circumstances. First, it is a low level of covering the territory by banking institutions (often absent at all); second, absence of powerful investors (excluding agriculture) willing to invest in settlements with a low level of development of the domestic market and purchasing power of the population; and thirdly, financial and resource scarcity of local communities. Due to these and other circumstances, the need to attract investment funds from sources, such as credit unions and credit cooperatives, as well as to attract finance and investment of employees using budget and grant support and other sources, is becoming more urgent.

According to one of the respondents, "to develop small business in rural settlements, the state must ensure the design of a rural population crediting system for those who start their business. This can be done by allocating budget funds to reduce lending rates, and

providing repayable loans to form funds of rural credit unions, or encouraging banks to lend to small businesses".

The information and organizational mechanism for stimulating the activation of small business in rural settlements concerns the use by government representatives of various means related to the creation of the necessary structures that would provide the necessary advice and business services to the population.

Experts note that in most cases, local authorities are responsible for providing information in rural areas. According to experts, in this regard, it is necessary to provide additional information and consulting services based on the information and consulting centers using interactive information tools to support small business, such as information portals and platforms, webinars, and video conferences. It is important since entrepreneurs need timely information, especially regarding changes in tax policy and taxation system, accounting and financial data; institutional and legal support of economic management; financial, credit, and investment opportunities; possibilities to participate in competitions, and grant projects; execution state of governmental, regional, and local programs for the small business development; the efficiency level of state support; as well as the capabilities for human resources development, and education and training programs.

Experts note that state regulation plays a leading role in creating favorable conditions to provide the small business infrastructure in rural settlements. Accordingly, activities on the creation of a new infrastructure to support small business at the subregional level should be carried out with a focus on the local needs of small business entities, industry specialization, and the level of employment. At that, it is inappropriate to create such institutions in each village. However, these institutions can be created to serve several populated localities, provided convenient communication, transport accessibility, and appropriate industry specialization are available.

The small business supporting infrastructure should include the institutions, such as business centers, business incubators, innovative business incubators, research and technology centers, technology transfer centers, small business support funds, leasing companies, consulting centers, and other enterprises, institutions, and organizations whose main task is to promote the development of small business entities.

When referring to foreign practices in the concerned area, experts believe it is important to pay attention to the following aspect. In several states, where initially, the strategic vector for the small business development in rural settlements was considered the promotion of agriculture, later it became clear that at the present stage of economic development, rural territories possessed the potential not only for just agricultural production but were characterized by integrated development of the rural area. Rural settlements cannot be defined only as a base for agricultural production, since such territorial specialization is an obstacle to the full-fledged functioning, and sometimes survival of the region¹³.

Given the global trends of increasing the importance of the agricultural sector in the context of world food security, today there is no doubt that the concept of rural development is much broader than the concept of agricultural development. Therefore, the governments

¹³ P. Lowe y H. Talbot, "Policy for small business support in rural areas: A critical assessment of the proposals for the small business service", *Regional Studies* Vol: 34 num 5 (2000): 479-487.

of various countries support not only the development of agricultural production but also the development of small business in related areas in general¹⁴.

The small business in rural settlements can solve socio-economic problems, in particular, the problems of employment, population's income growth, expanding the range of production, diversification of activities and expansion of regional specialization, accelerating the implementation of innovative technologies, increasing competition, which will ultimately contribute to the development of rural settlements¹⁵.

Forming the small business support system in rural settlements in the EU countries begins with the provision of consulting assistance and training in the basics of running a business. The subcontracting system is very common in developed European countries. It allows small firms to gain access to the technological and commercial know-how of large corporations, establish production of their final product, and achieve greater economic independence¹⁶.

At the same time, in the EU countries, one can also find differentiated approaches to supporting small business in rural settlements, which differ from common approaches and have certain peculiarities. Thus, in some countries, special attention is paid to the financing of small and medium-sized businesses. Some countries, such as the United Kingdom and the Netherlands, mainly focus on providing loan guarantees but most EU countries create special reserves to support small and medium-sized businesses through the mechanism of subsidies or tax incentives for investment, concessional loans, or grants¹⁷. Investments directed in fixed assets of small business entities are encouraged. In the EU countries, special financial resources are allocated for state regulation of small business development in countries which do not have sufficient budgetary resources for this¹⁸.

