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THE ROLE OF LOCAL GOVERNMENT IN THE PROCESS OF ENTREPRENEURSHIP DEVELOPMENT

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Abstract

This article presents the role of local governments in supporting entrepreneurship development. The content of the article presents the factors which foster activities undertaken by local authorities to promote entrepreneurship and also shows different considerations of when the supporting instruments are in use. The article is also an assessment of current activities of local governments in the sphere of supporting business initiatives. It indicates potential of possible changes in local policy on supporting entrepreneurship. The article sets out areas of possible improvements in policy when stimulating economic activity by local authorities. It addresses the improvements of the objective restrictions which are laid out by the existing legal framework.

JEL Classification:

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entrepreneurship, local government, supporting entrepreneurship, SMEs, local development

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INTRODUCTION

The relationship between the prosperity of local community and the development of entrepreneurship seems to be obvious. Stimulation of entrepreneurship has become a task for public administration. P. Chmieliński (2006, p. 171) defines “*support of entrepreneurship*” as “(…) *a support by institutions (state, local authorities, companies), for building and developing personal and social features which enable free and unrestricted individual development of entrepreneurship for an individual and structures in his environment*”. Local governments become responsible for stimulating dynamic growth of local enterprises due to processes of decentralization that occur in Poland and other European countries; most of all the responsibility falls on local authorities which carry out public projects on the local level. Stimulation of the

economic development or mainly entrepreneurship means introducing and proposing such tools which considerably increase the employment rate and stimulate the local businesses.

This article aims at drafting the framework of different actions for local governments, mostly for communes, to support entrepreneurship. It delivers the tools and presents the evaluation processes which can be employed by the local organs.

SUPPORT OF ENTREPRENEURSHIP DEVELOPMENT AS AN ASSIGNMENT FOR LOCAL GOVERNMENTS

Fourteen years has passed since the reform of three-step territorial division came into force. The ongoing changes are noticeable both in the awareness of the society and in the practice of public administration.

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Restitution of local government, apart from the major purpose, i.e. decentralization of public authorities and of public financial resources, has undertaken to implement solutions that would create systemic foundations for bottom-up creation of a local socio-economic reality. The idea was anchored in the contents of numerous legal acts, mainly in the act from 8th of March 1990, on commune government and in the Constitution Act of the Republic of Poland from 2nd of April 1997, as well as in acts appointing the levels of local governments above the commune: district government (see act from 5th of June 1998, on district government) and voivodeship government (see act from 5th of June 1998, on voivodeship government). According to Kosek-Wojnar and Surówka (2007, p. 15) formation of communes should result from a bottom-up initiative of local communities, but formation of translocal and regional communities results from the need for proficient country management. It suggests that translocal governments have lower impact on local entrepreneurship elicitation processes. Therefore common characteristics of local governments of all levels such as: being a legal entity, independence in property rights, enacting local law regulations, have different meanings in the relation to governments on each level of territorial division. Analogically the empowerment for stimulating economic development is different in all local communities.

The commune is the primary local government unit, and its primacy was underlined in the Constitution Act of Republic of Poland (article 164), according to which the commune is carrying out public tasks with local denotation that has not been legally conditioned for other units. Tasks, in the form of obligatory and voluntary, cover activities in the fields of:

- 1) social infrastructure (i.a. schools, social care, health care),
- 2) technical infrastructure (i.a. roads, water supply, sewage system),
- 3) public order and security (i.a. fire protection, mass events security, civil security),
- 4) spatial and ecological order (i.e. air, water, forests, land protection and waste management).

Article 7 of the act on commune government precisely states the scope of local tasks carried out by communes, but it does not directly refer to activities supporting entrepreneurship on the local level. However it is worth mentioning that promotion of the commune is included in its tasks, and it aims

at increasing the ability of communes to attract investments. The catalogue of commune tasks has an open character and comprises all activities that are important for local communities. Taking under consideration that economic development on the micro level is significant for quality of life, allows us to assume that tasks aiming at entrepreneurship support may and should be financed from commune budgets. This act on commune government forms the basis for initiating pro-development activities on the lowest local level. It couples functioning of local governments with activities oriented to local communities. Whereas the constitutional act introduces the subsidiarity principle and in article 164, section 3 sanctions presumption of commune government competence to carry out tasks not stipulated for other local governments. These regulations are in accordance with provisions of article 4, section 3 of European Charter of Local Self-government saying that *“Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy”*.

On the contrary to communes, the catalogue of district and voivodeship governments tasks has a closed character. In accordance with article 4 of the act on district government, the district executes the tasks of translocal character, specified in the following fields: health care, education, real estate management. Districts along with competences in the scope of promotion are also entitled to activities in the field of *“countering of unemployment and activating local labor market”* (article 4), that directly refer to entrepreneurship support. Analogically, the act on voivodeship government, in article 14 indicates that it carries out the tasks of voivodeship character, including, among others: tasks in the scope of promotion of the voivodeship, countering of unemployment and activating the local labor market. The act also imposes on voivodeship government the obligation to elaborate the development strategy, which includes the diagnosis of the socio-economic situation of the voivodeship, defining strategic aims of development policy and the conduct of voivodeship development policy. One of its elements is *“creating conditions for economic development, including shaping of labor market”*. It directly refers to the activities supporting entrepreneurship. What

is more, article 8 of the act from 2nd of July 2004, on freedom of economic activity indicates that the authorities of public administration, therefore also local governments “[...] support development of entrepreneurship, creating favorable conditions to undertake and conduct business activities, especially supporting micro entrepreneurs and small and medium entrepreneurs.”

Although constitutional acts impose on districts and voivodeships obligations related to activation of the labor market and creation of development strategies, the competences of communes in the scope of creation and impact on local development conditions should be recognized as the broadest and in a certain sense – precedential. Commune government regulations were the starting point for formulating guidelines for translocal governments. Therefore the shape of the currently functioning dualistic model of local governments is the implication of regulations constituting the commune as the basic unit in the local government structure.

ENTREPRENEURSHIP AS AN ECONOMIC OCCURRENCE PHENOMENON

In order to define the activities supporting entrepreneurship it is required to define entrepreneurship itself, which in fact is not an easy task. Scientific discussion on entrepreneurship was started by Schumpeter in 1942, noting that the role of an entrepreneur is to „reform or revolutionize production processes, by utilizing technological possibilities not tested before. As a result new goods will be produced or goods that already existed will be produced in a new, unprecedented way” (Acs, Audretsch & Strim, 2009, p. 9-10).

That definition was followed by many authors, who undertook the effort to define entrepreneurship. The definition proposed by Venkataraman and Shane (Shane, 2007, p. 4) requires attention, due to the fact that it describes entrepreneurship as “an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that previously had not existed”.

Both definitions are coincident – they bind entrepreneurship with creativity that enables certain units to utilize the chances and possibilities that appear. It is necessary to underline the strong link between entrepreneurship and particular personal

features of an entrepreneur, which suggests that support of entrepreneurship is not an easy process and obtaining positive effects is not of an automatic nature.

Piecuch (2010, p. 36-43) notices that entrepreneurship can be understood in differentiated ways, as the personal attitude, way of acting and a process. Entrepreneurship defined as an attitude signifies the possessing of certain personal features, character and knowledge, which has a particular meaning in the case of intellectual entrepreneurs. Entrepreneurship as a way of acting means a particular type of activities that encompass the ability to utilize the ideas or occasions indiscernible or ignored by others. Entrepreneurship as a process is described as subsequent phases related to utilization of an innovative idea. Therefore entrepreneurship as an attitude and as a way of acting is strongly related to personal features of the entrepreneur. Finally, entrepreneurship as a process seems to be of a secondary nature. Its character allows for potentially more efficient control.

In practice, entrepreneurship obtains many semantic forms. It is extremely important to distinguish those forms due to the fact that particular support instruments can be dedicated to certain types of entrepreneurship. Taking into consideration all aforementioned aspects, according to Glinka and Gudkova (2011, p. 20-26), the types of entrepreneurship are as follows:

- 1) garage entrepreneurship – describing the undertakings, where business ideas develop dynamically, often reaching impressive size – it has to be noticed that this term is not used pejoratively, but describes the power of an innovative idea,
- 2) intellectual entrepreneurship – strongly related to intellectual capital, or intrinsic factors – more widely,
- 3) entrepreneurship of people of passions – representing a certain life attitude, it can refer to a particular field or process of creating new solutions,
- 4) social entrepreneurship – representing the ability to discover and utilize opportunities to solve social issues,
- 5) women’s entrepreneurship – the category distinguished in international research, due to difficulties of women in the labor market (pointed out by the research) and a different way of formulating and achieving goals,
- 6) family entrepreneurship – characterized by connection of family and economic bonds, which results in creating many specific benefits and threats,
- 7) international entrepreneurship – related to seeking competitive advantage on international markets,

- 8) corporate entrepreneurship – as activities undertaken by groups of people within existing corporate structures.

