

## THE ORGANIZATIONAL AND ECONOMIC POTENTIAL OF RURAL DEVELOPMENT

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**Abstract:** The purpose of the research presented in the article is to develop a mechanism for increasing the efficiency of the use of the organizational and economic potential of rural areas. To achieve the goal of the study on the formation of a mechanism for strengthening and developing the organizational and economic potential of rural areas, a set of methods was used. Monographic - in the study of the state of industrial and social infrastructure; method of expert evaluation - when collecting, systematizing and processing the initial information on resource, production, information and innovation, financial and economic potential; statistical method - in identifying trends, patterns of rural development. Studies show that rural areas are still in crisis. In rural settlements, 36% of the Russian

unemployed and 39% of the poor live. The level of remuneration of labor employed in agriculture is only 56% of the average for the economy. Sociological surveys conducted in rural areas of the Sverdlovsk and Chelyabinsk regions of the Russian Federation showed that more than 50% of young people express their readiness to leave the countryside. Analyzing the current state of rural areas, a set of problems that reduce their attractiveness is identified. Accomplishment of the housing stock of the rural areas of the Russian Federation is still low, for example, the rural housing stock is equipped with a 54% water supply (whereas in the city - by 91%); water disposal, respectively, by 43% and 90%; heating by 66% and 92%; hot water supply by 30% and 81%, respectively. Having studied the state of

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the organizational and economic potential of rural areas, its composition was formed element-by-element, taking into account various environments: natural, institutional, business environment, financial and economic and information-innovation environment. This approach allows us to scientifically develop programs and measures for the development of rural areas in general and in terms of each element, while ensuring the targeting and transparency of the use of public funds allocated to support agriculture. Based on the results of the research, factors that characterize the comparative advantages and weaknesses of rural areas were identified and ranked, which allowed introducing an integral assessment of their social and economic potential.

**Keywords:** capacity, system, environment, organizational and economic potential

## 1. Introduction

The modern management of rural areas presents a problem of the determination of ways to ensure the competitiveness of such areas. The established and prioritized approaches to the resolution of such problems as the

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development of mechanisms for increasing the performance efficiency and the assurance of high living standards play an increasing role in tackling the task of rural development under the State-implemented management strategy. The proper development of rural areas requires the fulfillment of a set of conditions including the formation of a complex management system, effective mechanisms of incentives and optimization, investments into rural economy, programs for innovative development of rural areas [14], changes in the formation and realization of the organizational and economic potential for rural development, the assessment of such potential [9], and the development of effective tools and methods to provide for flexibility and adaption to changes in internal and external environment [4].

The mechanism of the formation and realization of the organizational and economic potential for the development of an area involves the management of an overall development of economic, industrial, natural and resource, labor, financial, and intellectual potential of the area. This mechanism includes a management system, a performance evaluation of the real sector of

agricultural industry, and organizational, management, social, economic, investment, innovative, and institutional elements.

Theoretical and methodological aspects of the formation and realization of the organizational and economic potential for rural development are covered in many publications of domestic and foreign authors [5].

However, the following topics are open to question: an analysis of the economic and administrative status and prospects of agribusiness, issues of establishing the development indicators, a scientific-theoretical base for the set of problems related to the rural infrastructure development, a definition of the phenomenon of the improvement of the quality of life of population in rural territories [8].

Due to insufficient theoretical insights into the content, methods, and focus applied in the area development strategies, it became necessary to address the issues related to the selection and systemization of criteria, factors, and parameters used for the evaluation of rural development, and to explore the principles for building of the organizational and economic mechanism of their development [5].

## **2. Research methods and instruments**

An information base of the research was formed using the official statistics of the Federal State Statistics Service, laws and regulations, procedural documents issued by local and federal legislative and executive bodies, decrees of the RF President and Government, programs and forecasts of the state authorities, materials of scientific conferences and workshops, monographs, as well as the results of the studies performed by the authors.

The validity and integrity of the research are ensured by the compliance of obtained results with substantiated expectations, the significant number of revealed factors that have an influence on the scientific task at hand, the application of modern scientific and methodological techniques, the proper selection of applied general and individual indicators, criteria, and models, and the balanced combination of theoretical and experimental researches [9].

The research working hypothesis is based on a series of scientific provisions and principles of the formation and realization of the

operational and economic potential for rural development that validate the possibility of improving the quality of life in rural areas.

