

State Policy of Rural Economy Diversification



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Abstract: In Russia, 37 million people live in rural areas, which is a quarter of the country's population. At the same time, there is a steady decline in the rural population. At the present stage, agriculture cannot provide the entire rural population with jobs, because due to the implementation of modern technologies, the labor intensity of many production operations in agriculture is reduced. Only 19% of the Russian rural population are employed in agriculture, while the rest of the rural population are employed in non-agricultural sectors of the rural economy. Focusing on a single-profile structure of the rural economy, which is absolutely dominated by a single agricultural sector, cannot ensure sustainable development of rural areas. Because of this, the potential of rural areas should be unlocked through the integrated development of all sectors of the rural economy, including non-agricultural ones.

Keywords: rural economy, agriculture, state economic policy, rural economy diversification.

I. INTRODUCTION

Rural settlements have always been of great importance for any country because they have large demographic, socio-economic, natural, historical, and cultural potential [1]. The development pace of a certain region, as well as the standard of living of the local population, depend largely on the implementation of the potential available in rural settlements.

As of 2018, in Russia, there were 17,766 rural settlements with 37.5 million people that is a quarter of the whole population of the Russian Federation [2]. At the same time, there has been a steady decline trend in the rural population due to the fact that the level and quality of life of the population in rural areas is a multiple lower than the living standard in urban areas. Agriculture, which has traditionally employed a significant number of villagers, at the present stage cannot provide the entire rural population with jobs. Crisis developments observed in rural areas are accompanied by obsolescence and degradation of rural infrastructure. Domestic practice and foreign experience suggest that the

focus on the single-profile structure of the rural economy, which is absolutely dominated by one agricultural sector, cannot ensure sustainable development of rural areas.

Therefore, the potential of rural areas, in the authors' viewpoint, should be unlocked through the integrated development of all sectors of the rural economy, including

non-agricultural ones. Only diversification of the rural economy can stop the outflow of young and able-bodied rural population to the cities, as well as increase employment in the countryside. The development of the rural economy in Russia should be considered as a potential condition not only for increasing agricultural production but also in the aggregate for the growth of the gross product.

It should be noted that a significant omission of the state policy is the lack of attention to the integrated development of the rural economy in both the scientific and practical aspects. As a result, state authorities, except for supporting agriculture, practically do not implement measures for the development of other sectors of the rural economy. Given the fact that the rural economy objectively exists, but there are no effective measures to support it, it is necessary to develop policy measures for its direct development.

Management entities of various levels (federal, regional, local, and individual entrepreneurs), carrying out within their competence administrative influences in rural areas, should have a clear understanding and idea of the rural economy.

The above circumstances, which are formed from the economic decline in many areas of the rural economy, new economic conditions, lack of scientific and practical justification of the rural economy, reflect the relevance of the topic of this work.

II. PROPOSED METHODOLOGY

A. General description

Quite often in the domestic literature rural economy is identified with an agrarian economy. The main reason for this is the long-term predominance and preservation of the leading positions of agriculture in the system of economic activity of the village. However, to date, this judgment is not quite correct due to the fact that the role of agricultural industries in the structure of employment and income of the rural population is declining despite the preservation of the leading positions of this industry as the main user of land resources [3].

According to the definition of Professor S.V. Kiselev, the rural economy is a system of industries and activities, which includes mining and processing industries, agriculture and forestry, infrastructure, as well as services that are demanded in rural areas [4].

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According to D.A. Syusyura, Kiselev's definition of the rural economy is insufficiently substantial, as it is reduced exclusively to "indication of the most widespread enlarged types of activity" [5].

Taking into account this fact, in the authors' opinion, it is expedient to supplement the definition given by Kiselyov with folk crafts, consumer goods industry, wholesale and retail trade, as well as private subsidiary plots.

