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#### **EXECUTIVE SUMMARY**



International experience exemplifies 4 possible market types, among which liberal one stems the highest benefits

If broadly, there are 4 types of land market from the most to the least liberal. Open market implies no restrictions on the circulation of agricultural land on the market. Open market with restrictions includes some regulations of the price of land sale, the maximum area of ownership etc. If the government decides to protect the national producers by imposing restriction for foreigners, the country has a restricted market for foreigners. Finally, economies where the sale of agricultural land is completely banned have fully restricted market.

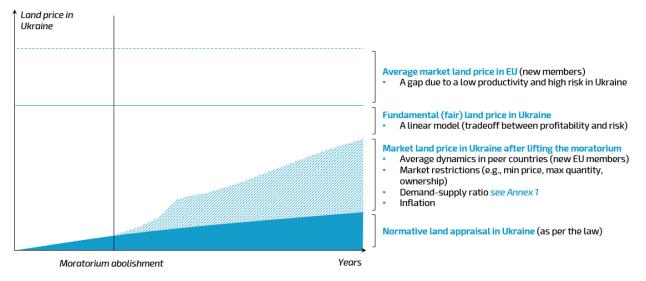
International experience proves that the farmland market type closely correlates with a land price in a country, the productivity of the agricultural sector and the overall level of economic development.



#### Selection of a land market model affects the expected land price and a size of potential economic effect

Evaluation of different land market models includes the identification of the pricing-setting mechanism and calculation of a total size of economic and social effect. The methodology for price calculation consists of: (1) determining the fundamental (fair) price of land; (2) determining the impact of different types of restrictions on the market price; and (3) determining the dynamics of land prices after opening the market.

Figure 0.1. Approach to understanding of land market pricing mechanism



Source: EasyBusiness

The fundamental (fair) price is calculated as a tradeoff between the profitability and the risk of land acquisition, thus it signals the attractiveness of the asset to the potential investor. The fair value of Ukrainian land is USD 4,958 per 1 ha, while normative land appraisal (NLA) equals to USD 955 per 1 ha (2018), which means at least 5 times undervaluation of Ukrainian land.

The market price depends on the market model (e.g. regulation of a minimum price, maximum area, or a ban on foreigners' access to the market). The introduction of any market restrictions lowers market market prices.

The moratorium abolishment will allow Ukraine to gradually increase the market price up to its fair value (USD 4,958 per 1 ha), which also means a decrease in the level of land undervaluation and transition to a group of developed countries.



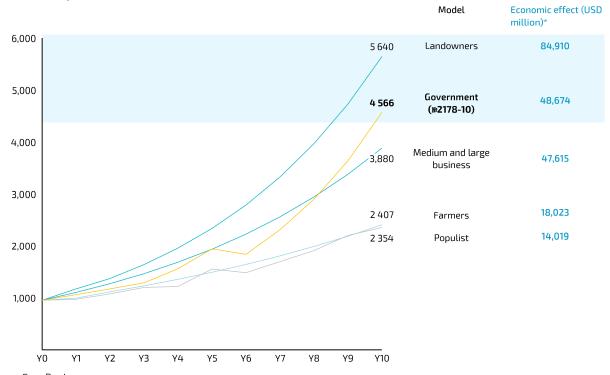
# Proposed land market scenarios for Ukraine differ by the expected land price and a size of potential economic effect

Widely discussed models of future farmland market in Ukraine differ by implied mechanisms and expected influence on market players. There are generally 6 model that are most beneficial for a certain type of stakeholder.

Considering the qualitative and quantitative characteristics of different models, the introduction of a model for landowners (without any restrictions) leads to the highest land price (USD 5,640 per 1 ha after 10 years of market launch) and maximizes the overall economic effect (USD 85 billion of additional GDP over 10 years).

Adoption of the model proposed by the government (draft law №2178-10) will increase the price of 1 ha of agricultural land to USD 4,566 in year 10 after the reform. The overall economic effect will total to USD 49 billion over 10 years.

Figure 0.2. Comparison of the of land price dynamics and the overall economic effect after the implementation of the government model and other possible scenarios, USD



Source: EasyBusiness



# Government should consider an integrated approach and maximize reform benefits for all stakeholders by enacting supportive mechanisms

Achieving the most positive effect of the reform is possible after the introduction of supportive mechanisms to maximize benefits for all stakeholders.

First of all, the Government should improve the regulation of land relations, including the optimization of the StateLandCadastre activities, as well as the decentralizing the functions of management and control of state-owned land.

Secondly, it is necessary to improve the system of management of state-owned assets in agriculture through good corporate governance and privatization (where possible).

Thirdly, the government should consider a program of financial and advisory support for farmers and small businesses to improve their capability of buying land assets.



# INTERNATIONAL EXPERIENCE EXEMPLIFIES 4 POSSIBLE MARKET MODELS, AMONG WHICH LIBERAL ONE STEMS THE HIGHEST BENEFITS

- 1.1. International experience of farmland market functioning
- 1.2. Effect of a market model on a country economy

#### 1.1. INTERNATIONAL EXPERIENCE OF FARMLAND MARKET FUNCTIONING

Models of farmland market in all countries can be divided into four types: fully liberalized market, open market with restrictions, restricted for foreigners market and fully restricted market (Figure 1).

**PRIVATE FOREIGNERS OUANTITATIVE PRICE ANY OTHER** YES YES **OWNERSIP ALLOWED? RESTRICTIONS? REGULATION? RESTRICTIONS?** ALLOWED? YES NO NO NO **FULLY** RESTRICTED FOR OPEN WITH RESTRICTIONS **FULLY LIBERALIZED** 3 2 RESTRICTED **FOREIGNERS Tajikistan** Croatia Iran Greece Romania Nicaragua Australia Austria Albania South Korea Denmark Slovakia Panama Netherlands Belgium Bosnia and Morocco Finland Germany Ireland Hungary Paraguay Herzegovina Armenia France Turkey Salvador Portugal Estonia North Kazakhstan Honduras Guatemala Uruguay Dominican Spain Macedonia Kyrgyzstan Switzerland Argentina Canada Republic Italv Serbia Bulgaria Brazil **United Kingdom** Czech Nigeria Japan South Africa Azerbaijan Latvia Poland Sweden Republic Moldova Lithuania Tunis Georgia Mexico Russia Cameroon

Figure 1. The methodology for defining land market types

Source: EasyBusiness



#### Fully restricted market

This market type is characterized by the inability to fully exercise the right to own and dispose property. In case of a fully restricted market, all the agreements on purchases and sales of the agricultural land are prohibited. Any transactions, other than inheritance or lease agreements, are banned by the government. Foreigners, individuals, and legal entities are fully restricted from owning farmland. Also, sometimes restrictions on transactions with agricultural land can be set up as a temporary measure to develop a legal mechanism of transparent farmland market implementation (e.g., a temporary moratorium on farmland sales was implemented in Moldova and Kyrgyzstan). This market type is the least common in the word and is only applied in undemocratic countries with dictatorship and low level of economic development.



#### Restricted for foreigners

This market type includes the restriction for foreigners (both individuals and legal entities) to have a property right for agricultural land. They cannot own or purchase farmland but usually can use it by leasing. At the same time, restrictions on foreign ownership are often inefficient. For instance, in Moldova (the country with a restricted for foreigners market) foreigners can buy agricultural land using dual citizenship.

The trend shows that there is a decrease in a number of countries with such market type. Almost all countries lift the restriction on foreign capital as they become more developed. This market predominate in Post-Soviet countries and some developing countries: Albania, Bosnia and Herzegovina, Serbia, Croatia, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, and Russia.



#### Open with restrictions

Markets of this type are open to foreign investors, but governments typically set certain restrictions not only to foreign individuals or legal entities but also to the residents of the country. These restrictions may include maximum or minimum land plot size, price regulations, requirements for education, training, experience, and residence of the buyer, additional taxes on land acquisition, and the need to obtain a special permission from the state to purchase or sell the agricultural land.

This type of market is the most common worldwide for all regions and countries with different levels of economic development. Different countries set different restrictions according to their own sector development policy. Open market with restrictions is implemented in Austria, Belgium, Finland, Bulgaria, Romania, Slovakia, Hungary, and Turkey.



