

## INSTITUTIONAL ENVIRONMENT FOR ORGANIC PRODUCTION

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*The article considers the definition of an institution proposed by various scientists as a basic concept in institutionalism, offers its own definition of this category, explains the content of the term institutional environment, builds a scheme of the institutional environment of organic production, which is divided into formal and informal frameworks. Formal ones include the Constitution, laws, procedures, orders and resolutions; the Labor Code; The Land Code; administrative responsibility; state support; tax obligations; requirements for the production of organic products; state control (supervision); certification; labeling of organic products. Informal ones include customs, traditions, culture; education and science; public opinion; moral values and ethical principles; Corporate Social Responsibility; Environmental Responsibility. Attention is focused on the interpretation of each element, as well as the influence of the institutional environment on the development of each economic entity is proved.*

**Keywords:** *institutionalism, institution, institutional environment, formal institutions, informal institutions, organic production.*

**Problem statement.** The institutional environment is constantly developing along with the development of mankind. That is why there is no single definition of the concept of Institute, each scientist understands and interpretes it differently. An individual or economic entity develop effectively and are able to influence the institutional environment in a certain way, once they have particular experience, thanks to their belonging to the institutional environment. An economic entity which clearly understands the specifics of the institutional environment in which it operates will obtain more competitive advantages.

### ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

The institutional environment of organic production has been studied by scientists such as V.A. Chudovska [4, 5], O.I. Shkuratov [4, 5], V.V. Kyporenko [4], A.V. Vdovychenko [5], L.P. Kulish [6], I.D. Bilokinna [7]. Institutes of organic agriculture, as well as institutions of power in the field of organic agricultural products, taking into account the influence of informal institutions, were identified by V.A. Chudovska, O.I. Shkuratov, V.V. Kyporenko, A.V. Vdovychenko [4, 5]. The institutional problems of organic production and a number of measures for the

development of competitive organic production were suggested by L.P. Kulish [6]. I.D. Bilokinna [7] focuses on legal support in the context of the institutional environment of organic production. It should be mentioned that not many studies have been done in this area, which is why this issue requires further research.

The purpose of the study is to define the concept of institution, as well as to consider the institutional environment of this specific and young sphere of the Ukrainian economy — organic production.

### PRESENTATION OF THE MAIN MATERIAL

The specificity of institutionalism as a field of economic theory is the consideration not only of economic problems themselves, but also their connection with political, social, and environmental issues. This approach is very successful, since the economy does not function separately from other systems, all of them are in constant interaction and development. The relevance of this concept of Economics has led to the emergence of a large number of trends, which have consequently led to ambiguity in the interpretation of the concept of an institute from the standpoint of various scientists. More detail are considered in Fig. 1.

<b>Veblen</b>	→	Prevalent habits of thought with respect to particular relations and particular functions of the individual and of the community. They are customs, practices, rules of behavior, or juridical principles.
<b>Hamilton</b>	→	Verbal symbol which for want of a better describes a cluster of social usages. It connotes a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people.
<b>Commons</b>	→	Collective action in control, liberation and expansion of individual action.
<b>Mitchell</b>	→	Dominant and highly standardized social habits.
<b>North</b>	→	Rules of the game. They shape how humans interact with each other. They structure the incentives that shape how society evolves. Institutions can be thought of as a continuum. Formal rules are on one end and informal rules on the other.
<b>Ostrom</b>	→	Sets of applicable rules used to determine who has the right to make decisions in any area, to determine what actions are allowed or restricted, what rules will be used, what procedures must be followed, what information must be provided or not, what payments individuals should receive.
<b>Rawls</b>	→	Public system of rules which defines offices and positions with their rights and duties, powers and immunities, and the like.
<b>Hodgson</b>	→	Stable systems of existing and entrenched social rules and customs that structure social interactions; language, money, law, systems of measures and heights, table etiquette, companies and other organizations.
<b>Shastytko</b>	→	Sets of rules that perform a function of restrictions and their corresponding mechanisms, which ensure compliance with these rules.
<b>Oliinyk</b>	→	The set of formal, regulated by the law, and informal, regulated by common law, frameworks that organise the interaction of individuals in the economic, political and social spheres.
<b>Inshakov</b>	→	Functional organization that ensures the implementation of a specific system of homogeneous institutions.
<b>Mazur</b>	→	Established, structured and self-reproducing forms of social interaction of people, such as: rules, norms, standards, samples, etc., as well as organizational structures.

