

THE PROBLEMS OF IMPLEMENTATION AND REGULATION OF LAND MARKET IN THE AGRICULTURAL SECTOR OF UKRAINE

Anatoliy SHVORAK¹, Dmytro FILIUK¹, Nataliia KORETSKA^{2*},
Nataliia VAHNOVSKA^{2**}, Iryna BRODSKA^{2***}, Alla TENDYUK^{2*}

¹Lesya Ukrainka Eastern European National University, Department of Accounting and Audit, 28 Vynnychenko Street, Building 7 (G), 43021, Lutsk, Volyn region, Ukraine, Emails: ams95@ukr.net, 7tresure@ukr.net

²Lutsk National Technical University, *Department of Management, **Department of Finance, Banking and Insurance, ***Department of Accounting and Audit, 75 Lvivska street, 43018, Lutsk, Volyn region, Ukraine, Emails: nataliia.koretska@gmail.com, yna2712@ukr.net, brodska.irina80@gmail.com, allatendyuk@gmail.com

Corresponding author: 7tresure@ukr.net

Abstract

In the article it is proved that the current situation in conducting agrarian reform in Ukraine is characterized by the formal completion of the restructuring of collective farms and the conclusion of the final stage of privatization of agricultural land. However, the main feature of this period is that the initiative in the development of reform has shifted from the state to agribusiness. So, if in the process of reform the state initiated the restructuring of collective agricultural enterprises, offered their organizational and legal forms, then in the pre-reform period, this initiative went to agribusiness, the manifestation of which was the emergence of agroholdings. Also the article analyses preventive measures during proceedings of land market in the countries of Europe, Argentine and the existing state of land relations in Ukraine. The study substantiates that in Ukraine emergence of agroholdings it is connected with imperfection and failures in functioning of economy, the lack of necessary institutional and legal conditions for conducting effective business inadequate the policy of the state, in particular lack of the full market of the farmland. In the article we have proved that consolidation of the agricultural land by agroholdings by replacement from the market of land lease of a certain number of the agrarian enterprises and farmers creates a certain negative social and economic situation in the village. It is proved that the introduction of the land market should not be an end in itself, but must obey the purpose of successful development of the agricultural sector on the basis of national SME based on organic farming and will revive the Ukrainian agriculture, to create appropriate social living conditions in rural areas to make the country prosperous.

Key words: economy, agricultural sector, land market, consolidation of lands, agroholdings

INTRODUCTION

The current state of development of the Ukrainian economy and its development require the adoption of new management decisions the sphere of land use and protection. A significant role in this process lies in the formation of an effective ecologically-economically balanced model of land use, which can be formed on the basis of a purposeful land consolidation policy.

The scientific perspective of regulation of the market land relations in Ukraine is considered in the works by scientists: A. Popescu [8-14], M. Popescu [15], A. G. Martyn [6], O. M. Zagursky [21], L. Ya. Novakovskii [7], R. I. Sodoma [16], I. N. Tofan [18], M. M. Fedorov

[9], V. Yakubiv [20], M. Dziamulych and T. Shmatkovska [2] M. A. Khvesik and V. A. Golyan [4] and others.

The role of land in the economy is not always obvious. There cannot be a sustainable development of economy without the protected land rights as there are few investors who wish to make long-term investments.

MATERIALS AND METHODS

The study of the features of sustainable economic development based on foreign experience of agrarian reform, their in-depth analysis is necessary in order to implement in the course of reform the development of mechanisms for regulation of market land

relations and the creation of the necessary conditions for the successful development of social production in the interests of citizens and society as a whole. Therefore, this process requires detailed research and analysis to work out recommendations for increasing the efficiency of agribusiness and preventing the emergence of negative phenomena and trends. Conducting of the research is based on the use of such methods and methodological approaches: analysis and synthesis, structural analysis, grouping methods, graphical and tabular methods - to display visually the results of the research. Figures were drawn using Microsoft Excel, 2013 version.

The work is based on the analysis and evaluation of the results of the analysis of statistics State Statistics Service of Ukraine and Volyn region contained in statistical databases.

