INSTITUTIONAL PREMISES FOR AGRICULTURAL SECTOR EVOLUTION IN ROMANIA

PREMISE INSTITUŢIONALE ALE EVOLUŢIEI SECTORULUI AGRICOL ÎN ROMÂNIA

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Abstract: *The present paper is an attempt to identify and investigate certain characteristics of the present institutional environment that have a significant negative impact upon the economic activity efficiency. Possible solutions are presented for improving the present situation.*

Key words**:** *institutional environment, deficiencies, consequences, possible remedies.*

1. INTRODUCTION

The present study represents an approach to the current situation of the Romanian agriculture from the positions and with the working methodology specific to the institutional economy and on this basis it highlights solutions for the gradual surmounting of the present difficulties in this sector. A specific focus is laid on the competition environment starting from the premise that the market represents one of the main institutions of the economic system.

2. THE CHARACTERISTICS OF THE PRESENT INSTITUTIONAL ENVIRONMENT IN THE AGRICULTURAL SECTOR

The institutional environment where the Romanian farmers carry out their activity was created in the period of transition to the market economy. Significant progress has been made in the legislative system. Yet, after 20 years since the beginning of the systemic and structural reforms in the agricultural sector, the institutional environment presents a set of

characteristics that drastically constrain, and in certain cases even block its functionality and implicitly its contribution to the efficient performance of the economic activities. The exercise of the institutional environment lever function for the economic activity in agriculture under efficient conditions is constrained by a set of characteristics that the institutional environment has. Among the characteristics that generate a negative impact, the following stand out:

2.1. Institutional environment volatility. Despite the progress made after out country became a EU Member State, a strong fluidity of the normative framework has been maintained, mainly as regards the national policy contribution to supporting the Romanian farmers, to their income stabilization in particular. Farmers continue to work in an economic environment featuring high risk and uncertainty. In these conditions, the Romanian farmers' confidence in the governmental action management is low and it is very difficult to make pertinent anticipations with regard to the use of farm resources in medium and long term actions. The uncertainty related to the macro-economic and sectoral environment from the normative point of view represents one of the determinants of stagnation in the structural adjustment of agricultural holdings, in particular the enterprise reform in the direction of capital concentration and the technical, technological, managerial modernization. These add to certain drawbacks of the legal framework. An example is the current situation of farmers' incomes stabilization using the insurance system as mechanism of action.

2.2. A wide range of non-functional Law enforcement mechanisms and organizations. The legal framework, be it as rationally designed as possible, represents a catalyst of the economic activity, an active component of the institutional environment, only to the extent it is functional. This functionality can be reached only in the conditions in which the legal framework has an adequate support, an adequate institutional infrastructure: Law enforcement mechanisms and organizations. Following the analysis of the situation in the agricultural sector, it is not difficult to notice the strong discrepancy between the legal framework and the Law enforcement mechanisms and organizations respectively. There are many examples in this respect, but we shall next refer to the well-known abnormal situation of contractual relations, to the lack of a guarantee system for warehouse receipts and hence the non-application of these receipts, to the inconsistency of legal provisions on producers' groups and marketing

cooperatives in the conditions of the lack of a generalized support for the enforcement of this normative framework, etc. The discrepancy between the legal framework and its enforcement mechanisms lies at the basis of the great dysfunctionalities in the agricultural sector evolution. In this respect, the following should be mentioned: the low level of confidence among the economic operators, with all the negative consequences this generates at organizational level and in a larger context of the management of economic units; poor development of contractual relations; persistence of a low supply organization level; absence of a functional agricultural commodity exchange; high transaction costs, etc.

2.3. Persistence of an underdeveloped and strongly distorted competition environment, less favourable to farmers – represents the consequence of strong constraints and blockages in market operation. Among these, the following stand out: maintenance of obstructed communication channels between the carriers of demand and the carriers of supply; existence of a strong information asymmetry; maintenance of a strong disequilibrium in the competition potential between the carriers of demand and the carriers of supply to the disadvantage of the latter; insufficient valorization of the capacity to get the agricultural sector free of non-competitive and non-viable farmers; syncopes in the financial credit market operation; poor connection of the agricultural sector to foreign markets, mainly in the area of exports. The results of the analysis suggest that the present markets are not able to ensure the competition market role and functions. At present, we experience a true crisis of the market as fundamental institution of the economic system. Among the unfavourable consequences of this situation we can mention the unjustified transfer of the newly-added value from agriculture to the upstream and downstream sectors, the low farmers' incomes and hence the lack of interest in using their ownership rights on land and operating capital, the lack of interest of a large part of agricultural holdings for market-oriented production and hence a lower commodity supply on the market, etc.

2.4. Poor development of contractual relations – behind the unreliable, sometimes unbalanced behaviour of economic operators.

The present situation in the sphere of contractual relations is determined by a set of factors originating in: the agrarian structure, the market organization and operation modality, low level of confidence

between the economic operators generated by the low efficiency of law enforcement mechanisms, high transaction costs, etc.

2.5. Restrictions in the exercise of farmers' ownership rights – are manifested as a consequence of the dominant position of the carriers of demand on the agricultural markets. This position determines the artificial decrease of farmers' incomes and as a result of the usufruct they benefit from their ownership on the land and operating capital. The artificial diminution of usufruct leads to a lower interest in the effective manifestation of the utilization right; this generates a lower interest for possession, another characteristic of ownership right. The result is the limitation of ownership right, of the positive impact on capital use. This adds to the negative results of the diffuse structure of ownership rights within the agricultural associations established on the basis of Law no. 36/1991.