The research objective is to form methodological approaches to the building of the mechanism for strengthening, development, and efficient use of the organizational and economic potential of rural areas with due consideration of the common interests of involved parties and the elaboration of models, instruments, and patterns to implement social and economic policy.

In order to meet the target of the effective usage of the rural development potential, it is necessary to resolve the following tasks: a) develop concepts for management of the rural potential, b) create the system for management of the rural potential based on the interaction between its structural elements, c) define the algorithm for management of the rural potential, d) develop the methodological approach which makes it possible to evaluate the potential of sectors that have the priority in terms of the development.

### **3. Research results and discussions**

With a view to creating the conditions for the improvement of the quality of life, it is urgently required to develop the mechanism of the formation and realization of the organizational and economic potential for the sustainable rural development. To resolve this task, it is necessary to work out effective methods and instruments to ensure its adaptability to the changing conditions of the internal and external environment [4].

The creation of the conditions for restoration and development of Russia's rural areas is a strategic objective of the state food safety policy, which leads to the improvement of the quality of life [8].

Principles and methods of management of an area are determined pursuant to the targets of sustainable economic development, the full coincidence of interests of the involved parties, production, sales, administration, and creation of attractive investment environment for this area [6].

The Russia's concept for sustainable development of rural areas has its specifics, such as its own characteristics and mechanisms of achievement of objectives and budget funds still used as the primary source of

financing of the concept implementation [3].

In order to restore industrial and social infrastructure in rural areas, it is required to bring in private investments on top of the budget funds and to change crediting and taxation systems (provided that investments are made into the development of agricultural supply and rural infrastructure) [12].

The totality of all relations existing within an area can be represented as follows:

a) social and economic relations (ownership relations, labor relations, development of economic interests, income distribution, development of national relations, distribution of national services);

b) organizational and economic relations (organization, management and control, delegation of resource distribution functions, provision of incentives, cooperation and specialization, regionalization);

c) institutional and economic relations (legal relations, norms and standards of interaction between the state, business, and population);

d) investment and innovative relations (demand for investments and supply in socially innovative projects,

relations between investors and rural constituent entities, the state, business, etc.) [1].

In this research, the sustainable development of rural areas is represented as the process of the creation of a balanced and regulated system of social and economic equilibrium in rural development. This process aims to increase the efficiency of agricultural production, ensure food safety, and improve the quality of life in the country [8].

Considering economic, industrial, social, and infrastructural factors, the present-day trends in the development of rural areas require the formation and implementation of the organizational and economic regulation mechanism, which is aimed at the increase of the rural development level, the expansion of the sales markets, the creation of the conditions for integration, the development of market infrastructure, etc. [5].

The potential of an area is the totality of natural, economic, social, national, and human resources of the area development and its competitiveness [1].

The potential for the sustainable rural development is represented in the

research as a model of elements consisting of 5 blocks (see Fig. 1) [7]