RESULTS AND DISCUSSIONS

Ukraine has to choose between a large-scale agricultural sector (Argentina) or a «social» village (Poland, France, Germany, Denmark, Slovakia, Romania, Hungary) when introducing the land market. In each of these countries, private property and the land market have been formed for a certain purpose - either to provide a high level of agricultural production, or to develop a mechanism for social protection of the population living in rural areas. Unfortunately, these two goals are very difficult to combine. Let's consider this in the example of the above-mentioned countries. Argentina is an industrial and agrarian country with well-developed agriculture. Agricultural lands account for a little more than a half of the land fund of the country - 54.5% of which 26.6% (or 14.5% of the total land fund) is arable land. In the countryside, a small part of the population lives - only 8.4%. A characteristic feature of the country's agriculture is the high productivity of labor. Thus, agriculture occupies only 0.5% of the labor force, and it accounts for 8.3% of GDP. By 2011, there were no laws in Argentina that would regulate the ownership of foreigners. Among the factors that were attractive to investors, we can name rich and fertile natural

resources, low prices and compassionate legislation, which led to a large concentration of land and the arrival of large international investors.

According to the Law No. 26.737 «National Security Regime for Ownership, Acquisition and Use of Agricultural Land» on December 27, 2011, foreign natural and legal persons are not entitled to purchase a plot of more than 1,000 hectares. It is also not allowed to buy land within the «national security zone», established by Resolution No. 15.385/44. The rules do not apply only to those foreigners who:

- have been living in the country for more than 10 years;
- have children born in Argentina and reside in the country for more than 5 years;
- have been married to a citizen of Argentina for more than 5 years.

For buyers who are Argentinean citizens, no restrictions are set. The minimum area of agricultural land is set by separate regions. For the citizens of Argentina, the limit for the purchase of a plot is not established. There is no special land sales tax, however, when a property is transferred to any real estate, a stamp duty (up to 3%, set by separate areas) and a property transfer tax (1.5%) are paid. At present, Argentina is concerned about raising the number of farms, which is actively promoted by the Ministry of Agriculture.

In comparison, let's consider the functioning of the free market of land in the countries of the European Union and the legislative restrictions that exist there.

Poland. On April 30, 2016, a law on land inventory introducing certain restrictions on the sale of agricultural land came into force, according to which agricultural land can only be bought by the state (Polish Agricultural Real Estate Agency - ANR, religious associations and farmers with up to 300 hectares agricultural land. Those who want to buy land must own not only agricultural skills, but also to live in the area in which they want to buy land. Besides, not less than 10 years the buyer agrees to do on this earth economic activity, without permission of the court can not sell the land or lease. These legal provisions do not

apply to land plots of agricultural land up to 0.3 hectares.

France. All operations in the market of the agricultural land control of local government, within the Union Sociétés d'Aménagement Foncier et d'Etablissement Rural (SAFER) and watch to prevent a sharp decline in the number of family farms. SAFER Union enjoy the right championship to purchase land, and in addition, it can prevent the signing I agreements for sale, if it considers that it is speculative trades occurring at a discounted price, or the transaction may result in the disintegration of the household or preclude activities for farmers-beginners in a particular area. There is a right to win the purchase for owners of neighboring lands and a commitment to personal use of land acquired for 15 years with a prohibition of lease. The country is so protecting its land against a foreign buyer, which in practice can only be purchased by a indigenous French farmer.

Germany. Precepts of law concerning land turnover in Germany engaged in union Bodenverwertungs – und – verwaltungs GmbH (BVVG), which oversees the Federal Ministry of Finance. The authorities may not consent to the sale of land, if the deal is speculative, trades are at a reduced price, the new owner does not intend to use the land for agricultural purposes or as a result of which excessive concentration of land in the hands of one owner may occur. The buyer must submit a plan for business development.

Denmark. In 2015, legislation was adopted that significantly simplifies the purchase of land in this country. The main requirement is to reside on the acquired land. Norms on the area of economy and the requirement of the introduction of agricultural qualification were cancelled.

Slovakia. Since 2014, new laws on the circulation of land are in force, according to which the owner of agricultural land may be an individual who has been running his business in the field of agriculture or has worked there for at least three years. Legal persons and individuals must have a three-year seniority in doing business in agriculture. Persons who live on a constant basis in the country of at least 10 years or legal entities that registered the

business at least 10 years ago can be buyers of grounds. First of all, they have the right to buy land from individuals who live in the community where they want to buy land. These legal provisions do not apply to gifts, when the land is transferred to close relatives. This also does not apply to land in the urban area and agricultural land outside the city zone up to 0.2 hectares.