Small entrepreneurship has the greatest significance from the perspective of the local economy. Garage, family and social entrepreneurship, focus on solving local problems, such as unemployment, social exclusion, with the example of women's entrepreneurship. International or corporate entrepreneurship has smaller significance due to local conditions. Special attention should be paid to intellectual entrepreneurship, which is local in terms of technical conditions, but often is of a global nature in economic terms. Kwiatkowski has introduced the term "glocal" (global and local), that in a good manner characterizes intellectual entrepreneurs, who run local activities taking into account global conditions (Glinka & Gudkova, 2011, p. 21).

Makięła (2008, p. 12-13) has proposed classification of entrepreneurs on the basis of personal features, education, and business environment, he presented three distinctive types of entrepreneurship:

- 1) exuberant entrepreneurship, resulting from a lack of entrepreneurship tradition and education, strongly related with personal features,
- 2) evolutionary entrepreneurship, that is the effect of development of entrepreneurial forms, related to socio-economic transformation,
- 3) systemic entrepreneurship, resulting from conscious and planned formulation of an entrepreneurial society by the country.

Piecuch has noticed that entrepreneurship evolves. Initially it was related to the attitude of particular people (which underlines the role of personal features in creating entrepreneurship), then – small and medium enterprises. Whereas today, according to Piecuch (2010, p. 34-35), the field of interest consists of entrepreneurship of large companies and intra-entrepreneurship. In the light of the aforementioned arguments several questions arise: should entrepreneurship be supported? Is aiming at creating new quality an immanent feature of human nature? Should public authorities, according to Keynes theory, play only the role of "the night watchman"? or should they be actively involved in processes of formulation and development of companies? Answers to these questions seem to be obvious. Entrepreneurs have to function in a very turbulent environment, characterized by an increasing level of complexity. There are multiple

reasons for that, but the influence of globalization seems to be prominent. Globalization is denoted by the process of increasing connections between countries, regions, corporations and companies from the SME sector (Grzegorzewska-Mischka, 2010, p. 138). Fast, global, economic changes require elasticity and adaptive capabilities, that usually describe the SME sector. Therefore there exists a significant relation between the condition of the SME sector and local development (Arzeni & Pellegrin, 1997).

The strength of small companies that creates local production systems depends on the direct environment of companies. According to Arzeni and Pellegrin (1997), the paradox of globalization is that formulation of transnational, independent networks and increased mobility of production factors lead to regional specialization and creation of strong connections between companies on the level of local economies. It has to be mentioned that local economies are not safer than national economies in the context of fluctuation of economic cycles. However their strength lies in high elasticity and decentralization. This discussion could inspire to the initiation and implementation of activities aiming at strengthening entrepreneurship at the local level. The effects of these activities should have a quantitative character, while measurement should be concentrated not only on the analysis of newly established companies but also on the processes covering their growth or bankruptcy (Rocha, 2004).

FACTORS DETERMINING ENTREPRENEURSHIP DEVELOPMENT

The world economy has changed the orientation of factors determining competitiveness and entrepreneurship within the last couple of decades. Economic integration, globalization and fast technological changes as well as economic crisis influenced the change of patterns for entrepreneurs and their businesses. The current business model is the model based on knowledge. Turbulent economic environment and an immense amount of legal regulations mean that conducting a business is a very demanding and risky activity. For entrepreneurs it means the necessity of continuous readiness to introduce innovations, including new, bold enterprises (Raposo, Smallbone, Balaton & Hortovanyi, 2011). Therefore the support of entrepreneurship has to be adequate to these conditions.

The process of entrepreneurship development is conditioned by three main groups of provisions. They include:

- 1) endogenous factors,
- 2) exogenous factors,
- 3) reactions for the changes in the external environment (Lissowski, 1998, p. 23)

Endogenous provisions, referring to the internal potential underlying the nature of local communities, allow for the identification and development of unique local virtues and constructing on their basis strategies of entrepreneurship support. The remaining two groups of factors seems to be complimentary (Maik, Bagdziński & Potoczek, 1995; Maik, 1995).

They indicate the importance of competent drawing on the experience of other local government units and local government partnerships. A well-grounded statement is that for efficient creation of conditions for economic development it is indispensable to rely on already possessed resources while using the experience of its effective utilization. Finally, regardless of the source of factors affecting entrepreneurship they can either stimulate or slow down entrepreneurship development. As a starting point for further discussion, following S. Shane, elements of the economic, political and socio-cultural environment increasing and decreasing the level of business activity could be indicated (Table 1).

Table 1: Influence of institutional environment on entrepreneurship

<i>Increase</i>	<i>Decrease</i>
Economic environment	
economic growth, increase of social prosperity, stable economic environment, low inflation rate	income taxes, real estate taxes and derivatives
Political environment	
economic freedom, decentralization of the public state	strong legislation protecting intellectual rights
Social and cultural environment	
social attractiveness of entrepreneurship, existence of entrepreneurship standards, specific cultural elements	

Source: Own work on the basis of: Shane, S. (2007). *A General Theory of Entrepreneurship. The Individual-Opportunity Nexus*. Cheltenham: Edward Elgar Publishing, p. 147

That list does not cover the whole range of factors influencing entrepreneurship, but it includes the elements of socio-cultural environment, admitting that particular culture and tradition of entrepreneurship exists. These factors are usually omitted by other authors. It is especially significant in countries like Poland, which experienced a socialist economy, where individual entrepreneurship was

neither perceived positively nor socially accepted. In the context of socio-economic transition from the 1990s, it means the necessity of reconstructing or creating entrepreneurial attitudes in the society. Another more detailed list of factors forming entrepreneurship was proposed by Makiela (2008), differentiating factors influencing its development and its hindrances (Table 2).

Table 2: Factors forming entrepreneurship

<i>Factors influencing entrepreneurship</i>	<i>Factors restraining entrepreneurship</i>
ease of setting up a new company, cheap and highly educated labor, easy access to knowledge, communication access, transparent tax system, availability of low cost bank loans, access to new technologies, cheap energy carriers, favorable inclination of local authorities, stable political situation.	high loan rates, lack of stable government policy toward entrepreneurs, high labor costs, instability of employment law regulations, corruption, instable fiscal policy, technical and economic infrastructure on the low level of development, long payback period of investments, lack of land development plan.

Source: Makiela, Z. (2008). *Przedsiębiorczość regionalna, Difin, Warszawa, p. 11*

Influence of local government on some of the factors listed in Table 2 is rather limited. The majority of these factors lies in the competences of government and its agencies, on the central level (for example: transparent tax system, stable political situation, labor law, corruption, etc.) or it is related to the economic environment that remains uninfluenced by local government (for example: cheap energy carriers, long payback period of investment). Factors could be divided into two groups – one that local governments have direct impact on (favorable inclination of local authorities, communication access, infrastructure development, land development plans) and secondly those that local governments have indirect impact on (cheap and highly educated labor, access to low costs bank loans, easy access to knowledge). These factors

allow us to observe a very important relationship. Central authorities create only the base for conditions for supporting entrepreneurship. Each community, either local or regional has its own specifics. Unification of solutions, and central coordination of activities supporting economic initiatives will not be effective to the same extent in every region. Therefore local governments have a crucial role to play in this field. The task of local government is not only to create stimulating conditions for development of entrepreneurship, but also to attract medium and big enterprises to locate their businesses on the territory of a particular commune. Factors determining location of business activities are presented in Table 3.

Table 3: Factors determining location of business activities

<i>Factors</i>	<i>Characteristics</i>
Morphological	Resulting from physical and geographical features
Demographic	Reflecting structure of human resources
Economic	Depending on the level of economic development of a territorial community
Organization	Reflecting structure and competence of authorities of a particular local unit
Structural	Indicating adjustment of location to markets and distribution of resources
Interactive	Indicating the connections of a local unit with external environment

Source: Kuciński, K. (1997). *Przestrzenne aspekty przedsiębiorczości, IFGN, Warszaw, p. 11-12*

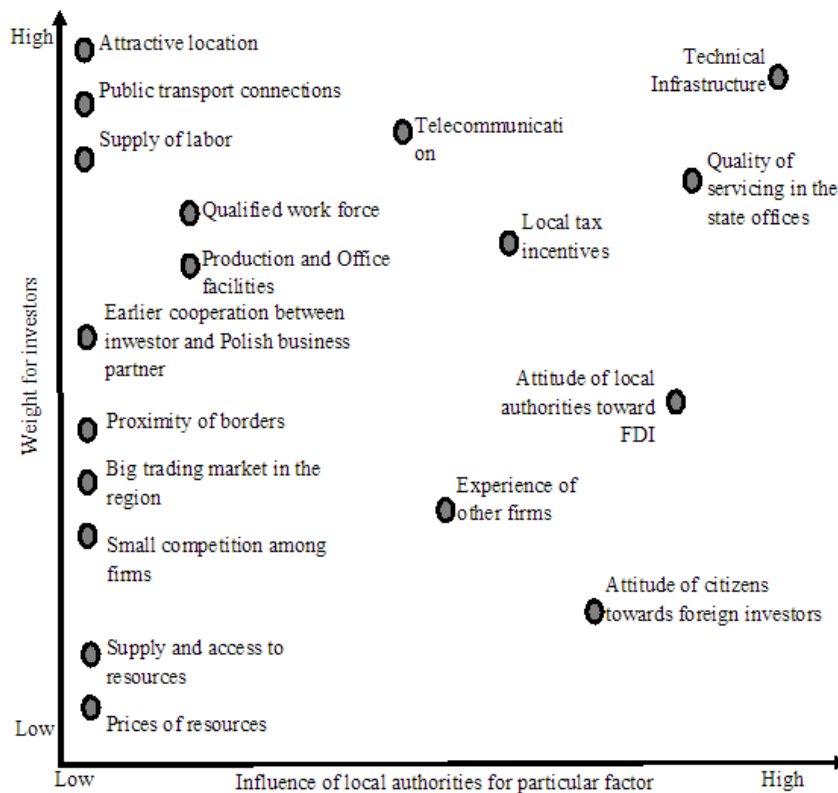
Confronting the content of Table 3 with the practice of functioning of local governments, it has to be noticed that further classification of entrepreneurship determinants is legitimated:

- 1) independent from local authorities,
- 2) indirectly dependent on local authorities,
- 3) directly dependent on local authorities (Dziemianowicz, 2008).