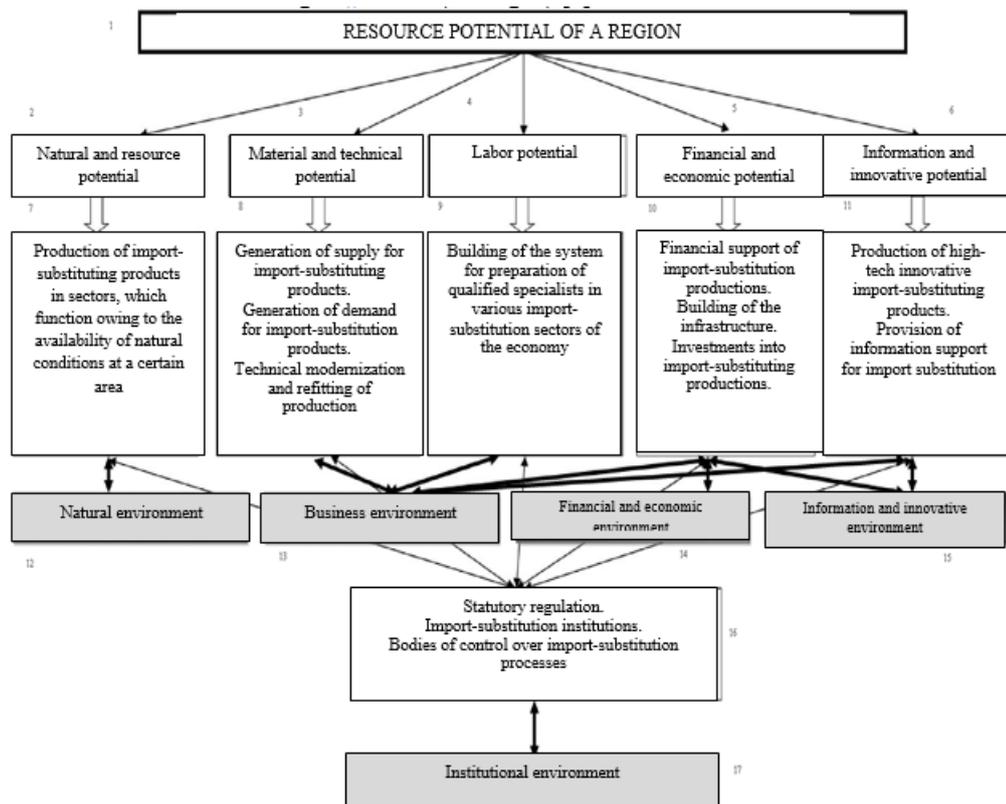


Fig.1. Potential for sustainable rural development

Building and development of optimal infrastructure are prerequisites for the growth of the effective agricultural industry, the high living standard of rural population, and the recruitment of young specialists to each rural area [8].

The model of evaluation of the sustainable rural development determines the interrelation of factors of socioeconomic development and the pattern and direction of

the area economic growth. It makes it possible to diagnose the condition and revise the process of implementation of strategic tasks and the level of interaction between entities [5, 13].

Considering the present-day stage of organization and management, the socioeconomic development of rural areas requires the implementation of business and project management of socioeconomic

processes. Owing to such management, it is possible to raise the organizational and

economic potential to the new stage of active development (see Fig. 2) [13, 11]

