

STRATEGIC IMPERATIVES OF INSTITUTIONAL DEVELOPMENT OF ORGANIC MARKET

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Abstract: *The paper studied the institutional development of organic products market in Ukraine. The relevance of the study of the development of Ukrainian organic agricultural market is explained with the necessity to create the preconditions for economic strategies in agriculture and strengthening the competitiveness of domestic producers both on a national and world markets. The aim of the article is to make a definitive analysis of the institutional imperatives of the economic development and the definition of institutional factors in effective mechanism of production, distribution, and consumption of organic agricultural products. The concept of the institutional imperatives of the organic agricultural market's development was determined. Conducted study allowed to conclude that the strategic imperatives of the Ukrainian organic market development are concentrated both in the sphere of the regulation mechanism of organic agro-industrial production and in the production of organic agricultural products.*

Key words: *institutional development, imperatives, organic farming, organic products market.*

1. Introduction

The development of organic production is very relevant today due to a number of obvious environmental, economic and social benefits of this sector. The organic sector of Ukraine's agriculture has recently been characterized by positive and dynamic trends corresponding to global trends, but market mechanisms cannot operate effectively in an inadequate institutional environment. The

development of organic agriculture should encourage the establishment of an appropriate institutional system in Ukraine both strategically and tactically.

Creating an effective organic market requires the organization of a certain institutional environment.

The strategic development of the Ukrainian market of organic agricultural products, in the context of agreements with the European Community, requires a comprehensive study to improve the

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national market's mechanism for the support of Ukrainian producers of organic agricultural produce at the world market. Solving the issues of this kind of development is only possible through the active introduction of innovative development tools of the national organic agricultural market which should have high-quality institutional support.

One of the main issues of the organic agricultural market's development in Ukraine is the formation of strategic imperatives when creating the policies of promotion of organic produce and its moving from the producer to the final consumer on favorable terms for all participants.

The strategic development imperatives' system will facilitate ensuring the competitiveness of organic agricultural products and creating the optimal market conditions nationally, regionally and globally.

All of the above proves the relevance of this study being important for the development of both organic agricultural production and institutional system in general in Ukraine and abroad.

2. Materials and Methods

The paper used the methods of theoretical study on the imperatives and institutions and statistical study of organic agriculture in Ukraine.

3. Results and Discussion

The production of organic products helps to create an ecological balance through the development of agriculture and maintaining agricultural biological diversity. In the last decade, the trend of saturation of the domestic market by

Ukrainian organic products can be observed due to the processing of its own organic raw material. For example, you can meet Ukrainian dairy and meat products, rice, buckwheat, flour, honey, juice, oil, herbs, and teas.

The increasing of organic production is confirmed by the IFOAM official statistic data. In particular, in 2002 in Ukraine there were only 31 organic producers but in 2017 there were already 422 certified organic farms. Food safety depends both on the quantity and quality of food provided to people.

Ukraine is among the top twenty world leaders in certified organic farmland and top ten countries of the world by volume of organic wild picking produce. By the beginning of 2017, more than 420 organic producers have been registered in Ukraine, among them: 110 processing enterprises, more than 50 importers and 30 exporters of organic raw materials and food.

During 2012-2017 the number of certified organic producers in Ukraine increased by 267, only during the period of 2015-2016 their number increased by 180, but the next year the number of producers increased by only 32. Every year the certified organic area and the number of certified producers gradually increase [10].

As of the beginning of the year, 421.5 thousand ha of land are occupied by certified organic farming and another 550 thousand hectares are occupied with organic wild plants (in particular, berries). During 2011-2017, certified organic land in Ukraine increased by 151.2 thousand ha, or by 56%.

The volume of the domestic organic agricultural market reached 21 million euros (0.56 euros per citizen of Ukraine). However, the export potential of the sector is estimated at 100 million euros.

Countries that are major consumers of Ukrainian agricultural organic – Poland, Germany, Netherlands, France, Hungary, Denmark, Canada, and the USA. Most organic farms are located in the Kyiv and Odessa oblasts.