At that, funding is also supported by other means, which is typical for rural areas; in particular, these are benefits in the business taxation system (France) or specialized preferences given directly to rural microbusinesses (Great Britain). Such systems also stimulate the development of small business in rural settlements, because they simplify the process of doing business at the initial stages in resource-limited settings¹⁹.

Considering the planning function, it should be noted that almost all EU states adopt and implement national programs for small business development in rural areas.

Thus, in France, from 2014 to 2020, the implementation of about 30 rural development programs was envisaged (funding from the EU budget amounted to EUR 11.4 bln). Among these programs, a significant part concerns supporting and stimulating the

¹⁴ G. Bosworth, "Commercial counter-urbanization: An emerging force in rural economic development", *Environment and Planning* num 42 (2010): 966-981.

¹⁵ D. North y D. Smallbone, "Developing entrepreneurship and enterprise in Europe's peripheral rural areas: Some issues facing policy-makers", *European Planning Studies* Vol: 14 num 1 (2006): 41-60.

¹⁶ Y. Leon, "Rural development in Europe: A research frontier for agricultural economists", *European Review of Agricultural Economics* Vol: 32 num 3 (2005): 301-317.

¹⁷ N. Curry, "Sustainable rural development in England: Policy problems and equity consequences", *Local Economy* Vol: 27 num 2 (2012): 95-102.

¹⁸ L. Herbert-Cheshire y V. Higgins, "From risky to responsible: Expert knowledge and the governing of community-led rural development", *Journal of Rural Studies* Vol: 20 (2004): 289-302.

¹⁹ L. Han; A. Benson; J. J. Chen y S. Zhang, "The use and impacts of bank support on the UK small and medium-sized enterprises", *International Small Business Journal* Vol: 32 num 1 (2012): 61-80.

development of small business and promising economic activities in rural areas. It is also worth noting that strategic priorities of the national program for the small business development concern the opportunities for the integration of small business entities in the implementation of programs and projects for the rural destinations development; formation of a better policy for regulating the socio-economic growth of rural settlements; creation of databases on the so-called selected economic growth engines in the areas of the country remote from regional centers; as well as financial and investment support²⁰. In Germany, from 2014 to 2020, 13 regional rural development programs were developed, of which two programs were common to all regions (funding from the EU budget amounted to EUR 9.45 bln)²¹. The development of farming and small businesses in rural areas is defined by the state as important measures aimed at the formation of financial and investment support to develop industries that are alternative to agriculture, in order to diversify agricultural complexes. Special attention is paid to the development of basic and entrepreneurial infrastructure, the development of less burdensome types of management for rural areas, such as tourism, recreation, etc.

Conclusion

Rural settlements, taking into account the objective circumstances of their remoteness from regional centers and territories of intensive economic growth, business activity concentration centers, accumulation of capital and investment, intellectual and human resources and information flows, are characterized by a low level of investment attractiveness, financial and economic development and high-quality functioning of the social sector. As a result of these and other circumstances, starting and running small business in these areas is complicated by several objective and subjective internal and external circumstances. This, in turn, determines certain specifics of supporting and stimulating the development of the small business sector in rural settlements within the system of state regulation. Despite the generally standard approach, the state policy in the concerned area is characterized by the specific features of administrative and institutional regulation, financial and investment support, the formation of favorable macroeconomic environment, infrastructure and resource support, organizational support, as well as information and psychological assistance. Thus, the results of the conducted study have confirmed the hypothesis that selecting effective mechanisms of state support for small business in rural settlements and implementing them in practice will enhance competition and innovative development of the economy, increase self-employment of the population and the level of their income, as well as create conditions for activating business.

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²⁰ L. Kubičková; M. Morávková; M. Tuzová y I. Nečas, "The role of small and medium sized enterprises in the development of rural areas", *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis* Vol: 65 num 6 (2017): 1987-1996.

²¹ J. F. Parella y G. C. Hernández, "The German business model: The Role of the Mittelstand", *Journal of Management Policies and Practices* Vol: 6 num 1 (2018): 10-16

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