Romania. In 2014, a law entered into force that allows the sale of agricultural land for citizens of the European Union, as well as Iceland, Liechtenstein and Norway. Most of them are entitled to buy land from co-owners, tenants, landowners adjacent to the land plot sold, as well as the Romanian Public Property Agency. When none of the parties having a preemptive right to purchase has a willingness to buy land, the buyer's choice may be exercised by the seller.

Bulgaria. Only natural and legal entities which legally live can buy farmlands and own them or those who are registered in the country of at least 5 years. The right to purchase and own agricultural land does not apply to legal persons whose share has partners or shareholders registered in free economic zones.

Hungary. The right to purchase land is natural persons, churches, financial institutions and the state. In order to buy land, one must have skills in the field of agriculture or to do business in agriculture for at least 3 years. Those who do not fulfill these conditions may purchase no more than 1 hectare of agricultural land. The maximum area of land that can be owned is 300 hectares. Within 5 years the buyer must personally conduct agricultural activity and use the land for the intended purpose and not transfer it to sublease.

The current situation in conducting agrarian reform in Ukraine is characterized by the formal completion of the restructuring of collective farms and the conclusion of the final stage of privatization of agricultural land. However, the main feature of this period is that the initiative in the development of reform has shifted from the state to agribusiness. So, if in the process of reform the state initiated the restructuring of collective agricultural enterprises, offered their organizational and

legal forms, then in the pre-reform period, this initiative went to agribusiness, the manifestation of which was the emergence of agroholdings [20]. In general, in agriculture of Ukraine there take place the following processes which characterize development of agroholdings:

- capitalization of agricultural production on the basis of consolidation of agricultural land;
- horizontally and vertically integrated, export-oriented structures (sometimes in the form of land latifundia) are formed;
- an increase in the volume of agricultural production due to the scale effect;
- concentration of capital that is not suitable for small and medium-sized companies;
- integration of production with the subsequent processing of agricultural products;

- investment attractiveness for foreign companies through placement of securities in stock markets and attraction of loans from international financial organizations.

In Ukraine emergence of agroholdings it is connected with imperfection and failures in functioning of economy, the lack of necessary institutional and legal conditions for conducting effective business inadequate the policy of the state, in particular lack of the full market of the farmland.

However, the main stimulus for the emergence of agroholdings is the desire of capital owners to multiply it in the long run. The dynamics of agroholdings development and their average area is shown in the Table 1 and Fig. 2. The impact of agroholdings on the land lease market is indisputable (Fig. 1).

Table 1. Dynamics of the number of agroholdings in Ukraine for 2007-2017

Indexes	2007	2012	2017	Deviation					
				2017/2007		2012/2007		2017/2012	
				+/-	%	+/-	%	+/-	%
Number of holdings	18	17	14	-4	-22.2	-1	-5.56	-3	-17.7
Total area in use, million hectares	1.8	3.73	3.42	1.62	90.0	1.93	107.2	-0.31	-8.31
Average area of one holding, thousand hectares	100	220	244	144	144.0	120	120.0	24	10.91

Source: Own calculations based on the data from [1, 19].

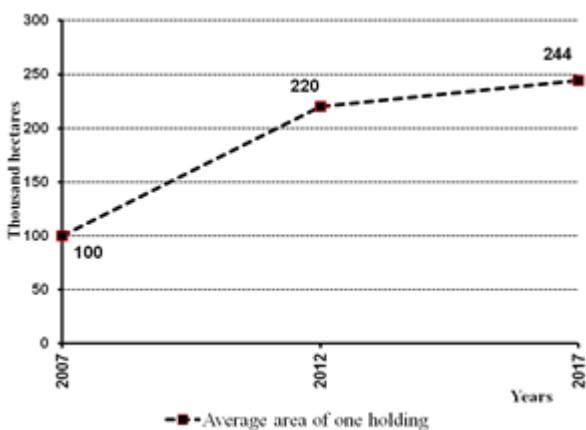


Fig. 1. Dynamics of the average area of one holding in Ukraine, 2007-2017

Source: Own design based on the data from [1, 19].