Over 60% of organic crops in Ukraine take wheat, barley, maize, and sunflower. And the rest of the crops is distributed between peas, turnips, buckwheat, soybeans, rye, oats, mustard and so on. Ukrainian organic products that are exported, mainly consist of cereals, oilseeds, and berries [10].

An important element of organic sector development is land auctions, where farmers offer land at reduced rental rates for organic agricultural producers. Now Ukraine is in the process of forming the organizational and economic mechanism of organic sector development.

While the organic market of Ukraine remains low in comparison with developed EU countries, the production and export of Ukrainian organic products have been growing rapidly in recent years. It is also a promising area of international trade for Ukraine. Income from exports of Ukrainian organic products can offset the costs of importing the necessary food to improve food security.

However, the production of organic agricultural products is accompanied by a number of issues:

1. The constant increase of agricultural holdings and an increase of their share of land in rural areas, increasing pressure on small and medium-sized entities;
2. Failure to comply with the requirements of crop rotation, the permanent cultivation of sunflower or rape, and, as a result, a decrease of soil fertility;

3. The powerful focus on growing crops;
4. Imperfect legislation on organic farming and certification of organic products;
5. Lack of support for organic production by the state;
6. Lack of direct advisory support for rural farmers on the introduction of organic principles to the production process [8].

Consequently, organic agriculture plays a very important role in the development of the agrarian sector of Ukraine's economy allowing Ukraine to achieve food safety. Moreover, organic products are promising ones for export to EU countries and the world. The development of organic farming in Ukraine needs targeted state policy that will create a favorable environment for producers and consumers of organic products [4].

According to T. Veblen and W. Hamilton, institutions are defined as a way of thinking of a group of people formed under the influence of both objective and subjective factors [1, 9].

To determine the essence of the institutional imperative's concept, we support the approach of Emanuel Kant who defined it as a rule containing the objective self-compulsion of the individual to the particular action.

Kant thought that the imperative is the formula of mind's influence on the individual's will in order to achieve general public happiness.

Kant highlighted that categorical imperative is an unconditional ethical order of a person's proper behavior as a reasonable human being, possessing free will. And hypothetical imperative is a number of requirements should be observed as a necessary condition to achieve their goals in today's economic

environment. The most of the scholars understand the imperative as the rules expressed in the form of permissions, prohibitions, prescriptions, preferences, etc. [3, 5].

In general, the most of philosophical dictionaries interpret the term “imperative” as a principle based on deep moral convictions, resulting in using of formalized rules effectively [2].

In summary, there is a certain interdependence between the concepts of “institute” and “imperative”, they functionally and evolutionarily related. Institute basing on generally accepted practices in society formulates an imperative, that is, forms the system of people's values to provide the regulation of relationships in a specific institutional environment (Figure 1).

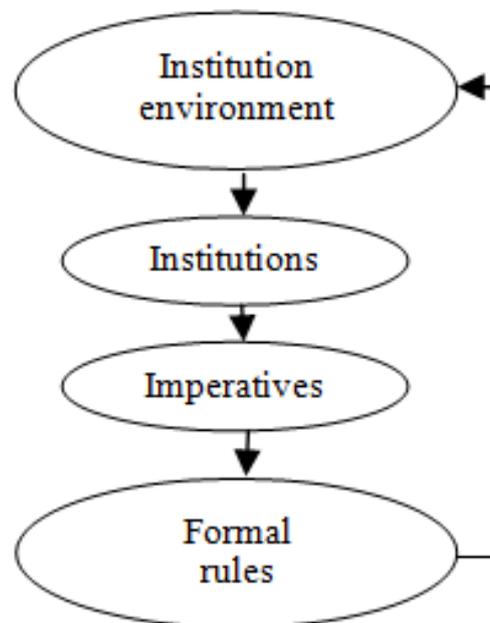


Fig. 1. *Scheme of the mutual influence of imperatives in the institutional environment*

(Source: developed by authors using [3, 5])

As a result, self-regulation of relationships and their development through the “spiral” nature of this phenomenon occurs. After reaching a maximum effectiveness in certain circumstances, in some time the imbalance between the existing formal norm and the changing institutional environment increases.