#### Fully liberalized market

Completely open and liberalized markets have no limitations and restrictions for individuals, legal entities or foreigners. Thus, agricultural land is in free circulation. This market type is mostly applied in developed economies – the United States, United Kingdom, Ireland, Netherlands, and Germany.

#### 1.2. EFFECT OF A MARKET MODEL ON A COUNTRY ECONOMY

There is a clear connection between the farmland market type and the farmland price, productivity in agriculture and the overall country economic development.



#### Farmland price

Farmland price indicates the value of land resources as the main asset in agriculture. Market players are ready to pay a higher price if an asset brings higher profits. Meanwhile, implementation of any restrictions may lower prices. Higher prices of agricultural land are observed in countries with more liberal market models. In countries that have fully liberalized market 1 hectare (ha) of farmland is 1.5 times more expensive compared to less liberal countries. In Ukraine there is no land market price due to the absence of the market itself. Land value is measured by a normative land appraisal (NLA) that equals to USD 1,000 per 1 ha (Figure 2).

The introduction of restrictions also causes a decrease in agriculture productivity. The existence of tight regulation restricts more efficient owners from obtaining the land assets. As a result, in countries with the fully liberalized market agricultural value added per one worker is higher by 89% than in countries with some market restrictions. In Ukraine, where the farmland market does not exist, the productivity in the sector is much lower than in all of the analyzed countries (Figure 3).

Figure 2. Average price of 1 ha of agricultural land by market type, USD  $\,$ 



Source: World Bank, Eurostat, State Statistic Service

Figure 3. Average value added per 1 worker in agriculture (constant 2010 prices) by market type, 2017, USD



Source: World Bank, Eurostat, FAO, State Statistic Service

# (5)

#### The standard of living

Figure 4. Average GDP per capita (constant 2010 prices) by market type, 2017, USD



Source: World Bank, State Statistics Service

**Developed economies tend to implement more liberal market models.** Free market conditions enabled these countries to provide comparatively higher standards of living for the population. In countries with a fully liberalized market real GDP per capita on average is higher by 143% than in countries with the open market with restrictions. At the same time, Ukraine's real GDP per capita is lower than USD 3,000 (Figure 4).



# SELECTION OF A LAND MARKET MODEL AFFECTS THE EXPECTED LAND PRICE AND A SIZE OF POTENTIAL ECONOMIC EFFECT

- 2.1. Demand for agricultural land in Ukraine
- 2.2. Supply of agricultural land in Ukraine
- 2.3. Selling and rental prices of agricultural land
- 2.4. Economic and social effect (methodology)

Assessment of the effectiveness of market models requires a validation of assumptions regarding:

- Supply (size of land plots, that will be sold),
- Demand (list of market players that are allowed to buy agricultural land),
- Sale and lease price of 1 ha of agricultural land.

#### 2.1. DEMAND FOR AGRICULTURAL LAND IN UKRAINE

The aggregated demand for farmland consists of demand from different entities (Figure 5.1).

Figure 5.1. Methodology for calculating demand for agricultural land in Ukraine

#### **CATEGORIES** APPROACH TO ESTIMATION REACTION TO A MARKET MODEL Decrease if quantitative 面 Ukrainian business % of continued lease restrictions contracts % of capital investments in Decrease if restrictions on **TO BUY** Foreign business agriculture in EU (proxy) quantity or foreign LAND ownership % of capital investments in Investors Decrease if ban for investors Ukrainian real estate (proxy)

Source: EasyBusiness



#### Ukrainian business

It includes demand from Ukrainian companies and individual entrepreneurs engaged in agricultural production. Since entities currently cultivate leased land, they will be faced with the choice between continuing to lease land and acquiring it after opening the market. The decision in favor of one of the options will differ depending on the market model.

To calculate the potential demand, it is reasonable to use the share of renewed lease contracts that will be renewed after the expiration date. It is assumed that once the market is opened, the share will be relatively lower, as more companies will be interested not in continuing lease contracts but in buying land while the price is relatively low. In the following years, as the price goes up, the share will also increase: when the market is more mature, renting land is more profitable than buying it.

Also, the share of renewed lease contracts will be affected by the restriction on maximum land area in ownership. With such restrictions, the lease rate will be higher since the business will be forced to lease the land that exceeds legislative limits.



#### Foreign business

It includes demand from non-residents who will purchase land for agricultural production. Demand from foreigners depend on market regulations and will be absent in case of a complete ban. Evidence from European countries allows to estimate potential numbers.



#### Investors

It includes demand for land that will be used not for direct agricultural production but for further leasing or selling. It can be restricted with regulatory requirements for qualifications, prior experience or intention to farm, as well as other legislative constraints. Capital investments in real estate transactions in Ukraine serves allows to approximate the figures.

#### 2.2. SUPPLY OF AGRICULTURAL LAND IN UKRAINE

The supply of agricultural land will consist mainly of privately owned land (Figure 5.2).

Figure 5.2. Methodology for calculating supply of agricultural land n Ukraine

CATEGORIES

APPROACH TO ESTIMATION

REACTION TO A MARKET MODEL

\* We of landowners willing to sell land

\* Depends on the established market price

\* Depends on the established market price

\* OF LAND

\* Depends on the established market price

Source: EasyBusiness



#### The volume of private land supply

The supply is elastic in terms of land price: the higher is price, the more landowners will be interested in selling their plots. That is why higher supply is expected in market models that provide a higher increase in the land price.

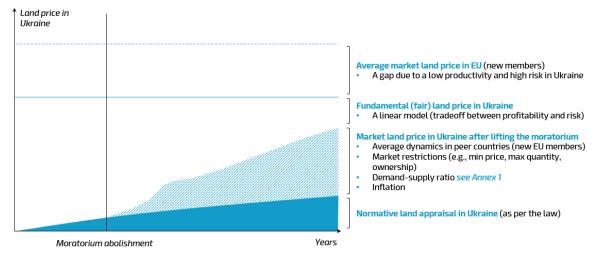
Land supply can be also increased by selling state-owned and communal land. However, the moratorium abolishment does not automatically means the privatization of these lands. In addition, this type of land has a relatively higher price since it is more consolidated compared, which makes it more attractive to potential buyers.

#### 2.3. SELLING AND RENTAL PRICES OF AGRICULTURAL LAND

The price of agricultural land depends on the chosen market model and affects the potential economic effect of the reform. Under the moratorium, the value of the land plot is determined by the normative land appraisal (NLA). However, once the moratorium is lifted, the price will be set in the open market, and therefore will differ from the NLA. As a result, there is a need for a method that can predict the future value of the agricultural land. The calculation methodology includes (Figure 6):

- Identification of the factors that determine the fundamental land price that is the maximum price of land under current conditions;
- 2. Identification of the impact of different restrictions on the market land price;
- 3. Determining the dynamics of agricultural land price after opening the market (the pace with which market price will be growing before reaching its potential value).

Figure 6. Approach to understanding of land market pricing mechanism





#### Determination of the fundamental (fair) price of agricultural land in Ukraine

The first step is to find the factors that determine the fundamental (fair) price of land by determining the price as a tradeoff between an asset's profitability and risk. In the case of agricultural land, profitability directly depends on the fertility, yields, and productivity of a land plot, as well as the expected profit. The level of risk is characterized by the macroeconomic environment in the country and the opportunity cost of capital. The reliability of this mechanism is confirmed by the data from EU countries that have been analyzed with linear regression. As a result, we selected a list of indicators that determine a land pricing mechanism (Table 1).

Table 1. Factors that determine the fundamental land price

Group of factors	Factor	Indicators used in the model	
Profitability	Fertility	(1) Use of fertilizers per 1 ha	
	Yields	(2) Use of technologies per 1 ha (3) Crop yields	
	Productivity	(4) Gross value added per 1 ha	
	Profit	(5) Difference between agricultural input and output price indexes	
Risk	Macroeconomic stability; opportunity cost of capital	(6) Government bonds rate	

Source: EasyBusiness

Note: Fixed-effect linear regression for panel data (24 EU countries for 17 years (2000–2016), analysis of 30 indicators and selection of the most significant ones (6 final indicators)

Understanding of the factors that influence the land price may also support the design of further policy interventions to increase the land value in the future. A higher market price will indicate the increase in profitability and the decrease in the risk of doing business in the agricultural sector of Ukraine. A detailed analysis of each factor is given below.