By analogy the impact of local governments on factors determining location of business activities is moderate. Morphological and structural factors have a fixed nature, although they often determine the location of the business (mine exploitation, closeness of borders and large markets). Local governments have far more impact on organizational and interactive factors. This is related to the widely defined efficiency of local authority activities. Demographic and economic

factors have a secondary character and usually they are the result of development policy conducted by the local unit in the long term perspective. The issue of local government influence on location of a business was tackled by Dziemianowicz (1998) in his research. On the list of factors highly influencing local units he included technical infrastructure, quality of service in local government offices, attitude of citizens and of local authorities towards investments. In the case of many factors (location, access to resources, supply of labor or trade markets in the region) local units have very low impact on changing (choosing) them, although they could be of a key importance when it comes to investment decisions (Exhibit 1). Paradoxically these factors are crucial for investors in the investment decision making process (Błuszkowski & Garlicki, 2000).

Exhibit 1: Factors determining the location of a company



Source: Dziemianowicz, W. (1998). Rola władz samorządowych w przyciąganiu kapitału zagranicznego. In: Z. Olasiński (Ed.), *Bezpośrednie inwestycje zagraniczne w Polsce*, PWE, Warszawa

In relation to the aforementioned arguments a question arises about key factors in terms of initiating and location of a business activity. Among the identified determinants there are the following six groups of factors:

- 1) stable and transparent juridical and fiscal system (that initiates financial incentives for the private sector),
- 2) land use that aims at reduction of legal impediments in the scope of selling and tenancy, as well as realization of public-private partnerships based on the communal property,
- 3) land development plans that would precisely determine the rules of spatial management, expressing the socio-economic development concept that has been accepted and is being carried out,
- 4) organizational culture of local government offices and officers, favorable inclinations toward investors, efficient and competent service and complexity and reliability of given information,
- 5) active support for business initiatives, among others – creating the climate for entrepreneurship development,
- 6) participation in programs that support the professionalism of local authorities and initiating activities that assume external (including foreign) financing (Kłosowski & Adamski, 1999).

Most of these factors and activities could be introduced and undertaken at the local level. It supports the concept that creating entrepreneurial attitudes and conditions for entrepreneurship growth can be done not only by influencing macroeconomic conditions.

Equally strong impact, or stronger, have bottom-up initiatives considering local investors needs and limitations (Skica, 2009). This fact is strongly emphasized by analysis of business location determinants. It takes, as a verification criteria, the bottom-up conditions of initiating and development of business activity.

THE COMMUNE IN THE PROCESSES OF ENTREPRENEURSHIP STIMULATION

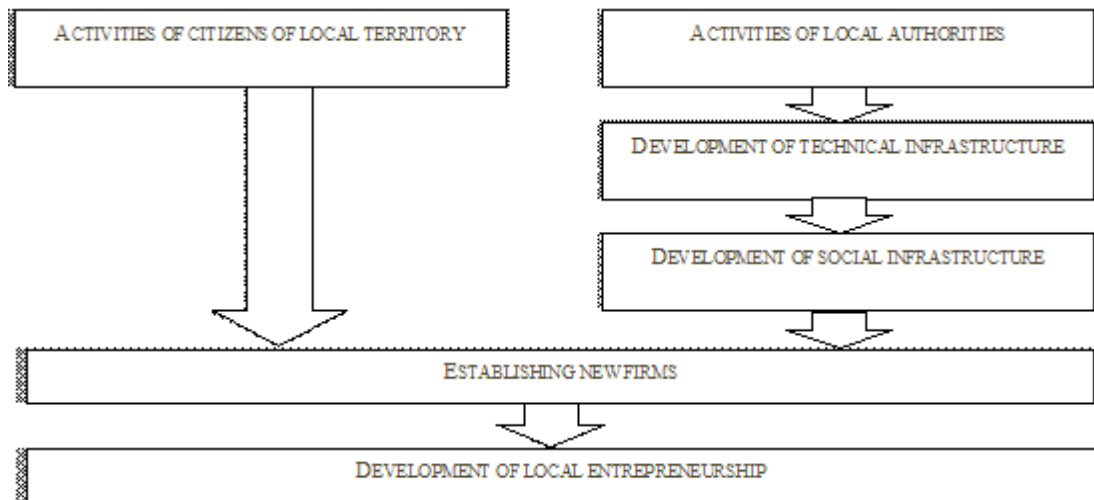
Entrepreneurship support is a task carried out on the central and regional level. Huge economic

differentiation between the regions and therefore different needs for new job creation or the potential of particular regions entail a local approach for the issues of entrepreneurship support. Innovative activities of small and newly established enterprises depend to a great extent on local assets and stakeholders. That is why activities focused on enterprise development, especially in the SME sector, should have a strong local dimension (OECD, 2010, p. 202).

It shows explicitly that the main role in initiating and supporting activities related to socio-economic development of the entire country belongs to the units at the lowest level of territorial division. The sum of activities of separate units determines the level of economic activeness of the society. The indispensable and the only stimulant of growth for those units are favorable local conditions and local governmental policy supporting development. Therefore, naturally there appears the term of “local entrepreneurship”, resulting from the link between initiatives of the society and activeness of government in the field of creating conditions for initiating and developing business activity.

Activities of authorities in the scope of creating entrepreneurship could be described as creating and strengthening the climate for socio-economic development (Słomińska, 2007a; Kożuch, 2011; Flieger, 2009). The instruments being used often become a public aid, defined as support (including financial support), for a unit or certain category of units, that is offered by state institutions and local government institutions (Brezdeń, Drozdowska & Spallek, 2010). The activities of local governments could be grouped in two categories: development of technical infrastructure and development of social infrastructure. According to Saar (2011), those activities linked with activities of local citizens should result in creating new companies and developing companies that already existed (Exhibit 2). In the presented concept one should pay attention to required activeness of citizens. If it is not existing even implementation of the best strategy of support for economic initiatives will bring minor results.

Exhibit 2: Activities and units that impact local entrepreneurship



Source: Saar, M. A. (2011). *Jak samorzędy lokalne mogą wpływać na rozwój lokalnej przedsiębiorczości?* CeDeWu, Warszawa, p. 11

Table 4: Selected income and expenditures instruments in the processes of entrepreneurship support

Income instruments	Expenditures
tax reliefs, tax exemptions, lowering maximum levels of local fees and tax rates, postponing, remittance, spreading out the tax liabilities payments, abandoning of collection of taxes, rental policy, price policy for commune services, privatization policy.	investment in technical infrastructure (transportation network, media supply, preparing the land for investment), investment in social infrastructure and development of labor market, business support institutions (loan funds, guarantee funds, technical support, development agencies, entrepreneurship incubators, etc.) commune promotion, local products promotion and cooperation of local entrepreneurs.

Source: Own work

Support instruments can also be divided into financial and nonfinancial (compare Table 5) (Flieger, 2009; Wołowiec, 2005). Another two categories of instruments mentioned in the literature are the instruments that influence business units (tax

reliefs, administrative writs, etc.) and instruments influencing the environments of business units (i.e. technical infrastructure, condition of natural environment) (Brol, 1997).

Table 5: Selected financial and non-financial instruments in the processes of entrepreneurship

<i>Financial instruments</i>	<i>Nonfinancial instruments</i>
commune budget, tax deductions and reliefs, tax rates and fees, price policy for commune services, investment expenditures.	business support institutions (loan funds, guarantee funds, technical support, development agencies, entrepreneurship incubators, technological parks, etc.) development of labor market, commune promotion, local products promotion and cooperation of local entrepreneurs, stable tax, rental and privatization policy, commune development strategy “friendly climate” for investors, positive attitude of local community.

Source: Own work

The next division comes from the classification of those instruments into such groups as obligatory, legitimized by the law, and optional which are initiated by local governments (Flieger, 2009), and also the division into „soft” projects related with the development of human resources and „hard” projects related with the development of infrastructure. Piecuch (2010, p. 141) introduces an even more detailed division of these support instruments and divides them into eight groups including:

- 1) instruments of administrative constraint (writs, bans, permissions),
- 2) instruments of cognitive function (controlling deeds of diagnostic character),
- 3) instruments of market economy (instruments of fiscal policy),
- 4) instruments of infrastructural stimulation,
- 5) instruments of direct influence,
- 6) instruments of informative character,
- 7) instruments of educational function,
- 8) instruments of conceptual and organizational functions.