The need of updating the preliminary content of the formal norm with new assumptions to ensure effective

interaction in society arises. Before changing the formal norm, there is a necessity for changing the person's attitude to introduced change, that is, there is an obligatory need to change the imperatives of development.

Thus, the above-described process assumes the character of “proliferation”, i.e., the continuous “build-up” of new rules of economic and non-economic interaction of individuals based on rules that already developed.

Thus, the institutional imperatives of the organic agricultural market's development are the mandatory norms and rules of individuals' behavior formed by state and non-state institutions to provide the population with useful and safe (organic) food taking into account moral and ethical principles and the environment for effective regulation of social relations involved in forming regulations of the production, promotion and consumption of organic agricultural products.

When forming the institutional imperatives of national and global organic agricultural products markets the following factors must be taken into account:

- 1) The timeliness of institutional changes in the production, promotion, and consumption of organic agricultural products;
- 2) The effectiveness of introducing the new norms or institutions and ways to prevent the issues;
- 3) The level of transaction and transformation costs of the state in this case;
- 4) The state of the institutional environment, public sentiment, the effectiveness of coercive mechanisms and response to non-compliance with established rules in order to ensure the development of organic agricultural products market;
- 5) The need to record the responding to different threats of non-fulfillment of planned activities;
- 6) The need to focus on aspects of relations between subjects and objects of the system: separation of levels of interconnections reflecting the specific features of relations in the development of organic agricultural

products market: subject-subject, subject-object, object-object relations.

In this context, the subjects of the system of organic agricultural market's development are institutions acted in the field of coordination and regulation of promotion of organic agricultural products. And objects are components of the institutional environment targeted by subjects' effects, namely: individuals, organizations, and economies, also institutions of public administration and the relation between them. The instruments of the organic agricultural market's development are legislative, regulatory and subordinate acts that should function using of institutional and imperative principles.

In the context of forming the imperative coordination mechanism of the organic agricultural market, first of all, the institutional environment and the economic mechanism of its development should be considered.

The elements of economic mechanism of organic agricultural market are presented at Figure 2.

Institutional environment is a combination of institutional conditions of the stable existence of an object or a process and has an influence on them, or, as H. Hegel wrote: "the immediate existence of which is an opportunity" [6].

To ensure the effective development of the organic agricultural market, in our opinion, for each stage of the economic mechanism it is necessary to develop a system of imperatives ensuring the stability of the formal requirements' fulfillment. Strategic imperatives of the organic agricultural market development are presented in Table 1.

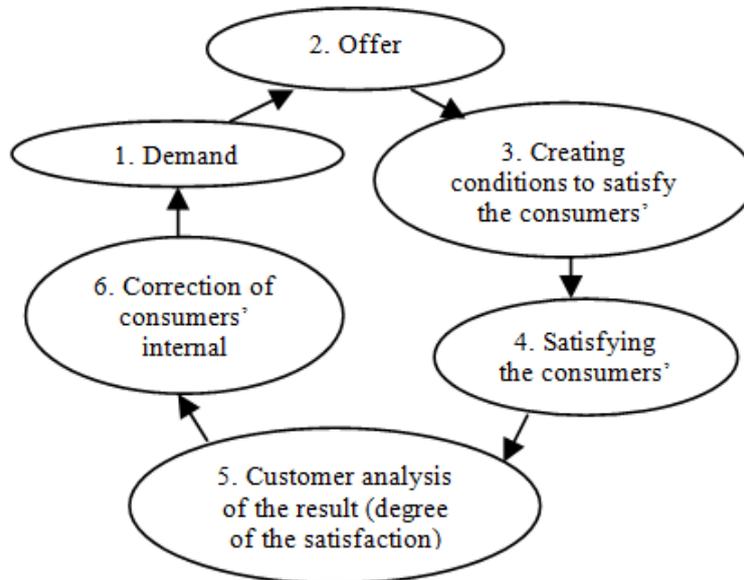


Fig. 2. *The elements of economic mechanism of organic agricultural market*

(Source: developed by authors)