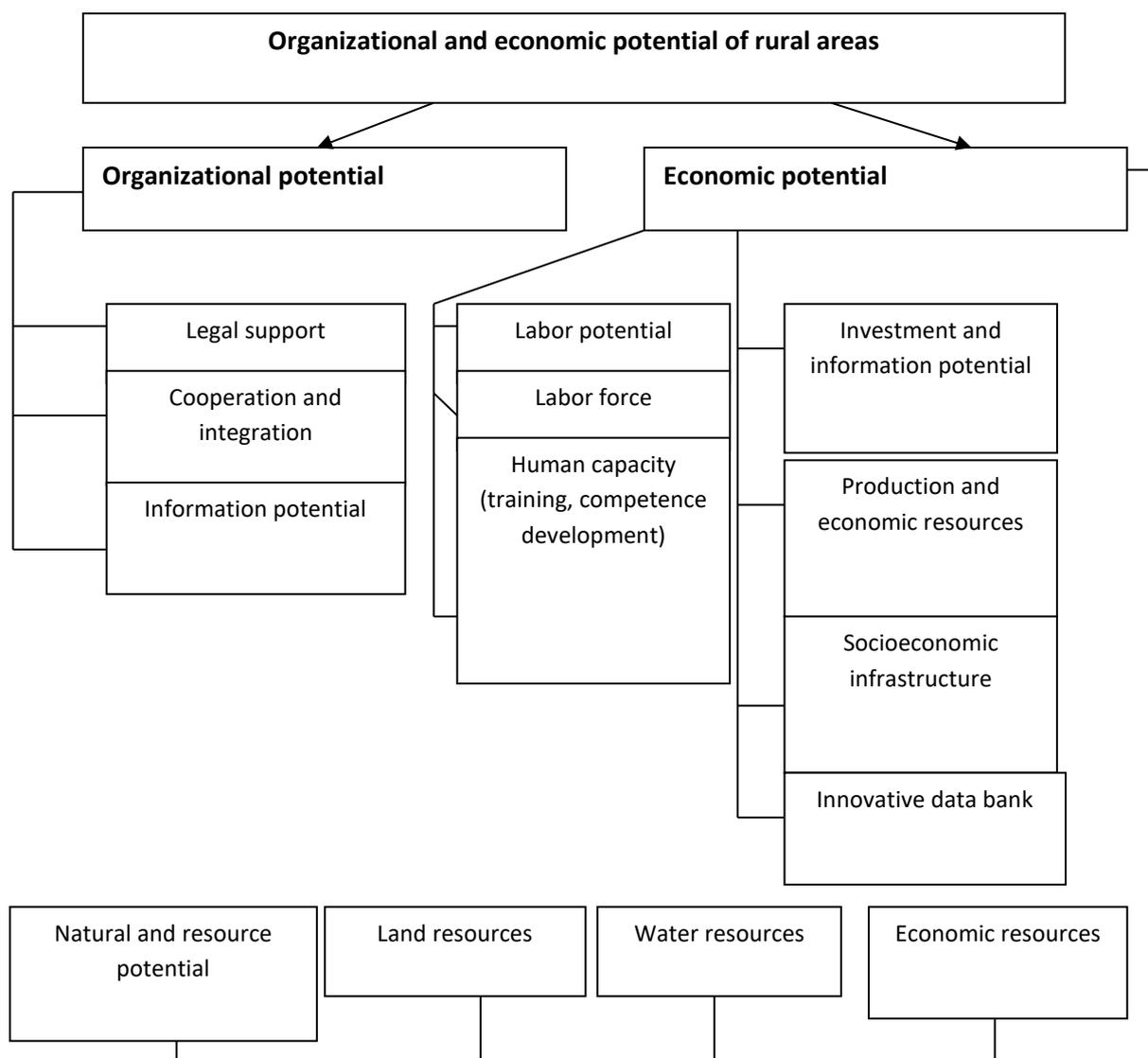


Fig. 2. Organizational and economic potential of rural areas

The development level of rural areas depends on the effectiveness of the control system, the presence or absence of apparent connections

between the state, manufacturer, and consumer of food products, limitations of

products sales, and the level of the market infrastructure development [5].

The systems approach to the determination of characteristics and criteria of the effective organization and management of the sustainable rural development is still an open issue; however, it is evident that qualitative improvements in the state control of rural development are required. The most important issue related to the state control of the socioeconomic growth of rural areas is the selection of the instruments that can be effectively used to influence the cooperation and division of the capacities of the federal center and RF entities in order to meet targets of the main involved parties, thus, achieving positive and dynamic results [16].

The development of rural areas shall be intended to perform the major national and regional functions, such as production, demographic, labor, living, cultural, ethnic, and recreational. Some rural areas can serve social functions (balneological, educational, rehabilitative, etc.) [9].

It is crucial to ensure the compliance of the objectives and opportunities of the economic growth with the market conditions. Therefore, new aspects shall be considered when selecting the instruments of state control over the sustainable rural development, specifically economic (target and program-oriented and not related to the

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implementation of programs) and organizational and financial (control over ownership and land relations, regulation of rates and prices, tax regulation, control over trade relations, control over mechanisms of financial recovery and enterprise development support, introduction of benefits and limitations, etc.)

Various types of targeted financing (subventions, direct grants-in-aid (various subsidies, benefits, additional payments from budget and non-budget funds, subsidized loans), indirect instruments of financial regulation (monetary policy, foreign economic relations, tax systems, etc., financial incentives, influence on financial behavior of business entities to ensure meeting of the targets of the state regulation of investment operations, strategies of rural development [16, 17]

The main components of the organizational and economic mechanism are determined in the research based on the *factors* that influence the sustainable area development and the direction of such development; economic, social, political, organizational, and production *conditions and leverages* that are used to build the model of the organizational and economic potential for the sustainable development on the basis of the determination and evaluation of the area development level considering the *interests* of the main involved parties and,

what is more important, of the specific aspects that influence the alignment of such interests (see that Fig. 3) [5, 2].

