

THE INSTITUTIONAL MECHANISM OF DEVELOPMENT OF THE AGRICULTURAL SECTOR OF UKRAINE

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Abstract

The necessity of the application of institutional theory to the concept of further development of the agricultural sector, which the most fully corresponds to the position of a systematic approach are defined in the article. The essence and importance of the institutional mechanism of the agricultural sector are characterized. The methodic of assessment of the institutional development of the agricultural sector are proposed and applied. The main problems of efficient functioning of the institutional mechanism of the agricultural sector of Ukraine are identified. The formation of strategy aimed at reforming of the institutional mechanism of the agricultural sector of Ukraine proposed as well.

Key words: *institutional mechanism, agricultural sector, institutional support, strategy of reforming, systematic approach.*

JEL Classification: *O43, Q18*

I. INTRODUCTION

The modern realities of the agricultural sector are the results of inconsistent transformation of economic relations. Neglecting the complexity of the problems of each of the areas of the economy forced to reconsider positions of politicians and economists. In our opinion, the construction of concepts for further development of business entities in Ukraine should be built on the basis of a systematic approach. The necessary for systematic methodology confirmed the interconnection of economic, social, legal aspects of causation and the blurring of macro-, meso- and microenvironments. So, naturally, that the study of the most important economic component of the complex should be built on the positions of the institutional approach that allows more fully consider all aspects of economic realities and allow research not only basic but also side effects that often play a crucial role in the formation mechanism of development enterprises. The importance of research of institutions is confirmed by studies of scientists such as T.Veblen, W. Hamilton, E. Durkheim, J. Kommons, D. North, A. Tompson, J. Hodgson, S. Hoffman, et al.

II. APPROACHES

The first who identified institutional mechanisms was Karl Polanyi, who described it to a market economy through the exchange mechanism (common on natural basis) (Polanyi, 2001). And J. Commons considered the institutional mechanism allows to realize expectations by identifying value (excluding transaction costs) (Commons, 1931). D. North provides institutional mechanism as a special kind of mechanism, which provides both creating rules and consequences tracking applications (North, 1997). A. Ivanytskyi examines institutional mechanism as a set of bodies and organizations, laws and regulations, management and regulation of the economy that uses state (Ivanytskyi, 2008). S. Istomin investigated institutional mechanism as a special structural component of the economic mechanism that ensures the establishment of rules and regulations, cooperation between different economic actors in order to realize their economic opportunities and stabilizing economic environment (Istomin, 2010).

From the standpoint of a systematic approach, the mechanism of farms functioning is a subsystem of the mechanism of the agricultural sector of the country, respectively, is part of the mechanism of socio-economic system as a whole. Regarding relations categories institutional mechanism and management mechanism, we agree with the statement of M. Zveryakov that the mechanism of management - a derivative of the objective of the functioning of economic forms, that is the product of the realization of the objective reality (Zveryakov,

2005). Consistency priorities and objectives of institutional and economic mechanisms based on a clear separation of functions and use them must to facilitate high-performance, competitive agricultural production (Kirov. 2008) that, in general, corresponds to the macroeconomic priorities.

III.NATURE OF INSTITUTIONAL MECHANISM

The institutional mechanism of the development of agricultural sector is an integrative system, each element of which is the part of integer and does not exist outside of it. Institutional mechanism based on adaptive capacity of institutions, usually within a decentralized environment that encourages the free flow of communication and trends in effective collaboration.

The self-sufficiency, and self-adjustability and self-reproducibility are the main characteristics of the institutional mechanism. The first characteristic is achieved by definition, since the consideration taken into account the full range of agrarian relations. Features self-adjustability and self-reproducibility based on inherent properties of such societies as the need (social characteristics) and operation (species characteristic of humans).

Between all the elements of the mechanism are vertically and horizontally hierarchical and functional relationships. These vertical hierarchical relationships, due to development goals of economic actors in the socio-economic system, and horizontal functional connections reflect the need to coordinate separate elements of mechanisms, techniques, methods and tools of influence on the development of agricultural enterprises (Vorobyov, Tumanov, 2008). Only in connection realized their consistent performance of the whole system. Thus, the institutional mechanism is a set of institutional leverage, incentives and instruments to provide the effective development of the agricultural sector, based on a combination of factors of micro- and macro-economic environment. This mechanism takes into account the elements of both state and market regulation.

The functioning of institutional mechanism leads to institutionalization environment through institutional changes. Thus, institutional change is the reaction conditions of the functioning of entities for process improvement or creation new rules, norms of interaction of economic actors. The establishment of effective institutional mechanism should lead to a leveling of spontaneous change and increase the share of targeted market-oriented changes.

The effectiveness of the institutional mechanism of the agricultural sector is determined by the level of integration links between the various institutions and the beneficial effect, which manifests itself in the form of transitive and minimize transaction costs. Institutional arrangements of the sector are characterized by the ability to integrate evolutionary external and internal factors generate economic development entities in the system of norms and rules of behavior, and guiding their implementation in some sectors.

