

# Rationale of Management Principles of Providing Sustainable Development of Rural Territorial Communities

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## ABSTRACT

The motivation of the research is to find the answer to why the reform of decentralization of government in Ukraine does not contribute to the sustainable development of the countryside and the peasantry. The objective of the article is to substantiate the managerial principles used to ensure sustainable development of rural territories based on the establishment of a village preservation model of the agrarian system in Ukraine. The article identifies basic features of rural development policy and management using various agrarian system models, in particular, the agricultural holding model, which is currently being implemented in Ukraine, and the village preservation model, which is proposed for implementation in order to preserve and revive rural life in Ukraine. The main achieved results include managerial principles of sustainable rural development in the village preservation model of the agricultural system.

## KEYWORDS

Management, Rural Territorial Communities, Sustainable Development

## INTRODUCTION

The sustainable development of rural territories in Ukraine determines provision of sustainable social and economic development of the country in general, as the rural population amounts to 31% of the existing population, and agricultural land accounts for 70% of the country's land resources.

Science has its own niche of responsibility for sustainable rural development in Ukraine. Its area of responsibility involves development of theoretical foundations for the maximum avoidance of errors in authorities' strategic and tactical actions along the way. Scientific research should ensure the development of a design consistent with the current social and economic status of national institutions and their capacity for change, rather than a far-fetched design or some vision (better name the models of rural development).

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The managerial model of ensuring the sustainable development of rural territories has to be desirable by and understandable to rural communities even by its name, as an awareness of what we are building. It is their support and direct involvement that is the locomotive of rural development and development of rural business patterns.

The model defines the framework purposefulness, coherence and integrity of the whole range of governance reforms (land, tax, business, etc.). For the legislative implementation of the latter, this is kind of a constitution, the “corridor” of their ideological orientation.

From 2015 to 2019, the authorities allowed lack of focus on the goals and lack of certainty in the pattern in implementation of rural development policy in the relevant laws, strategies, and concepts (The concept for rural development, 2015; Concept for reforming local self-government and territorial organisation of government in Ukraine, 2014; Law of Ukraine «On approval of the Concept for reforming local self-government and territorial organisation of government in Ukraine», 2015). It is difficult to understand what pattern of rural development is laid down and, moreover, is being implemented in the documents adopted by the government of Ukraine and the Verkhovna Rada of Ukraine.

Reforms, that are supposed to be part of a single and coherent design (model), are not ideologically protected and are being discredited in favour of some interests alien to rural development. The current state of both land, tax, and decentralization reforms lacks adequate scientific support and does not contribute to the development of the countryside and rural communities. The reform of business patterns is discussed only in the context of agricultural cooperation and the problems of economic management of agricultural holdings. It is mistakenly believed that it was completed in Ukraine in the early 2000s.

## LITERATURE REVIEW ON ERP DEPLOYMENT

Yet, academic discussions on the issue of effective management models for sustainable rural development have been ongoing and remained relevant over the past few decades. Among the scholars who outlined the scientific foundations for the sustainable development of agricultural entrepreneurship and rural areas are O. Borodina, Y. Hadzalo, M. Hladii, M. Kropyvko, Y. Luzan, Y. Lupenko, M. Malik, B. Paton, O.L. Popova, I.V. Prokopa, P.T. Sabluk, O.H. Shpykuliak (Hadzalo, Hladii, Sabluk & Luzan, 2018; Hadzalo & Zhuk, 2015; Paton, 2016; Lupenko, Malik & Shpykuliak, 2019; Borodina, Kyryziuk, Popova & Prokopa, 2015; Malik, Kropyvko & Bulavka, 2012).

Information support for the sustainable development of enterprises is developed in the article (Sokil, Zhuk, Holub & Levchenko, 2019). An Australian study of integrating environmental, social and governance (ESG) disclosure for a sustainable development by Lokuwaduge, C. S. D. S., & Heenetigala K. (Lokuwaduge & Heenetigala, 2017).

The Regional Development Assessment of Social Resilience study of Taiwan villages by Chao Tung Wu and Yang Ting Shen (Chao & Shen, 2019).

Comparison of informal planning practices across regions across Europe has been done in the Marlies Meijer study (Meijer, 2019).

We have thoroughly studied these studies and they have served as a major impetus to formulate our own hypotheses for rural community management in the village conservation model.

In particular, Marlies Meijer study covers diverse regions and institutional contexts. In all regions the author has found a wide range of examples of governance in territorial communities. This research provided three plausible explanations for similarities in planning practice at community level: (a) a strong sense of place, (b) robust informal institutions, and (c) a collective memory for self-governance (Meijer, 2019).

