

**Journal of Research on Trade, Management and Economic Development**  
**VOLUME 2, ISSUE 1/2015**

---

**THE FORMATION OF THE INSTITUTIONAL ENVIRONMENT OF  
RURAL TRADE**

**Hennadiy APOPIY, Post-graduate student,**

Lviv Regional Institute of Public Administration National Academy of  
Public Administration the President of Ukraine

*E-mail: ag777ag@i.ua*

**JEL classification: R00, O18**

***Abstract***

*The article considers the role and importance of the institutional environment in the functioning of rural trade, the proposed structural model of institutional development and functioning of rural trade.*

**Keywords:** commodity markets in rural areas, institutional support of rural market, development of commodity markets in rural areas, problems of commodity markets in rural areas.

**1. Introduction**

The progressive development and effective functioning of the rural trade depend on the influence of numerous factors of socio-economic, scientific-technical, organizational, legal and financial-economic nature. Of particular interest are those factors and conditions that shape the institutional environment.

**2. Analysis of recent researches and publications**

Theoretical and applied aspects of rural market are unexplored. In fact, fundamental research and development - are absent. The works of I. Lukyanov, V. Zagorsky, S. Babenko, Y. Goncharuk, V. Apopyi substantiate the need to create rural market, its characteristics and socio-economic role. However, the theoretical and methodological means of the formation of the rural market are not developed, their function and structure not defined, there is no substantiation of the functioning mechanism for rural markets.

**3. Statement of the problem**

Institutional support of modern processes in rural trade is poorly studied, the institutional framework in this area is not developed and this leads to a significant deformation in promoting trade in rural areas.

Therefore, the aim of this article is a scientific basis for the model of institutional support future development of the trade in the village. The relevance of such justification of trade increases with increasing social orientation of trade in the development of rural areas.

#### **4. Applied methods and material**

Based on the review of investigations on rural markets conducted by local researchers there were established omissions in this area. They have allowed the scientific substantiation of the model of institutional assurance of trade development in villages. The study allowed the identification, analysis and grouping of conflicting interrelated interests of the institutional environment of rural commerce operation. Settlement of expanded spectrum of established contradictions on delivery prices, rebates, lots' size, rationality of goods circuit, quality and safety of goods, distribution of income and expenditure, via market methods and mechanisms, competitive actions proved to be objectively ineffective. Practice shows that there is need for informal institutes for removing drawbacks in rural trade development. Research was conducted through the inherent processes of economic disciplines: observation of objective reality, assessment of phenomena, analysis and synthesis of information etc.

#### **5. The main material**

Many of the trends and phenomena that occur in the national economy and are manifested in the field of rural trade (quantitative growth, the globalization of commodity markets, the decline in purchasing power, the expansion of imports of goods, excessive differentiation of regional development of trade, expansion of shadow turnover of goods, discrimination of forms of ownership) can be fully explained by the methodological tools of institutional Economics.

The starting point of justification of the structural model of institutional support for the development of rural trade is the identification of interacting interests. Here you can define groups of interest that can be schematically represented as follows (Figure 1).