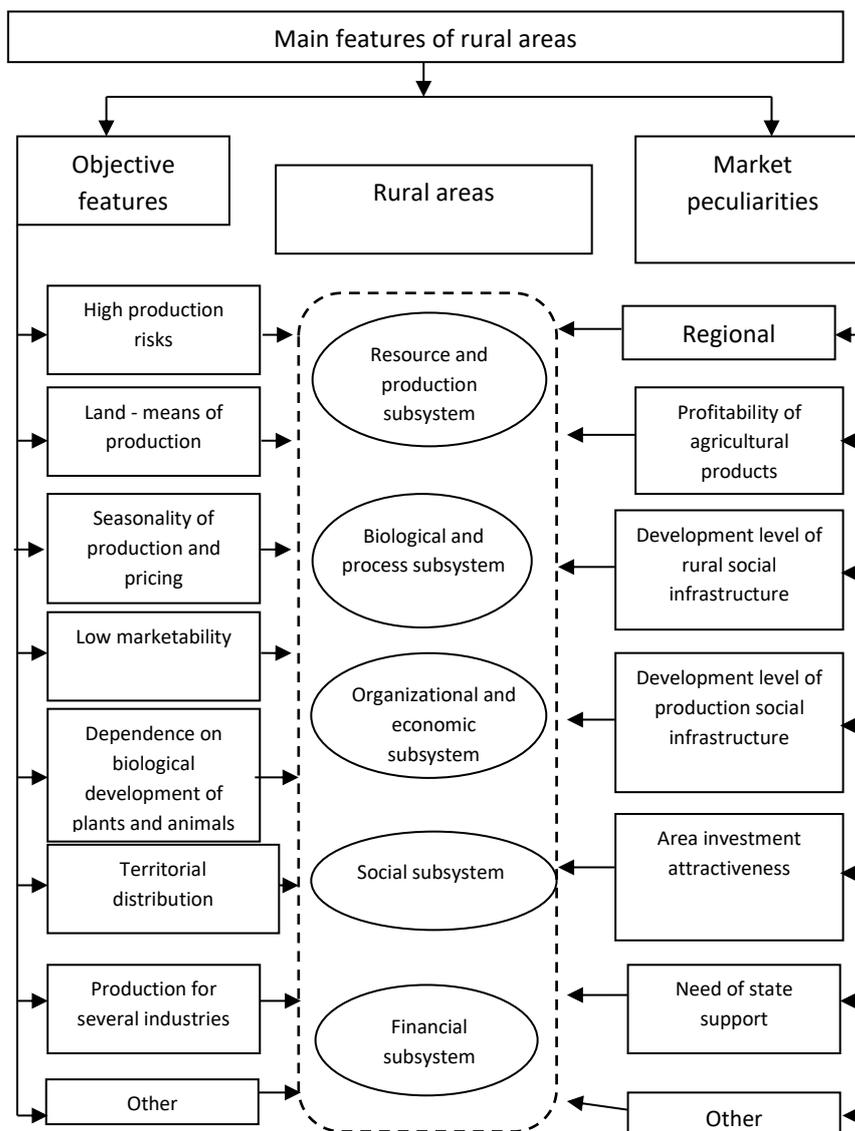


Fig. 3. Specific features of aligned functioning of rural subsystems

The level of rural development is characterized by the system of indicators of the interaction between entities. Such system is driven by the balanced interrelation of market mechanisms with the aim to meet the needs of the population, state, and market members [5].

A system of quantitative and qualitative indicators is used to evaluate the below aspects of the development level.

Firstly, demographic state, material well-being, welfare, level of education, the degree of adaptation of the population to rural living, availability of social and living conditions.

Secondly, level of agricultural development, state of the labor market, effective employment in rural areas, level of innovations in agribusiness considering specifics of a territory (see Table 1) [10]

Table 1. Evaluation indicators of rural development level

Subsystem components	Evaluation indicators
1. Resource and production	- an index of production of agricultural products in households of all categories (by sectors); - the relative share of energy costs in the structure of costs related to the production of agricultural products; - a number of high-production workplaces
2. Financial and economic	- an index of the physical volume of investments in the fixed capital of an area; - an index of subsidies and state support; - profitability of agricultural companies taking subsidies into account.
3. Social	- rates of growth of labor productivity; - nominal values of average monthly wages in the agricultural sector (by agricultural companies), RUB

<p>4. Biological and process</p>	<p>- an area of land protected from water erosion, flooding and minor flooding owing to the implementation of flood-prevention measures;</p> <p>- an area of agricultural fields protected and preserved owing to the agricultural melioration and vegetative reclamation;</p> <p>- increase in the application of biological plant protection agents and microbial fertilizers in plant growing;</p> <p>- specific weight of agricultural production waste</p>
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Modern processes require the application of universal techniques which make it possible to compare areas of different sectors and determine areas with the maximum level of business stability [20].

The pattern of sustainable development of an area and the identified reserves for its growth characterize the adaptability of the area to changes of the external environment [6].

It is necessary to build a system of development indicators which make it possible to determine the effectiveness of the implemented strategy of rural development and to expand the analysis tools taking into account the need to switch to a project- and process-based way of economic development.