2.6. High transaction costs – represent a direct consequence of the failure of structural reforms targeting the increase of land and operating capital concentration as well as of the operation of agricultural holdings in an environment full of risk and uncertainty, due to the disequilibria and non-functionality that characterize the current institutional environment.

3. POSSIBLE DIRECTIONS OF ACTION

The characteristics of the present institutional environment have a strong negative impact upon the efficiency in resources allocation, in the distribution and redistribution of the newly created value, upon farmers' incomes, upon their savings possibility and upon the farmers' interest in the development of their farms, etc. The negative influences of the present institutional environment situation add to the negative effects of the production and production marketing structures that are far from providing the necessary support to performance as well as to the negative effects of serious deficiencies in the allocation of resources and in the management of agricultural holdings.

The attenuation and gradual surmounting of the strong deficiencies in the institutional environment suggest the following priority directions of action:

3.1. Development and consolidation of competition environment, as premise for the diminution of the manifestation possibilities of an opportunistic behaviour in the relations between the economic operators.

Possible solutions:

● Supply organization based on **the increase of capital concentration**: horizontal concentration (increase in farm size); vertical concentration.

The horizontal concentration has proved to be a very difficult process so far. The land and operating capital concentration in production associations did not meet the expectations and could not have positive results either, due to the diffuse structure of ownership rights that it generates. The increase in size of individual agricultural holdings, although followed an increasing trend, was achieved at a very slow rate.

A more attractive solution for the small farmers could be the vertical concentration. In this respect, two modalities could be used:

- contractual agriculture: an organization form that has not been much developed mainly due to certain institutional deficiencies, such as: lack of clear provisions that should prevent and discourage an opportunistic behaviour as well as the lack of mechanisms for the operative settling down of disputes. This adds to the low confidence level. There are also certain deficiencies that must not be overlooked in relation to the inadequate production infrastructure on the individual holdings, etc.

- the vertical agricultural cooperation; this is almost non-existent at present. Its development is constrained by the general causes of the blocked cooperative movement in our country (low confidence level, loose mechanisms in imposing the contractual discipline, the diffuse structure of ownership rights, poor infrastructure development, etc.). A positive impact may be brought by the involvement of the state in confidence level increase by the consolidation of necessary institutions for market operation in good conditions (consolidation of ownership rights; contractual agriculture development; guaranteeing the respect of contracts); as well as the creation and development of production and marketing infrastructure necessary for rural cooperation operation.

● Development of futures market for agricultural commodities.

The following would be needed for the creation of a competitive and transparent framework: the supply should be organized by the significant increase of the concentration level; the transacted merchandise (cereals

initially) should be brought to certain standard parameters (the same quality assessment system must be used by all the participants to the market); a system of licensed warehouses should be created; the warehouse receipt (at present blocked mainly from subjective reasons) must be obligatorily used by all the participants to the market.

● **Strengthening the farmers' negotiation capacity**

A significant contribution would be brought by: the development of the rural marketing cooperation as well as the consolidation of producers' organizations as a modality to lower the transaction costs; development and operationalization of the information system with regard to market situation and possible partners (as a modality to reduce the informational asymmetry).

3.2. Diminution of the informational asymmetry on the agricultural markets. The action is meant to provide a fair distribution of the newly created value, to bring its contribution to the creation of more favourable conditions for exercising the ownership rights, at the same time to contribute to the increase of economic rationality in the processes of elaboration and adoption of decisions on the agricultural holdings. In this respect, we consider that the following actions are welcome: consolidation and functionality of the system of farmers' operative information on the situation and possible dynamics of the different agricultural commodity markets as well as on the possible partners; deeper involvement of agricultural extension organizations in the farmers' information process (information collection and dissemination, training on the use of information systems and data/information interpretation, etc.); creation of an economic and institutional environment to facilitate the development of extension systems organized on private basis.

3.3. Increase of the role and functionality of economic contracts and, at the same time, of the mechanisms guaranteeing the respect of their provisions. State bodies should be established for: training the farmers in the field of initiation and promotion of contractual relations; farmers' guidance or defense of farmers' rights on a free of charge basis; creation of a constraint – control system on the basis of which those who infringe the law are punished and the disputes are settled down faster; ensuring the necessary conditions for the creation of a system of contracts based on advance payment; creation of the contract market with advance payment.

3.4. Market risk management

Due to the low financial resources, the small farmers are extremely vulnerable to both production and marketing-related risks: volatility of prices and incomes implicitly; partners' opportunistic behaviour, etc.

Possible solutions: creation of a complex crop and farmers' incomes insurance system, on cooperative basis included, and through the state participation with financial resources; the professional training of farmers and their representatives in the elaboration and management of contracts; increased involvement of the agricultural consultancy organizations in farm management activities (information, guidance in the field of allocation of resources and in the sale of production, etc.); development of mechanisms and consolidation of institutions meant to ensure the control of the respect of contracts and settling down the disputes; involvement of producers' groups in the establishment of agricultural produce sale and marketing.

3.5. Ownership right consolidation

This is conditional to a clearer and better designed structure of ownership rights. It mainly targets the limitations generated by the quasi-monopoly position of buyers on the market of main agricultural products (cereals, milk, meat, etc.). In the same context, the ownership rights should be cleared up within the agricultural associations established on the basis of Law no. 36/1991 on the association forms in agriculture.

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