



## Project "LAND REFORM BAROMETER: Information and Advocacy Campaign"

### Land reform barometer

#### Draft Law "On Turnover of Agricultural Land": A Threat of Monopolizing the Market by the State Land Bank

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#### Author

Oleg Nivievskiy  
nivievskiy@ier.kiev.ua

Institute for Economic Research  
and Policy Consulting

Project "Land Reform Barometer"

Reytarska 8/5 A, 01034 Kyiv  
Tel. (+38044) 235-6485, 278-6360

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*Recently the State Land Agency of Ukraine made public the draft law "On Turnover of Agricultural Land." Essentially this law will finalize shaping the legislative framework for introducing agricultural land purchase and sales market in Ukraine. However, analysis of the draft law raises significant concerns about potential monopolization of the agricultural land market by the newly established State Land Bank of Ukraine. This will by no means promote the development of agricultural land market, will not ease the access of farmers to bank loans and will not contribute to more efficient agriculture of Ukraine. Monopolizing agricultural land market also bears a threat to land owners. The current version of the draft law needs significant revision.*

*Who will be able to buy and sell agricultural land in Ukraine?*

The draft law essentially limits the demand for agricultural land only to citizens of Ukraine and to the State Land Bank (SLB). In particular, eligible buyers of agricultural land are:

- State on behalf of the executive power and representatives of local communities
- Citizens of Ukraine that:
  - o live in the area in which the land is sold at least for 3 years,
  - o will engage in farming and have experience in farming or are already engaged farming,
  - o received a permission to purchase land plots in the area
- Foreigners and legal entities are excluded from the list of potential buyers of agricultural land

Moreover, the presence of pre-emptive rights to purchase agricultural land and overly demanding order for purchase of agricultural land for the citizens essentially makes the SLB the only buyer of agricultural land in Ukraine.

*'Threatening Uniqueness' of the State Land Bank*

The SLB was founded in 2012 and currently is in the process of its institutionalization. In particular, recently members of the Supervisory Board of the SLB were appointed.

The SLB is unique in a sense that under the current legislation it is supposed to combine the functions of managing the state (about 10 million hectares) and private agricultural land

and financing the farmers (via concessional lending). This combination is unique in the world practice<sup>1</sup>, and this fact itself should cause serious concerns about this institution. In particular, one can easily figure out a potential conflict of interest between lending to farmers against agricultural land as collateral and managing the land, e.g. its consolidation, infrastructure projects etc. Also expert community believes that this combination of functions automatically makes the structure of the SLB nontransparent and unaccountable to taxpayers, for practically it is extremely to draw the line between budgeting these two functions/ fields of activities.

Another aspect is that even under conditions of free access to the land market, cross-subsidization (concessional lending from incomes generated from managing the land) creates unequal level playing field for the SLB and for the commercial banking sector on the farm mortgage lending market. In general this will not contribute to easing the access of farmers to loans.

*What to expect?*

The above short analysis essentially points in the direction of an orchestrated monopolization of agricultural land market by the SLB. This puts under the threat the objectives of introducing agricultural land sales and purchases market, namely: i) improving the efficiency of agricultural sector due to the movement of land from less to more efficient owners and ii) improving farmers' access to credits via increasing the collateral options. As it is conceived by legislators, the SLB is to become a monopolist on agricultural land sales and purchase market as well as on mortgage farm lending market. International experience, however, unambiguously demonstrates that orchestrating the land market this way will not lead to achieving any of the above objectives, but would only bring the so-called "rents" or fortunes, in other words, to some interested groups.

<sup>1</sup> Kirchner R, and V. Kravchuk (2012). The new State Land Bank: An appropriate instrument to improve access to Agri-Finance? APD Policy Paper APD/PP/05/2012. [http://apd-ukraine.de/?content=publications/policy\\_papers](http://apd-ukraine.de/?content=publications/policy_papers)