That classification is in principle convergent with the classification presented by Sztando (1999). While Grodzka (2008) classifies the support instruments which can be employed by local units when stimulating the entrepreneurship processes in the following way:

- 1) plans and programs of public projects of spatial, financial, economic character (long-standing plans and investment programs, financial analyses),
- 2) instruments of rationing which deal with issuing writs and bans, permissions and decisions,

- 3) management of properties (availability of the land, commune assets and multiplication of the property),
- 4) instruments of economic stimulus (e.g. diversification of taxes and charges, price settings for availability of properties and the provided public services),
- 5) instruments of institutional character (appointment of organizational units focused on local economy development),
- 6) direct entrepreneurial activities (e.g. building of infrastructure),
- 7) instruments of informative character (e.g. accessibility of local community data bases for the business units), instruments of social policy including promotional activities.

There is a wide range of instruments which can be applied in the process of entrepreneurship support. Most of them unquestionably belong to the wide range of instruments which are easily accessible to the local governments. The high rank instruments generating income are the ones related to local taxes (most of all high-yield property tax). Rental policy, charges for public utility services, preparation of investment areas and proficient service for investors (except the cases reserved for other administrative units, e.g. construction supervisions) should also be considered as further instruments generating income. All local government levels can implement a wide range of instruments, most of all, the instruments of promotional character associated with the business support institutions and widely understood as development of human resources. The most critical issue is how they will join forces to create a long-term, coherent policy of entrepreneurship support. Stability of the provided conditions, suitability

and applicability of the instruments required by the entrepreneurs themselves is also envisaged as a crucial element of this policy. Arousing and proper strengthening of the identified potential requires then long-term actions and a clear vision of the local government activities. This regularity is strongly underlined by Dziemanowicz. In his opinion, the decision about the location of the business is strictly linked with the investment activity level and the involvement of local governments in the processes which encourage the business initiatives and support the local businesses. Lack of vision causes randomness and high fluctuation in development policy. It lacks continuity and duration of the undertaken initiatives to stimulate the economic boom and at the same time it shows low effectiveness.

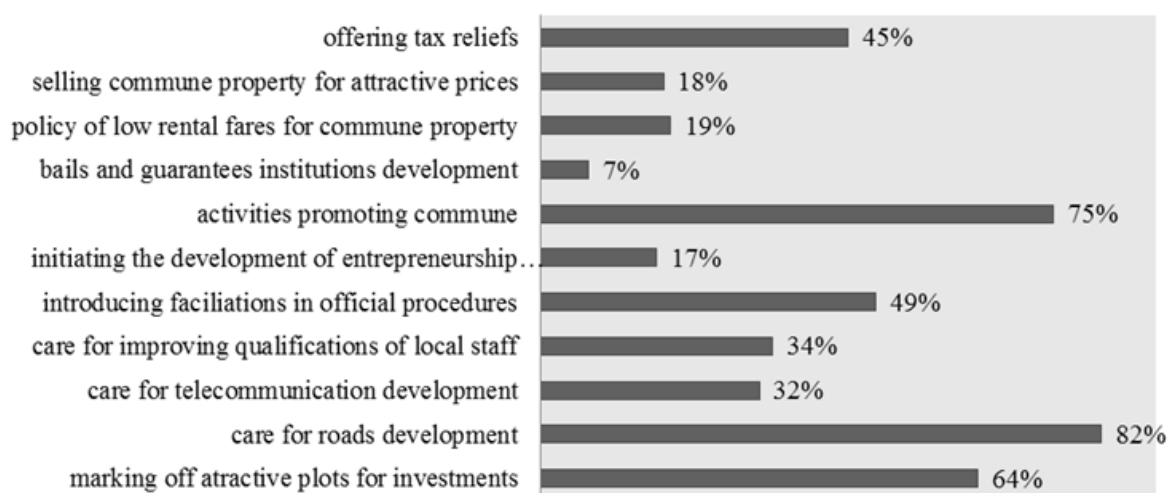
Wołowiec claims that local governments possess a wide range of instruments which stimulate the entrepreneurship development however they relatively seldom apply them in the form of “(...) complex and well-thought-out strategy of multi-level power impact” (Wołowiec, 2005). This opinion is also shared by Piecuch (2010, p. 141) who states that local governments relatively sparsely apply the available instruments to support entrepreneurship and they do not support the businesses in the long term perspectives mainly because of the objective budget restriction. Whereas Makięła (2008, p. 17) expresses a view that “...rich as well as poor local governments

practically apply the same instruments to develop entrepreneurship”, this view is also partially confirmed by the researches of the Institute of Internal Market and Consumption (IRWiK), which proved that both poor and rich local governments apply convergent instruments of support:

- 1) in the group of small communes (up to 20 thousand residents), most frequently applied instruments were: promotion of the local government (77,8%), particular care of road construction development (75,9%) and marking off of the attractive investment sites (57,4%),
- 2) in the group of communes with from 20 to 50 thousand residents: mostly implemented instruments of support were particular care of road construction development (84,6%), marking off of the attractive investment sites (76,9%) tax deduction (69,2%) and promotion of the local government (65,4%),
- 3) in the group of big communes: most frequently implemented forms of support were: particular care of road construction development (95%), promotion of the local government (80%), concern about the advancement of the qualifications of the local government office employees (70%), marking off of the attractive investment sites and tax deduction (60%).

According to the researches of IRWiK, instruments which were applied least often referred to subsidies and loans, development of such institutions as bail bonds and guaranties, as well as opening of support centers of entrepreneurship, sales of local properties or policy of low charges for tenancy (Słomińska, 2007a) (see Exhibit 3).

Exhibit 3: Activities supporting local entrepreneurship (2005)

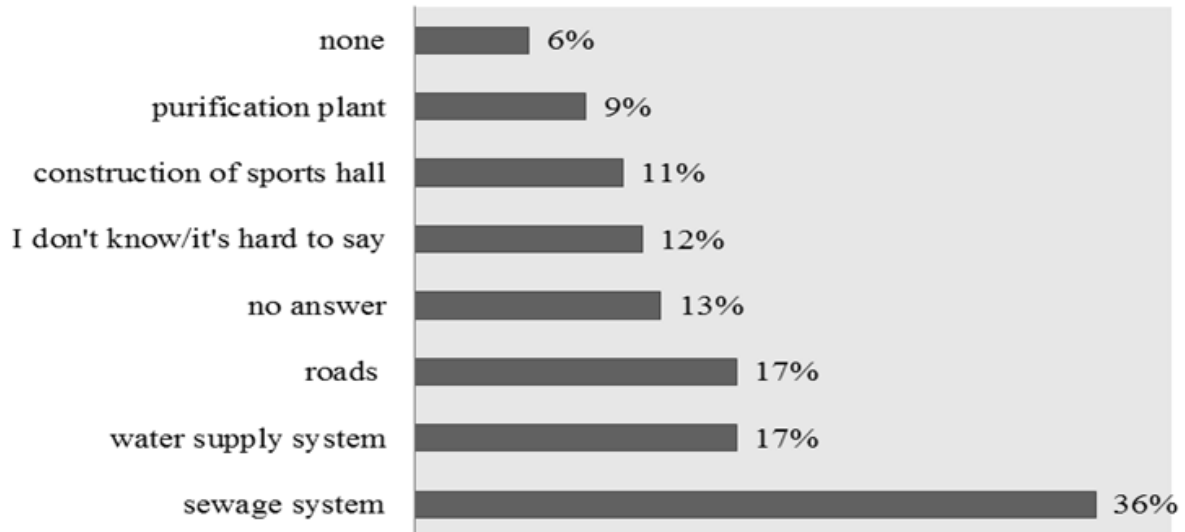


Source: Own elaboration on the basis of: Słomińska, B. (2007). *Gmina w procesach stymulowania przedsiębiorczości, Samorząd Terytorialny* (3), p. 19-33

Results of the research of IRWiK partially confirmed the empirical works of West Pomeranian Observatory of Labor Market (ZORP). The results of the researches conducted by ZORP concerning the

development activities proved that within the range of „hard” projects, JST most frequently accomplished the ventures of infrastructure development, (ZORP, 2007) (see Exhibit 4).