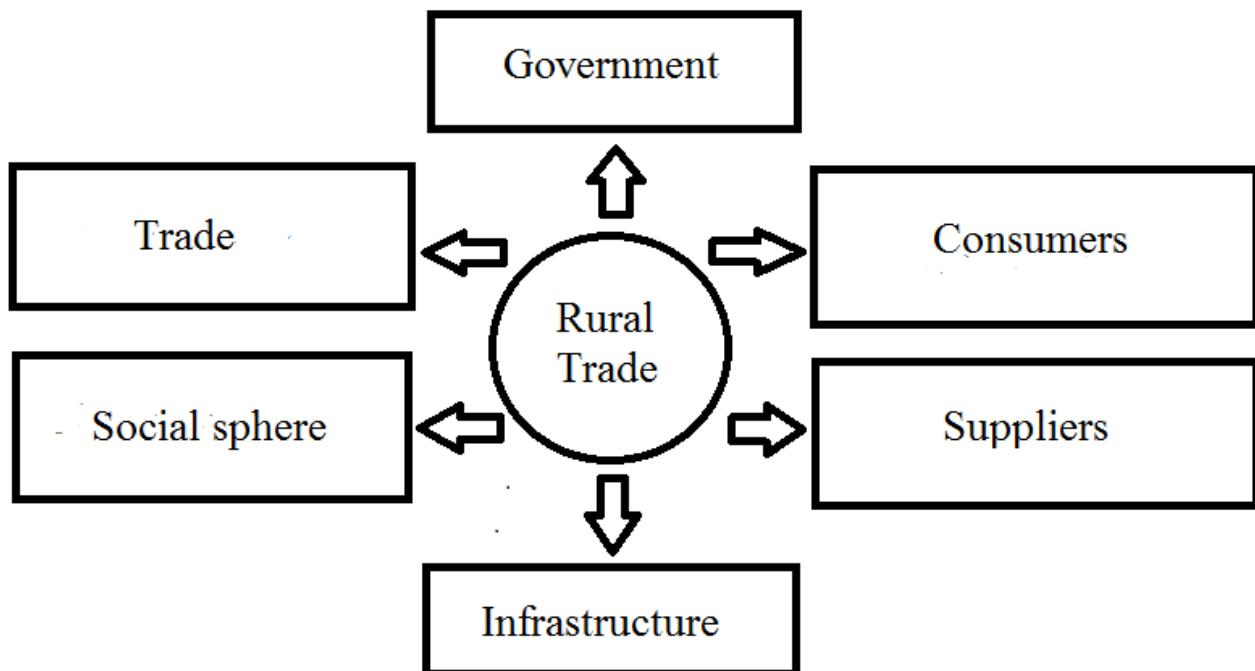


Figure 1: A group of interacting interests in the institutional environment of functioning of rural trade

As can be seen from Figure 1, interests in the system of relations between rural trades are multidimensional and multidirectional. Thus, the interests of the state and trade largely do not coincide. Contradictions arise in relation to assortment, price, and tax and credit policy. The interests of the rural economy, the social sphere require to subordinate the development and function of trade to optimal parameters of efficiency, profitability, economic and physical access of the population to shopping and services of competition.

Consumers demand from trade price stability, the compatibility of their range of goods and services volumes and demand structure, the minimization of the time for the purchase of goods, high quality goods and their safety. Strategic goals in trading are another - cost minimization, profit maximization, positive dynamic value indicators, and minimal social responsibility.

Between suppliers and trading there are also contradictions about the selling price, discounts, lot size, rationality freight, quality and reliability of products, distribution of expenses and income. Such a wide range of contradictions objectively are impossible to overcome only by market methods and mechanisms, or by coordinating the actions of the competition. Modern institutions need institutional orientation to eliminate „gaps”. The Institute is formally a stable form of social organization, which reproduces social, economic, legal, organizational relationships.

The Institute (informal) is a set of moral norms, behaviors, traditions, customs, and mentality. The set of such institutions forms up an institutional structure.

The institutional model is based on a set of principles of institutionalism and related mechanisms - administrative, market, mixed, and self-regulation.

Structural model of institutional development and functioning of rural trade is as follows (Figure 2).

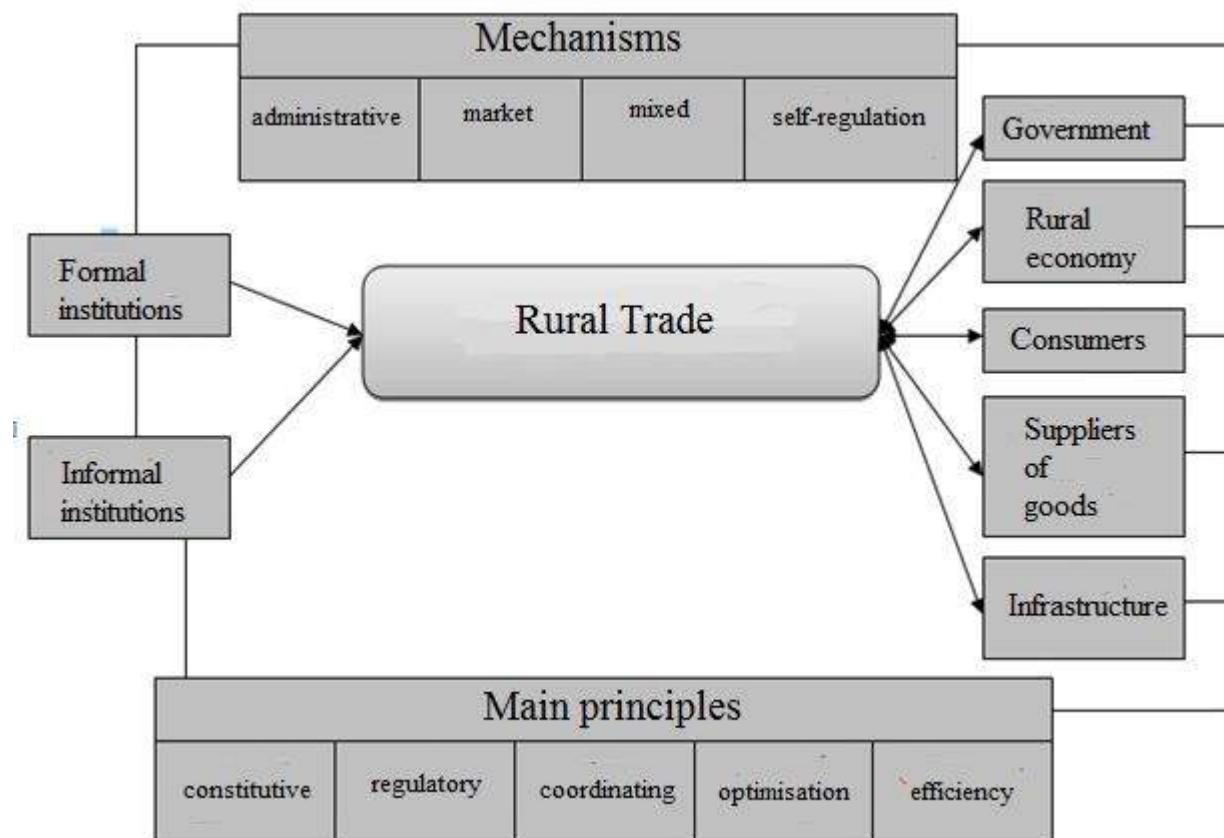


Figure 2: Structural model of institutional support for the development and functioning of rural trade