Strategic imperatives of the organic agricultural market development Table 1

No	Element of economic mechanism	Basic strategic development imperatives
1.	Consumers' demand	1. Creating the consumer's understanding that agricultural products are obtained using various technologies; 2. Creating a positive image of organic agricultural technology.
2.	Producers' offer	1. Supporting organic agricultural producers at the national and regional level; 2. Creating special taxation conditions for organic agricultural producers.
3.	Creating conditions to satisfy the consumers' demand	1. Supporting the chain of organic products promotion at nationally and locally; 2. Creating a cooperative distribution network of organic agricultural products; 3. Adopting a common labeling system of organic agricultural products.
4.	Satisfying the consumers' demand	1. The ability of the consumer to be sure about products' quality; 2. Creating the specific organic products' directions in logistic schemes of promotion.
5.	Customer analysis of the result (degree of the satisfaction)	1. The consumer's ability to control the health; 2. The consumer's ability to get the latest information about the changes of organic agricultural market.

(Source: compiled by authors)

Certainly, the institutional environment is unique to each individual interconnect system, including the organic agricultural market. In turn, the institutional space includes not only institutions, formed in such a system, but also those resulting in economic development and can potentially affect customer's satisfaction in food. After all, consumers in many cases are starting to take care of their health when experiencing its significant deterioration and after its improvement, they begin to lead the previous lifestyle. The mechanism of satisfaction of consumers' demand with organic agricultural products in the complex takes into account all the possible connections and relationships of its objects and subjects, namely: resource, information, innovation, process approaches and help to ensure the highest possible level of proactive response to change. At present, in Ukraine, the institutional structure of organic agricultural production is a complex social and economic phenomenon. It includes the following elements: economical, commercial, legal, ethical, and so on.

Conventionally, they can be grouped into the following groups:

- Institutions of government (Ministry of Agricultural Development and its structure, Departments of rural development, standardization bodies, local governments);
- Institutions of norms (legislative acts, standards, norms, rules, etc.);
- Institutes of organization (organizational and legal formations for

joint fulfillment of certain functions both commercial and non-commercial);

- Institutions of contracts (unions, associations, groups formed to protect the economic interests of businesses, research organizations, NGOs);
- Institutions of social infrastructure (public organizations, social welfare agencies, associations, trade unions, informal organization);
- Non-formalized institutions (non-regulated rules, skills, customs, traditions, norms of behavior, ways of thinking);
- Religious institutions (institutional religious education).

Of course, the necessary institutional structures in this sector do not occur automatically but mainly by importing existing institutions of developed countries, which does not guarantee the effective implementation of most of them, since the special role in this is played by informal norms [7].

The results of the transformations taking place in the agrarian sector of the economy of our country, in particular in its "organic" sector, testify to the imperfection of institutional changes caused by deficiencies in the legal and administrative framework, general instability and contradictions in the legislation.

Forming the institutional imperatives as the basis of the strategic development of organic agriculture will increase the overall efficiency of agro-industrial production and lead to improve the quality of life in Ukraine (Figure 3).