Exhibit 4: Pro-development activities of „hard” projects (results only above 5%) (2007)

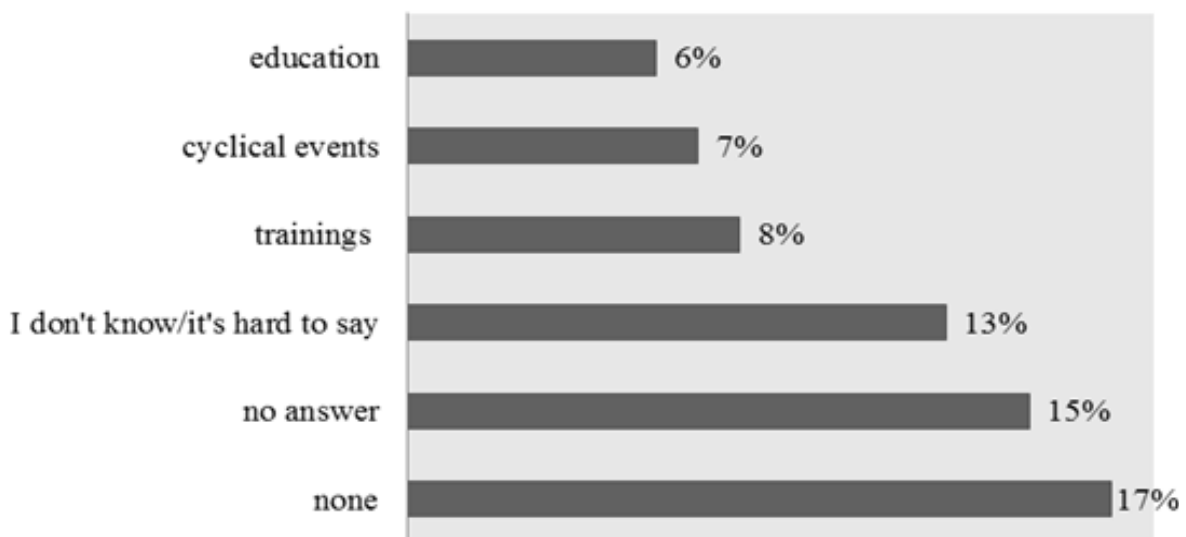


Source: *Działania proinwestycyjne i prorozwojowe samorządów w województwie zachodniopomorskim. Zachodnio-pomorskie Obserwatorium Rynku Pracy (2007), Wojewódzki Urząd Pracy w Szczecinie*

Research on „soft” projects (see Exhibit 5), conducted by ZORP proved that most frequent answers pointed out organization of trainings, events and activities

of an educational character (Zachodnio-pomorskie Obserwatorium Rynku Pracy [ZORP], 2007).

Exhibit 5: Pro-development activities of „soft” projects (results only above 5%) (2007)



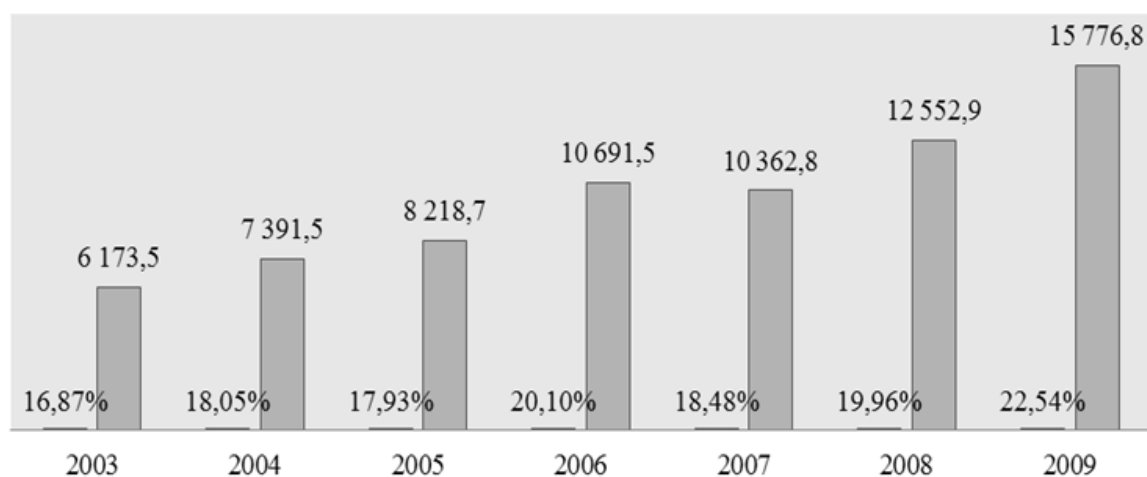
Source: *Działania proinwestycyjne i prorozwojowe samorządów w województwie zachodniopomorskim. Zachodnio-pomorskie Obserwatorium Rynku Pracy (2007), Wojewódzki Urząd Pracy w Szczecinie*

The results of the two above presented studies state that the major obstacle to conduct the pro-development activities is the lack of financial resources. This answer in the IRWiK surveys was chosen by 68% of the polled local governments and in ZORP surveys it was 63% (Słomińska, 2007a; ZORP, 2007). On the other hand, in spite of the increasing debt ratio of

the local government budgets nominal investment expenses grow and its share in total expenses also increases (compare data for 2003-2009) (compare Exhibit 6), and in the structure of property outlays we can observe the domination of the investments on transportation and communication networks expansion (compare Exhibit 7).

Exhibit 6: Communes' investment expenditures (2009)

■ share of investment expenditures in total expenditures (%) ■ investment expenditures (in thd PLN)

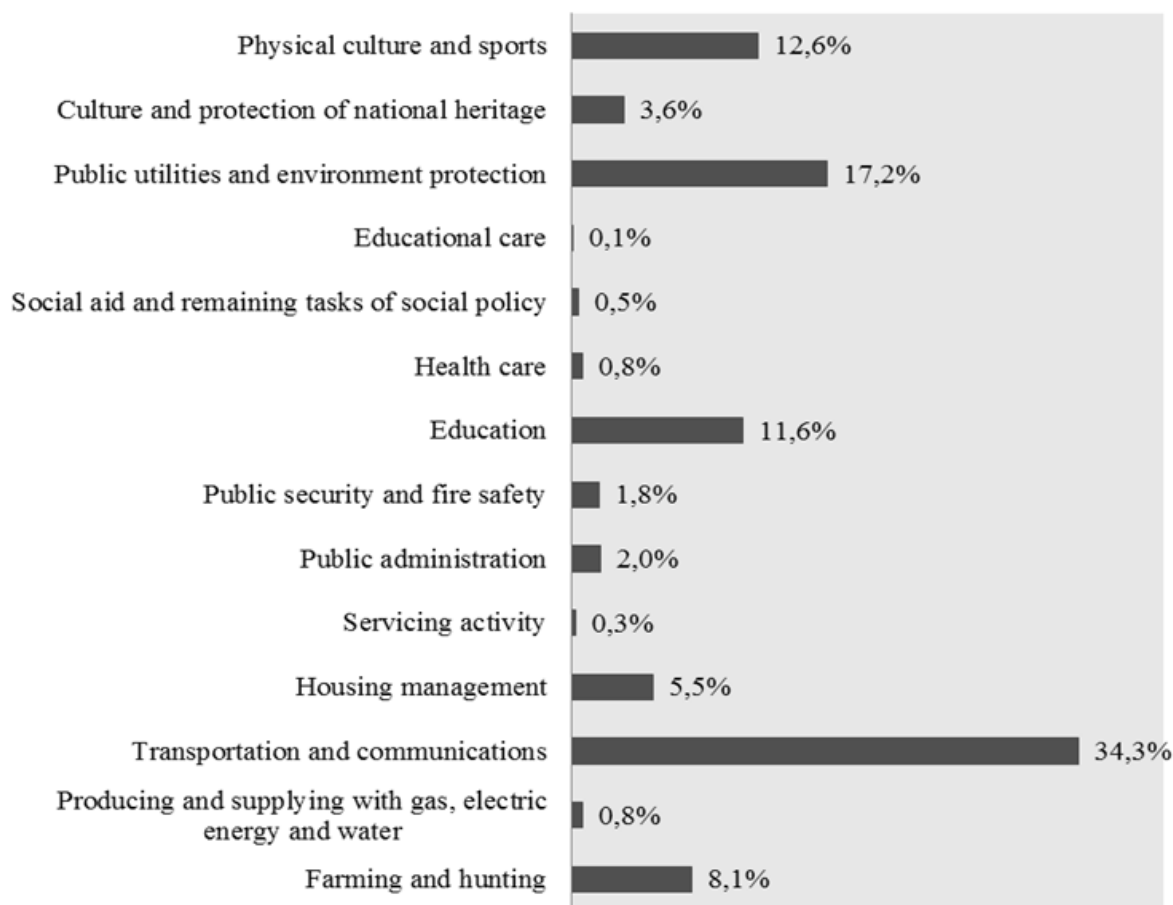


Source: Own work on the basis of data from Ministry of Finance

Analyzing the data of researched units (compare the studies of IRWiK and ZORP), and also the content of graphic illustrations (compare exhibit 6 and Exhibit

7), we can see a conflict between the studies and practices of local government budgets.

Exhibit 7: Structure of communes' investment expenditures (2009)



Source: Own work on the basis of data from Ministry of Finance

Considering the above observations, we may state that there are two reasons for such a situation. Firstly, a local unit tries to justify the lack of activities for socially desirable tasks by money deficits though it is not the only reason. Budget reports show that local governments invest mainly in transport and communication. They do not combine those tasks with the initiatives devoted to the development of entrepreneurship. It can be regarded as a proof of the above stated thesis that relatively low knowledge of the potentially feasible activities supporting entrepreneurship hinder these tasks. Then, the share of investment funds refers to the total number of local governments (but not to the division into categories), it can increase the rate not because of the growing expenses devoted to this goal by most of the local units but due to higher outlays dedicated to the investments by more affluent municipal

governments. This factor though could influence the data of the studied units and the role they played in stimulation of the infrastructural investments. The structure of the instruments applied by local units reveals a very important problem. Local government mostly identifies support for the economic initiatives with the expansion of infrastructure (roads, supplies, media and so on). It proves the ignorance of entrepreneurship support. Local governments, only to a small extent, implement the instruments which are somehow correlated with business support institutions and do not require substantial financing. It arouses the question of whether infrastructure investment is in itself correlated with policy supporting entrepreneurship or if it exemplifies obligatory projects of the local governments.