The implementation of modern management technologies in rural development is facilitated by the generated system of indicators used to

evaluate the rural development level and by the usage of said indicators for territorial planning and for the preparation of various programs of socioeconomic development [13].

The indicator approach applied to evaluate the influence of factors on the formation and use of the organizational and economic potential of rural areas is based on the development of individual and group indices for the evaluation of such factors [10].

The research differentiates the groups of factors as follows:

- a) factors pertaining to the natural and resource potential of an area;
- b) factors that determine the competitiveness;
- c) factors pertaining to the changes of living conditions;
- d) factors that determine the investment climate of an area [9].

Based on the results of the classification analysis, internal and external factors that influence the development of areas were categorized as follows: factors of social sphere and quality of life; factors of essential service systems, and economic factors [5].

The below requirements and principles shall be applied to the indicators [13]:

- focus on the control body in charge of the economy of a rural area (preparation and implementation of a development strategy, inventory of needs);
- tracking of indicators which make it possible to evaluate the quality of the development management and tracking of factors that directly influence the economic and social development of an area;
- full representation of existing and potential hazards;
- compatibility with the operating system of accounting, statistics, and forecasting [13].

Information technologies are applied to track and analyze interrelated factors and to develop the economic mechanism for rural development [11].

The following criteria were applied when taking a decision on the usage of any indicator: the specificity

and sufficiency of data for analysis, the minimization of a number of indicators, the capability to characterize dynamics, structure and effectiveness of economy and of the social development level, the tracking and reflection of differences between territories in terms of indicators under consideration and dynamics of their development, the application of relative and structural indicators [13, 19].

The combination of various techniques makes it possible to evaluate the development level of rural areas in a certain region based on the following aspects (indicators of Table 2. a) the natural and resource potential of rural areas, b) the competitiveness of the rural economy, c) living conditions, and d) the investment climate of a rural area.

At the first stage, the ranking evaluation is performed based on expert assessments, at the second stage - based on statistics, and at the third stage - based on the calculation done using the algorithm which allows for the difference in values of the scales for various groups of criteria. The levels of influence of certain criteria and groups of criteria on the overall evaluation of the development of a rural area are adjusted at the final stage [9].

It is appropriate to define the system of indicators to be used for the comprehensive assessment of the organizational and economic potential (OEP) for development of a certain area by taking into account relative indicators of each constituent element of the said potential (natural and resource potential – NRP; labor potential – LP; material and technical potential – MTP; financial and economic potential – FEP; information and innovative potential – IIP) [7,17].

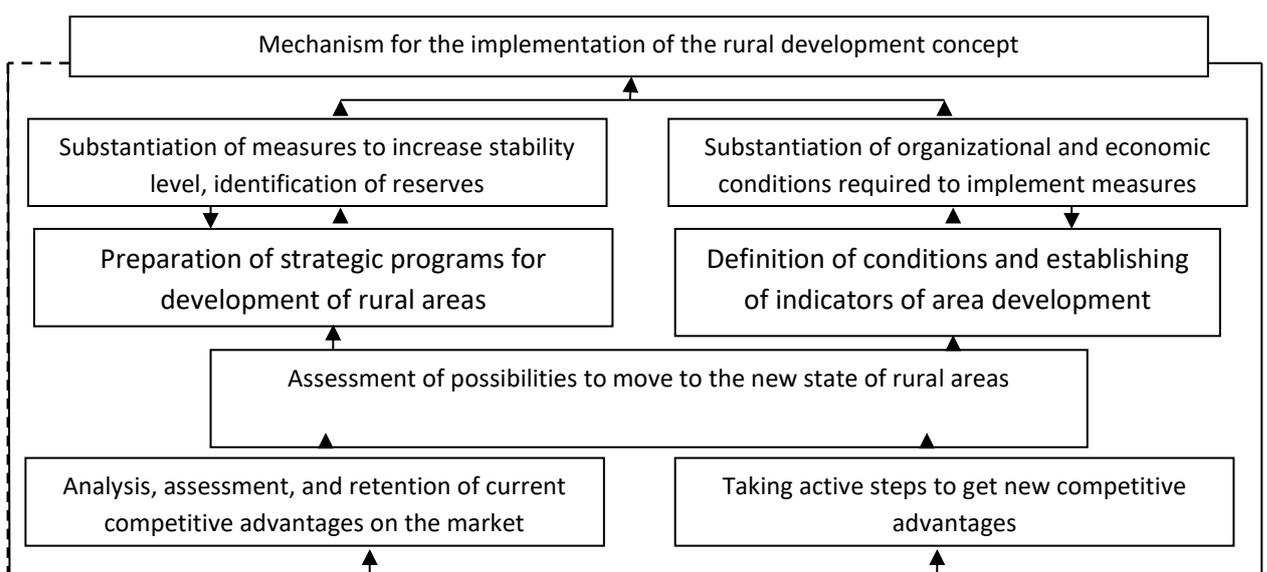
The calculation of integral indicators and the evaluation and interpretation of the comprehensive integral indicator are performed as follows [7]:

$$OEP = \sqrt[5]{NRP * LP * MTP * FEP * IIP}$$

By using this technique for calculations, it is possible to determine the level of availability and the degree of usage of the rural potential.

The indicator-based technique for evaluation of the integral indicator of the sustainable functioning of a rural area is a universal one because it provides an opportunity to evaluate areas and compare them in order to define the maximum level of business stability. The structural analysis of the elements shows that resources are available to build up the capacities. Dynamics of these indicators make it possible to forecast the availability and usage of the potential in future [7].

In order to prepare the scientific and practical concepts of the (1) development of rural areas, it is required not only to formulate the underlying principles of such concept but also to define the mechanism for implementation of this concept and for classification of conditions to ensure coordinated actions (see Fig. 4)



*Fig. 4. Diagram of the mechanism for the implementation of the rural development concept*

The research in a consistent manner defines the conditions which can ensure coordinated actions through the theory of balanced interests of interrelated parties.

The mechanism for the implementation of economic interests implies a set of structural and functional elements, additional subsystems, instruments, and methods, which are intended to manage the formation of favorable conditions for the implementation of general economic interests and interests of separate groups that live in localized territories, which are characterized by their own development specifics.

The achievement of the balance of interests is one of the key aspects of the management mechanism of the rural development, which is aimed on a global

level to increase the quality of life of people [15, 18].

The mechanism for the implementation of economic interests is formed during the implementation of the principles of aligned goals. Such principles ensure the integrity of the mechanism as a system, prioritize functions, align interests, and lead to the continuity and economic rationality.

#### **4. Conclusions**

The development of the Russia's rural areas is still characterized by numerous problems, both social and economic. The studies made it possible to define and group the basic factors that prevent the effective development of rural areas. Living problems include a high level of unemployment, low quality and unavailability of infrastructure. The

main economic problems are the low level of area development, underdeveloped production and social infrastructure, absent system of management of the competitiveness of an area and of the production, low level of the economic diversity.

In order to achieve the sustainable development of rural areas, it is necessary to create a comprehensive management system. Such system shall be employed to implement innovative and investment mechanisms, business project management, and mechanisms for the alignment of interests of the state, business, and public.

From the theoretical perspective, the research is important because it expands the theory, techniques, and methods of management of the rural area development as part of the state social and economic policy.

The results of the research contribute to the theory of the rural development within the organizational and economic mechanism for the formation and realization of the rural potential (incremental-iterative solution: a series of measures to implement current mechanism, improvements in the management of small- and medium-sized businesses, increase of the

investment activities of an area, introduction of the system of innovative instruments for the development of rural areas).

The authors distinguish the following key purposeful actions taken to ensure the development of the potential: define the conditions for the formation of the infrastructure model of the organizational and economic potential of an area, take grounded decisions aimed at the development of the comprehensive investment and innovative management system, develop the mechanisms of interaction between the parties of such system.

From the practical perspective, the research is important because methodological recommendations were prepared on how to increase the efficiency of usage of the organizational and economic potential of rural areas. The indicator-based technique for evaluation of the integral indicator of the functioning of a rural area makes it possible to evaluate areas of various sectors and perform comparative analysis in order to define the factors of sustainable functioning.

The basic results, conclusions, and recommendations pertaining to the formation of the mechanisms for the

management of rural areas can be used by governmental and executive authorities.

The mechanism for the formation and implementation of the investment and innovative program of rural development, as well as the technique for the evaluation of rural development effectiveness, can be applied to take scientifically grounded decisions in the process of area management and for the increase of the living standards of rural population.

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