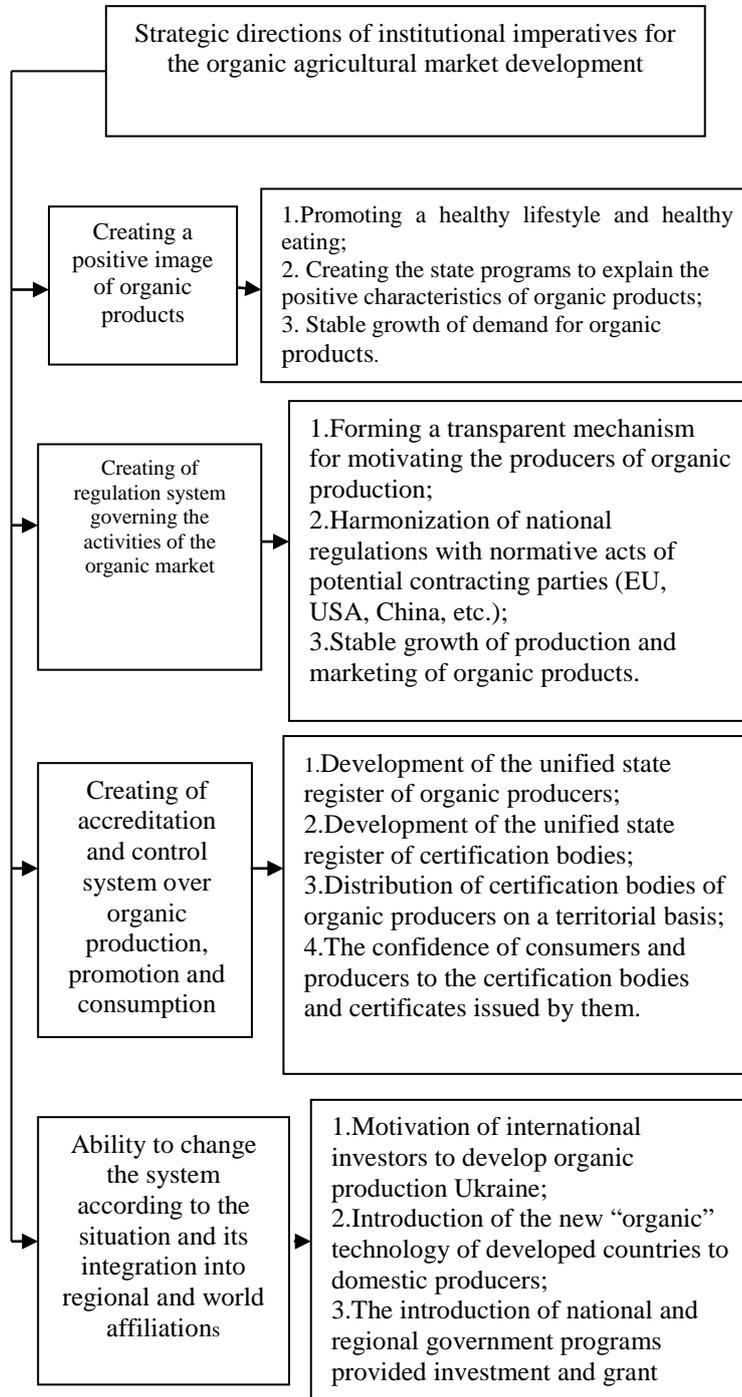


Fig. 3. *Strategic directions of institutional imperatives for the organic agricultural market development in Ukraine*

(Source: compiled by authors)

Among the exogenous issues, the significant impact has: direct banking recapitalization of the European market financial system, the introduction of common rules for the provision of state financial assistance to European banks, consolidation of the European stock market, application of methods to prevent offshore jurisdictions in order to outflow capital.

In the current conditions of the agreement between Ukraine and the EU on the establishing and deepening of a comprehensive free trade strategic targets of agrarian food market of Ukraine oriented towards forming the most favored regime in trade of agricultural products and its processing.

The strategic aim of the common agricultural policy of Ukraine and the European Community provides the creating of a free trade zone with the EU and further integration Ukrainian organic products to the internal European market.

Parliamentary Law of Ukraine "On the production and turnover of organic agricultural products and raw materials" № 425-VII (January 2014) was very important for activating the production of organic agricultural products.

However, quality and safety control of organic products are carried out by using mainly foreign standards and regulations. A system of preferential taxation should become a strategic platform for the implementation of the organic food market development. State fiscal policy should aim to compensate risks related to the innovative transformation of enterprises, which is a part of the agricultural sector. Tactical task of implementing the tax incentives for innovative activity is to reduce the cost of

investments allocated in innovative changes. The experience of most developed countries shows that tax levers are the active instruments of innovative development strategies in organic agricultural production. In modern conditions of the innovative activity of the organic market, the strategy of state incentives for innovation structures can be realized in the form of: investment tax credit, investment tax discount, etc. (Figure 4).