Structural model (Figure 2) forms a holistic view of the composition and contours of the model of institutional support for rural trade. The disclosure of the contents of such a model requires a comprehensive analysis of the impact on the trade sector participants in the system of economic, social, political, organizational relationships through the formal and informal institutions and related mechanisms.

A special role in the formation of institutional conditions for the development of rural trade belongs to the state. The state must implement an effective trade policy to create equal conditions for the development of various trading systems, to optimize transaction costs, to offer the best options of territorial-regional development structural changes of trade in rural areas. However, the underestimation of the importance of state regulation of these processes has led to significant deformation in the development of rural trade.

Consequently, there is an objective need for the development and implementation of effective trade policy in Ukraine. It should define strategic guidelines and state regulatory instruments for the development of internal trade in the context of current reforms of the national economy and to set directions and priorities for the development of rural trade and the socio-economic transformation in rural areas. Public policy should be based on the following principles:

- free development of all forms of trade in rural areas and restoration of the functions of cooperative trade;
- coordinated development of functional, organizational, social, economic and territorial structure of trade in rural areas;
- expansion of the formal sector of rural trade and contraction of the informal sector;
- innovative competitiveness of the subjects of trade and monopoly exception;
- legislative and regulatory support of the development and functioning of rural trade
- the introduction of trade in controlled channels and strengthening of state regulation;
- ensuring affordability and accessibility to all sectors of the rural population to trading services;
- social responsibility of trade and entrepreneurship.

An important place in the trade policy belongs to the legislative and regulatory framework. The analysis shows that the legal basis for the functioning of trade does not meet modern requirements to the level of its performance and competitiveness.

In Ukraine there is no Law „On internal trade”, legal norms in the economic Legislation of Ukraine are outdated and require a significant update of trade rules, standards, norms, standards.

Significant positive changes in the sense of state regulation of trading system is possible provided that the adoption of new laws, particularly the law of Ukraine „On internal trade”, law of Ukraine „On Electronic Commerce” and radical renewal of a number of existing laws.

## **6. Conclusions**

Thus, improvement of the institutional development and functioning of rural trade is a complex and multidimensional process that includes formal and informal institutions, institutional mechanisms and regulators and aims at creation of a modern institutional environment, as well as an effective system of state regulation in the field of rural trade.

## REFERENCES

1. BORSHEVSKY, V. V. Rozvytok silskyh terytory v systemi evrointegraciynyh priorytetiv Ukrayny [Development of rural territories in the system of European integration priorities of Ukraine] [Text]: monograph / edited by V. V. Borshevsky. Lviv: IRD NAN of Ukraine Publ., 2012, pp. 5-15.
2. DEMYANENKO, S. I. To the question of strategy of development of agrarian sector of economy of Ukraine. *Ekonomika APK* [Economics of agro-industrial complex]. 2014, No. 1, pp. 15-22. (in Russian)
3. PETRYCHENKO, V. F. Strategic directions of development of agrarian sector of economy for the period till 2010. Zbirka materialiv "Vseukrainskiy kongres vchenyh ekonomistiv-agrarnykh" [A collection of articles "Ukrainian Congress of scientists of agricultural economists"]. Kyiv: Nauka Publ. 2013, pp. 21-28.
4. SABLUK, P. T. Development of rural areas in the context of ensuring economic stability of the state. *Ekonomika APK* [Economics of agro-industrial complex]. 2005, No. 11, pp. 7-15. (in Ukrainian)

***Rezumat***

*În articol se abordează rolul și importanța mediului instituțional în funcționarea comerșului rural, se propune structura modelului instituțional al dezvoltării și funcționării comerșului rural.*

**Cuvinte-cheie:** piețele de mărfuri în zonele rurale, sprijinul instituțional al pieții din mediul rural, dezvoltarea piețelor de mărfuri în zonele rurale, problemele piețelor de mărfuri în zonele rurale.

***Аннотация***

*В статье рассматриваются роль и значение институциональной среды в функционировании сельской торговли, предложена структура модели институционального развития и функционирования сельской торговли.*

**Ключевые слова:** товарные рынки в сельских районах, институциональная поддержка сельского рынка, развитие товарных рынков в сельской местности, проблемы товарных рынков в сельской местности.