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# Ukraine
## Special Focus Note:
## Land market for agricultural growth

***November 19, 2019***

- ***Lifting the moratorium on agricultural land sales and establishing a transparent and efficient market for agricultural land has the potential to boost economic growth in Ukraine by 0.5 to 1.5 percent per year over a 5-year period. The Draft Land Turnover Law recently passed the first reading in an important breakthrough and needs to be approved and enacted expeditiously.***
- ***Complementary legislation also needs to be approved to safeguard transparency and efficiency, to prevent monopolization of agricultural land, and to establish a system to monitor implementation and to prevent fraudulent transactions.***
- ***Financing instruments should be provided to small credit constrained farmers and should be designed in a manner that is effective in providing incentives to improve productivity at an affordable fiscal cost.***

## Establishing an agricultural land market has significant potential to boost economic growth

**Agriculture has the potential to drive higher economic growth and living standards for Ukrainians, but agricultural productivity in Ukraine is much lower than in European and other competitor countries.** Ukraine has the largest endowment of arable land in Europe—33 million hectares, compared to 18 million hectares in France, 12 million hectares in Germany, and 11 million hectares in Poland. Ukraine also has highly fertile soil and a strategic location with access to markets in Europe, the Middle East, North Africa, and Asia. Unfortunately, however, agricultural productivity in Ukraine is a fraction of that in other European countries. Agriculture value added per hectare in 2018 was US$440 in Ukraine, compared to US$1,100 in Poland, $1,400 in Brazil, US$1,700 in Germany, and US$2,450 in France. The primary reason for this is that agricultural production in Ukraine focuses on lower value-added products (such as grains). Agriculture land rents in Ukraine are also much lower than in other European countries, which undermines livelihoods of a large number of rural landowners and discourages productive use of the land. The rental price of agricultural land per hectare in 2017 was $50 in Ukraine, compared to $181 in Hungary, $243 in France, $271 in Bulgaria, and $957 in Netherlands. As a result, a large number of rural landowners are deprived a fair return on one of their most valuable assets.

Figure 1. Arable land in Europe (millions of hectares)

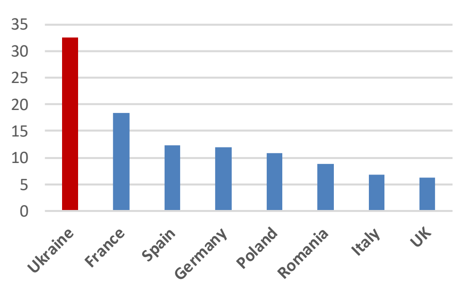



Figure 2. Agriculture Value Added per Hectare, 2018 ($/ha)

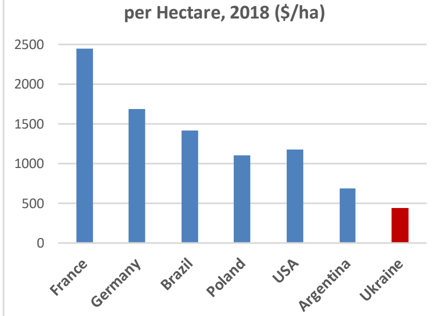
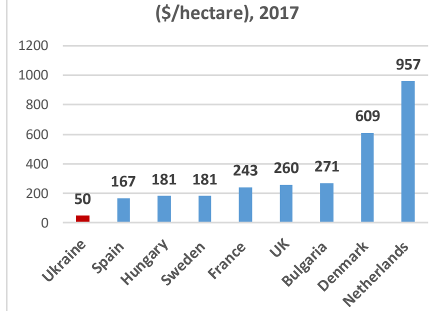



Figure 3. Agriculture Land Rental Price ($/hectare), 2017




**The moratorium on agriculture land sales is a major impediment to attracting investment and unlocking productivity in agriculture.** The moratorium undermines the security of land tenure and undermines incentives to undertake productivity enhancing investments and manage the land in a sustainable manner, such as through irrigation investments, perennials, and crop rotation. Limited investment undermines the ability of farmers to grow and move into employment-intensive products with higher value added. The moratorium also undermines the flow of financing to small and medium producers because land cannot be used as collateral. If the ownership of land cannot be transferred, it also cannot be used as collateral to obtaining financing. The lack of access to financing prevents many small and medium farmers from growing and moving into higher value-added products. The moratorium thus prevents millions of land owners from using their most valuable asset as collateral.

**Establishing a transparent and efficient land market would boost economic growth by an estimated 0.5 to 1.5 percent per year over a 5-year period, depending on the reform design and complementary policies.** The main channel of impact on growth would be the expansion of producers with higher value added and the exit of producers with lower value added, as the price of land rises. The impact would be at the higher end of the range with fewer restrictions and with effective and sustainable access to financing for small, credit constrained farmers, to enable them to participate in the market and enhance their productivity. In order for this impact to be achieved, the opening of the market needs to be accompanied by complementary measures in three areas:

(i) safeguard mechanisms to ensure transparency and efficiency to the market, and to prevent monopolization;
(ii) effective and sustainable access to financing for small, credit constrained farmers, and
(iii) a monitoring system to ensure that the land market is implemented as planned and that fraudulent transactions are prevented.