It is important to find out and formulate a fundamental understanding of why the reference points declared by the authorities, which seem to be valid at first sight, give no impetus to the development of farming and cooperation, why such reforms are aimed at satisfying the interests of the agrarian

oligarchy. This is a research issue of the publication, which aims to substantiate the managerial principles of sustainable rural development, which, in our earnest conviction, is only possible when implementing the village preservation model of agricultural system in Ukraine. The basic management principles in this model will be described in the publication.

## RESEARCH METHODOLOGY

The idea of the study is to achieve sustainable rural development through the introduction of a village preservation model of agricultural system in rural areas.

In studying the processes of decentralization in Ukraine, the methods of questioning and generalization were applied. Methods of analysis and synthesis have been used to formulate policy and management features of rural development under different models of agricultural systems. On the basis of the method of comparing the main socio-economic results of the activities of agroholdings and village-saving enterprises, conclusions were drawn about the priority model of management in the village.

The historical method and the method of analysis have been applied in the study of national settlement traditions and features of peasant institutes in Ukraine. The calculation methods of research and the method of generalization are used in the study of financial performance of individual enterprises. The method of scientific modelling was used in the construction of a village preservation model of the agricultural system and the development of management principles to ensure the sustainable development of agrarian entrepreneurship and rural areas.

The sources of information in the study were statistics of the State Statistics Service of Ukraine, laws and regulations on local self-government and territorial organization of power in Ukraine, accounting data of agricultural enterprises.

## RESULTS AND DISCUSSION

The village-based entrepreneurial basis of rural development in Ukraine is on the decline. Over 7 years (2010~2017), the number of farmers decreased by 10,000, while more than half of them conduct their activities in the shadow economy and even lease their land plots to holdings. There is a huge problem with the development of cooperatives.

The number of commodity personal farms is falling rapidly (and migration and ageing of the rural population are not the only reasons). In rural areas, the market capacity for non-agricultural businesses is decreasing.

We believe that the key to solution of these problems is the model synergy of all components in its reform. It is necessary to promote village preserving (pro-village) forms of management with tax preferences, budget support, and appropriate orientation of the land market, etc. Lack of such comprehensive, systematic approach makes productivity impossible. Yet, under one condition: it has to “rest” on the institutional maturity of the rural communities’ reforms. This condition is also very important for the reform of business patterns. Rural communities have to be proactive in entrepreneurship: both in personal business ventures, and in control over business in villages. However, it is impossible to develop business acumen in rural communities without development of their proactivity in self-government. According to the institutional theory, behavioural economics theory, and our research, an entrepreneurial organization is a corollary of a self-governing organization.

Rural development should be facilitated by community development policies aimed at stimulating rural business and increasing the number of small businesses, creating the conditions for diversification of the local rural economy as a reliable basis for raising employment and income rates.

According to these tasks, it is crucial to identify the processes of formation of united territorial communities (UTC) in rural areas as a factor of sustainable development of rural territories, assessing the UTCs for their institutional capacity to develop rural territories, all settlements in their composition

indiscriminately, on the basis of self-governing and entrepreneurial organization. Foreign experience of decentralization processes, in particular in Sweden, Poland and other European countries, shows the success of these processes and their positive impact on the social and economic development of the country. Among the main positive results of decentralization are the intensified cooperation of business with local authorities, development of small and medium-sized businesses, constructive solution of communities' own problems, achievement of sufficient income at local levels for community development and self-financing of projects, efficient use of resource potential, diversification of local economy for the purpose of ensuring effective employment of the population, and increasing their income level. These goals should underpin decentralization reform in Ukraine.

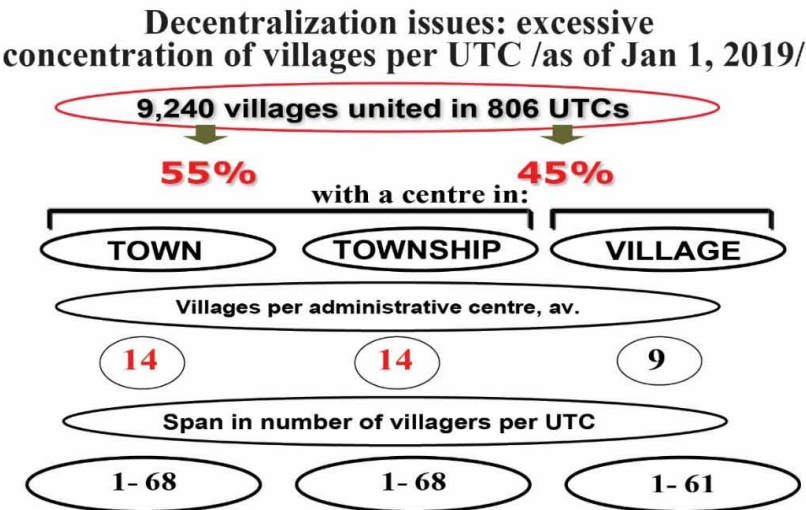
Yet, while launching the much-needed reform of self-government – decentralization, the government ignored scientific support. This is despite the fact that the results of its implementation in Ukraine will lead to a certain institutional environment, which will largely determine the directions, design, and scope of rural development. At the same time, rural decentralization received neither a fundamental justification nor a model framework. Thus, immediately after the basic “blur”, the interests of politicization of the process emerged and, even worse, the united territorial communities were created for land management by large-scale agribusiness entities.