**Fig. 1. Definition of the Institute**

Source: developed by the author based on data [8–19].

In my opinion, institutions are a set of formal and informal frameworks that build and regulate the way an individual or economic entity acts in any sphere of life or production.

In economics, the institutional environment is considered as a set of fundamental political, social, legal and economic rules that define the framework of human behavior and form the basis for production, exchange and distribution. So, the institutional environment is a clear ordered set of institutions that determine the framework

conditions for the functioning and development of economic entities [20].

The institutional environment of economic development can be favorable if the institutional interests of the subjects and agents of the institute are coordinated. Contradictions that arise within the institution are an impetus for its improvement and are resolved at the following levels: at the first level — if there is a discrepancy or specific interests of agents within the general interest of the institutional subject, a possible

way out is to eliminate special, unusual forms and methods of implementing economic interactions or separate them into other groups; at the second level, if some special forms of interaction are localized, it is advisable to fix new rules or norms within a separate community of participants in economic relations. There are two possible ways to resolve the contra-diction:

1) elimination of rules and regulations that have demonstrated insolvency during testing;

2) final consolidation of rules and norms that ensure effective interrelationships of economic entities as formal rules. According to this option, a new third level can be traced — the opposition of the parties and the formation of a new institution [20].

Approaches and methods of resolving internal contradictions and ensuring the interaction of institutions make the basis for the formation of an institutional mechanism — an integral part of the economic mechanism that ensures the reproduction of adequate rules to the external environment. This is a way to establish order that stabilizes the economic structure and monitors compliance with general norms of economic behavior. If there are any changes in the economic conditions of the activity, the structure and boundaries of agreements, contracts are constantly reviewed, so the institutional mechanism is a process of their continuous creation, development and transformation. As a functional subsystem of the economic mechanism, the institutional mechanism creates organizational and regulatory conditions for stable work of economic entities, legislates economic relations, and contributes to the effective implementation of the goals and objectives set by the economic mechanism [20].

The norm used in relations between subjects becomes an institution when it is used by the majority. The institutional environment undergoes constant transformation, which is associated with institutional changes which appear because of the discrepancy between existing institutions and the changed conditions caused by the external environment [20].

Organic production, as a sphere of the Ukrainian economy that is at the initial stage of development, but has great development prospects, requires defining an institutional environment for further analysis and improvement. In Fig. 2 the institutional environment of organic production is considered. It is worth dividing it into formal and informal frameworks.

The formal frameworks include:

1) The Constitution of Ukraine, the Law of Ukraine «About the basic principles and re-

quirements for organic production, circulation and labeling of organic products», The Procedure (detailed rules) for organic production and circulation of organic products, The Procedure for certification of organic production and/or circulation of organic products, The Procedure for maintaining the list of foreign certification bodies, The Procedure for maintaining the State Register of operators who produce products in accordance with the requirements of legislation in the field of organic production, circulation and labeling of organic products, State Register of certification bodies in the field of organic production and turnover of organic products, State Register of organic seeds and planting material, The Procedure for confirming the special knowledge of the inspector for organic production and/or turnover of organic products in the field of organic production, Council resolution (EU) No. 2018/848 of May 30, 2018 regarding organic production and labelling of organic products, Order of the Ministry of Agrarian Policy and food of Ukraine «About the approval of the State logo for organic products (raw materials)», list of substances (ingredients, components), what is allowed to be used in the process of organic production and which are allowed for use in maximum permissible quantities and other regulatory legal acts;

2) The Labor Code — the right to healthy and safe working conditions with a salary not lower than the minimum established by the state, the right of employees to rest by limiting the working day and week, annual paid leave, non-discrimination of employees, etc.;

3) The Land Code — use of land for its intended purpose, comply with the requirements of legislation on Environmental Protection, pay land tax in a timely manner, do not violate the rights of owners of adjacent land plots, increase soil fertility and preserve other useful properties of land, timely provide relevant executive authorities and local self-government bodies with data about the state and use of land and other natural resources in accordance with the procedure established by law, comply with the rules of good neighborliness and restrictions related to the establishment of land easements and protected areas, preserve geodetic marks, anti-erosion structures, networks of irrigation and drainage systems;