Successful implementation of the adapting strategy of the organic market within the framework of an innovative model of Ukraine's economic development depends on ensuring the further development of industries based on organic-oriented approaches and innovative solutions.

Strategic tasks of organic-oriented approaches are concentrated on such priority directions:

- 1) Development and implementation of new technologies providing comprehensive processing of organic agricultural products on the basis of chemical and physical methods for the production of environmentally friendly products with a wide range of functional and consumer properties;
- 2) Promising directions of innovative changes in the quality system, security and presentation of products are the improvement of the composition and properties of products, use of microcapsules for the targeted delivery of useful bioactive substances, the expanding the range of products for different age groups of consumers, production of dietary, health care and other types of products;

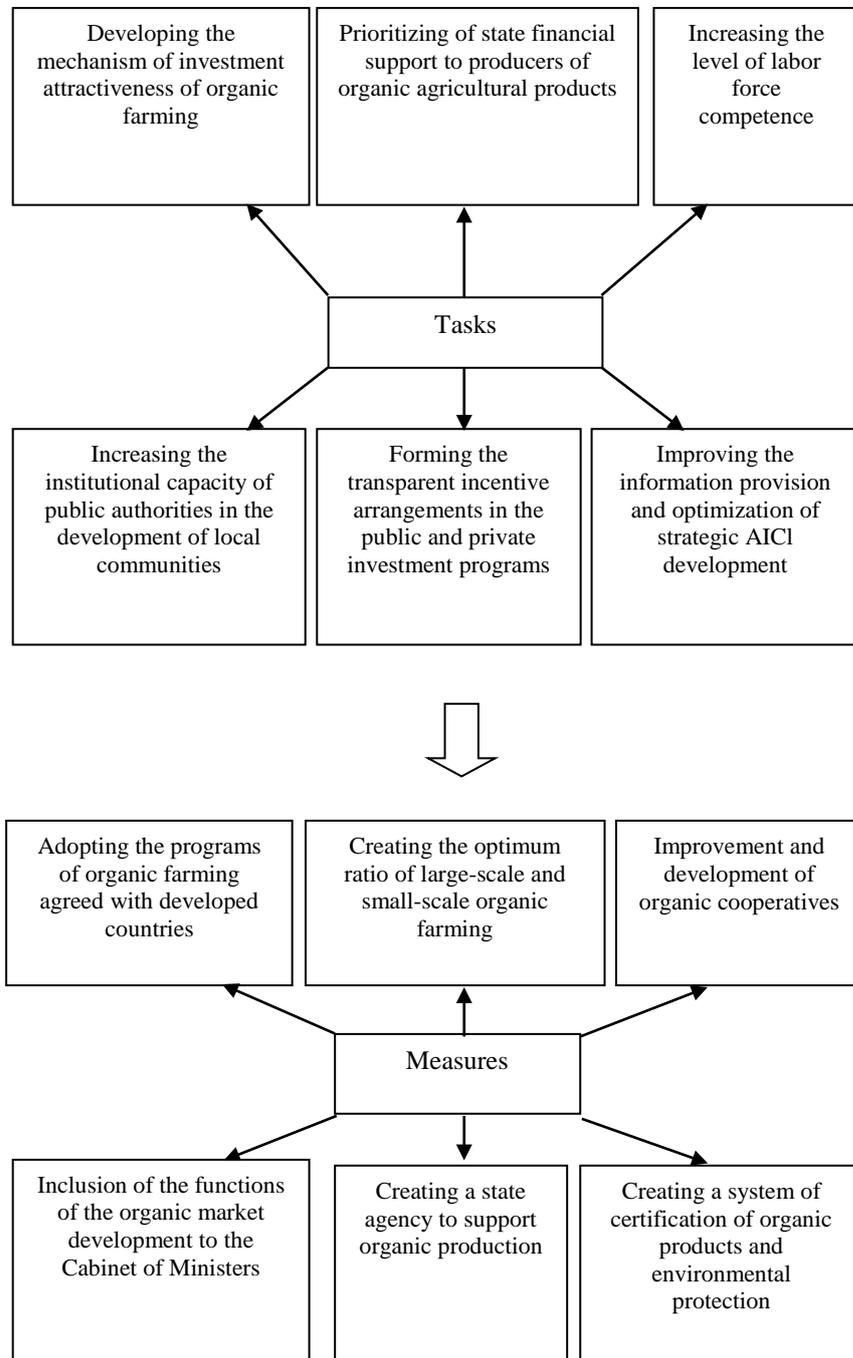


Fig. 4. *The program of strategic development of the organic agricultural market* (Source: compiled by authors)

- 3) Improving the organic biotechnological processes of industrial processing of raw materials, production of new types of food with higher food and biological value through the use of active recombinant and mutant strains and consortia of microorganisms (enzymes, amino acids, vitamins, etc.);
 - 4) Creating the new biocatalytic and biosynthetic production technologies using organic dietary supplements that are immunomodulatory, antioxidative and biocorrective. Its entering the Ukrainian market of innovative, safe and quality food will reduce the level of diseases, the degree of harmful exposure to people living in environmentally hazardous regions;
 - 5) Development and implementation of an integrated system of monitoring, management, and control over compliance, quality and safety of raw materials and food products at all stages of production and movement of goods from producer to final consumer.
- 2) Three-level form (subject-subject, subject-object and object-object) of elements' interaction of organic farming and the market of organic agricultural products;
 - 3) Market strategies of organic agricultural products, regulation and coordination mechanisms considering space and time variables and complex forecasting tools.