#### The fertility of agricultural land

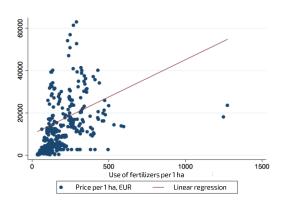
Land fertility is the quality of soil that heavily depends on the use of mineral fertilizers and plant protection. Considering the EU countries' data, there is a positive correlation between the level of fertilizer use and the price per 1 ha of agricultural land, a 10% increase in investment in fertilizers is accompanied by a 1.7% increase in land value. However, despite being ranked #4 globally by area of "chernozem", and #1 by the amount of cultivated land, the level of fertilizer use is 3 times below the EU average. These influence a gradual reduction in fertility, and suspends the potential increase in land value (Figure 7).



#### Crop yields

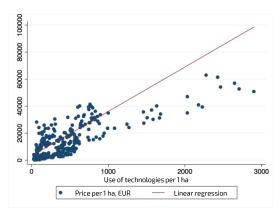
The crop yields are determined by a type of crops and the technology of cultivation. Ukraine mostly cultivates low-margin crops with yields that are 2 times below the EU average. One reason is insufficient use of technologies. While the average investments in technology in Europe are around EUR 155 per hectare, in Ukraine it does not exceed EUR 14 per hectare. The experience of EU countries exemplifies that a 10% increase in investment in technology is usually followed by a 5.8% increase in land value (Figure 8).

Figure 7. Correlation between agricultural land price and use of fertilizers per 1 ha



Source: Eurostat

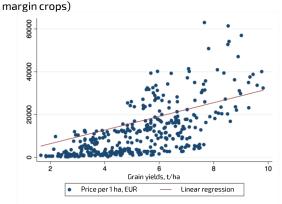
Figure 8. Correlation between agricultural land price and investments in technology per 1 ha



Source: Eurostat

Change in crop yields correlates with the land plot price. A 10% increase in yields of grains (low margin crops) or fruits (high margin crops) is followed by the increase in land value by 2.1% and 2.7% respectively (Figure 9).

Figure 9. Correlation between agricultural land price and different yields for grains (low margin crops) and fruits (high



0 10 20 30 40
Fruit yields, t/ha
Price per 1 ha, EUR — Linear regression

Source: Eurostat, FAO

## 0

#### Productivity of land plot

Land productivity is calculated as the gross value added per 1 ha and therefore depends on the profitability (margin) of the crops. The gross value added affects the land market price. Data from EU countries proves that a 10% increase in gross value added per 1 ha is accompanied by a 8.8% increase in land price. In Ukraine gross value added does not exceed EUR 600 per 1 ha, which is explained by the low share of high-margin crop production. Only 7.4% of agricultural land in Ukraine is used for high-margin crops, while in developed EU countries the indicator exceeds 50% and in some countries (e.g. the Netherlands) it is almost 90%. At the same time, the poor productivity has a negative impact on the potential market price of agricultural land (Figure 10).

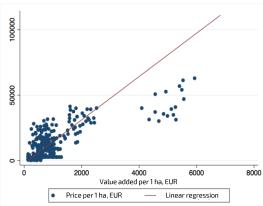


#### Profitability of agriculture

Business will be profitable when there is a positive difference between output and input price in agriculture, i.e., prices of end products exceed the prices of material and technical resources. It leads to an increase in profits and, eventually, increases the maximum price of 1 ha of agricultural land. According to the analysis of EU countries, a 10% increase in the positive difference between output and input price indexes is associated with an increase in the price of 1 ha of land by 0.5%.

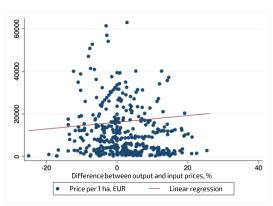
Considering the growing global demand for agricultural products due to rapid population growth, urbanization and changing consumer preferences, prices for agricultural products are expected to increase, which affects the a steady increase in output prices (Figure 11).

Figure 10. Correlation between agricultural land price and gross value added per 1 ha



Source: Eurostat

Figure 11. Correlation between agricultural land price and the difference between output and input price indexes in agriculture



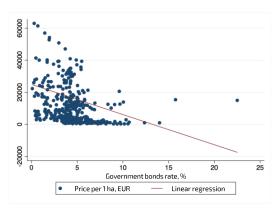
Source: Eurostat



#### Risk of operations

The risk of operations of selling and buying agricultural land depends on the macroeconomic environment in the country and can be measured by the government bonds rate. According to EU data, a 10% increase in government bonds rate is accompanied by a 1.7% decrease in land prices. Thus, a gradual decrease in the interest rate of Ukrainian government bonds may signal the potential increase in the fundamental price of agricultural land (Figure 12).

Figure 12. Correlation between agricultural land price and government bonds rate

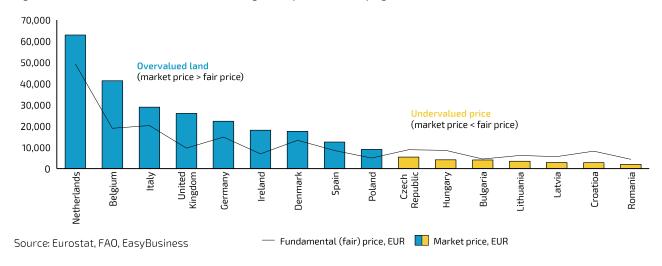


Source: Eurostat, IMF

The linear regression with the above-mentioned factors enables to calculate the fundamental (fair) price of agricultural land. Usually, the actual market price differs from the fair price. This difference shows the level of undervaluation or overvaluation of the land. Based on data from EU countries, more developed countries with a free land market, tend to have a situation when land market price exceeds its fair price (market-to-fair price ratio) that also shows market maturity. (Figure 13). For instance, the Netherlands, Belgium, Italy, the United Kingdom, and Germany have a high market-to-fair price ratio.

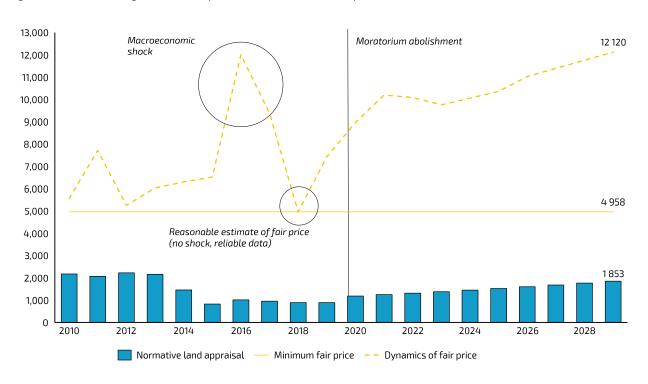
Abolishment of various restrictions on the land market has a positive effect on achieving fair value. For example, countries that started reform immediately after joining the EU (2003 or 2007) in recent years have succeeded in narrowing the gap between fair and market prices for land. Also, Poland has even managed to exceed this figure and joined the list of countries with a mature land market.

Figure 13. Under- or overestimation of land among developed and developing countries in the EU



The absence of the farmland market in Ukraine makes it impossible to compare the market and fundamental prices. Instead, using the NLA we can understand the minimum level of underestimation of land price (Figure 14). According to relevant statistics in 2018, the fair value of Ukrainian land is USD 4,958 per 1 ha. Meanwhile, the NLA is equal to USD 955 per 1 ha (2018), which means that Ukrainian agricultural land is undervalued at least 5 times. The fair price of the land varies depends on a number of previously mentioned factors of profitability and risk. Increase in fertility, yields and productivity of the land combined with improvements in the macroeconomic environment will have a positive effect on the fair land price.

Figure 14. Fundamental agricultural land price and NLA in Ukraine, USD per 1 ha



Source: EasyBusiness, World Bank, Eurostat, StateGeoCadastre

#### The impact of regulatory restrictions on the market price of agricultural land

After determining the fair land price, we need to understand the mechanism of how the market price can reach its fair value. We assume that market regulations play a significant role in determining the market price. Thus, the next step in our methodology is to determine the impact of different market regulations on the market land price. We analyzed the restrictions on the purchase and sale of land in 24 EU countries over the past 17 to reveal how the changes or abolition of a particular restriction affected the market price.