In general, this has a certain positive effect, because agroholdings, displacing farmers from the market of lease of agricultural land, make them change their specialization, switch from growing low-yielding grains and technical crops to growing vegetables, fruits and berries.

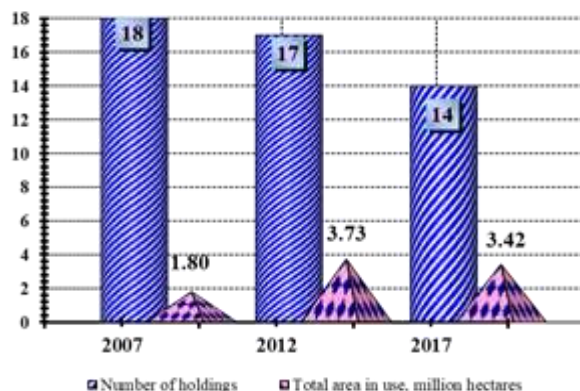


Fig. 2. Dynamics of the number of agroholdings in Ukraine for 2007-2017

Source: Own design based on the data from [1, 19].

They also take land from inefficient agrarian enterprises, forcing them to come from agrarian business.

The result is an increase in the overall efficiency of agricultural production, because agroholdings, thanks to the use of the best

technologies on large land areas, receive more cheaper products, while farmers fill the market niche of labor-intensive products, the production of which in modern conditions they provide more efficiently. Increasing competition in the market for lease of agricultural land is a positive factor and leads to an increase in the level of land rent.

The cost of capital that agroholdings invest in agribusiness can grow in the long run at the expense of:

- low labor cost;
- low rent for land;
- low cost of agricultural products, which leads to increased profits from activities through cheap raw materials through the integration of agriculture and processing industry products;
- minimizing tax payments;
- receiving subsidies and subsidies from the state budget for the development of the agrarian sector;
- Growth in the world of agricultural products and food products;
- the possibility of accumulation of large land masses through their lease;
- functioning of the agricultural land market, purchase of it into a property with the possibility of resale;
- possibilities of resale of business which cost taking into account all above the specified factors can increase considerably in several years.

The listed main factors contributing to the creation and development of agroholdings and other agro-industrial formations in Ukraine are not exhaustive. They can be much more depending on the nature of the capital invested in agribusiness, from which sources it comes, what intermediate, tactical and strategic goals are put by the owners of capital.

At the same time, the existence of agroholdings can be considered as the main threat to economic competition in the agrarian sector. Under economic competition, as a rule, is competition between economic entities, as a result of which consumers, business entities have the opportunity to choose between several sellers, buyers, and a separate entity can not determine the conditions of the turnover of goods on the market. Competition is an important attribute of a market economy,

without which its normal self-regulation is impossible [5].

The process of creation and development of agroholdings should also be considered through the prism of their impact on the social development of rural areas, the peasants' property rights, the preservation and increase of the fertility of the land, environmental safety and the creation of new jobs; since 31% of the population of Ukraine live in rural areas and produces 43% of agricultural products, including crop production (38.7%), livestock (54.3%)[3].

However, consolidation of the agricultural land by agroholdings by replacement from the market of land lease of a certain number of the agrarian enterprises and farmers creates a certain negative social and economic situation in the village. Its main negative elements are the following:

- termination of the existence of agricultural enterprises as legal entities;
- loss for a certain number of rural residents of the place of work;
- non-receipt of tax and other payments by local councils from enterprises that have ceased to exist;
- the lack of funding for the creation and support of rural infrastructure, which was carried out by agricultural enterprises (roads, kindergartens and schools, cultural buildings, paramedic and obstetric centers, etc.).

The main condition of an effective land policy is that it must propose a practical and consistent set of rules, institutions and instruments that are considered to be fair, legitimate, and acceptable to various interest groups [3].

The formation of the agricultural land market in Ukraine is one of the most controversial and politicized issues of the country's political life. Due to political manipulations and insufficient professional skills of some media professionals, there is a perception that there is no land market in Ukraine, because of the moratorium, almost all commercial transactions with land in our country are prohibited, but this is far from the truth. Of all the existing 25 million land plots, less than 7 million are subject to a moratorium. And others can be sold and purchased, entered into the authorized fund and serve as a pledge in the

bank, taking into account the restrictions established by the current legislation.