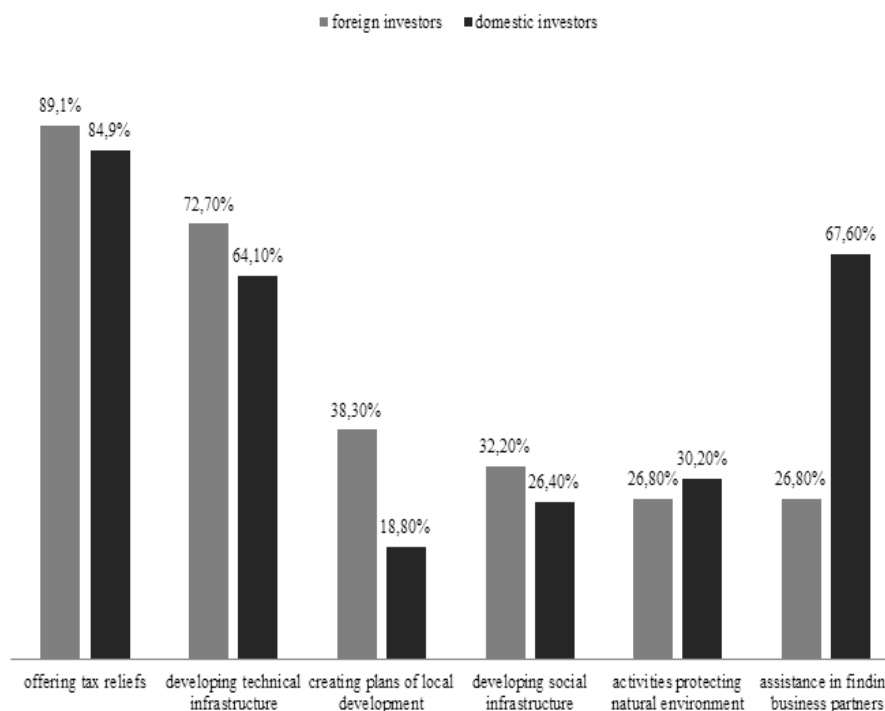
The presented hypothesis questions the effectiveness of the support instruments applied by local

governments. Flieger’s research (evaluating effectiveness of the financial and non-financial instruments) recognized as the most effective those of a financial character i.e. tax relief and tax exemption on properties, building sites prepared for business ventures, lower than the maximum tax rates on transport means and road investments. Moreover, the conducted researches showed that the most effective non-financial instruments are the stable tax policy, openness for new investment projects, easy access to technical infrastructure, chance of participation for the local businesses in the process of outlining the development paths and creation of fast paths for development of the investment projects. (Flieger, 2009).

The views of Flieger are in accordance with those of Słomińska (Słomińska, 2007b), in regards to indispensable conditions for entrepreneurship development, which is „development and consequent implementation of a long-term program for investors including incentives, attraction and support”. It is essential to link “hard” instruments (infrastructure investment, loan funds, etc.) and “soft” instruments (favorable attitude of local authorities, human resources development, individual approach toward investors, etc.).

Finally, the prerequisite to stimulate entrepreneurship effectively is to choose a set of cohesive and complex means of support that would reflect the expectations of entrepreneurs themselves. Although it is often declared, especially among foreign investors, that an important factor is the favorable attitude of local authorities and good investment climate in the commune (Słomińska, 2007b), the expectations are far more precise and tangible, and are related to financial issues. The research of Dziemianowicz and Jałowiecki (2004) showed that tax reliefs are the most expected factors by domestic and foreign investors (respectively – 89,1% and 84,9% investors), in the second place there is the development of technical infrastructure (72,7% and 64,1%) (see Exhibit 8). Further on, there are local strategic development plans and social infrastructure. One of the main problems that is faced by investors is the issue of matching the business partners. Greater obstacles in finding business partners are faced by domestic entrepreneurs. Although the business intermediary role is not in the scope of competence of local government, therefore expecting this kind of support from commune authorities is not appropriate. The institutions of entrepreneurship support and non-governmental organizations play that role.

Exhibit 8: Investors’ expectations towards local authorities

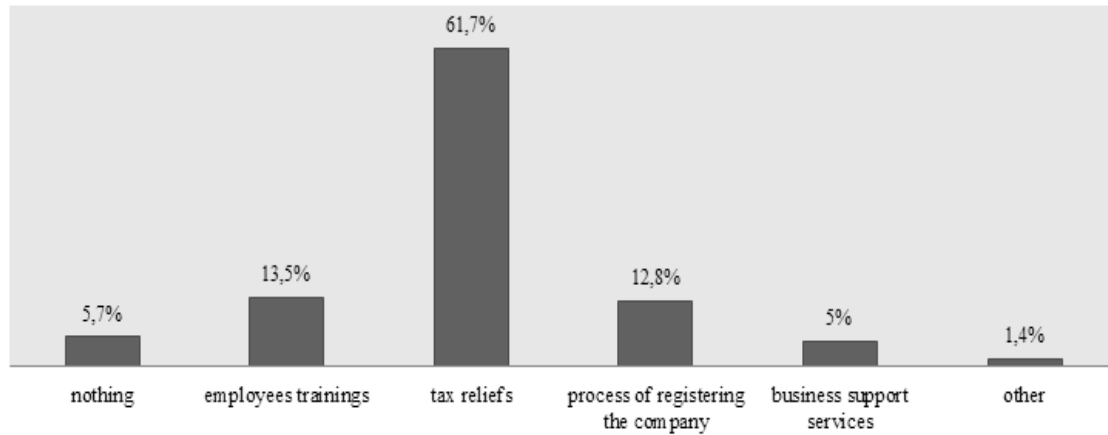


Source: Own elaboration on the basis of: Dziemianowicz, W., Jałowiecki, B. (2004). *Bezpośrednie inwestycje zagraniczne a polityka miejska polskich metropolii*, Wydawnictwo Naukowe Scholar, Warszawa

Expectations of investors analyzed in the research results of Dziemianowicz and Jałowiecki confirm the results of research conducted by Gancarczyk and Gancarczyk (2007) on the sample of communes

from Lesser Poland voivodeship. According to these authors' research results, 61,7% of entrepreneurs pointed out tax reliefs as the most desired instrument of entrepreneurship support (see exhibit 9).

Exhibit 9: Forms of support desired by entrepreneurs

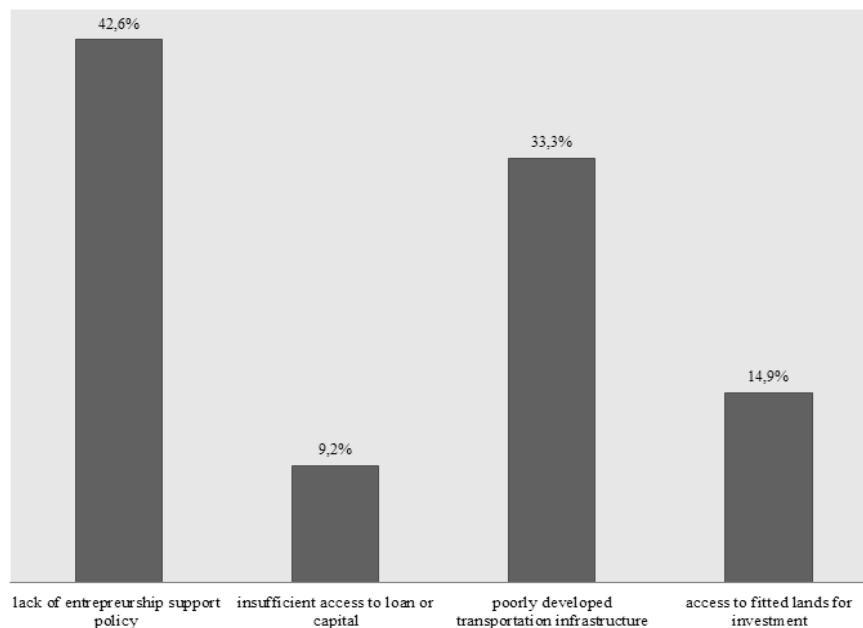


Source: Own elaboration on the basis of: Gancarczyk, M., Gancarczyk, J. (2007). Czynniki rozwoju przedsiębiorczości w województwie małopolskim. Sądecka Izba Gospodarcza, Wyższa Szkoła Biznesu – NLU, Nowy Sącz, p. 65

In the same research entrepreneurs stated that lack of support policy for entrepreneurship (42,6%) and poor infrastructure (33,3%) are the main limitations

of their development (see exhibit 10) (Gancarczyk & Gancarczyk, 2007).