Syusyura gives definition to the rural economy from the perspective of different scientific approaches:

- according to the structural approach, the rural economy is understood as a set of entities which use the potential and resources of rural areas in various economic activities;
- the process approach characterizes the rural economy as the ability of balanced and purposeful use of resources and potential of rural area to support life-sustaining activity in the village;
- taking into account the system approach, the rural economy can be defined as an open economic system in the rural area which includes a subsystem of management of a set of resources and opportunities;
- from the standpoint of the functional approach, the rural economy is an economic relationship in a rural area, consisting in meeting the needs created by the socio-economic and the natural environment [5].

Determining the constituent elements of the rural economy is a significant point for further research. After analyzing various literature one can present the rural economic structure as follows:

- agriculture;
- industry (mining and processing industries);
- forestry;
- fish industry;
- wholesale and retail trade in rural areas;
- private subsidiary plots;
- service sector;
- folk craft;
- infrastructure.

B. Algorithm

Analyzing the current state of the rural economy in Russia, one can note the depressed and crisis developments of most rural areas of the country. Many rural settlements are abolished due to the elimination of depopulated villages and rural communities. Thus, from 2012 to 2018, the total number of rural settlements has decreased by 1,065. For example, 25% of the villages of the Yaroslavl Region are completely abandoned and have no permanent population, while another 10% of villages are populated by less than 10 people. Almost everywhere there is a reduction in the number of municipal institutions of culture, sports, and education.

At the same time, the importance of non-agricultural industries in the rural economy is growing. Thus, the proportion of villagers employed in the non-agricultural sectors of the rural economy in recent years has exceeded 80%. This is especially true for the southern regions of the country with a high population of rural settlements (two or more thousand people). Thus, the rural population is employed in agriculture and forestry, fishing and fish farming (19.9%), in the trade sector and provision of household services to the population (15%), in education (11.3%), as

well as in manufacturing (9.6%). In 2017, the number of the rural population employed in agriculture, fishing and hunting decreased by 432 thousand people. From 2011 to 2017, the gap between the proportion of employed in the agricultural sector and the proportion of employed in trade decreased from 12.1 to 4.9 p.p. (25.6 p.p. and 13.5 p.p. in 2011, and 19.9 p.p. and 15.0 p.p. in 2017, respectively) [6].

At the present time neither the authorities nor the scientific and expert community pay due attention to the integrated development of the rural economy. The development of rural areas is reduced to investment in agriculture and social infrastructure, while other non-agricultural sectors of the rural economy (forestry, consumer goods and textile industry located in rural areas, folk crafts, etc.) fall out of sight of state bodies.

It should be noted that studying the experience of foreign countries (China, USA, Denmark, Poland, etc.) suggests that the integrated development of the rural economy, consisting in its diversification, investment in rural industry and agro-tourism, allowed these countries to ensure sustainable development of their rural areas in the post-industrial era.

These data confirm the authors' hypothesis about the need to form a state policy for the rural economic development, aimed at its comprehensive development and diversification, including the development of non-agricultural production and services in rural areas.

C. Flow chart

Taking into account the above, the authors of the current study proposed the following state policy directions aimed at the development of the rural economy (Fig. 1).



Fig. 1: State policy directions towards sustainable development of the rural economy [7]

III. RESULT ANALYSIS

Special attention should be paid to the diversification of the rural economy.

The term *diversification* refers to the expansion of the product range, changing the type of products produced by an enterprise or a firm, the development of new types of production in order to improve production efficiency, obtain economic benefits, and prevent bankruptcy [8].

In domestic and foreign works there is no consensus on how to interpret the diversification of the rural economy. Based on the work of scientists such as M.Yu. Shershenev, M.S. Oborin, and O.V. Shimuk, the following definition of this term can be formulated: diversification of the rural economy is the development of non-agricultural activities, various areas within agriculture and the expansion on this basis of employment and income of the rural population [9].

