



УКРАЇНЬСЬКА МЕРЕЖА СІЛЬСЬКОГО РОЗВИТКУ UKRAINIAN RURAL DEVELOPMENT NETWORK

tel. (050) 385-38-80, +38 (044) 254-39-66,
e-mail: network@urdn.org,

web: www.urdn.org, <https://www.facebook.com/urdn.org/>

Comments on 2019 Draft Agribusiness Sector Strategy of European Bank for Reconstruction and Development

At the Ukrainian Rural Development Network, we highly appreciate the efforts of European Bank for Reconstruction and Development to provide finance, technical cooperation and policy dialogue in support of a more responsible, sustainable and innovative agribusiness sector. Therefore, we highly value development of the EBRD Strategy focused on agribusiness challenges and issues. At this stage, we would like to comment the following aspects of the proposed Draft Strategy.

The document provides the example and positive experience of Astarta agri-industrial holding, Ukraine (page 6) – US\$20m senior loan to launch Astarta's long-term strategy on compliance with the EU's best available techniques for food, drinks and milk industries, making it a benchmark in Ukraine. Such an example only illustrates the one side of the situation in Ukrainian agribusiness. Astarta and other similar agri-industrial holdings do not completely represent Ukrainian agriculture. It has a dual structure and consists of two sectors, **corporate** and **individual**, represented by industrial and individual agriculture.

There are approximately 14 thousand **corporate farms**. About a half of them are independent. Other corporate farms are vertically integrated branches of large agri-industrial holdings operating many thousands of hectares, up to hundreds of thousands. There is also an **individual sector** represented by 4 million individual farms – **farming households** and 34 thousand **peasant farms**. A peasant farm is a legal entity and can employ other people, but an individual farm is usually a household without legal status but with land, producing agricultural goods for self-consumption or for market. The size of a typical peasant farm is about one hundred ha and a farming household usually operates up to 10 ha.

The shares of corporate and individual sectors are similar. Corporate and individual farms use approximately the same shares of agricultural land. Farming households got most of their land as land shares (27 mln ha) during agrarian reform. Farming households are especially vulnerable for land grabbing; since 2005, their number has been decreased by 17%, from 4.9 to 4.1 million. Corporate farms access land by leasing it from peasants and households, which cannot become farmers without access to other resources (machinery, financing etc.) Only 17.4% of farming households own or have cheap access to agricultural machinery. The situation with access to other resources is similar. Poor access to resources and goods markets is the reason why owners lease their land out to corporate producers.

Corporate farms specializing mainly on production of commercial and industrial crops as follows: rapeseeds, sunflower, grain crops, sugar beet; and individual farms producing the main share of milk, fruits, vegetables, potatoes. Corporate producers are mainly export-oriented, but the individual sector provides food sovereignty. Even though the individual sector provides almost half of the national agriculture output, it does not get any state's support. Small-scale peasants are one of the most politically oppressed social groups in Ukraine.

Almost a half of all employed people in rural economy are people employed in informal sector. This share is even higher in agriculture – about 77 percent. It means there are significant risks and lack of social protection, especially for members of farming households. People employed in individual sector are members of 4 million of farming households, and almost one hundred thousand people employed at peasant farms. The number of people employed in individual sector has increased during last 15 years of agrarian transformation. The role of corporate sector in agricultural employment decreasing significantly – from more than 2 mln people employed in 2001 to 6 hundred thousand in 2016. Increasing investments in corporate agriculture does not serve the rural employment.

Corporate sector accumulates practically all subsidies and additional payments from governmental programs in both crop-growing and stock-breeding. Even inside the corporate sector, the distribution of

subsidies is not fair and equal. In crop-growing, for instance, 68% of farms got nothing but 5% of farms got 68% of subsidies and additional payments in 2010 (a typical year). In animal-breeding, 41% of farms got nothing but 7% of farms got 73% of subsidies and additional payments in 2010. In 2017, there is a huge disparity – two agro-industrial producers accumulate about a half of all financial support in the sector. It is equivalent of all support promised for development of small-scale farming and cooperation in 2018.

Taking into account all mentioned above, we suggest the following:

1. The priority to scale up investments for increasing agricultural productivity and export is economically, socially, and ecologically incorrect for Ukraine because it usually means additional preferences for large corporate agri-industrial holdings, while small and medium business is ignored. Such a priority should be abandoned in Ukraine; it doesn't serve development and inclusion of SME into value added chains but leads to strengthening big-capital holders and their political power. As a result of prioritizing large agri-industrial holdings, there is no effective rural development policy in Ukraine until now.

It is worth to revise the strategy for Ukraine and the priority "to scale up investment to increase productivity and exports and add value". We suggest to make new priorities closer to the objectives of strategies for Poland (promote green technology and business standards and spur innovation in the agri-food sector), Turkey (promote sustainability and inclusion in agrifood value chains), and Georgia (improve food safety and quality standards for local end export markets). This will enable to generate positive social, economic, and ecological effects.

2. It would be worth if EBRD monitored and supervised implementation of the funded projects as to sustainable and ecological governance. All recipients of EBRD funds must comply with ecological rules and norms. Agreements and contracts between EBRD and recipients should include regulations on economic liabilities of agricultural producers for failure to fulfil the provisions of the agreements and Ukrainian law about sustainable governance and good agricultural practice (like the Resolution of Cabinet of Ministers of Ukraine "On approval of norms of optimal ratio of crops in crop rotation in various natural-agricultural regions", February 11, 2010, № 164). Measures and penalties for non-compliance of obligations would be mentioned in the Strategy and should be implemented into agreements between EBRD and agricultural producers.

3. Finally, let us say Ukrainian Rural Development Network was the co-organizer of the International Scientific and Practical Symposium "Socioeconomic Modernization of Agriculture – the Marketplace of Ideas for Ukraine" on 27 July 2017 in Kyiv. Participants, including representatives of small and medium agricultural enterprises, discussed many problems related to the topics covered by Draft EBRD Strategy. We invited representatives from the local EBRD Office. Unfortunately, nobody from the EBRD team visited the event. Therefore, it looks like EBRD mission in Ukraine is not very open to the general public, but we believe the reason is just the staff is very busy. Perhaps more effective mechanism for dialogue with civil society is needed.

7 September 2018

Olena Borodina

Head of the Coordination Council, Ukrainian Rural Development Network

Valeriy Heyets

Head of the Institute for Economics and Forecasting, National Academy of Science of Ukraine

Mykola Stryzhak

President of the All-Ukrainian Public Association "Association of Farmers and Private Landowners of Ukraine"

Mykola Poyedynok

Head of the Executive Directorate of All-Ukrainian Association of Village and Settlement Councils

Volodymyr Vasylyev

Head of the All-Ukrainian Public Association "Union for Promotion of Rural Green Tourism Development in Ukraine"

Sergiy Kyryzyuk

Director of the NGO "Knowledge Platform – Agricultural Development and Rural Innovations"