Transformation of agricultural sector of Ukrainian economics: some social and economic results

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Abstract

Agricultural sector of Ukrainian economics is in the period of transformations, which are accompanied by increase of negative tendencies in the social sphere: depopulation of significant territories, worsening of living conditions for rural population, increasing of mass poverty, growing unemployment, sharp income differentiation. High social losses against a background of development of large-scale commercial production, land concentration and capitalization of production are leading to increase of social tensions in society thus hampering country’s exit from the crisis.

Keywords: agricultural transformations, rural development policy, depopulation of rural territories, social factors of economic growth.

Introduction

Ukrainian economic science and practice of reforms hasn’t been ready that social processes in the economics under reforms are complicated and inconsistency: some of them are contributing to economic increase, other vice versa are influencing in the opposite way. Currently the relevant task is development of the efficient social policy promoting structural and institutional rebuilding of economics, stimulating sustainable economic growth.

In order to solve this task there’s of great importance is the bringing economics out of shadow, which is based on humiliatingly low level of wages in Ukraine, prearranged by the inadequate shares of income distribution between the labor and capital. Processes of land concentration, attraction of industrial capital and creation of large-scale commercial integrated structures in agricultural sector are strengthening shadowing of economics and increasing disproportions in such distribution. Under the existence of the shadow economics nominal and real increase of salaries doesn’t necessarily mean increasing standards of living for country’s population. In the country with the transitional economics it’s impossible to improve standards of living for population by simple wage increase without simultaneous actions aimed at bringing the economics out of the shadows. The biggest threat of low standards of living of Ukrainians is that there’re falling numbers of rural population and large territories are being depopulated.

Identification of main trends for development of modern society and social factors of economic growth should promote identification of main directions for social and economic policy of the state during establishment of new rural way of living in Ukraine (Borodina, 2005).

General results of agrarian transformations in Ukraine

Transformation of agricultural sector was conducted under significant political influence and resistance. Since the early beginning there were identified the main directions of reforms, but the expected social-economic results were not clearly defined and fixed within the legislative field. These main directions of agricultural transformations include:

- Land reform;
- Reorganization of property relations;
- Reorganization of collective and soviet agricultural enterprises into the market oriented types;
- Development of the lease relations;
- Recognizing equal rights of all patterns of ownership in the rural areas;
Creating the preconditions for the social and economic strengthening of rural households.

Reorganization (as the process) was recognized as the principal task of agricultural sector development, but not the identification of the final social-economic effect of reorganization.

According to their nature agricultural transformations in Ukraine were not different from the same transformations in other post-socialist countries, but according to the implementation mechanisms, pace and results they had certain features.

There are distinguished two stages of transformations. The first one covers period from the beginning of 90-s till 1999 and features slow pace and breaking in development of preconditions for reformation, almost complete absence of the state policy in establishment of economic conditions for working in rural areas, significant drop in production. At the second stage (after 2000) there was conducted complete reorganization of collective and state agricultural enterprises, new organizational structure of agricultural production developed, started process of concentration and capitalization of production, increase of volumes of agricultural production, improvement of its productivity. Gradually increasing export potential of agri-food sector from 2002 to 2006 export increased 2 times; increasing openness of the domestic market, during the same period import increased 2.8 times. Also import of agricultural and food produce is growing faster, the level of food security of Ukraine yet stays on the significantly high level and currently is 13-14% with the threshold level on 30%.

But in the context of international comparisons the transformation process has negatively influenced positions of agricultural sector of Ukraine. In comparison to the NIS countries (Russia) and newly adopted EU-Members (Poland) the drop of production in Ukraine was the greatest one.

In 2000 index of gross agricultural production was only half of the 1990 level, at the same time for Russia it was 62.8, and for Poland – 81.5. In comparison to the 2005 this indicator grew, but stays at low level – 63.4. Ukraine lost its positions in the world agricultural production and in productivity of crop and animal production.

