

RURAL ENTREPRENEURSHIP AS A DRIVING FORCE FOR REGIONAL DEVELOPMENT

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Abstract

The article examines development of rural entrepreneurship as the necessary condition to foster regional economic system. Providing sustainable development of rural entrepreneurship will inevitably lead to the higher standards of rural livelihood. Our study determined the conceptual foundations of sustainable development of rural localities, to be accomplished through the creation of decent living conditions and the participation of the rural population in quality food production. Our study determined the conceptual foundations of sustainable development of rural localities of the Russian industrial regions, to be accomplished through the creation of decent living conditions and the participation of the rural population in quality food production. Particular attention is given to the mechanism of interaction and coordination among federal and regional governments, local governments and commercial organizations engaged in food production in rural areas. On the basis of the described theoretical propositions, the conceptual model of the innovative development of rural areas, aimed at quality food production for the population of region, is presented. To ensure the entrepreneurial activities of rural producers, the regional government is encouraged to transform the regional agrifood system into an agriinnovation system, with information systems at its core.

Key words: rural entrepreneurship, agriinnovation system, rural development, Russia

JEL Code: R11, O38, Q18

Introduction

The policy makers and scientists are interested in how entrepreneurship create the foundation for the regional economic development. For Russia, this problem has significant meaning because political system of the Russian Federation inherited the Soviet tendency to give more power and resources to the federal government rather than to municipal authorities, causing greater involvement of the federal administration in regional economic systems.

The Soviet regional food system aimed at providing sufficient amounts of basic food for the population in kolkhozs, huge agricultural companies under the strict control from the government. Even now, after the collapse of the Soviet Union, the major food security principles of Russia are focused on the availability of basic foods (Boycko *et al*, 1995) leaving less place for rural entrepreneurs to enter local food markets.

However, the stated principles of food availability do not affect the food quality required by the population, and today more and more researchers and practitioners raise this question.

Nowadays, the existing system of food production and distribution in Russia cannot be termed sufficient and productive. Modern requirements of the food system, such as agricultural productivity improvement and rural poverty reduction, cannot be achieved within the post-Soviet type of agricultural policy. Any innovative agrifood system must provide not only basic food but also the whole range of special food types required by the population in the northern regions (Shubin, 2006). However, the practice of agricultural production in Russia is based on the Soviet agrifood system model, which is mostly suitable for southern and central regions of Russia (Anfinogentova, 2013). To reach the goal of regional food security and to change the declining trends in production, it is necessary to develop innovative agrifood system model based on rural entrepreneurship to ensure the priority of social goals over economic development, because providing higher standards of rural livelihood will inevitably lead to sustainable development of agricultural production.

Theoretical foundations and methodology

A theoretical model of the rural entrepreneurship, which will allow us to determine the perspectives for regional development, cannot be developed without a systematic analysis of the food production and distribution system in the region, especially when it comes to a predominantly industrial one.

The concept of rural entrepreneurship “became a dynamic field of research in the last two decades” (Pato *et al*, 2014) as a response to food production crises. The initial idea was to develop innovative agro-technologies to improve the competitiveness of small producers in developing countries. This concept was supported by the World Bank in numerous publications. Elena *et al* (2015) developed a predictive model of innovation in rural entrepreneurship.

The innovative model of a rural entrepreneurship should be closely related to the climatic conditions of the territory in question and to its historically-developed way of life and human activity; therefore, it should rely not only on agricultural traditions but also on those of food consumption.

The identification and implementation of the economic capacity of the northern Russian regions must be based on an analysis of both prospective and historical developments of the regions. Therefore, historical knowledge is not only essential to understand the territorial model of agriculture, and to forecast its development; it is also an important component in the management of the territorial development, particularly in the sphere of regional food security (Elis et al, 2015).

In the process of agricultural development in the region, local farms must apply not only new agro-technologies, but also new forms of management. The essence of the proposed approach to the creation of any entrepreneurship model is to recognize the need for the joint efforts of the various participants in agricultural production and the food market, to effectively achieve the common goal of sustainable food security (Figueroa-Armijos *et al*, 2012).