#### Minimum price

In countries with the required minimum price, the market land price is usually on average 10 times lower than in countries without it. Using data from EU countries, the average price in the first group of countries is EUR 1,909 per 1 ha, while in the second group it is EUR 11,968 per 1 ha (Figure 15).



#### Maximum area for individuals

Any quantitative restrictions lead to a lower market price. For instance, if the maximum area for individuals is equal 100 ha, the average market price of agricultural land will be EUR 2,140 per 1 ha. The absence of any quantitative restriction for individuals raises the price by almost 6 times to EUR 12,642 per 1 ha (Figure 16).

Figure 15. Average market price of agricultural land by

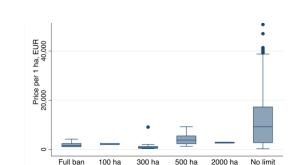
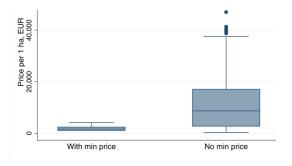


Figure 16. Average market price of agricultural land by

the maximum area limit for individuals, EUR per 1 ha

the existence of a minimum price limit, EUR per 1 ha



Source: Eurostat, EasyBusiness

Source: Eurostat, EasyBusiness



#### Maximum area for legal entities

Any quantitative restrictions on the purchase of land by legal entities make it impossible to set a high price of land. For example, the average market price with a limit of 300 ha for legal entities is only EUR 1,909 per 1 ha, while the absence of any quantitative restrictions on legal entities increase the price 6 times: to EUR 12,544 per 1 ha (Figure 17).

Also, it is important to explain a seemingly high market land price of EUR 9,083 per 1 ha in case of 500 ha limit for purchase of land of legal entities. This is the case of Poland, which imposed restrictions in 2016 when land prices were already high and reached the EU average (there was no such restriction in Poland before 2016). Thus, this result cannot be considered as significant.

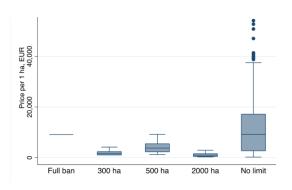


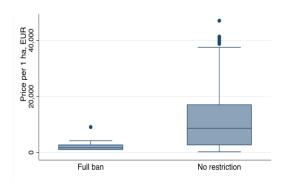
#### Ban for legal entities

The average land price in countries where legal entities are not allowed to buy land is at least 5 times lower than in countries without the ban (EUR 2,307 per 1 ha and EUR 11,976 per 1 ha respectively) (Figure 18).

Figure 17. Average market price of agricultural land by the maximum area limit for legal entities, EUR per 1 ha

Figure 18. Average market price of agricultural land by existence of a ban for legal entities, EUR per 1 ha





Source: Eurostat, EasyBusiness

Source: Eurostat, EasyBusiness



#### Ban for foreigners

EU countries that have a complete ban on land purchases by foreigners have at least 6 times lower land prices compared to the opposite group of countries without any restrictions (EUR 1,922 per 1 ha and EUR 18,100 per 1 ha, respectively). However, even though partial access of foreigners to the market leads to a higher market price than in the case of full prohibition, this restriction still does not allow countries to reach the fair land price (Figure 19).

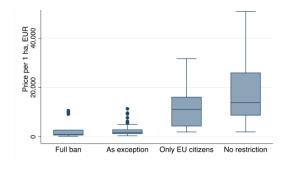


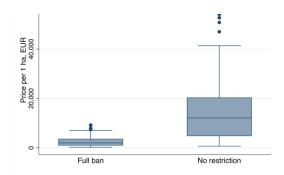
#### Ban for investors

Countries that excluded investors from buying land are characterized by a low average market price, which is at least 5 times lower than in countries without this restriction (EUR 2,538 per 1 ha and EUR 14,705 per 1 ha, respectively) (Figure 20).

Figure 19. Average market price of agricultural land by existence of a ban for foreigners, EUR per 1 ha

Figure 20. Average market price of agricultural land by existence of a ban for investors, EUR per 1 ha





Source: Eurostat

Source: Eurostat

<sup>\*</sup>The sale of land to foreigners is allowed only if a foreigner lives in the territory for 3 years, or married a citizen of a country.

3

Even if the most liberal model is selected, land price does not reach its fair value immediately, but rather in the following years. To better understand the dynamics of land price after opening the market, we studied the experience of new EU members.

The majority of countries opened the market in 2004 after joining the EU. The changes in legislation concerned only the possibility of buying land by foreigners, while other restrictions (their presence or absence) mainly remained unchanged. Also, most countries implemented the reform in 2 waves pursuing market liberalization. We divide countries in 3 groups based on their reform strategy.



#### Market opening only for EU residents

#### Country example: Slovenia

This type is characterized by opening the farmland market for individuals and legal persons who are exclusively EU residents right after joining the EU. Before the implementation of the reform, only Slovenian citizens (individuals and legal entities, including investors) were able to buy the land (no quantity and price restriction). As a result, the country has a high average land price (above EUR 16,000 per 1 ha), showing a steady increase of 3.4% annually.



#### Market opening for some EU residents (e.g., relatives) and later for all EU residents

#### Country examples: Bulgaria, Latvia, Poland, Romania and Hungary

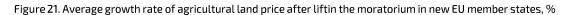
These countries have been opening the market for foreigners gradually. In the first 6-10 years, only individual EU residents (for example, those who have family ties with country residents) had a right to buy agricultural land, and later the market was opened to all EU citizens. The growth rate of land prices among these countries is high and averages 8.9% annually. However, it should be noted that the dynamics vary by country. Countries that decided not to impose any additional restrictions (e.g. Bulgaria) show price increases of 10% annually, while countries that leave some quantitative restrictions and denial of access for investors (e.g. Poland and Hungary) have lower growth rates - 6.3% annually on average.

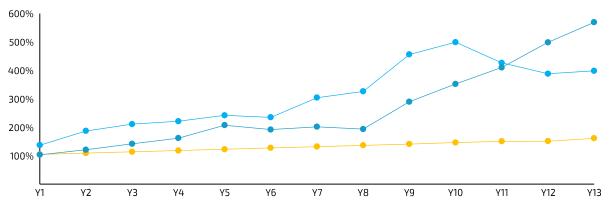


#### Market opening for some EU residents (e.g., relatives) and later for all foreigners

#### Country examples: Lithuania and Latvia

These countries opened the farmland market gradually and eventually lifted all restrictions on access to the market for foreigners. Liberal market policies have influenced the rapid rise in prices. Thus, the average annual rate of increase since the start of the reform is 14%, which is the highest rate among all scenarios (Figure 21).



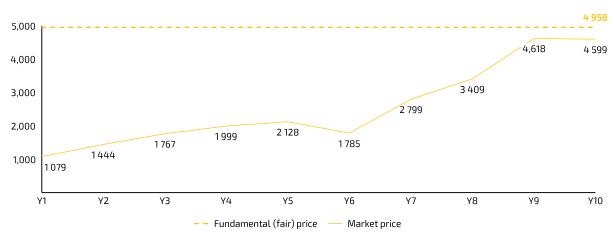


- 1st type of countries market opening only for EU residents
- 🔷 2nd type of countries market opening for some EU residents (e.g. relatives) (1st wave) and later or all EU residents (2nd wave)
- 3rd type of countries market opening for some EU residents (e.g. relatives) (1st wave) and later or all foreigners (2nd wave)

Source: World Bank, Eurostat

This data enables us to predict the dynamics of land prices in Ukraine after market opening (Figure 22). Launching the market will boost the price in the first year up to USD 1,153 per 1 ha, and after 10 years the price will reach USD 4,915 per 1 ha. Thus, the average annual growth rate will be 16%. The moratorium abolishment will enable Ukraine to gradually bring the market price closer to its fair value (USD 4,958 per 1 ha), which also signals the beginning of Ukraine's transition to a group of more developed countries.