At present, the mechanism of emphyteusis, that is, the use of a foreign land plot of agricultural purpose for agricultural production, which differs from the long-term lease by the fact that, when concluding an agreement on the emphyteum, they simultaneously receive the whole amount of funds for its transfer to use, becomes increasingly demanded. And the land will be enough for a long time to use emphyteusis.

In our country, at the legislative level, the main problem is the creation of a market for means of production, labor, securities, financial resources, information, technologies, etc. With the adoption of the new Land Code of Ukraine, a legal basis was laid down for the creation of the land market [17].

At present, the country is developing a law «On the circulation of agricultural land», where it is necessary to prescribe existing norms and using foreign experience to record the main provisions concerning the priority of buying agricultural land, acquiring the right to purchase land, maximize ownership and use. Most of these issues have long been regulated. Everyone is afraid of the fact that foreigners will be able to hypothetically acquire land indirectly through the mechanism of acquiring corporate rights for Ukrainian companies. But Ukrainian legislation clearly states that foreign legal entities can not buy agricultural land in principle. Problems in excessive concentration are resolved by the law «On Protection of Economic Competition», which contains the criteria for an economic assessment of concentration – if one person has concentrated more than 35% of an asset on a territorially expressed market, it is considered to be a violator of the legislation on the protection of economic competition.

To regulate the land market by economic (market) methods, the state is capable of acting as an independent «player» in this market. That is, in this situation, the state, due to its own financial and land resources, must participate in the market turnover of land, thus affecting the volume of demand and supply, and consequently – on market pricing, while not

restricting the rights and freedoms of other sub-market objects [6].

Any farmer and even their most powerful cooperative in the Ukrainian realities is not capable to implement large-scale infrastructure projects. But the farmer can provide the work and salary of the inhabitants of his village, create a local brand in cooperation with the same fellow villagers and even to come for export with some unique but labor-intensive products.

Agrarian reform requires a global transformation that will work for those 86.9% of agricultural producers who process up to 1,000 hectares of land and provide them with assistance, support, cheap loans, to make forwards purchases through agrarian funds, to tame them on the transition to more labor-intensive products. This will be called agrarian state policy.

CONCLUSIONS

The introduction of the land market should not be an end in itself, but must obey the purpose of successful development of the agricultural sector on the basis of national SME based on organic farming and will revive the Ukrainian agriculture, to create appropriate social living conditions in rural areas to make the country rich.

Thus, according to the law, 6.9 million citizens of Ukraine received land shares, can not dispose of their own land, of which 1.6 million - people who are 70 years old or older. First of all, the answer to this question must be found before the market is opened up and reflected in the law «The circulation of agricultural land» where precautionary measures will be clearly defined:

- agricultural land can be bought by Ukrainian citizens who will personally conduct economic activity, reside at the location of land, have the appropriate qualification or experience in agricultural production, and use land for their intended purpose and not transfer it to sublease;

- the co-owners, tenants, owners of the neighboring sites, citizens living in this area have the primary right of purchase of land and have the corresponding education, or

experience in agriculture, local governments or executive power;

- maximum land tenure and land use has to be determined by the law «About Land Turnover of Agricultural Purpose» depending on climatic zones where the agricultural land is placed;

- these legal statuses should not concern lands which are provided for maintaining private peasant farm and gardening.