Despite the decline in the proportion of agriculture in the sectoral structure of the Russian economy, its role remains extremely important, since the industry produces primary agricultural raw materials used for further processing by other industries. Given the nature of the link between industries, two strategies for rural economic diversification can be identified, namely, bound and unbound diversification strategy.

The bound diversification strategy is based on the development of different production directions within the agricultural sector of the economy, close to its profile. The main direction here is represented by the production of various types of agricultural raw materials.

An unbound diversification strategy, in turn, is based on the development of industries and sectors that do not have direct links with the agricultural profile. However, these industries are characterized by higher gross value added (GVA) as compared to GVA in agriculture.

Taking into account the downward trend in the level of employment in agriculture, it can be concluded that there is a need for the development of the village as a diversified economy entity. In this regard, it is necessary to consider the prospect of using various measures of state regulation in the framework of an unbound strategy of the rural economic diversification.

Special attention should be paid to non-agricultural activities, since they are an important source of boosting employment and income growth for the rural population, especially given the seasonal nature of agriculture. The Strategy of sustainable development of rural areas of the Russian Federation for the period till 2030 [10] identifies the following areas of non-agricultural activity development:

- construction and production of building materials;
- woodworking and wood procurement;
- household and socio-cultural services to the population;
- folk arts and crafts;
- rural tourism;
- wholesale and retail trade;
- harvesting and processing of natural raw materials (wild fruits, berries, and herbs).

However, in the authors' opinion, this list should be supplemented also by the mining and consumer goods industry.

Measures to develop these areas should be considered in the context of the state policy in supporting small and medium-sized entrepreneurship, which is carried out in accordance with the Federal Law of 24.07.2007 No. 209-FZ "On the development of small and medium-sized enterprises

in the Russian Federation" [11].

In accordance with this Federal Law and the Concept of sustainable development of rural areas of the Russian Federation for the period up to 2020, it is possible to identify some measures to stimulate the development of small and medium-sized enterprises in rural areas [12].

It is necessary to expand access to subsidized and concessional credit for entrepreneurs wishing to organize alternative non-agricultural activities in rural areas. To resolve the issue with the provision of land and premises, one can resort to the municipal-private partnership and on the terms of the lease provide unused premises owned by the municipality.

To attract large investors, who are ready to organize non-agricultural enterprises, it seems appropriate to exempt these organizations from tax obligations for the period up to six years or to provide investment tax credit along with the possibility of subsidizing the creation and development of engineering infrastructure. In rural areas, the land issue is surprisingly acute, so it is necessary to provide land plots for construction on preferential terms.

These preferences must be granted subject to certain conditions, namely:

1. State registration of a legal entity and physical person must be carried out in the territory of the municipality where the said enterprise is located;
2. From 10 to 30% of the created infrastructure should meet the needs of the rural population;
3. The specified enterprise should create at least 30 workplaces.

It is necessary to give the right to each subject to add conditions, depending on the needs of the region and its territorial characteristics.

Since the agricultural sector prevails in many rural settlements, it seems reasonable to develop small enterprises to provide agricultural activities. One can attribute to this area retail stores selling agricultural chemicals, in which it is possible to organize associated consulting centers on the use of chemicals in agriculture. It is also possible to establish in municipal areas accredited laboratories for issuing certificates for agricultural products.

To develop this direction, it is necessary to provide partial compensation of expenses for engineering arrangement, registration of project documentation and property rights of the beginning entrepreneurs at the expense of regional and federal budgets. Also, on the terms of cofinancing of the regional and federal budget, it is necessary to organize collateral and guarantee funds to insure loans that are attracted by small forms of economic management.

It is possible to provide economic, legal, and technological advice to rural entrepreneurs through expanding information and consulting services network. Also, it is necessary to provide to the rural population released from the countryside, the opportunity and access to training in new professions and the basics of small business.

Not all villages in Russia have equipped areas for retail and wholesale trade that does not allow both private households and other producers to sell their products to tourists and the local population.