Institutional factors to consider when forming the imperatives of the organic market development are: the timeliness of institutional changes in the production, promotion, and consumption of organic agricultural products; the effectiveness of introducing the new norms or institutions and ways to prevent the issues; the level of transaction and transformation costs of the state in this case; the state of the institutional environment, public sentiment, effectiveness of coercive mechanisms and response to non-compliance with established rules in order to ensure the development of organic agricultural products market; the need to record the responding to different threats of non-fulfillment of planned activities; the need to focus on aspects of relations between subjects and objects of the system, separation of levels of interconnections reflecting the specific features of relations in the development of organic agricultural products market.

The strategic imperatives of the Ukrainian organic market development are concentrated both in the sphere of the regulation mechanism of organic agro-industrial production and in the area of production of safe agricultural products. Solving the problem of providing consumers with quality products only possible by switching to organic agro-industrial production.

4. Conclusions

As a result of the analysis, the term "institution" was defined as the specific socially sanctioned forms of organization and interaction in society. And the "imperatives" are the principles that bear the nature of undeniable self-compulsion and based on deep moral convictions.

The institutional imperatives of the organic production development are:

- 1) Informal norms effectively accepted by society or the "rules of the game", produced in society and are fixed by legislation, aimed at ensuring the production of organic agricultural products;

The state's economic potential depends on the efficiency of using the resource potential of the micro and macro environment of organic products' producers and other organizational structures on the way of promotion organics to the consumers.

Development and implementation of effective economic institutions require the creation of conditions to determine the effectiveness of the entity, as institutions can both help to reduce the negative effects of market relations and exacerbate the socio-economic situation.

Using these methods in the study of the organic products market, it is possible to identify the development trends, the impact of internal and external environmental factors, and to develop a promising model of the formation and development of the organic agricultural market.

In modern conditions, the imperatives of such model are the tools of increasing the motivational, technological, investment, financial, tax, and operational flows that organically combined by an economic architecture of organic agricultural market. The mechanism of effective interaction of those flows appears in the center of further research.

Further research would be about the approaches of monitoring the institutional imperatives' indicators of the organic agricultural market development and analysis of the institutional imperative regulation in Ukraine.

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