In aim to build a holistic concept of institutional development of the agricultural sector of Ukraine, based on past transformations, to explore institutional arrangements for its functioning today, ie adequacy of institutions. Thus, the institutional providing is a complex mechanism, that's why it requires investigation on the state level and on the level of individual sectors.

IV.ANALYSIS

The effectiveness of institutional support for the state can be analyzed by international ratings, in which Ukraine has low positions of economic freedom. By Global Competitiveness Index Ukraine occupies low position in the overall ranking too. This situation is real and reflects the structural distortions and imbalances characteristic of the economy of Ukraine. List of competitive strengths in Ukraine is very short and contains only 18 points. However, for the shortcomings of economy of Ukraine is 92 positions. The lowest result (131 seats) – in the category of "quality of institutions", as in Ukraine, unlike other countries, declines in the level of institutional support (The Global Competitiveness Report, 2011-2012). The problems of Ukrainian business are institutional ownership, the quality of legislation and the extent of its implementation, the credibility of the executive and judicial authorities, business culture, effectiveness of audit and accounting standards, the use of the state budget, the burden of government regulation and organized crime.

Lack of clear framework for agribusiness in Ukraine is determined primarily institutional gaps and regulatory support. This situation is caused by shortsightedness programs for the agricultural sector and the lack of a common conceptual orientation. Compounding the situation and the lack of a common strategic vision of economic reform in general, the synergistic influence of which affects the level of development of each sector, including agriculture.

Complex diagnostic features of institutional support for the development of the agricultural sector should be achieved through environmental assessment methodologies – PEST-analysis. In order to take into account the specificity of the object of study we consider only institutional factors of political, economic, socio-cultural and

technological components of the agricultural sector environment.

The assess the environmental factors based on the score of Ukrainian institutional conditions listed in the Global Competitiveness Report 2011-2012 (prepared by the World Economic Forum). However, the options presented in the report relate to the whole country and its institutional environment. In order to bring these values to the sector level, we will use the correction factors (according to the method proposed by Y. Lopatynskiy) (Lopatynskiy, 2006). According the proposed method correction multiplier is calculated as the ratio between the rate of growth of gross agricultural output and GDP in that period. Characteristics of the institutional conditions of the agricultural sector takes into account the relative economic conditions of the agrarian environment of the country.

Thus, the correction multiplier of institutional conditions of the agricultural sector of Ukraine (M_{corr}) for the period 2011-2012 is (formula 1):

$$M_{corr} = \frac{1,145}{1,054} = 1,086 \quad (1)$$

Total ratings components of PEST-analysis (Table 1) indicates the supporting of suitable conditions of farmers only 59.0%. The conditions are optimal amount maximum score institutional conditions by the methodology of the Global Competitiveness Report 2011-2012.

Table 1. PEST-analysis of institutional providing for the development of the agricultural sector of Ukraine

Factors institutional environment	The agricultural score for factor (adjusted by M_{corr})	The maximum score for factor
Political factors	33,51	73,00
Public trust of politicians	1,79	7,00
Irregular payments and bribes	0	7,00
Burden of government regulation	2,72	7,00
Efficiency of legal framework in challenging regs	2,61	7,00
Transparency of government policymaking	4,02	7,00
Extent and effect of taxation	2,39	7,00
Agricultural policy costs	3,15	7,00
Nature of competitive advantage	3,15	7,00
Control of international distribution	3,91	7,00
Legal rights index	9,77	10,00
Economic factors	62,87	93,00
Property rights	2,93	10,00
Strength of investor protection	5,1	10,00
Inflation, annual % change	10,21	10,00
Nature of competitive advantage	3,15	7,00
No. procedures to start a business	10,86	10,00
Business impact of rules on FDI	3,69	7,00
Burden of customs procedures	3,04	7,00
Hiring and firing practices	5,21	7,00
Pay and productivity	4,67	7,00
Reliance on professional management	3,58	7,00
Availability of financial services	4,02	7,00
Ease of access to loans	2,17	7,00
Extent of marketing	4,24	7,00
Social and cultural factors	17,27	35,00
Favoritism in decisions of government officials	2,82	7,00
Ethical behavior of firms	3,37	7,00
Quality of management schools	3,69	7,00
Availability of research and training services	4,13	7,00
Willingness to delegate authority	3,26	7,00
Technological factors	32,69	56,00
Extent of staff training	3,58	7,00
Availability of latest technologies	5,00	7,00
Firm-level technology absorption	5,00	7,00
FDI and technology transfer	4,13	7,00
Capacity for innovation	3,69	7,00
Company spending on R&D	3,26	7,00
Gov't procurement of advanced tech products	3,37	7,00
Quality of scientific research institutions	4,67	7,00
Total	259,55	441,00

Institutional providing of Ukraine's agricultural sector a little more than half shows significant isolation

formal from informal institutions, institutional chaos and uncertainty of agricultural economic conditions. Institutional incapacity of the agricultural sector of Ukraine inhibits its highly development.

We analyzed the institutional provision of the agricultural sector of Ukraine in the context of group factors (Fig. 1).