Land reform and its results

The hardest stages of land reform have been passed: agricultural lands have been transferred from the state ownership and privatized, there have been developed new market-oriented enterprises, which are based of private ownership for land. By 2006 more than a half of total land area was transferred into the private ownership, incl. agricultural lands over 70% and arable lands – over 80%.
Changes of Ukrainian land structure by patterns of ownership in dynamics
(at the beginning of the year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total land area, th. ha.</th>
<th>Lands owned by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>th. ha.</td>
<td>%</td>
</tr>
<tr>
<td>State</td>
<td>Private</td>
<td>Collective (according to the state acts)</td>
</tr>
<tr>
<td>------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>1991*</td>
<td>60354,8</td>
<td>60354,8</td>
</tr>
<tr>
<td>1996</td>
<td>60354,8</td>
<td>36310,5</td>
</tr>
<tr>
<td>2001</td>
<td>60354,8</td>
<td>30166,5</td>
</tr>
<tr>
<td>2006</td>
<td>60354,8</td>
<td>29595,6</td>
</tr>
<tr>
<td>incl. agricultural lands</td>
<td>41722,2</td>
<td>11369,3</td>
</tr>
<tr>
<td>incl. arable lands</td>
<td>32451,9</td>
<td>5986,4</td>
</tr>
</tbody>
</table>

*Source: based on the data of State land Committee.
* by 01.11.1990

There have been developed grounds for market turnover of land. Concentration of land ownership is conducted through renting land plots from small owners. But land sharing led to non-controllable processes of land plots’ concentration in hands of certain legal entities and individuals, who often have no direct connection to agriculture.

As any reform, land reform in Ukraine has also some negative moments:

- Decrease of land fertility, because during sharing and privatization period practically no funds have been allocated to soil recreation, which resulted in expansion of agricultural land degradation;
- Land breaking up and creation of large number of small-scale in terms of land and non-efficient enterprises;
- Making impossible introduction of mortgages using land as the collateral due to the current land plot breaking up in private ownership;
- Expansion of legally non-controllable and corrupt schemes for taking land out from peasants.

Unfortunately no proper conditions have been developed for free purchasing and selling of agricultural lands, which is contributing to moving economy into the shadows. Shadowing of land sharing led to non-controllable processes of land plots’ concentration in hands of certain legal entities and individuals, who often have no direct connection to agriculture. As the result, land concentration becomes a serious problem for Ukraine, what is seen on the graph below – the total number of enterprises is going down, but the number of enterprises with huge square and the average size of land are increasing.
Dynamics agricultural enterprises (square of agricultural lands more 10000 hectares)

![Graph showing dynamics of agricultural enterprises](image)

**Source:** based on the data from State statistical committee Form 50 AG.

* In total number of agricultural enterprises included producers’ agricultural co-operatives, private enterprises, large farmer enterprises, national and other enterprises with square more than 100 hectares or number of employees more than 50

**Change of organizational and legal forms in agricultural production.**

At the beginning of 2000 collective and soviet farms have practically become non-existent during the restructuring process. Instead they were transformed into the partnerships, farmers, cooperatives and other types of private enterprises. Remaining state enterprises comprise less than one percent. Such organizational structure remains in force during the last few years, although characteristics of land, property and labor relations are constantly changing.

In case aggregated data is used for comparative analysis of managerial effectiveness in agricultural enterprises of different organizational forms, than its level is significantly higher in private enterprises compared to partnerships and agricultural production cooperatives. But here one should be cautious in conclusions because aggregated statistical data doesn’t reflect differentiation of economic effectiveness within the enterprises of different organizational forms.
### Transformation of business entities in agriculture, 2000–2005

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>%</th>
<th>2000</th>
<th>%</th>
<th>2005</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td></td>
<td>Units</td>
<td></td>
<td>Units</td>
<td></td>
</tr>
<tr>
<td>Agricultural enterprises, incl.</td>
<td>13372</td>
<td>100,0</td>
<td>51588</td>
<td>100,0</td>
<td>58877</td>
<td>100,0</td>
</tr>
<tr>
<td>- collective farms</td>
<td>8542</td>
<td>63,9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- soviet farms</td>
<td>2630</td>
<td>19,7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- integrated farms</td>
<td>2200</td>
<td>16,4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- partnerships**</td>
<td>-</td>
<td>-</td>
<td>6718</td>
<td>13,0</td>
<td>7900</td>
<td>13,7</td>
</tr>
<tr>
<td>- private**</td>
<td>-</td>
<td>-</td>
<td>2519</td>
<td>4,9</td>
<td>4123</td>
<td>7,1</td>
</tr>
<tr>
<td>- production cooperatives</td>
<td>-</td>
<td>-</td>
<td>3136</td>
<td>6,1</td>
<td>1521</td>
<td>2,6</td>
</tr>
<tr>
<td>- state enterprises **</td>
<td>-</td>
<td>-</td>
<td>385</td>
<td>0,7</td>
<td>386</td>
<td>0,7</td>
</tr>
<tr>
<td>- farmers</td>
<td>-</td>
<td>-</td>
<td>38428</td>
<td>74,5</td>
<td>42447</td>
<td>73,3</td>
</tr>
<tr>
<td>- others</td>
<td>-</td>
<td>-</td>
<td>402</td>
<td>0,8</td>
<td>1500</td>
<td>2,6</td>
</tr>
<tr>
<td>Rural households (homes)*</td>
<td>4140</td>
<td>550</td>
<td>5464</td>
<td>58877</td>
<td>100,0</td>
<td>58877</td>
</tr>
</tbody>
</table>