The effectiveness of the agrifood system in the region can be evaluated within the framework of the model, based on the definition of the functional relationship between the public welfare and the efficiency of regional and local authorities, acting under the constraints of limited resources (Harpa *et al*, 2016).

The assessment of commercial organizations' performance, as well as that of government bodies and local governments, is difficult, due to the differences between commercial organizations and municipal bodies or public authorities in relation to human welfare. The social welfare function is considered as a set of individual utilities of all individuals constituting the population. Thus, it is essential to view welfare as including the welfare of all individuals. Therefore, all actions of government bodies and local authorities should be targeted at achieving justice; that is, at improving or at least maintaining the welfare of every member of the society. This problem can be represented as the maximization of social welfare functions by optimizing the enhancement of individual well-being (Hukampal *et al*, 2016).

The rural entrepreneurship model should be viewed as a model for the provision of public goods or services. Public goods or services have no value, they are consumed for free; but they do have a cost, since the territorial government spends a certain amount of its resources on creating public goods.

To estimate the relevance of the concept of the agriinnovation system to rural entrepreneurship improvement, let us discuss the case of Sverdlovskaya Oblast, using the statistical data provided by the *Rosstat*, the Russian census office. Unfortunately, statistical data on food supply and agricultural production in Russia is limited, and it makes it more difficult to extrapolate the results to any Russian regions.

Empirical model: The case of Sverdlovskaya oblast

Sverdlovskaya Oblast is located between 56° and 60° north in Siberian part of the Urals Mountains. The climate is continental with the average annual temperature 0°C and frost-free period of 100 days. The soil is mostly infertile loam, and the territorial agricultural output is quite low. The average wheat yield per acre is about 20 bu. Lands which are suitable for agriculture make up 13.34% of the total territory. According to Rosstat data the local agricultural produce meets only 15% of the local population's needs in food.

Despite the diverse ethnic composition, most of the population follow the same highly nourishing northern diet, consisting mainly of proteins of animal and plant origin (approximately 80 g of animal fat and 50 g of vegetable fat daily).

Sverdlovskaya Oblast faces major demographic problems, predominantly in the rural areas; reduction in employment of the rural population; decreases in the volumes of agricultural production; and, also, decreases in the standards of living in the rural territories.

The following data clearly demonstrates the reduction in the public welfare in the rural localities of Sverdlovskaya Oblast. Population loss was caused by migration to the urban areas, in search of better income.

The unemployment level in the rural localities is characterized by the following negative trends:

1. Persistently low earnings: on the one hand, the growing demand for low-paid labor; and, on the other hand, the unwillingness of residents to work for the salaries offered (about 100 euros per month);
2. An increase in off-the-record employment, without taxes and social security benefits;
3. Insufficient demand for qualified workers and a scarcity of a qualified labor force in the local labor markets, due to the poor professional qualifications of rural residents and their low level of working mobility;
4. A significant proportion of young people (aged 20-30) with low general education levels, which considerably complicates the problem of their job placement; and
5. Increasing tension in the labor market. The low level of competitiveness on the labor market, which characterizes certain population categories (young people without work experience, women with small children, the disabled), is caused by the objective hardening of employers' demands.

More than 25 thousand people, on average, were permanently unemployed in rural localities. The average level of unemployment in the rural localities was 3.5%. Despite increasing rural unemployment, growth in agricultural production in Sverdlovskaya Oblast in 2016, as

compared to 2015, increased by 23.4% in actual prices; in terms of comparable prices, the increase amounted to 2.7%.

Two factors influenced the noted increase in agricultural production: negatively, an inflationary rise in global food prices; and positively, an increase in labor efficiency in the agricultural organizations of Sverdlovskaya Oblast.

Sverdlovskaya Oblast has a strong industrial background, with high concentrations of urban populations (the rural population makes up only 16% of the whole population). This situation requires highly intensified agricultural production, most of which consists of fresh produce.