4) administrative liability — for violation of the requirements of labor, land, tax and directly organic legislation within the limits specified in the relevant regulatory legal acts;

5) state support — can be provided to operators within the framework of national and regional programs at the expense and within the

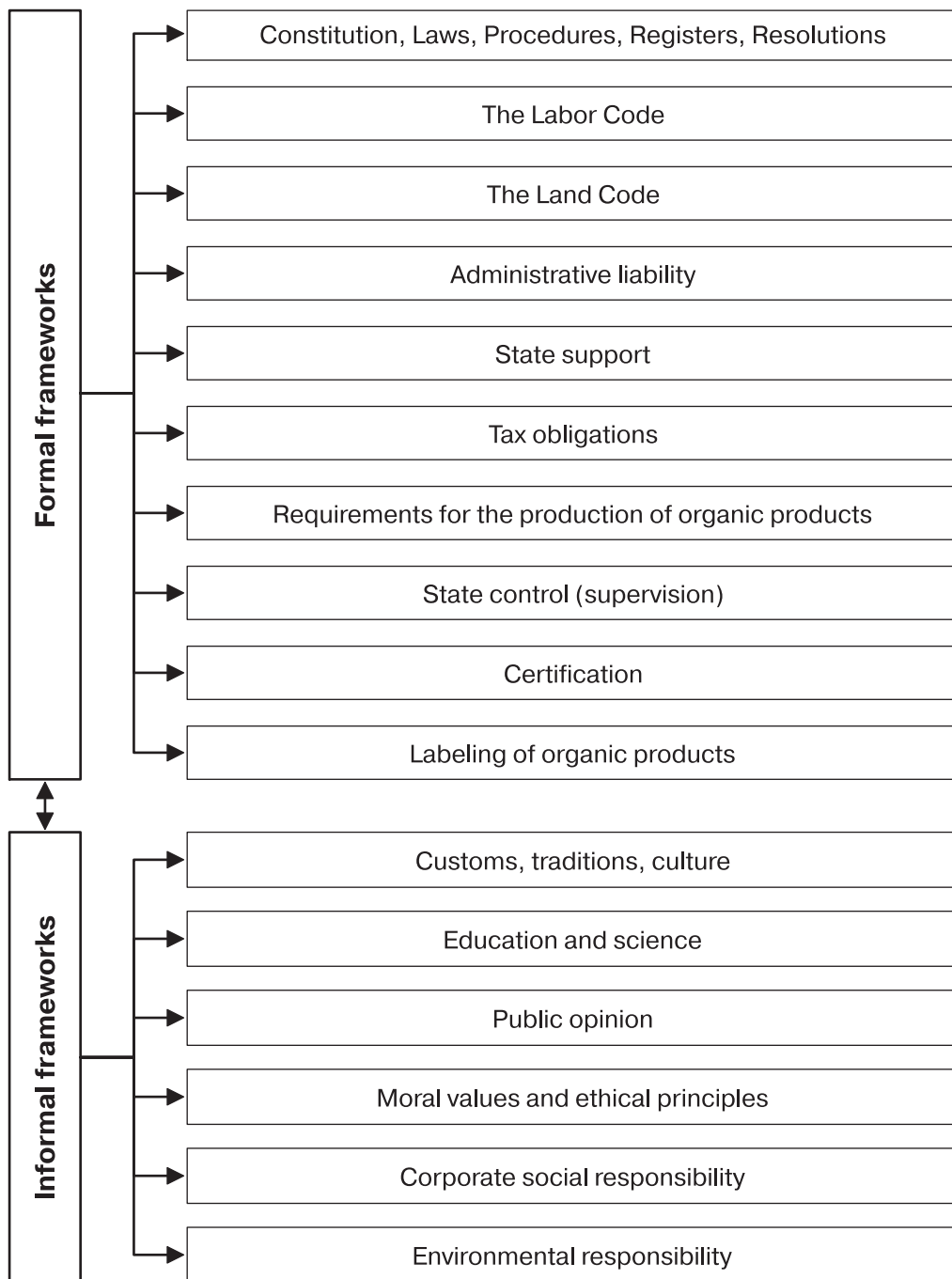


Fig. 2. *Institutional environment of the organic production*

Source: developed by the author.