Exhibit 10: Main limitations of entrepreneurship development in Lesser Poland voivodeship



Source: Own elaboration on the basis of: Gancarczyk, M., Gancarczyk, J. (2007). Czynniki rozwoju przedsiębiorczości w województwie małopolskim. Sądecka Izba Gospodarcza, Wyższa Szkoła Biznesu – NLU, Nowy Sącz, p. 67

With reference to the aforementioned research results, it has to be stated that lack of cohesive entrepreneurship support policy could be the limiting factor of effectiveness of instruments being used, but at the same time focusing on local fees and taxes as the support instruments cannot guarantee that investors will choose a particular commune for the location of their business. There could be several arguments mentioned in order to support that thesis. First of all, local taxes (including tax on transportation means) only to a minor extent provide the stimulating function of taxation (see Wołowicz, 2009). The research of Skica, conducted on a representative sample of communes from Subcarpathian Voivodeship, led to the same conclusion. The results of this research showed that between lowering maximum rates of local taxes and parameters describing entrepreneurship development there existed a very weak relationship. The same pattern could be observed in all the relations between tax rate reduction and ratios describing entrepreneurship development. What is important, the research results indicated that *“the strength of influence of lowering the maximum rates for separate local taxes for entrepreneurship development was lower than in the case of constructing a system of tax benefits assuming lowering the tax rates together with tax reliefs, postponements of terms of payments, and tax remittance”* (Skica, 2009, p. 240).

Second of all, according to Kamiński (2003, p. 18) *“(…) considerably bigger influence for business units (….) have a moderate level of local fees for council services than lowering the local fees in a spectacular way”*. Bończak-Kucharczyk, Herbst and Chmura (1998, p. 20) indicate that *“taxes and fees (….) should be in the first place – stable (…), less harmful could be higher but stable tax rates than lower but often changed”*. Simultaneously these authors show that the most significant factor for efficiency of location incentives has the transparency of the tax system and orientation for the long-term stability and not only the tax rates policy.

Thirdly, in the opinion of Dziemianowicz and Misiąg *“(…) from the perspective of entrepreneurs the most important issue is not the level of rates or deductions, but it is stability and transparency of the fiscal solutions being used. It is essential that potential investors, at the stage of initial choice of the investment location, could get acquainted with the systems of reliefs and preferences, that they could use after meeting given requirements”* (Dziemianowicz,

Mackiewicz, Malinowska, Misiąg & Tomalak, 2000, p. 9). An analogical position is taken by Okraszewska, Brzeziński and Kwiatkowski (2002, p. 34). According to these authors *“(…) system of tax benefits is an unquestionable asset, but standing alone it is not sufficient stimulant to reinforce the decision about business location”*.

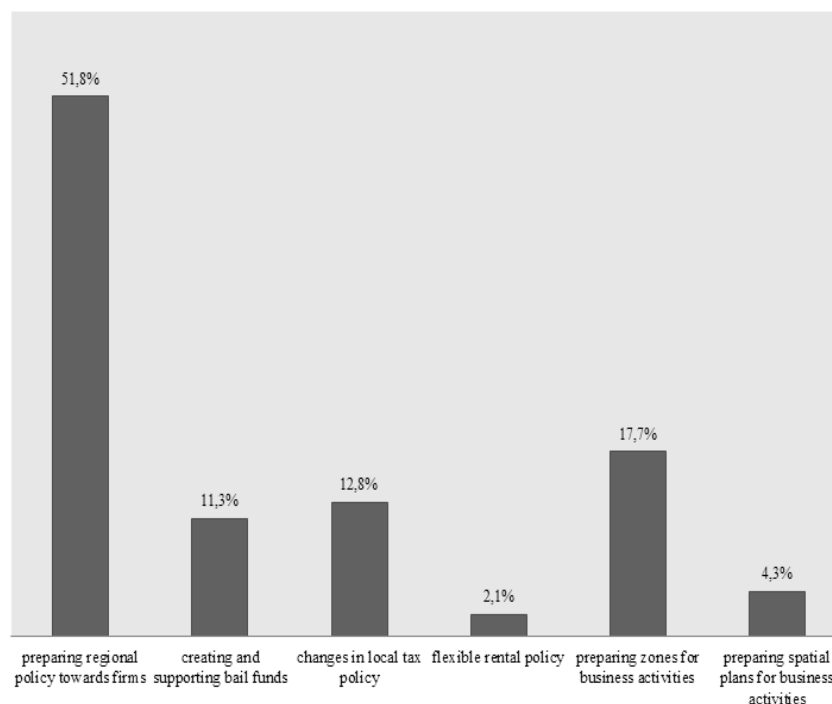
In the fourth place, not questioning the stimulating role of lowering the taxes, at the same time taking into consideration initial conditions of their proper impact, it has to be stated that the potential net effect of tax rate reduction in relation to expected results is an individual matter (Skica, 2008). The stimulating role of financial instruments is different in communes that create a complex system of tax benefits and in communes that introduce separate fiscal preferences. Results of the cited research show that there is a strong relationship between using the complex stimulating set of instruments and willingness of companies to locate their business in a particular commune. Therefore lowering local tax rates should rather be the element of an entrepreneurship support system than an individual instrument of stimulation. Further arguments confirming that thesis are the results of Skica’s research conducted on a sample of entrepreneurs from Subcarpathian region, in the years 2008-2009. Only for 2,3% of respondents (representatives of SMEs) tax benefits were the important development factor as an instrument of local government. In the same survey, 90,7% of entrepreneurs stated that local government is not taking or is taking ineffective actions aiming at supporting business units.

Fifthly, referring to the results of Skica’s analysis, and to the research results of Wołowicz, some arguments about instruments supporting attracting investors must be disclaimed. As it was pointed out, often the main reason of lowering the tax rates or proposing tax reliefs is the willingness of local government to stimulate local economic development. But communes using lower local tax rates are not developing faster and more dynamically. Rather the opposite, communes known for attracting many investors, for example: Tarnowo Podgórne, Kobierzyce, Niepołomice, use maximum rates and do not introduce any tax reliefs or deductions (Wołowicz, 2009; Skica, 2009). The example of those communes confirms the thesis that tax rates or tax reliefs introduced separately are not the basic decisive criterion for location of business units.

These examples do not explicitly show that tax benefits cannot be the instruments of local enterprise support or that they cannot be the tool for attracting

new investors. It is possible, but very seldom it works individually. In most cases they have to interfere with other, non-tax stimulants.

Exhibit 11: Expectations of entrepreneurs towards local authorities



Source: Own elaboration on the basis of: Gancarczyk, M., Gancarczyk, J. (2007). *Czynniki rozwoju przedsiębiorczości w województwie małopolskim*. Sądecka Izba Gospodarcza, Wyższa Szkoła Biznesu – NLU, Nowy Sącz, p. 67

Supportive arguments can also be found in the research of Gancarczyk and Gancarczyk (2007). According to them, the strongest stimulants (expressed in entrepreneurs' expectations) should be constructing a complex policy of support (even in the regional scope) for entrepreneurs and creating so-called entrepreneurship zones. Only in the third place, changes in the fiscal policy were pointed out. This answer does not indicate explicitly for tax reduction expectations, but it refers to fiscal policy as a whole, including stability, transparency and predictability.

CONCLUSIONS

Empirical research conducted in developed countries (for example in Canada) indicate that local government has a very important role to play in supporting economic development (Turvey, 2006). Supporting entrepreneurship is not an easy task, because the phenomenon of entrepreneurship itself,

due to the necessity of engaging local communities and initiating their creative potential, as well as the multitude of forms, does not succumb fully to administrative steering. Analyzing the efforts of local authorities in the field of entrepreneurship support, and verifying their internal differentiation, it could be concentrated around three functions of local governments:

- 1) **Leader function** – local socio-economic policy,
- 2) **Administrator function** – economic policy, projects, plans and investments,
- 3) **Initiator function** – for activities aiming at stimulation of socio-economic development of the local community (Zalewski, 1994).

The characteristic of these functions is reflected in the view of Sztando (1998), where "(...) local government is not only the executor of freelance tasks, but in the first place it is the active body that creates the conditions of living and functioning of local communities". As a result, aiming at wide participation in the effects of initiated

activities, it is indispensable to consult planned activities with the real needs of the community (Kamiński 2003, p. 36 and post.) that is why, according to Roman (2002, p. 37) “(...) *maintaining systematic contact with entrepreneurs could result in benefits, such as modernization of these subsystems of infrastructure which are influencing the increase of investment attractiveness (...)*”. This solution could eliminate the investments by local governments that are not adjusted to the local conditions and actual needs. This view confirms one more thesis about the awareness of the local community of the scope of possible activities of local government. The higher awareness, the higher expectations, which implies the necessity of going beyond standard solutions for entrepreneurship stimulation. It also implicates the increased need for innovations that are the tools for creating competitive advantage. Examples of that type of solution are profiled development plans, local investment strategies and programs that activate local communities in the field of entrepreneurship. In consequence, there appear new streams of goods and services production, which influence public finance with additional income from taxes and fees, creating, in turn, the possibility of impacting further development of entrepreneurship. It results in wider effects of local government activities for creating favorable economic initiatives conditions, than just increasing the number of companies operating in the area of particular commune. They also include prosperity enhancement of local community citizens, financial stabilization of local governments, efforts for supplying the highest level of public services, and finally optimal use of capital resources (Kłosowski & Adamski, 1999, p. 8).