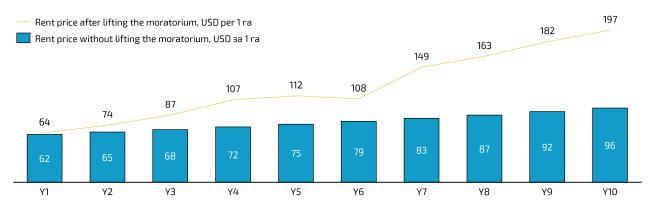




Source: World Bank, Eurostat

Following the rise in the sale price of agricultural land, the lease price will also increase. Using average values across the EU, in the first year after lifting the moratorium the lease price in Ukraine will be USD 64 per 1 ha, while after 10 years the price will reach almost USD 197 per 1 ha. It is at least 2 times higher than potential rent price in fully restricted market. Thus, the average annual growth rate will be around 12% (Figure 23).

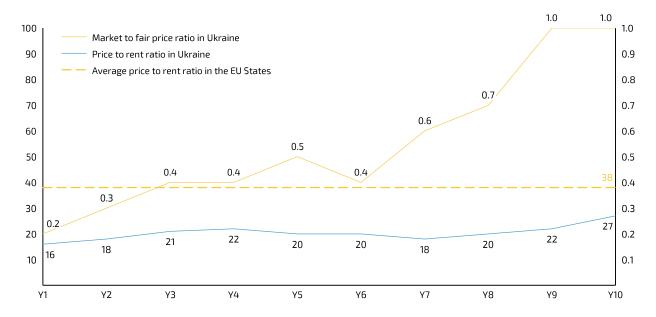
Figure 23. Agricultural land rent price dynamics in Ukraine after lifting the moratorium, USD per 1 ha



Source: Eurostat, State Statistics Service

Comparison of the expected sale and lease price of agricultural land (price to rent ratio) allows estimating the profitability of buying and renting land. If the ratio is less than 15, it is much more profitable to buy the property than to rent it. When the ratio exceeds 15, the situation changes to the opposite. The first option (up to 15) is more typical for the non-mature markets that are at the beginning of their development. For example, in the first years after joining the EU price to rent ratio in the new EU member states was around 10, while with the development of the market the indicator increased to 38. In 2018, the price to rent ratio was around 16 in Ukraine, but it is expected that value will increase after opening the market, gradually narrowing the gap with EU countries (Figure 24).

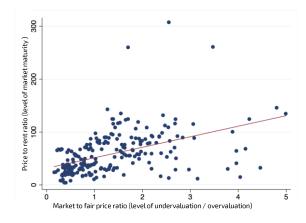
Figure 24. Price to rent ratio of agricultural land in Ukraine after lifting the moratorium and EU member states



Source: Eurostat, State Statistics Service

The increase in the price to rent ratio is also closely related to the level of undervaluation/overvaluation of the agricultural land, which is calculated as a market to fair price ratio. Traditionally, the values of these indicators move in the same direction. Typically, land prices in mature markets will be overvalued several times, due to low risk and the availability of speculative mechanisms (Figure 25).

Figure 25. Correlation between price to rent ratio (market maturity) and market to fair price ratio (level of under or overvaluation) of 1 ha of agricultural land



Source: Eurostat

Therefore launching the land market in Ukraine will help to increase the market land price and bring it closer to its fair value. Also, sale price is expected to grow at a faster pace than the lease price that typically characterize mature markets.

However, it should be noted that the feasibility of these scenarios depends not only on the accepted model of the market but also on a set of support mechanisms. For example, in a number of EU countries, the market opening was accompanied by creation of financial instruments (e.g. credit guarantees for farmers) to reduce the risk for the most vulnerable groups of stakeholders.

#### 2.4. ECONOMIC AND SOCIAL EFFECT (METHODOLOGY)

The opening of the land market in Ukraine will have a positive economic and social effect. The economic effect is calculated using a bottom-up approach, analysis of international experience and land price modeling in Ukraine. The methodology includes four basic levels (Figure 26).



#### Input data

- Land sale and rent price of agricultural land in Ukraine (forecast based on factor analysis described in the previous section).
- Area of agricultural land in Ukraine (since the moratorium abolishment affects only privately owned land, we use the area of 30.5 million ha as an input).
- Current NLA of land in Ukraine.



#### Sources of income

 The rent price after launching the land market in Ukraine will be gradually increasing. It is expected that the share of agricultural land used for the intended purpose will increase due to better access to financial resources as the land can be used as collateral in the bank.

# **(**

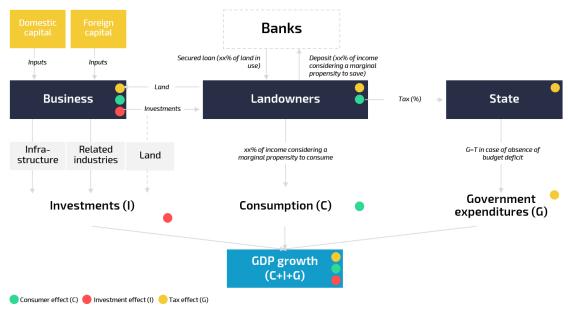
#### **Funds accumulation**

Landowners' income will be used for consumption and savings. The model is based on the assumption that the
marginal propensity to consume will be decreasing and the share of investments in the total non-cash consumer
spending will be increasing.

#### Macroeconomic effect

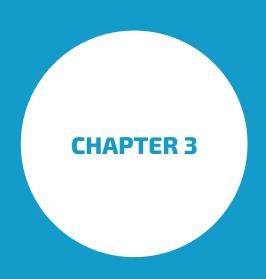
- Consumption (GDP growth as a result of an increase in consumption among the population).
- Investments (domestic and foreign direct investments in land assets, infrastructure, and related industries).
- Government expenditures (increase in tax revenues from land purchase transactions).

Figure 26. Methodology for calculation of socio-economic effect



Furthermore, the launch of the land market will also have a positive social effect. As a result of lifting the moratorium, Ukrainian landowners will get new opportunities:

- **Sale.** The moratorium abolishment will enable landowners to sell their land that will lead to the accumulation of the capital in Ukrainian economy.
- **Collateral.** Ability to use land as a collateral will allow farmers to open their own business and will revive the banking system of Ukraine due to the growing demand for banking services.
- **Exchange**. The exchange of plots between landowners will increase the mobility of the population and will contribute to land consolidation.
- **Rent.** Moratorium abolishment will lead to the creation of a free land market in Ukraine, and therefore contribute to the reduction of tenants' dependence on landowners and change in terms of lease contracts.



# PROPOSED LAND MARKET SCENARIOS FOR UKRAINE DIFFER BY THE EXPECTED LAND PRICE AND A SIZE OF POTENTIAL ECONOMIC EFFECT

- 3.1. Possible models of farmland market opening in Ukraine
- 3.2 Cost and benefits analysis of possible market models
- 3.3. Analysis of draft law №2178-10

#### 3.1. POSSIBLE MODELS OF FARMLAND MARKET OPENING IN UKRAINE

During the moratorium existence, a lot of possible scenarios of farmland market launch were discussed. There are several types of stakeholders in Ukraine, with their own interests in land reform. In Table 2, we analyze typical models of the farmland market that are favorable for a a particular stakeholder. The models were developed based on the existing draft laws and concepts.

Table 2. Summary of models of farmland market launch in Ukraine

Characteristics and models	Landowners model	Farmers model	Medium and large business model	Populist model
Restrictions on legal entities	No restrictions	Have right to buy land starting from year 4	No restrictions	Have right to buy land starting from year 4
Restrictions on foreigners	No restrictions	Fully restricted		
Restrictions on investors	No restrictions	Restricted (there are spe requirements)	cific qualification / experier	nce in agriculture
Max area in ownership for individuals	Not regulated	• Years 1-3 – 20 ha • Starting from year 3 – 200 ha		
Max area in ownership for legal entities	Not regulated	<ul> <li>Years 1-3 – restricted</li> <li>Starting from year 4 – 500 ha</li> </ul>	<ul> <li>Years 1-3 - 500 ha</li> <li>Years 4-6 - 20 000 ha</li> <li>Starting from year 7 - not regulated</li> </ul>	<ul> <li>Years 1-3 - restricted</li> <li>Years 4-7 - 500 ha</li> <li>Starting from year 7 - 20 000 ha</li> </ul>
Price regulations	Not regulated			Min price is set by the law
Pre-emptive right to purchase land	Not applied	<ul> <li>Co-owners of land plots</li> <li>Tenants</li> <li>Owners / tenants of neighboring plots</li> </ul>	<ul><li>Tenants</li><li>Owners / tenants of neighboring plots</li></ul>	<ul> <li>Relatives of an owner</li> <li>Co-owners of land plots</li> <li>Tenants</li> <li>Owners / tenants of neighboring plots</li> </ul>

Source: EasyBusiness

In order to reach and maintain the balance: on the one hand, to adopt a model that will maximize an economic effect and, on the other hand, to introduce a number of supportive mechanisms that will ensure the fair distribution of the reform results among all stakeholders.