limits of expenditures under budget programs aimed at supporting the development of agricultural producers;

6) tax obligations — the taxpayer's obligation to pay the corresponding amount of funds to budgets or state trust funds in accordance with the procedure and within the time limits determined by the tax legislation of Ukraine;

7) requirements for the production of organic products — general requirements for organic products, requirements for organic winemaking, requirements for the production of organic feed, requirements for organic crop production, requirements for organic animal farming, requirements for the preparation of organic plant objects, requirements for organic mushroom growing, requirements for organic

aquaculture and the production of organic seaweed, requirements for The List of substances (ingredients, components) that are allowed to be used in the process of organic production and which are allowed in the maximum permissible quantities;

8) state control (supervision) — monitoring of organic products on the market in order to prevent entry into the market of non-organic products labeled as organic, verification of the activities of certification bodies, random verification of the activities of operators;

9) certification — is an annually carried out mandatory on-site inspection by the certification body in order to establish compliance of the production process and its circulation with the requirements of legislation in the field of organic production, circulation and labeling of organic products;

10) labeling of organic products — a product is allowed to be labeled as an organic product if it is produced in accordance with the requirements of legislation in the field of organic production, circulation and labeling of organic products and contains not less than 95 percent of organic ingredients of agricultural origin (by weight excluding the proportion of water and salt) and not more than 5 percent (by weight) of non-organic ingredients included in the list of substances (ingredients, components) that are allowed to be used in the process of organic production and which are allowed to be used in the maximum permissible quantities. Organic production of such a product is confirmed by a certificate.

Informal frameworks include:

1) customs, traditions, culture — elements that are historically formed in each society and passed down from generation to generation and

are being transformed and all of them are being preserved for a long period of time;

2) education and science — form the knowledge, skills and abilities of each individual;

3) public opinion — influences the formation of the image of the enterprise, trust/distrust of consumers in the relevant economic entity;

4) moral values and ethical principles are formed in each individual on the basis of upbringing and do not allow him to cross the line formed for himself;

5) corporate social responsibility — provides for compliance with the mission and values of the economic entity by each individual employee;

6) environmental responsibility — preserving the environment, improving the health of consumers.

## CONCLUSIONS

Institutions are a set of formal and informal frameworks that form and regulate the way an individual or economic entity acts in any sphere of life or production. The formal framework includes the Constitution, laws, procedures, orders and resolutions; the Labor Code; The Land Code; administrative responsibility; state support; tax obligations; requirements for the production of organic products; state control (supervision); certification; labeling of organic products. The informal framework includes customs, traditions, culture; education and science; public opinion; moral values and ethical principles; Corporate Social Responsibility; Environmental Responsibility. The institutional environment is in continuous development and requires constant monitoring of each component for effective functioning in the relevant field of management and achieving the best competitive advantages.

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## ІНСТИТУЦІЙНЕ СЕРЕДОВИЩЕ ОРГАНІЧНОГО ВИРОБНИЦТВА

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У статті розглянуто визначення інституту різними науковцями як базисного поняття в інституціоналізмі, запропоновано власне визначення даної категорії, висвітлено зміст терміну інституційне середовище, побудовано схему інституційного середовища органічного виробництва, що поділено на формальні та неформальні рамки. До формальних віднесено: Конституцію, закони, порядки, накази та постанови; Трудовий кодекс; Земельний кодекс; адміністративну відповідальність; державну підтримку; податкові зобов'язання; вимоги до виробництва органічної продукції; державний контроль (нагляд); сертифікацію; маркування органічної продукції. До неформальних: звичаї, традиції, культуру; освіту та науку; суспільну думку; моральні цінності та етичні принципи; корпоративну соціальну відповідальність; екологічну відповідальність. Зосереджено увагу на тлумаченні кожного елемента. А також доведено вплив інституційного середовища на розвиток кожного суб'єкта господарювання.

**Ключові слова:** інституціоналізм, інститут, інституція, інституційне середовище, формальні інститути, неформальні інститути, органічне виробництво.

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