As of early 2019, there were an average of 11 villages united, but the majority (55%) had their centres in towns and urban-type settlements. On average, there are 14 villages per town and urban-type UTC, and 9 villages per rural UTC. However, in different communities, their numbers fluctuate significantly – from 1 to 68 villages. Former districts are divided into 1-3 communities (Figure 1).

With an acceptable average number of rural settlements in a single UTC and the overwhelming proportion of those UTCs uniting up to 20 villages, more than 40 rural settlements are united in a number of communities, which corresponds to the numerical composition of districts in Ukraine. As of January 1, 2019, the number of such UTCs is 22, comprising 1,121 villages, which is 12% of the total number of rural settlements of the united territorial communities. A large number of the UTCs comprising 21 to 40 villages is quite considerable – those are 83 communities, comprising 2,326 villages.

Supposing the Government adheres to its own plans for such amalgamation, the subsequent unions will already include 62 villages ((27,900 – 9,240): (1,172 – 884)). As to such communities,

Figure 1. Problems of rural self-government: the government alienates itself from rural communities (Source: Created by the team of contributors based on the results of the study of the management decentralization processes in Ukraine)



there is doubt about their institutional capacity for the social and economic development of all villages unexceptionally. Under such conditions, Ukraine will forget about the self-government in rural communities, and therefore, their entrepreneurial activity, unlike the whole civilized world. Ukraine is facing the decline of villages and rural communities, as it happened with the brigade villages of the Soviet reform in the 80s. Yet now the decline is affecting the vast majority of villages (Figure 2).

In rural areas, depopulation takes place at high rate and on a large-scale, which, according to the theory of spatial economy, will inevitably lead to a decrease in the capitalization of assets, both productive and natural. Productive investment attractiveness (investment with a long-term production prospect) will decrease and conditions for mass speculation will be created.

We may go on, but the conclusions are obvious:

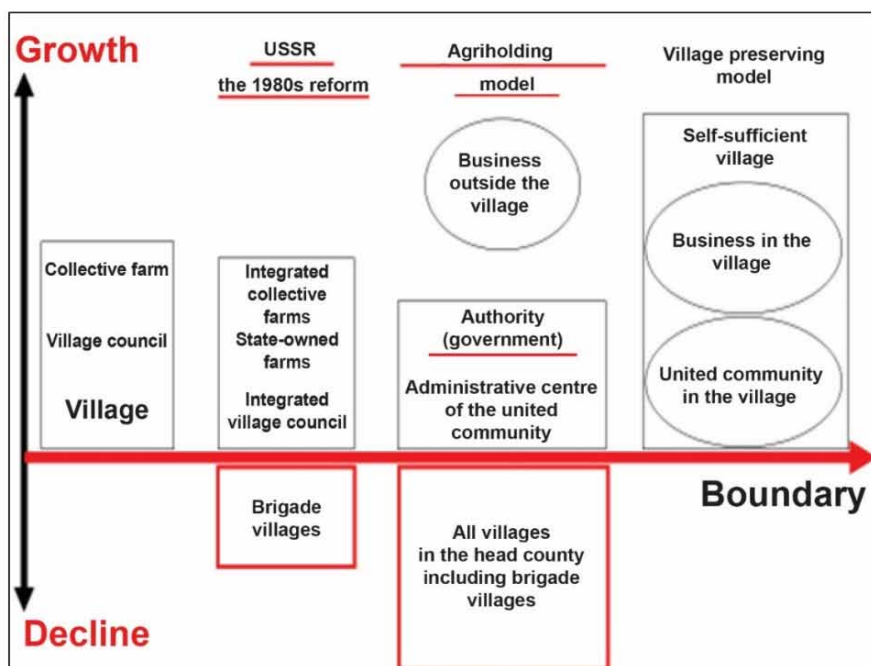
- There are issues of ignoring the fundamental principles of rural development;
- The policy is not modelled or adapted to the status of national institutions;
- The agriholding model of rural development is being implemented de facto, while absent de jure.