From Figure 1 shows that the institutional traps (the gap between ideal and actual performance) form the political factors behind the ideal performance by 54.1%, social and cultural factors (50.7%), technology (41.6%) and economic (32.4%).

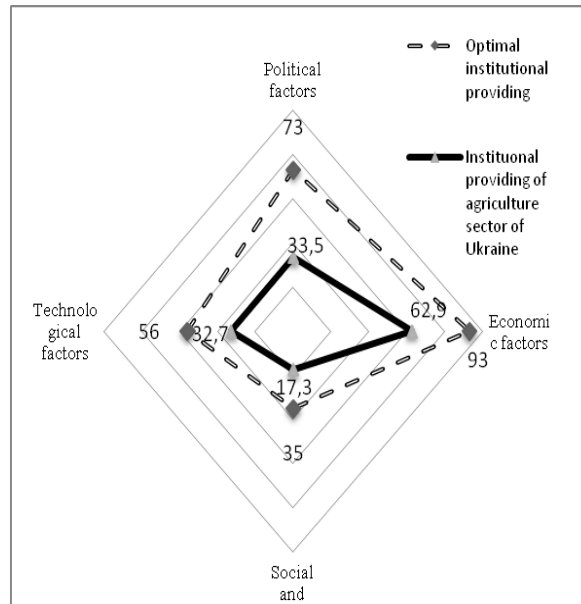


Figure 1 - The institutional provision of agriculture in the context of group factors

Thus, improving the institutional environment of the agricultural sector of Ukraine requires the formation of an effective institutional mechanism which takes into account the complex of institutional traps of the agricultural sector.

V. THE STRATEGY OF REFORMING THE INSTITUTIONAL MECHANISM OF AGRICULTURAL SECTOR OF UKRAINE

The complexity and interdependence of the problems of functioning elements of the institutional mechanism requires the strategy to reform, which should be based on the principles of a systematic approach and knowledge of promising institutional model of the functioning of the agricultural sector.

We believe that the basis of strategy of reforming the institutional mechanism of agricultural sector of Ukraine must become vicarious solidarity model, according to which every subject of agrarian relations are solely responsible for their activities as part of the development of the agricultural sector. In our opinion, strategy, dedicated institutional component, it is advisable to form by institutions as integral elements of a complex impact on the agricultural sector. We propose the following structure for the strategy development of the agricultural sector of Ukraine:

- The institution of government regulation (formation rules "change the rules", the statutory limits of state intervention and systematization of concepts and programs for the development of the agricultural sector);
- The institution of property (at the micro level specification requires recognition of the powers of ownership entities agrarian relations, improve the mechanism to guarantee the protection of property rights to land, ensuring the transparency and accessibility of information on ownership and economic performance, the development of social responsibility of business ownership through the promotion of non-financial farms reporting, development and adoption of the Code for sustainable development of the agricultural sector);
- The institution of work (improving education and training of Ukrainian farmers, raising the prestige of agricultural occupations, establish an effective system of stimulation of labor);
- The institution of entrepreneurship (including business class into the management system in the agricultural sector; activation of the agricultural professional organizations, improve the functioning of entertainment centers and offices of business registration of agricultural activities on the ground; legal definition of the powers and scope of audits);

- The institution of contracting (streamlining and improving the regulatory framework governing contractual agrarian relations, implementation of the declarative principle in formalizing agreements, the introduction of mediation centers and agricultural offices concluding agreements);

- The institution of pricing (improvement of the Law of Ukraine "About Prices and Pricing", forming a fair pricing scheme for the string "farmers - mediators - the consumer", improving and stimulating exchange trading);

- The institution of infrastructure (improvement in terms of market institutions and financial and credit infrastructure);

- Informal institutions (involving representatives of the agricultural economy in the process of managing agricultural sector at the macro, meso and micro level through the development and implementation of public associations, the development of the corporate culture of the agricultural sector, increasing social focus through the development of agribusiness Information sanctions, creating conditions conducive to the development of collective forms of management, development and implementation of programs to improve the culture of business).

The implementation of the strategy of reforming for the institutional mechanism of the agricultural sector in the context of institutions will make meaningful impact on the mechanism to create an enabling institutional environment in which regulators will act in stimulating the development of the agricultural sector towards achieving priorities. In addition, this institutional mechanism of influence on the agrarian relations will unite the action of formal and informal institutions into a single focused system.

VI.CONCLUSION

Institutional support for the development of the agricultural sector requires diagnosing both at the state level and in the context of the agricultural sector. Thus, the institutional framework of the state can be analyzed by international ratings, in which Ukraine has weaknesses. Especially, the troubled reality of management is imperfect institutional environment. The main concerns relate to constant pressure from government agencies, corrupt practices and institutional traps that caused uncertainty in Ukraine.

Complex diagnostics of institutional support of the agricultural sector of Ukraine by the proposed method showed that favorable institutional conditions provided to farmers up to 58%, indicating substantial isolation from informal formal institutions. We consider that solving the problem of formation of institutional mechanism of the agricultural sector should come through the strategy of reforming of the institutional mechanism in the context of institutions.

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