#### 3.2 COST AND BENEFITS ANALYSIS OF POSSIBLE MARKET MODELS

### 1 Lando

#### Landowners model

The model is designed to maximize the farmland price. It can be reached if the demand for farmland will be as high as possible. Therefore, this scenario opens the market to all possible market players (legal entities, foreigners, investors) and does not include any restrictions on land concentration (Table 3).

Table 3. Analysis of Landowners model impact on different stakeholders

Advantages Disadvantages

#### Landowners

- High increase in income as a result of increase in sale and lease price of farmland
- Possibility to use land plots as a collateral
- Threat of pressure on landowners and raider capture of land plots

#### **Farmers**

- Possibility to use land plots as a collateral
- Sufficient increase in rent price
- Competition with foreigners and investors

#### Medium and large business

- Increase in land price
- Competition with foreigners and investors

Implementation of the model provides the highest benefit to landowners, as well as the overall economic effect of the reform. If the model is adopted, the starting price of land will be equal to USD 1,173 per ha and will be increased up to USD 5,640 USD per ha, growing with the CAGR of 19%.

The overall economic effect (additional GDP) for 10 years will be equal to near USD 85 billion. At the same time, the implementation of the model requires the introduction of mechanisms aimed at supporting farmers in purchasing land assets. (Figure 27)

Figure 27. Land price and overall economic effect (annual GDP growth) dynamics after the implementation of Landowners model



#### Farmers model

This model suggests several restrictions: the gradual lifting of the ban to legal entities (excluding farms registered as legal entities), and also a full restriction for foreigners and investors to buy agricultural land (Table 4).

Table 4. Analysis of Farmers model impact on different stakeholders

#### Advantages Disadvantages

#### Landowners

- Increase in income as a result of increase in sale and lease price of farmland
- Possibility to use land plots as a collateral
- Threat of pressure on landowners and raider capture of land plots
- Lower than possible increase in income as a result of introduced restrictions
- Inability to use land as an investment instrument because of education / qualification requirements

#### Farmers

- Competitiveness against agroholdings as a result of restrictions on farmland concentration
- Possibility to use land plots as a collateral
- Protection from competition with foreigners and investors
- The pre-emptive right to purchase a land plot
- Moderate increase in rent price
- Inability to extend land bank over the existing restrictions on maximum area

#### Medium and large business

- Protection from competition with foreigners and investors
- The pre-emptive right to purchase a land plot
- Inability to buy plots at the first several years after the moratorium abolishment
- Moderate increase in rent price
- Inability to extend land bank over the existing restrictions on maximum area

Implementation of the model that is beneficial for farmers can negatively impact the income of landowners as well as the overall economic effect. If the model is adopted, the initial price of 1 ha of agricultural land will be equal to USD 977 and will be increased up to USD 2,407 for 10 years, growing with a CAGR of 10%.

The overall economic effect (additional GDP) for 10 years will be equal to near USD 18 billion. In this scenario, the land price will be lower than in the Landowners model by 57%, and the overall economic effect will be lower by 79% (Figure 28).

Figure 28. Land price and overall economic effect (annual GDP growth) dynamics after the implementation of Farmers model



#### Medium and large business model

The model is aimed at slowing down the growth rate of the price of agricultural land, that will enable medium and large companies to increase their land bank gradually (Table 5).

Table 5. Analysis of Medium and large business model impact on different stakeholders

#### Advantages Disadvantages

#### Landowners

- Increase in income as a result of increase in sale and lease price of farmland
- Possibility to use land plots as a collateral
- Threat of pressure on landowners and raider capture of land plots
- Lower than possible increase in income as a result of introduced restrictions
- Inability to use land as an investment instrument because of education / qualification requirements

#### **Farmers**

- Possibility to use land plots as a collateral
- Protection from competition with foreigners and investors
- The pre-emptive right to purchase a land plot
- Moderate increase in rent price
- Tough competition against agroholdings

#### Medium and large business

- Ability to increase a land bank gradually because of the moderate increase in land price
- Protection from competition with foreigners and investors
- The pre-emptive right to purchase a land plot
- Moderate increase in rent price

In case of implementation of this model, farmers will face difficulties with the accumulation of a sufficient amount of funds to compete against medium and large players for agricultural land. If the model is adopted, the starting price of land will be equal to USD 1,106 per ha and will be increased up to USD 3,880 USD per ha, growing with the CAGR of 13%.

The overall economic effect (additional GDP) for 10 years will be equal to near USD 48 billion. In this scenario, the land price will be lower than in the Landowners model by 31%, and the overall economic effect will be lower by 44% (Figure 29).

Figure 29. Land price and overall economic effect (annual GDP growth) dynamics after the implementation of Medium and large business model



#### Populist model

The model uses widespread myths and fears of average Ukrainian citizen about the farmland market, such as the purchase of all Ukrainian agricultural land by foreigners and agroholdings for the low price. As a result, this scenario includes a lot of restrictions, including minimum selling price aimed at the "protection of interests of landowners" (Table 6).

Table 6. Analysis of Populist model impact on different stakeholders

#### Advantages Disadvantages

#### Landowners

- Increase in income as a result of increase in sale and lease price of farmland
- Possibility to use land plots as a collateral
- Threat of pressure on landowners and raider capture of land plots
- Lower than possible increase in income as a result of introduced restrictions
- Inability to use land as an investment instrument because of education / qualification requirements
- Inability to sell land with lower than minimum price

#### **Farmers**

- Competitiveness against agroholdings as a result of restrictions on farmland concentration
- Possibility to use land plots as a collateral
- Protection from competition with foreigners and investors
- The pre-emptive right to purchase a land plot
- Minimum farmland price
- Moderate increase in rent price
- Inability to extend land bank over the existing restrictions on maximum area

#### Medium and large business

- Protection from competition with foreigners and investors
- The pre-emptive right to purchase a land plot
- Minimum farmland price
- Inability to buy plots at the first several years after the moratorium abolishment
- Moderate increase in rent price
- Inability to extend land bank over the existing restrictions on maximum area

Implementation of the model will be the least beneficial for all stakeholders. If the model is adopted, the starting price of land will be equal to USD 975 per ha and will be increased up to USD 2,354 USD per ha, growing with the CAGR of 10%.

The overall economic effect (additional GDP) for 10 years will be equal to near USD 14 billion. In this scenario, the land price will be lower than in the Landowners model by 58%, and the overall economic effect will be lower by 83% (Figure 30).

Figure 30. Land price and overall economic effect (annual GDP growth) dynamics after the implementation of Populist model



#### 3.3. ANALYSIS OF DRAFT LAW Nº2178-10

On September 25, 2019, the Cabinet of Ministers of Ukraine submitted to the Parliament a Draft Law "On Amendments to certain legislative acts of Ukraine regarding the circulation of agricultural land", which includes the opening of the land market from October 1, 2020 (Draft Law №2178). On October 10, the Verkhovna Rada Committee on Agrarian Policy and Land Policy reviewed the draft law proposed by the Government and amended it regarding the restrictions to foreign citizens and regulation of land concentration (Draft Law №2178-10) (Table 7).

Table 7. Analysis of Draft Law №2178 and Draft Law №2178-10 (amended)

#### Draft Law №2178

#### Draft Law №2178-10

#### Possible acquirers of land ownership

Ownership of the land can be acquired by:

- Ukrainian citizens;
- Ukrainian legal entities;
- Local hromadas;
- The State

Foreigners may buy land by registering a Ukrainian legal entity in accordance with the law.