**Source:** based on the data from “Ukrainian Agriculture”, State statistical committee, 2006.
* Rural households are not registered as business entities.
** Business entities that have land and property relations separated. Their share has already reached over 21%.

Changes have happened in the production structure of agricultural production by organizational forms: the highest ratio of agricultural production is produced by private plot holds and they also have the largest share of employed. Spatial changes also took place in production – almost in the half of rural settlements business entities (legal entities) are completely absent.

**Institutional transformations**

The results of empirical studies, expert evaluations and own experience give us grounds to state that in practical meaning the institutional system stays the least developed one and it very negatively impacts development of the agricultural sector as the whole:

- market power belongs to supermarkets, agro traders and large-scale producers;
- there are no developed social networks and legalized inter professional organizations, which have the aim to adjust interests of participants of production sub-complexes;
- system of budget support is oriented on ensuring interests of specific groups of large commodity producers;
- effectiveness of low level authorities in the field of agriculture is low due to the critical limitations of their powers; low-quality staff and implementation of unusual function of political confrontation by them;
- speculative capital and corruption are practically blocking legal solution of business problems;
• commercial law is non functional in agricultural sector.

Future structural and organizational changes in agricultural sector of Ukraine will be related to introduction of free purchasing and selling of agricultural lands (after the abolishment of the moratorium) and WTO membership obtained by the country.

According to our opinion, as the result of these activities, processes of land concentration and capitalization of production and there will be legalized these semi-legal schemes of purchasing agricultural lands that are currently quite actively used (Borodina, 2007). With the gaining of the WTO membership food quality and safety will be improved. For Ukraine as for other post-socialist countries, the process of harmonization of national technical orders and standards is quite a big problem both from the point of view of pace and level of harmonization.

**Level of harmonization of national standards of Ukraine**

*(on 01.01.2007)*

<table>
<thead>
<tr>
<th></th>
<th>Total number of standards in force</th>
<th>Incl. harmonized with European standards</th>
<th>% harmonized</th>
<th>Approximate number of international and European standards at the beginning of 2011</th>
<th>Ukrainian standards’ base compared to the European one:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>% standards in force on 01.01.200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7017</td>
<td>3233</td>
<td>46,1</td>
<td>19000 – 20000</td>
<td>35</td>
</tr>
<tr>
<td>incl.: food industry</td>
<td>782</td>
<td>247</td>
<td>31,6</td>
<td>1800 – 2000</td>
<td>39</td>
</tr>
<tr>
<td>agriculture</td>
<td>365</td>
<td>222</td>
<td>60,8</td>
<td>1200 – 1500</td>
<td>24</td>
</tr>
<tr>
<td>Agricultural and food sphere total</td>
<td>1147</td>
<td>469</td>
<td>40,9</td>
<td>3000 – 35000</td>
<td>33</td>
</tr>
<tr>
<td>%</td>
<td>16,3</td>
<td>14,5</td>
<td></td>
<td></td>
<td>17,5</td>
</tr>
</tbody>
</table>

*Source:* based on the data of State consumer standards committee.

Increasing requirements for quality and safety of food and agricultural production will increase production costs of agricultural producers and strengthen competition; make harder commercial development of private plot holds; cause close-down of small processing enterprises.

**Social consequences of agricultural transformations**

Analysis of official statistical data shows that in 2006 almost 66% of rural population had their level of cash incomes less than minimum of subsistence, which is higher than the share of poor population in cities – 42%. Of course the major share of poor is concentrated in cities, but their share is higher in rural areas. With the purpose for identification of trends in
income distribution not only in within the statistical aggregate of rural population and also within its separate groups we used method of statistical groupings of rural population by the poverty levels (per capita income in relation to minimum of subsistence). Results show significantly positive dynamics after 2000: level of per capita income is increasing, share of very poor people is decreasing, and the share of relatively rich people is increasing, their per capita income is 3.5 times higher than the same indicator for the group of the poorest ones.