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For this purpose, it is necessary to allocate subsidies from the federal and regional budgets to local budgets for the development of a network of trade and warehouse facilities through the construction of modern covered markets and provide the necessary infrastructure for trade.

This will allow the population to open retail outlets, thereby creating jobs and increasing the income of the local population. In turn, the rental of retail outlets will bring additional income to the local budget.

Taking into account the experience of foreign countries, the natural, cultural, and ethnic potential of Russia, rural tourism is of particular interest. Rural tourism (agrotourism) is a type of tourism that involves the temporary stay of tourists in rural areas for recreation and/or participation in agricultural work. Rural tourism is also often defined as a sector of the tourism industry focused on the use of natural, cultural, historical, and other resources of the countryside and its specificity to create a comprehensive tourism product [13, 14].

In an industry, such as rural tourism, the multiplier effect is clearly manifested. The essence of this effect consists in creating jobs for workers involved in various sectors of rural economy (transport, hospitality, communications, and banks) and having different skill levels [15]. At the same time, sectors, such as construction, agriculture, culture, and local crafts will also benefit significantly. Agrotourism also stimulates the development of the local economy through the formation of a small economic turnover of local resources in the production of the tourism product.

The main advantages of rural tourism include reduction of unemployment (income from agro-tourism will definitely not be too high, but will allow people to provide alternative employment taking into account the seasonality of agriculture), improvement of infrastructure, environmental protection, creation of recreation areas (for example: tourist bases and complexes), as well as restoration of historical and architectural monuments [16, 17].

Each region of the Russian Federation has unique natural, climatic, historical, and cultural features that allow developing almost all popular types of tourism. However, the proportion of rural tourism in the total volume of tourist services in Russia is extremely small and according to the Russian Federal Tourism Agency, is about just 2% [18].

To develop this industry, it is necessary to implement the following measures:

- provide subsidies and grants to support projects for the development of rural tourism;
- hold conferences and events aimed at teaching representatives of local authorities, peasant (farmer) farms, individual entrepreneurs, as well as owners of rural guest houses and rural residents, in general, the basics of rural tourism [19];
- use state and regional mass media to highlight the attractiveness of this tourism destination, as well as to highlight the most successful projects aimed at the development of agro-tourism [20-22].

According to the authors of the present study, grant support is the main tool of economic development at the initial stage. The competitive selection of funds from the federal and regional budgets to create a tourist zone will allow identifying the most attractive and effective

agro-tourism project in the region. This measure is seen optimal due to the fact that the rural population often does not have free funds to create alternative employment, while the regional authorities will be able to choose the best development project of the rural economy.

Expenditures to stimulate the diversification of the rural economy must be included into the federal budget, as well as, based on the concept of sustainable development of rural areas of the Russian Federation for the period up to 2030, make these measures a part of the regional target program of sustainable development of the rural economy in the framework of pilot project. In case of successful implementation of this project, it will be appropriate to adopt the program to the rest of the constituent entities of the Russian Federation.

IV. CONCLUSION

As a result of the conducted research, the following measures aimed at diversifying the rural economy in Russia have been developed:

1. Increasing access to subsidized and concessional lending to small businesses engaged in non-agricultural activities.
2. Providing the unused part of municipal infrastructure to rural entrepreneurs in the framework of municipal-private partnership.
3. Providing under certain conditions investment tax credit and land plots on preferential terms to large investors establishing non-agricultural enterprises.
4. Providing incentives to small businesses in the field of agricultural activities through compensation of costs on engineering arrangement.
5. Developing trade and warehouse organizations network in rural areas.
6. Providing grant support for initiatives of small and medium-sized entrepreneurs in the field of rural tourism.

Summing up, it should be noted that the rural economy has great potential, which can be unlocked through a reasonable and consistent implementation of the above measures by the federal, regional, and local authorities. At the same time, the relative cheapness of labor, premises, and land will contribute to the successful implementation of the proposed measures.

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