The basic features of rural development policy under different Models are shown in Table 1. The differences are obvious.

Land, land market – for all citizens of Ukraine, it is a platform for agriholding land speculation. Land, land market should serve only rural population who lives and works there. As it is done in Europe. It is necessary to ensure the capitalization of the value of agricultural land in the national wealth of the country. We wrote about it in the publication (Zhuk, Bezdushna & Tyvonchuk, 2019).

Preferential taxation should be for village preserving entrepreneurship only, and not for everyone. Neither from a theoretical, nor from an applied point of view, the agriholding model, which is currently de facto implemented in Ukraine, will provide any rural development.

Figure 2. Self-government and business activity in villages under different models of agricultural system (Source: created by the team of contributors based on the results of the research)



**Table 1. Basic features of rural development management policy for different models of agrarian system**

Policy targets	Model	
	Village preservation (proposed for implementation)	Agriholding (actually implemented)
Land ownership, land market:	For rural population living and working in the village	For all citizens of Ukraine, as well as foreigners
Land market operates under control of:	The village community	StateGeoCadastr (the State Service of Ukraine for Geodesy, Cartography and Cadastre)
Association of residents by:	Rural communities, villages	Large united communities
Rural assets / Government	Villages	United territorial communities
Land lease:	From rural population – corporate	From all citizens – individual
Preferential taxation	Village-preserving entrepreneurship	All agricultural enterprises and agricultural holdings

Source: Summarized based on the results of the study of the existing rural development management policy of 1,050 settlements in Ukraine.

An experimental study of the village preserving economy of some enterprises in individual villages of Ukraine, which are unfortunately scarce these days, has allowed to compare and summarize the results and social and economic consequences of their management with the social and economic consequences of management implemented by agriholdings (Table 2).

The results of such studies prove the futility of the agriholding model of rural area management in ensuring their sustainable development. Such generalizations determine the priorities in the country's policy of village preservation and sustainable development: 1) rural development (through the support of agrarian entrepreneurship); 2) rural development (through investments in their social and economic infrastructure). An important principle is the top-priority support of provision of appropriate social and economic living conditions in depressed territories.

The analysis of national settlement traditions (the presence of villages per se), features of our peasantry institutions, state capabilities shows that the implementation of the Sustainable Development Goals in the rural territories of Ukraine is possible only with the adoption of the *village preservation model of the agricultural*

**Table 2. Determined social and economic consequences of management strategies of village preserving enterprises and agricultural holdings in Ukraine**

Name of the enterprise	Number of villages on the territory of economy management	Number of employees, persons	Taxes paid, UAH thousand		Livestock, cond. heads	Organic fertilizers, tons
			Total	Including to local budgets		
Ahrosvit AJSC	2	9.7	126.4	39.9	72.1	1734.2
Batkiivshchyna Production Cooperative	5	7.2	98.0	33.6	50.4	657.1
Terezyne OJSC	1	2.6	150.3	49.3	113.3	2374.0
Askaniiske SE *	2	4.1	97.3	20.7	22.7	201.2
Kutuzivka SE *	12	3.9	77.9	20.3	36.9	160.0
Oleksandriiske SE *	2	8.0	141.4	32.9	57.0	692.0
Pasichna SE *	3	9.0	173.0	37.0	75.0	526.0
On average <b>agriholdings</b>	38	0.1	10.7	4.6	0.8	0.0

Source: Determined by the results of analysis of agricultural enterprises in Ukraine

\* Research farms of the National Academy of Agrarian Sciences of Ukraine

system. The managerial principles of sustainable rural development in this model are the relevant state policy, scientific and public support, infrastructure investments, socially responsible entrepreneurship and, of course, the creation and functioning of the institute of rural self-government (Figure 3).

Social and economic management guidelines for the village preservation development of domestic agrarian entrepreneurship and rural territories include the relevant administrative and territorial structure, national agrarian, tax, social, investment and other policies, mass deployment of scientific and public advisory services, ensuring village preservation, functioning of responsible business activities and decent living conditions and human development (Figure 4).

In particular, state policy should be aimed at comprehensively supporting the sustainable development of the village through the introduction of development programs in various spheres of cultural, social, and labor activity. Scientific and public support consists in the creation of public and scientific organizations in rural areas that will contribute to the implementation of the principles of sustainable territorial development.