REFERENCES

- [1] Agriculture of Ukraine 2015, Statistical Yearbook, 2016, Kyiv: State Statistics Committee of Ukraine. 360p.
- [2] Dziamulych, M., Shmatkovska, T., Gordiichuk, A., Kupyra, M., Korobchuk, T., 2020, Estimating peasant farms income and the standard of living of a rural population based on multi-factorial econometric modeling: a case study of Ukraine. *Scientific Papers: Series Management, Economic Engineering in Agriculture and Rural Development*, Vol. 20(1): 199-206. Retrieved from http://managementjournal.usamv.ro/pdf/vol.20_1/volume_20_1_2020.pdf. Accessed on Mar. 18, 2020.
- [3] Fedorov, M. M., 2007, Features of the formation of the market of agricultural land in Ukraine. *Economy of agroindustrial complex*, 5: 73-78.
- [4] Khvesyuk, M. A., Holian, V. A., 2007, Institutional model of nature management in the context of global challenges. Kyiv: Kondor. 480 p.
- [5] Lapa, V., Lyssytsa, A., Polyvodskyi, A., Fedorchenko, M., Feofylov, S., Yanov, A., 2007, Ukraine: agriholdings and prospects of the land market. Kyiv: Ukrainian Agrarian Confederation, Ukragroconsult. Kyiv. 169 p.
- [6] Martyn, A. H., 2011, Regulation of land market in Ukraine. Kyiv: AhrarMediaHrup. 252 p.
- [7] Novakovskiy, L. Ya., 2015, National report on the completion of land reform. Kyiv: Agr. Science. 48 p.
- [8] Popescu, A., 2013, Considerations on utilized agricultural land and farm structure in the European Union, *Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development*, Vol.13(4): 221-226.
- [9] Popescu, A., Matei, A., 2008, Researches concerning the feasibility of Production Integration Management in a family sericultural farm, *Bulletin USAMV Cluj-Napoca, Horticulture*, Vol.65 (2): 302-307.
- [10] Popescu, A., Dinu, T. A., Stoian, E., 2019, Efficiency of the agricultural land use in the European Union, *Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development* Vol. 19(3): 475–486.
- [11] Popescu, A., Alecu, I.N., Dinu, T.A., Stoian, E., Condei, R., Ciocan, H., 2016, Trends in farm structure and land concentration in Romania and the European Union's Agriculture, *Procedia Agriculture, Agriculture and Agricultural Science Procedia*, Vol. 10: 566–577.
- [12] Popescu, A., 2013, Considerations on the main features of the agricultural population in the European Union, *Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development*, Vol. 13(4): 213-220.
- [13] Popescu, A., 2015a, Analysis of the dynamics of Gross Domestic Product and of its main factors of influence in Romania's agriculture, *Proceedings of 25th IBIMA Conference Innovation Vision 2020: from Regional Development Sustainability to Global Economic Growth*, Amsterdam, The Netherlands, May 7-8, 2015, pp.1379-1393.
- [14] Popescu, A., 2015b, Research on labour productivity in Romania's agriculture, *Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development*, Vol. 15(2): 271-280.
- [15] Popescu, M., 2010, Physical Size of Agricultural Holdings in Romania. Gaps between Romania and the European Union Member States. Institute of Agricultural Economics, Romanian Academy. *Agricultural Economics and Rural Development*, New Series, Year VII, no. 1: 17–36.
- [16] Sodoma, R., Skhidnytska, H., Shvorak, A., Shmatkovska, T., Zhurakovska, I., 2018, Peculiarities of agrarian receipts as a modern financial tool. *Economic annals – XXI*, № 169 (1-2): 46-49. Retrieved from <https://doi.org/10.21003/ea.V169-09>. Accessed on Mar. 16, 2020.
- [17] The Land Code of Ukraine. <http://zakon3.rada.gov.ua/laws/show/2768-14>, Accessed on Mar. 18, 2020.
- [18] Tofan, I. N., Ahres, O. H., Shmatkovska, T. O., 2017, Problems in administration of real estate tax other than land in Ukraine. *Scientific Bulletin of Polissia*, 3 (11): 148-153. Retrieved from <http://nvp.stu.cn.ua/uk/component/k2/item/823-tofan-i-n-ahres-o-h-shmatkovska-t-o-problems-in-administration-of-tax-on-real-estate-other-than-land-in-ukraine.html>. Accessed on Mar. 18, 2020.
- [19] Ukrainian Agribusiness Club. Retrieved from <http://ucab.ua>. [Accessed on Feb. 28, 2020].
- [20] Yakubiv, V., Sodoma R., Hrytsyna, O., Pavlikha, N., Shmatkovska, T., Tsymbaliuk, I., Marcus, O., Brodska, I., 2019, Development of electronic banking: a case study of Ukraine. *Entrepreneurship and Sustainability Issues*. 7(1): 219-232. Retrieved from [http://doi.org/10.9770/jesi.2019.7.1\(17\)](http://doi.org/10.9770/jesi.2019.7.1(17)) Accessed on Mar. 18, 2020.
- [21] Zahurskyi, O. M., 2008, State regulation of market circulation of agricultural land. *Economy of agroindustrial complex*, 12: 100-106.