In reference to these arguments the fact of complex perception of the role of local governments in stimulating economic initiatives assigned by the legal acts and expectations of local communities seems to be problematic. The conducted analysis together with literature overview and interpretation of the law unambiguously proves the shift in dynamism of activities for the entrepreneurship development to local governments. At the same time, unfortunately the results of research (Dziemianowicz, et al., 2000; Bończak-Kucharczyk, et al., 1998; Saar, 2011; Flieger, 2009; Gancarczyk & Gancarczyk, 2007; Dziemianowicz & Jałowiecki, 2004) on the determinants of entrepreneurship do not confirm the role of local governments in the process of

entrepreneurship support as a fully leading role. Continuously, the majority of activities supporting entrepreneurs is undertaken at the central and regional level. The activeness of commune government holds the position that is far from the top on the list of determinants responsible for creation of the climate for economic initiatives development. Additionally, the negative overtone of this situation is emphasized by the fact that the percentage of local units perceiving bottom-up initiatives for entrepreneurship development as effective is several times lower than the answers indicating the effectiveness of the state regulatory activeness (Skica, Strojny, Tabasz & Witkowski, 2004). This fact supports the conviction of local government authorities about central and not local possibilities of creating conditions for increase of business activity in the economy. However the newest cited research shows significant increase in attention of local governments' authorities towards issues of entrepreneurship support and local development.

Of course, beyond discussion is the fact that there is positive and significant correlation between the financial situation of a local unit and the scope of possible forms and activities of local entrepreneurship support. This argument seems to lose significance, when in an analogical way, the malfunctions in the scope of activities for development of entrepreneurial initiatives are being explained by small communes and big cities. It, indisputably, leads to the conclusion that there is a lack of familiarity of the scope available for local unit forms of support and lack of awareness of local business needs. Support instruments are not always connected with financial flows and expensive investments. The sooner local units conduct the reorientation in this field, the sooner the frequency of undertaking the issue of support for SMEs is debated in the context of overstraining the local budget, and finally the prevailing rationalism of authorities reflected in abandoning the idea of supporting SMEs will be lower.

Administrative improvements, rationale of spatial management, regulated ownership of legal status or high quality of office staff servicing entrepreneurs are the factors of high significance for entrepreneurship support. These activities, of a current nature often become the predominant argument in the discussion about location of business activity (Skica, 2011a; Skica, 2011b; Kiebała, et al., 2011; Skica, et al., 2011). In order to support business units they need to locate their business in a certain commune at

first and paradoxically the impact of non-financial instruments is the highest in the decision process (Jastrzębska, 2002; Strojny, 2005).

These arguments illustrate the situation of the majority of communes in Poland. It is worth mentioning that if the results of the cited research could be generalized to the whole population of communes in Poland, the answer related to the reasons for limited efficiency of local government activities for economic initiatives development seems to be obvious. Additionally, the presented situation seems to be far more complex, if the verification of survey answers was done in an alternating way for a single commune. The empirical analysis shows that communes are pointing towards high efficiency of activities for entrepreneurship development on a central level, attributing minor importance to local activities. At the same time the majority of communes confirms the use of instruments supporting entrepreneurship (Skica, et al., 2004). Therefore a question arises about the effectiveness of the performed activities in the context of measuring the ratios of entrepreneurship. Projected future research could empirically test these issues. Simultaneously the question arises about interpretation of the indicated contradiction. It has to be noticed that in the diagnosis of commune attitudes towards stimulating economic initiatives unchangeably three characteristic regularities are highlighted. First of all, communes use instruments supporting entrepreneurship, but in consciousness of local authorities they play a marginal, but growing, role in shaping conditions for effective stimulation of economic initiatives. Secondly, a consequence of negating the effectiveness of bottom-up activities for entrepreneurship development is the relatively low efficiency of the undertaken activities. Thirdly, communes are measuring the effectiveness of the above mentioned activities in the context of financial expenditures that could be incurred, which is evidently a misunderstanding. The value of incurred expenditures is not the only effect of activities for development of economic initiatives. It is rather the vision and well thought out character of the undertaken activities. They are creating the success of the initiated activities, reinforced by stabilization of local government policy towards achievement of the planned activities.

This analysis indicates that entrepreneurship is a local phenomena. Analysis of factors determining the role of local government in creating economic initiatives

as well as research on attitudes of local communities reflected in undertaking economic initiatives indicate the correctness of the conclusions. The way of perceiving factors of growth by local authorities seems to be alarming. The research emphasizes an internal contradiction in the scope of the undertaken activities, which brings the results of low efficiency. Decentralization, apart from being the measurement of autonomy, is an exam of effective management of issues important for local communities. Development of entrepreneurship is definitely such an issue. Therefore local governments shouldn't be focused only on analysis of macroeconomic conditions that are favorable or unfavorable for starting business activity. Local units have to focus on their potential and ways of utilizing it. Even the most favorable legislative and financial conditions, centrally assigned to local units will not impact the growth of local initiatives facing the lack of entrepreneurial attitude of local authorities. These are the crucial factors of development, but still underestimated according to the cited research (Makieła, 2008, p. 17).

Analysis of economic initiatives development indicates that to obtain efficiency of activities in that field it is indispensable to support them by the activities of local authorities. Local conditions and activity of local units are the main argument for constructing stimulants for economic initiatives, but the awareness of challenges resulting from the external environment is also very important for newly developed companies. There is a need for a critical outlook on creating connections between local government – local business intermediaries. The role of local government is not over at the moment of attracting the investor or leading the business unit to making the decision about locating its business in the area of a particular commune. On the contrary, only then starts the competition for creating conditions that will guarantee that the decision about the location will be long lasting. And in consequence new companies will be developed.

Therefore there is new ground challenging local units. Up till this moment it has concentrated on stimulating entrepreneurship, from now on it shifts towards maintaining the companies created in the commune and competing with other communes for local companies. Having in mind the fact that the market becomes less hermetic, it is only a matter of time when the potential of local authorities will lose with innovations, lack of barriers for capital mobility

and entrepreneurs open for new business trends. That is why local governments should be innovative, able to adapt to new conditions and able to follow new tendencies in business evolution.

In the current times the policy of “minimum” is highly insufficient. Minimal outlays are accompanied by minimal effects. As a result even correct management of public funds and effective achievement of public tasks will be identified with proper administrating, which in the perspective of the coming years will be painfully verified by the reality of well-developed local communities. Local government should diversify its goals. The sooner the bottom-up need for creating potential of growth and improving competitive position will be noticed, the higher the probability of gaining competitive advantage in the rivalry for business units among other local governments.

Contrary to the above statement there is the position of local governments, and their problematic situation. But the problems that local governments are facing invariably from the time of restitution of local government seem to be “universal”. Limited autonomy in conducting business activity, insufficient catalogue of internal revenues, dependence on the central budget, incompatibility of tasks and financial resource, that list of problems seems to be independent from the economic and political situation. Is it possible for local governments to effectively influence local socio-economic conditions in the given reality? Is the effective bottom-up stimulation possible in the circumstances of well-established trends and limited financial resources? The environment of local governments created nongovernmental organization, private initiatives and community seems to be the panacea for the indicated problem.

Solutions used by communes for stimulating entrepreneurship, including partnership in inter-sector projects, public aid, financial support, do not prove the innovative approach in stimulating entrepreneurial initiatives. They exemplify the rationalism resulting from economic calculus.

About the economy of „partnership” for supporting entrepreneurship decides the division of costs and risk between the partners. This type of cooperation relieves local budgets and brings mutual benefits. The private sector is also beneficial in this cooperation. Its representatives are participating in the decisionmaking process about directions and intensity of activities supporting local development. Mutual benefits consist of widening the scope of expected activities in the field of entrepreneurship support, outside the budget limitations – for local authorities. Nongovernmental organizations and associations of entrepreneurs benefit in participating in creation of conditions under which they will function in the future, so they are participating in shaping them.

These fields of challenges that local governments are facing show significant negligence and reveal weaknesses in the attitude towards entrepreneurship support. The conducted analysis leads to the conclusion that the crucial factor of entrepreneurship support malfunctioning is conservative policy of local authorities. Local government activities that disregard the vision of long-term goals are not considered active creation of a local economy. The situation is particularly difficult due to the unstable market conditions, contrasting with the stable frames of functioning of local governments. Needs and possibilities of meeting those needs are subject to constant changes, while needs evolve much faster. Therefore the instruments for meeting the needs, including the ones that support entrepreneurship are of secondary nature. Additionally it takes a long time to revise instruments already in use, therefore always the new instruments will be a little bit behind the current needs of companies. It is necessary to construct complex programs for economic development of local communities (Sasinowski, 2002) assuming that the direction of the development policy will be revised regularly and adjusted to the current needs of local environment.

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