Figure 3. Managerial principles of sustainable rural development in the village preservation model of the agricultural system (Source: Created by the team of contributors based on the results of the research)

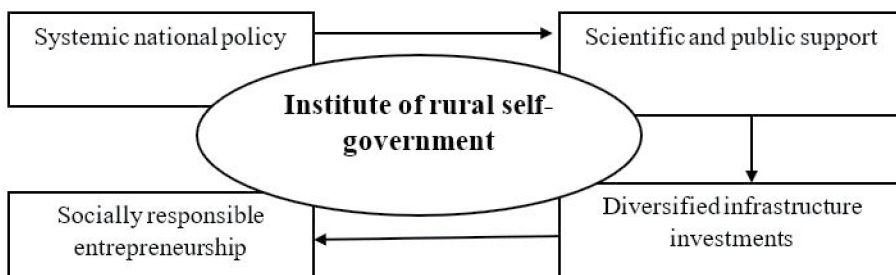


Figure 4. Management principles for sustainable development of agrarian entrepreneurship and rural areas (Source: Created by the team of contributors based on the results of the research)



Investments in infrastructure are important, in particular from enterprises that carry out agricultural activities in the village. By developing socially responsible entrepreneurship, we will be able to achieve significant progress in the standard of living in the village. This will also be facilitated by the creation and functioning of the Institute of Rural Self-Government.

The defining element of such model is the institute of rural self-government, which, based on the joint-corporate ownership of the rural population, arranges effective use of local resources and controls compliance of enterprises and households with the criteria of sustainable development.

These proposals are logical based on the results of large-scale European studies (Meijer, 2019). In all the regions under study, people felt a strong sense of place (Christiaanse & Haartsen, 2017; McManus, Walmsley, Argent, Baum, Bourke, Martin & Sorensen, 2012). The inhabitants identified with their regions and expressed a love for the place they live in, even though it is subjected to challenges such as depopulation and economic decline (Meijer, 2019).

## CONCLUSION

Therefore, the uncertainty of the executive government institutions when it comes to the model of agrarian system is the main problem of domestic agrarian reforms, including the reform of economic management. The model, as the construction of the desired achievements, is the guide, the ideology of reforms. In spite of the importance of the reform of economic management, it is just a component in the integrity and consistency of movement to the goal – the development of agricultural production and rural areas perfect for the national needs. The model therefore sets out the framework of what rural entrepreneurship should be. And, since there is a model uncertainty with the agrarian system in Ukraine, we have tolerance to all forms of management (which in itself is good), as well as the oligarchic agriholding system, business operation in the shadows, and close to zero entrepreneurial proactivity among rural population.

Proposals to overcome the possible crisis consequences of such agrarian and rural decentralization policies have repeatedly been submitted to state institutions. We implemented and published these proposals in the research report “Agricultural land transactions in the village preservation model of the agricultural system of Ukraine” (Lupenko & Zhuk 2018; Zhuk, 2017). As a way out, we suggested organizing the self-government of rural population in the united territorial communities by giving them a free-standing status in each self-sufficient village. In the village preservation model, such status implies self-governmental economic functioning of the village based on its free-standing status. Among other things, such self-government status provides for the entrepreneurial proactivity of rural population, which is necessary for rural development. The rural population gets the opportunity of equal relations with government bodies, various business owners, types of management. This is especially important for:

- Promoting the efficiency of inventory and accounting of rural natural resources (primarily, land) and monitoring compliance with their exploitation conditions;
- Ensuring registration of all forms of economic activity on the village territory and control over its contribution to rural budget;
- Overcoming the crisis of rental relations and raiding, introducing the consent of the rural community to the land lease to a certain business entity/business owner, the consent of the village community to land, real estate purchase;
- Implementation of the principle of demands for job creation, social protection of local residents to the business patters.

These conditions form the village preserving entrepreneurship, economic, social, environmental basis of rural area management.

Based on the theory of spatial economy, management in the village preservation model of agrarian system aims at preserving every self-sufficient village in Ukraine. In case of voluntary entry of villages into a unified territorial community, they retain their self-sufficient status, both as a separate organization and as an asset holder of village-related resources (on separate accounts in the territorial community). According to the village preservation model, any business entity in a rural area should have a rural legal address, pay local taxes and other contractual payments to the village. To fulfil the conditions set by the village for employment of the villagers, development of animal husbandry, etc. Private ownership of rural assets, including agricultural land requires the owner to live or organize business in the village, according to the village preservation model. The village preservation model of the agricultural system is aimed at overcoming the problem of despair among rural populations and their proactivity. It is working for the development of a new psychology of Ukrainian rural population, a new social and economic essence of the country's villages. Through the evolution of organizations, the model develops the rural system to the European level, both in economic management and in responsibility.

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