#### 4/5 points\*

\*A ban for foreigners will not influence significantly the overall economic effect

- The launch of the market for both individuals and legal entities at the same time which will have a positive impact on the land price dynamics and overall economic effect.
- Foreigners can invest in Ukrainian agricultural land by registering Ukrainian legal entity. It will also help to increase investments in infrastructure, related industries, adoption of new technologies in of agriculture and transfer management practices to Ukraine. All of these will have a positive impact on the productivity of the Ukrainian agricultural sector.
- Also, the draft law does not require the buyer to have experience or qualifications in the agricultural sector. It enables investors to enter the market. This fact have several positive factors: increase in land price for the benefit of landowners; acceleration of consolidation of land; emergence of an alternative investment instrument for Ukrainian citizens.

Ownership of the land can be acquired by:

- Ukrainian citizens;
- Ukrainian legal entities;
- Local hromadas;
- The State

Foreigners may buy land by registering a Ukrainian legal entity in accordance with the law.

#### 2/5 points\*

\*A ban for foreigners will negatively influence the overall economic effect

- A ban for foreigners will reduce the potential volume of foreign direct investment in Ukraine.
- This norm also discriminates against foreign farmers who conduct agricultural production in Ukraine without registering a legal entity (such farmers will not be able to buy land). However, this restriction will not affect agricultural holdings with foreign beneficiaries, because by law such companies have the right to buy land (provided that they have been producing agricultural products in Ukraine for 3 years).
- As a result, this ban will negatively affect the benefits for land owners from opening the market, which are the main beneficiaries of the reform.
- As a result, the overall economic effect of the reform will be much lower than when implementing the concept proposed by the Government in the first place.

#### Draft Law №2178

#### Restriction on the maximum area

Individual or legal entity can own (including related parties):

- Up to 15% of agricultural land of the region (oblast)
- Up to 0.5% of agricultural land of the country

#### 3/5 points\*

\*A moderate reduction in the economic effect and a mechanism for preventing land concentration may be not efficient

- Although the restrictions on the maximum area in this scenario are quite liberal, their adoption can have a negative impact on the land price and, as a consequence, benefits of landowners.
- At the same time, if the Government aims to prevent the concentration of agricultural land, such restriction is not efficient enough since one person still will be able to buy all agricultural land within a municipality.

Individual or legal entity can own (including related parties):

- Up to 35% of agricultural land of the hromada (amalgamated community)
- Up to 8% of agricultural land of the region (oblast)
- Up to 0.5% of agricultural land of the country

#### 4/5 points\*

- \* Limiting the concentration of land at the level of amalgamated communities is a more effective antitrust measure
- The norms stipulated in the updated draft law are more effective in terms of preventive a massive land concentration, since they make it impossible for a one company all the land within the one amalgamated community.
- At the same time, restrictions on land concentration may have a negative effect on the overall economic effect due to a decrease in the potential price.

# Price regulation

Only state-owned and communal land price is regulated (cannot be lower than NLA)

#### 3/5 points\*

- \*Setting a minimum price for public land is necessary, but NLA cannot ensure the objectivity of such price
- Regulation of a minimum price for the state-owned and communal property can prevent corruption schemes and lower budget incomes.
- At the same time, using NLA in determining the value of realization of state-owned and communal land is not justified, since NLA often do not reflect the real value of the land.
- When selling state-owned and communal land, it is more relevant to be guided by the market
  price of land in the region where the land is located. For this purpose, it is necessary to have an
  effective system for monitoring sale prices of privately owned land and use this data in
  determining the starting price of publicly owned land.

# Preemptive right to purchase land

The preventive right is provided to tenants, if they are ready to pay the price set by the seller

#### 4/5 points\*

- \*There is little discrimination in favor of tenants that will have almost no impact on landowners
- This provision gives a certain advantage to tenants over third parties in case a landowner has decided to sell the land. However, it does not actually reduce the economic benefit of landowners, since he/she still have a right to make a final decision on the selling price.

# Right for a permanent land use

People with the right of permanent use have a right to buy this land with installment payment of up to 5 years at a price equal to NLA, without an auction

#### 4/5 points\*

- \* People with the right of permanent use should be able to continue operating on their land, but the procedure should be better defined in terms of legislation
- The Government's intention to allow permanent users of state-owned and communal land to buy it is a fair solution.
- At the same time, this issue needs detailed elaboration and regulation in terms of the
  procedure for buying these lands, including the question on what to do with such land in case a
  permanent user does not want to buy it.

#### Interaction of state registers

Informational interaction between the State Register of Property Rights, the State Land Cadastre and the Unified State Register of Legal Entities, Individuals - Entrepreneurs and Public Formations to be ensured.

F/F no

#### 5/5 points\*

- \* The provision is needed to ensure the efficient interaction of state registries
- The interoperability and full compliance of these state registers is extremely important for protecting property rights and monitoring the prevention of land concentration according to the law.
- It is also important to ensure full transparency and open access to information from these registers for all users.

Information interaction between the State Register of Rights, the State Land Cadastre, the Unified State Register of Legal Entities, Individuals - Entrepreneurs and Public Formations and the State Register of Civil Status Acts to be ensured.

#### 5/5 points\*

- \* The extension of the list of synchronized registries will improve the monitoring of related parties
- Expanding the list of interoperable registers with the State Register of Civil Status Acts is important for monitoring the amount of land owned by related persons.

Prohibition on the acquisition of land ownership The list of sanctions is supplemented by the paragraph on the prohibition on the acquisition of land ownership

#### 4/5 points\*

- \* The provision prevents the purchase of land by citizens of the Russian Federation
- This provision is intended to prevent the acquisition of land by citizens of the Russian Federation.
- Although the identification of persons belonging to the aggressor country may cause difficulties (e.g. due to the possible dual citizenship), this can be revealed by further monitoring of land ownership.
- Furthermore, even assuming that public authorities will not be able to restrict access to the
  market for all citizens of the Russian Federation, it is unlikely that it would be a real threat to
  national security. Firstly, the purchase of a large share of Ukrainian agricultural land requires
  significant funds. Secondly, even if Russian citizens buy Ukrainian agricultural land, the
  possible negative consequences are not significant.

Full launch of farmland market The law comes into force on October 1, 2020

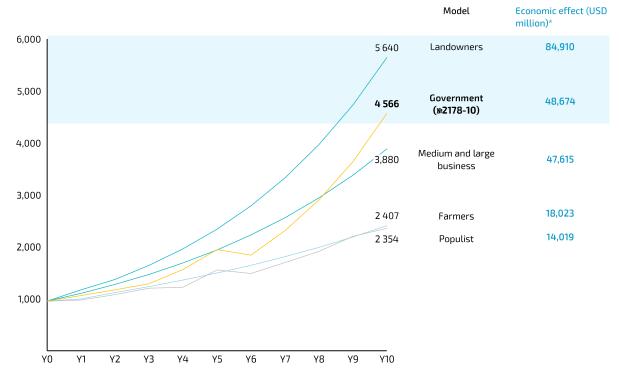
#### 5/5 points\*

\*October 2020 is a justified date for market launch

 Delaying the market launch for 1 year will help to streamline crucial regulatory framework and create necessary preventive mechanisms for the effective functioning of the land market.

An analysis of the cost-effectiveness of the government model (**Draft Law №2178-10**) shows that its implementation will lead to an average land price of USD 4,566 per 1 ha after 10 years. The overall economic effect (additional GDP) is USD 49 million for 10 years (Figure 31).

Figure 31. Land price dynamics and the overall economic effect after the implementation of the government model and other possible scenarios, USD



Source: EasyBusiness

Thus, in terms of economic effect, the model proposed by the Government is less efficient than the landowners model, but is more efficient than other models, since it provides a relatively higher increase in land price and additional GDP.

It is also essential to accompany market launch with other changes in legislation and preventive mechanisms to ensure the effective functioning of the market and a fair distribution of reform benefits.