**The draft land turnover law approved in the first reading by Rada on November 13 is an important breakthrough in establishing a land market by October 2020, and should be enacted at the earliest opportunity together with the necessary complementary legislation.** It now needs to be followed through to approval and enactment, and it needs to be accompanied by complementary legislation on mechanisms to ensure transparency and efficiency, prevent monopolization, to provide effective and sustainable financing for small, credit constrained farmers; and to establish a monitoring system to ensure that the land market is implemented as planned.

## Mechanisms to ensure transparency and efficiency, and monitor implementation are critical

**Complementary legislation on safeguards to ensure transparency, efficiency, and to prevent monopolization of agricultural land will need to be approved in parallel.** Significant work has been done on these various complementary pieces of legislation covering the following important areas:

- **Open access to the cadaster data:** The Draft Law "On National Spatial Data Infrastructure (NSDI) and Access to Spatial Public Information" provides free and open access to geospatial cadaster data, enforces standards to make geospatial information consistent, and mandates interoperability between the cadaster and registry. This is important to reduce manipulation of ownership records and opportunities for corruption. The draft law was registered in Rada on November 1, 2019, with first reading expected by early-December and approval expected by end-2019.
- **Streamlining land transfer procedures and decentralizing land management:** The Draft Law "On Deregulation of Land Management and Land Valuation and Change of System of Management in Land Relations" streamlines procedures to create, transfer, and use land parcels; transfers the ownership and administration of state land from the Geocadaster local authorities. The draft law was approved in the first reading on November 14, with final approval expected by end-2019.
- **Regulating local state land use, mandatory electronic auctions, and restricting discretionary handouts:** A set of legislation is needed to regulate the use of state land by local authorities; to stipulate the mandatory use of electronic auctions for state land sales; and to restrict discretionary handouts of state land to specific veteran and social groups. The Draft Law "On Land Use Planning" was registered on Oct 17, 2019; the Draft Law "On Sale of State and Communal Land Parcels via E-Auctions" was approved in the first reading on November 13, 2019; and the draft law on restricting discretionary handouts has not yet registered but has been discussed by MPs. All of this legislation is expected to be approved by end-2019.
- **Preventing multiple registrations and raider attacks:** The Draft Law "On Preventing Raider Attacks" fully automates exchange of information between the registry and cadaster, mandates digitization of all paper records to registry, and requires registration of all transaction prices for sales and leases. Approval is expected by end-2019.

**A monitoring system to ensure that the land market is implemented as planned and to prevent fraudulent transactions will be important.** A concept law to establish the land monitoring system is under discussion. It would provide access to data on ownership registries, automatically block land transfers in violation of legal restrictions (e.g. on concentration of ownership); and enable routine publication of aggregate information (on transactions and prices) at the village/hromada level. This would be complemented by a farmer registry to help target state support to small farmers, correct cadastral errors, and register unregistered land and informal leases. It is important to agree on the concept law on the monitoring system and ensure approval by end-2019.

## Financing instruments should be targeted to small farmers and should be effective and sustainable

**Access to financing for small credit constrained farmers through sustainable and effective financing instruments will be important.** The lifting of the moratorium will enable the use of land as collateral. At the same time, banks in Ukraine have historically ignored farmers with less than 500 hectares, and many small farmers are unfamiliar with formal borrowing practices. To overcome these constraints, a partial credit guarantee (PCG) facility can help reduce the risk of bank lending to small farmers (with less than 500 hectares) and kick-start the mortgage market. The PCG is expected to support such lending for a limited duration of about 5 years. A law has been drafted to establish a small agency with an independent governance structure to administer the PCG on a commercial basis. It will be important to submit the draft law on the PCG to Rada by end-November and so that it can be approved by end-2019. Draft regulations to set up and implement the PCG have been developed.

**State subsidies to farmers should be clearly targeted and designed in a manner that provides incentives to improve productivity and adopt higher value-added crops and new technologies, at an affordable fiscal cost.** In the past, agricultural subsidies in Ukraine have largely benefited large and influential producers. The Government's decision to replace this with temporary targeted support for small farmers to acquire land is a step in the right direction. The international experience indicates that interest rate subsidies should be avoided since they provide incentives for farmers to remain less profitable, provide little incentive for banks to identify more productive borrowers, and are associated with escalating fiscal costs. Instead, upfront matching grants enable borrowers to defray higher interest costs and other fixed costs during the initial years, provide an incentive to become more profitable over time, and are associated with stable fiscal costs. The international experience also suggests that the support should be targeted to small farmers (under 500 hectares) who are most credit constrained, to minimize the distortions on the existing commercial lending market.

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