According to the statistical data, the average number of workers for an industrial enterprise in the region is 150. For rural localities, the most common type of enterprises is SME, (small and medium enterprises), with staff numbers of up to 100 people. These are enterprises linked to agricultural production and the forests industry; to support the economy of rural areas, regional and local authorities should give priority to SMEs.

To ensure the balanced development of rural localities by creating adequate living conditions, it is necessary to accomplish the following major tasks:

- create self-developing economic systems there;
- increase the attractiveness for migration to these rural localities.

To raise the level of food security in Sverdlovskaya oblast it is proposed to increase the welfare of the rural population by entrepreneurship development in rural localities and the economic growth of agricultural production. According to this suggested model, there should be additional funding from federal, regional and local authorities (and private investment), to increase the welfare not only of the separate categories of the population of Sverdlovskaya Oblast, but, practically speaking, for all population groups.

The efficiency of the suggested model should be evaluated, depending on its impact on the improvement of the social and economic situation in the rural localities of Sverdlovsk region: specifically, in a visible change in migratory processes and results. The effectiveness of the model can be evaluated, too, on a wider scale, since its realization positively influences not only the rural population, but also urban increases.

Discussion

The suggested model can be considered suitable for the rural entrepreneurship system of an industrial northern region, since the principles which this model is based on are fundamental for any industrial region.

The expected outcome, after the realization of the rural entrepreneurship model, is an increase in food security and an improvement of living standards for the rural population. To achieve this, the following principles should be realized:

The first principle is that the rural entrepreneurship model must consider the interests of all social groups of the given industrial region, and it must be aimed at increasing the public welfare of all groups.

Secondly, the model should be targeted at the development of the specific advantageous features of the agricultural producers of Sverdlovsk region, but not at the expense of competition with external producers.

The third principle is that, rather than focusing on changes in benchmarks for the rural development of Sverdlovskaya Oblast, the model should strengthen the economic growth of the region by improving food quality for the population.

The fourth principle is that the model develops not only the economic potential of the rural regions but, primarily, social growth. The model points out the importance of the multifunctional development of rural localities, which, in turn, is bound to affect the standards of living in the rural localities in Sverdlovskaya Oblast.

This model was introduced to the local government, and it was found to be promising as a mandatory part of the regional innovative development program.

The weakness of the suggested model is a possible lack of political initiative on the part of local authorities (Yu *et al.*, 2013). The current political system in Russia does not give sufficient power to municipal administrations. To implement this model municipal administrations are required to take political responsibility for the level of living standards and food security of the population.

Increase in migration to rural localities, stimulated by creating jobs in agrifood enterprises, and the creation of a favorable rural community, will lead to long-term stable regional economic development. Thus, the agrifood system model developed for Sverdlovskaya Oblast meets the basic requirements for a model of rural entrepreneurship of industrial regions and can be applied in other northern industrial regions of the Russian Federation.

Conclusion and Recommendations

The research results revealed a deteriorating trend in regional economic development and entrepreneurial activities in Sverdlovskaya Oblast. To reach the goal of maintaining sustainable regional economic development it is necessary to ensure the priority of developing regional entrepreneurial system. Providing higher standards of rural livelihood will inevitably lead to

the sustainable development of entrepreneurship. Our study determined the regional entrepreneurship as the driving force for regional economic development. The growth of entrepreneurial activities in the region should be provided through the participation of the rural population. Particular attention is given to the mechanism of interaction and coordination among federal and regional governments, local governments and entrepreneurs engaged in food production in rural areas. Based on the described theoretical propositions, the conceptual model of the innovative development of rural entrepreneurship aimed at quality food production for the population of region, is presented.

The results show that despite a highly centralized economic policy in the Russian Federation, rural entrepreneurship development can be achieved by encouraging municipal authorities and entrepreneurs to take on a more responsible and active role.

To ensure the entrepreneurial activities of rural producers, the regional government is encouraged to transform the regional agrifood system into an agro-innovation system, with information systems at its core.

A question for further research of the concept of rural entrepreneurship as a driving force to improve the rural development and the food supply for the population of northern regions of Russia depends on the availability of further reliable statistical data on agricultural production and food consumption in different regions of the country.

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