<sup>\*</sup> Overall economic effect for 10 years

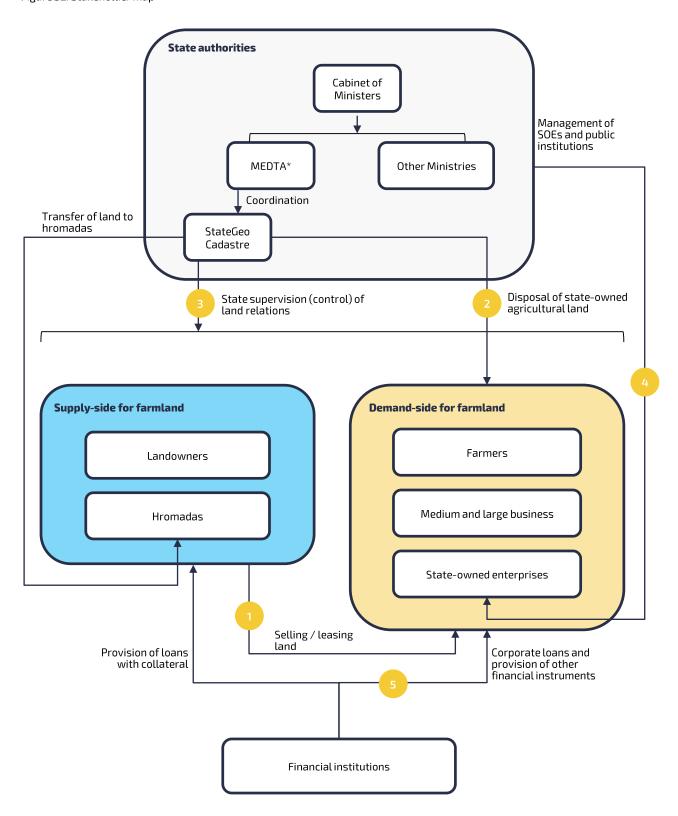


# GOVERNMENT SHOULD CONSIDER AN INTEGRATED APPROACH AND MAXIMIZE REFORM BENEFITS FOR ALL STAKEHOLDERS BY ENACTING SUPPORTIVE MECHANISMS

- 4.1. Stakeholder map and existing bottlenecks on the market
- 4.2. Action plan for the government after market opening

#### 4.1. STAKEHOLDER MAP AND EXISTING BOTTLENECKS ON THE MARKET

Figure 32. Stakeholder map



 $<sup>{}^*\</sup>mathsf{The}\,\mathsf{Ministry}\,\mathsf{of}\,\mathsf{Economic}\,\mathsf{Development}, \mathsf{Trade}\,\mathsf{and}\,\mathsf{Agriculture}\,\mathsf{of}\,\mathsf{Ukraine}$ 

## 1

#### Inconsistencies in the State Land Cadastre role

The system of the State Land Cadastre is organized inefficiently: there are errors, omissions, and differences with other state registers in the system. Also, cadastre information, which is required to be available for free, is often sold to market actors by the StateGeoCadastre through its enterprises.

# 2

#### Inefficient management of land resources by the StateGeoCadastre

The StateGeoCadastre is currently responsible for disposal of hundreds of thousands of hectares of state-owned agricultural land (e.g. its leasing or free privatization). The land management at the central level is less efficient rather than in a decentralized structure (where all the decisions are made by local authorities). Furthermore, the concentration of state-owned land management functions within a single authority creates major preconditions for corruption manifestations.

# 3

#### Inefficient supervision (control) of land relations

The StateGeoCadastre is the manager of state-owned lands. At the same time it also performs the function of state supervision (control) of land relations. In fact, the functions of the StateGeoCadastre include the control of its own activity that creates an obvious conflict of interest.

# 4

#### Inefficient use of land by state-owned enterprises and public institutions

In Ukraine, about 10.5 hectares of land is still owned by the state, a third of which is in permanent use of state-owned enterprises. However, state-owned enterprises (those that are not strategic) are typically less efficient than private ones. In addition, the excessive amounts of agricultural land under their management creates prerequisites for corruption schemes under in terms of illegal leasing of state-owned land.



#### High interest rates for corporate loans available to local farmers

Farmers and small businesses are limited in their ability to attract corporate loans, especially when compared to large businesses and foreign companies. As a result, after the moratorium abolishment, farmers may have difficulties in acquiring agricultural land, as well as in continuing the lease due to the increase in farmland rental price.

#### 4.2. ACTION PLAN FOR THE GOVERNMENT AFTER MARKET OPENING

The prioritization of problems mentioned above using the criteria of urgency and complexity of implementation enables development of a comprehensive list of short-term and long-term governmental measures aimed at ensuring of the efficient farmland market functioning (Table 8).

Table 8. Action plan for the Government to ensure the efficient farmland market functioning

1. REGULATION OF LAND RELATIONS 2. MANAGEMENT OF STATE-OWNED ASSETS		3. SUPPORT OF AGRIBUSINESS			
Short-term initiatives					
1.1 Synchronization of state registers (State land cadastre, EDRPOU, State Register of Property Rights)	2.1 Inventory of state-owned assets in agriculture sector	3.1 Needs assessment of small and medium-sized agricultural producers			
<ul> <li>Conduction of a proper feasibility study</li> <li>Development of technical task</li> <li>Organization of a public tender to choose software providers</li> <li>Conduction of training for personnel</li> <li>Fully-fledged functioning and integration of relevant state registers</li> </ul>	<ul> <li>Inventory of state-owned assets under management of state-owned enterprises and public institutions</li> <li>Assessment of the expediency of SOEs being in state ownership</li> <li>Needs assessment of SOEs and public institutions in usage of land resources in performing their core functions</li> </ul>	<ul> <li>Conduction of a desk research</li> <li>Conduction of interviews with business representatives, industry associations, financial institutions, and area experts</li> <li>Development of a policy paper to identify potential interventions aimed at support of agricultural enterprises in short- and long-term perspective</li> </ul>			
1.2 Development of the action plan on transformation of a StateGeoCadastre	2.2 Development of the strategy of management of state-owned assets in agriculture	3.2 Financial support in purchasing agricultural land for small enterprises			
<ul> <li>Functional and institutional analysis of the authority to formulate list of functions and priorities</li> <li>Adoption of necessary legislative amendments</li> <li>Development of a detailed action plan on transformation of a StateGeoCadastre</li> </ul>	<ul> <li>Grouping of state-owned assets in terms of requested activities (e.g. privatization, selling a part of the lands or remaining in state ownership)</li> <li>Development of the strategy of reforming state-owned enterprises and public institutions that are strategically important for the country</li> </ul>	<ul> <li>Redesign an existing support program to provide agribusiness better access to financial resources for purchasing land</li> <li>Launch of a joint support program in cooperation with international technical assistance projects</li> <li>Monitoring of the efficiency and implementation of required changes in financial support programs</li> </ul>			

#### Long-term initiatives

#### 1.3 Ensuring free and transparent access to relevant and comprehensive information within State land cadastre Correction of existing errors in the cadastre and entering all relevant information

- Provision of open and convenient access to all data in cadastre

#### 2.3 Privatization of state-owned assets in agriculture sector

- Preparation of state-owned enterprises to privatization
- Conduction of the privatization process of selected stateowned enterprises
- Open and transparent sales of redundant agricultural land under management of state enterprises and institutions that remain in state ownership

#### 3.3 Design of Ukrainian agriculture sector development strategy

- Identification of the priority areas for Ukrainian agricultural sector development (crop mix, value chains, investments in infrastructure, etc.) and their integration in the sector development strategy
- Design of financial instruments that will contribute to the program implementation
- Development of a system of consultancy services for agricultural enterprises in order to stimulate their development according to the program priorities

#### 1.4 Decentralization of StateGeoCadastre functions

- Transfer of state-owned land into property of hromadas, including the right to dispose these land
- Transfer of the functions of supervision (control) of land relations on the local level
- Abolishment of the right of permanent use of stateowned land
- Transformation of the StateGeoCadastre into an authority that only provides cadastral information to all stakeholders (as a core function)

#### 2.4 Reform of management of state-owned enterprises and public institutions

- Implementation of the strategy of reforming state-owned enterprises and institutions that remain in state ownership
- Implementation of corporate governance principles
- Monitoring of the appropriateness of functioning of state-owned enterprises and institutions

#### 3.4 Implementation of Ukrainian agriculture sector development strategy

- Provision of financial support to businesses aimed at stimulation of investment in priority areas
- Provision of consulting support to agriculture enterprises
- Monitoring of the program efficiency (i.e. impact assessment)







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