

ICPS newsletter[®]

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Investing in the Farm Sector: Social impact matters

In recent years, investors have become more interested in the land market. With its enormous agricultural potential and underdeveloped farm sector, Ukraine is also picking up on this global trend. How can the interests of an investor and local communities be protected? What procedure should be followed for transferring land? Answers to these and other questions are being sought by ICPS experts in the context of a new project

In September 2009, ICPS launched a study into the social impact of major investment projects in the agricultural sector that has been commissioned by the World Bank. ICPS analysts expect to survey stakeholders and interested groups regarding the undertaking of a number of investment projects that involve the transfer of land use rights. Among other topics, the survey will touch on:

1. Establishing rights to land and natural resources;
2. Means of livelihood and the vulnerability of local populations;
3. Mechanisms for transferring land and its use in practice;
4. Contractual relations with investors and the distribution of benefits from land usage;
5. Social and food safety.

Investments in Ukrainian land

Since 2002, major agricultural holding companies have been actively expanding their land banks as land legislation improves in Ukraine and world prices for farm products rise. Today, some 20 companies control between 30,000 and 100,000 hectares of land that they have under lease, adding up to nearly 5% of all the land in private hands.

These companies can be divided into three main groups. The first group includes vertically integrated agribusinesses such as Astarta-Kyiv, MCB Agricole, Myronivsky Hliboproduct, and Nibulon. The second group consists of companies that have predominantly foreign capital that

involves either portfolio (such as NCH Capital) or equity (such as MK Group) investors. The third group includes enterprises for whom agriculture is not their primary activity, such as OJCK "Ilych Iron&Steel Works of Mariupol" or Cargill.

Land reform so far

Ukraine began to undertake land reform back in the 1990s under pressure from and with the support of international organizations. Clearly, if it were not for this external factor, any reform at all would have been impossible as too many powerful interests wanted to maintain status quo. Still, at a certain point, reforms ground to a halt and their final goal, establishing a free land market, remains unattained.

Although more than half the land in Ukraine is in private hands (most of these owners are rural residents who have between 1 and 10 hectares of land), private owners are severely restricted in their rights to use land. For instance, they can neither sell it nor use it as collateral. At the same time, if Ukraine's political forces manage to come to some agreement about continuing land

Expanding the Energy Community: What this means for Ukraine

On 8 October, negotiations on Ukraine's membership in the Energy Community came to an end. Expectations are that the countries that are already members of the Community will support Kyiv at their December summit. However, now is the time to discuss the benefits and drawbacks for Ukraine, as membership will mean serious changes in the country's energy sector.

This week ICPS launched a public debate on membership in the Energy Community. During an international conference entitled "Expanding the Energy Community: What this means for Ukraine," representatives of the Government, Rada, business, the European Commission and the Secretariat of the Energy Community discussed the impact of membership for electricity, oil and gas markets.

More information about this conference you can read in our next publications.

reform, progress could come quite swiftly, as nearly all the legislation necessary to set up a transparent and effective land market is already registered in the Verkhovna Rada.

Distribution of contracts according to land lease term, %

	June 2006	April 2009
1-3 years	23.7	10.5
4-5 years	61.7	50.3
6-10 years	11.9	29.0
10 or more years	2.7	10.2

Source: State Land Committee

Land ownership according to type, start of year

	Type of ownership					
	state		private		community	
	'000 ha	share, %	'000 ha	share, %	'000 ha	share, %
1992	60,354.8	100.0	0.0	0.0	0.0	0.0
2000	29,265.5	48.5	4,327.3	7.2	26,762.0	44.3
2001	30,166.5	50.0	29,109.2	48.2	1,079.1	1.8
2009	29,357.8	48.7	30,920.1	51.2	76.9	0.1
including: farmland	11,040.5	26.5	30,557.7	73.4	27.6	0.1
land under crop	5,612.3	17.3	26,848.2	82.7	12.9	0.0

Source: State Land Committee

The main consequences of an unreformed land market

Given that the sale of farmland is currently prohibited, agribusinesses have to lease land for their operations. But the presence of one or two major lessees and a large group of leasers leads to monopolistic relations on the leasing market and, as a consequence, low leasing rates for the use of the land. However, the minimum leasing rate according to law, supposedly 3%

of an established value for the given land, is frequently bypassed directly or indirectly—by inflating the value of goods and services used to pay for the use of the land. Moreover, the assessed value of the land that is used as a basis for establishing the minimum leasing rate is questionable: it generally does not take into account many critical factors that affect the real value of land.

The ineffective use of land is another consequence of unreformed land relations

in Ukraine. Most leases are set for 4-5 years, so that those leasing the land are interested in maximizing profits in the short-term prospect, not on sustainable land usage. They often violate the rules for crop rotation and the land quickly becomes exhausted as a result. ■

For more information on this project, contact ICPS Senior Economist Ildar Gazizullin by phone at (3 044) 484-4400 or via e-mail at ig@icps.kiev.ua.

First Media Breakfast

What is your idea of a perfect morning? Coffee, a croissant and an interesting talk about Ukraine's joining the Energy Community—that was our morning for the press and ICPS analysts on 9 October.

At this first Media Breakfast organized by ICPS with the support of the Friedrich Naumann Foundation, journalists were able to converse with the Director of the Secretariat of the Energy Community, Slavcho Neikov and Dr. Lemlem Said Issa, Advisor to the National Electricity Regulatory Commission (NERC).

This meeting took place two days after the conclusion of negotiations for Ukraine to join the Community. For both experts and the press, this is a new theme, which made a discussion of the benefits of membership and the new opportunities it might provide very timely.

Media Breakfasts is a new ICPS initiative to provide a platform for the press and experts to exchange their views on European integration topics. These breakfasts will take place twice a month and discuss such aspects as: Democratization and good governance; Social economy; Energy; EU-Ukraine Association Agreement; and Foreign Policy. This initiative offers an opportunity for journalists to get exclusive information from Ukrainian and foreign experts on various aspects of European integration in Ukraine and to start their day off in pleasant and interesting company.

If you would like to participate in such a Breakfast in future, contact ICPS Public Events Manager Anna Karnaukh by phone at (3 044) 484-4410 or via e-mail at anna.karnaukh@icps.kiev.ua.

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