### Grouping of rural population according to poverty level

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2006</th>
<th>Tendency in average earnings for 2006 (divided on the level of 2001)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of the group to whole population</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Living Wage (LW), hrn.</td>
<td>311,3</td>
<td>464,00</td>
<td>1,49</td>
</tr>
<tr>
<td>Very poor</td>
<td>91,98</td>
<td>166,93</td>
<td>45,77</td>
</tr>
<tr>
<td>Average month earnings for one family member in group, hrn.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>6,67</td>
<td>381,64</td>
<td>36,56</td>
</tr>
<tr>
<td>Middle</td>
<td>0,90</td>
<td>532,69</td>
<td>11,98</td>
</tr>
<tr>
<td>Relatively rich</td>
<td>0,45</td>
<td>793,93</td>
<td>5,69</td>
</tr>
<tr>
<td>In average on households</td>
<td>100,00</td>
<td>187,39</td>
<td>145,77</td>
</tr>
<tr>
<td>Average month earnings for one family member in relatively rich group divided on average month earnings for one family member in very poor group</td>
<td>4,76</td>
<td>3,53</td>
<td></td>
</tr>
</tbody>
</table>

- **Very poor** – level of earnings less than 1LW
- **Poor** – level of earnings from 1 to 1.5 LW
- **Middle** – level of earnings from 1.5 to 2–x LW
- **Relatively rich** – level of earnings more than 2 LW

But such positive dynamics is not completely show the real situation. Because in analyzed database there’s no information about incomes of really rich members of rural households, who refused to participate in this survey. Moreover, the indicator of per capita income is influenced by both income increase and decrease of members of households i.e. rural population (from 2001 to 2006 by 1.1 mln. people, in Ukraine – by 2.3 mln.). According to our empirical researches during the last two years the total income of rural households has increased due to pensions risen up to the subsistence level.

It should be noted that the salary level in agriculture is extremely low. In 2006 for one hour worked in agricultural enterprise Ukrainian worker obtained 3.70 UAH (0.74 USD).
Although the salary level in agriculture is increasing, but it comprises only 45% of the level of industry and 53% of the average level in economics. Humiliatingly low level of wages, prearranged by the inadequate shares of income distribution between the labor and the capital, is the cornerstone for shadowing the economics. Low wage payments and the large share of shadow economics are interdependent factors. Processes of land concentration, attraction of industrial capital and creation of large-scale commercial integrated structures in agricultural sector are the evidences of inflow of shadow capital in agricultural sector, evening up of inter-branch incomes, strengthening shadowing of economics and disproportions of income distribution. In particular the evidence of this is the dynamics of share of the wage fund in the cost of agricultural production. During transformation period this indicator is constantly decreasing and in 2006 it was only 12%, which is 2.5 times low than at the beginning of the reforms (1990) and 2 times lower than in 1995. With the presence of the shadow economics nominal and real increase of wages doesn’t necessarily mean increase of living standards of country’s population and expansion of poverty. More realistically such processes are showing trends of spatial development, which are currently
less researched in Ukraine. Hardships are lying in informational and methodological support of such researches.

We’ve tried to identify spatial development level of rural territories based on indicators of demographical and population crisis that are closely correlating to the poverty level (Prokopa, 2003). In order to identify regions as the problematic ones we used two criteria: 1) the highest level of depopulation in rural area – coefficient of depopulation is over 15%; 2) the highest concentration of degrading and depopulated villages within the living network – the share of such villages is over 40% (the composition of degrading villages is identified based on separate methodology).

Based on database of complete inquiry of Ukrainian villages in 2001 and in 2006 we have researched such processes in the spatial dimension and dynamics and made trend forecast of situation development until 2015. Practically during five years the whole oblast of Ukraine has come to the category of territories of demographical and population crisis. According to our forecasts in case the political situation in Ukraine won’t be stabilized and social-economic, agricultural and rural development policy won’t be fundamentally changed, these negative trends will be expanded to very significant territories and cover all south-eastern and central part of Ukraine.

Conclusion

What are the achievements of agricultural transformation:

What has proven:

- large agricultural enterprises feature quick technological renewal, increase of the capitalization level, productivity and competitiveness that are proving advantages of large-scale agricultural production;
- increase of productivity in large-scale commodity sector leads to decrease of employment and increase of unemployment in rural area, proving necessity for development of diversified activities outside of the agricultural production;
- expansion of individual production in private plot holds is the forced action of self-employment of rural population, which proves the great potential power of private initiatives.

What haven’t proved:

- development of equal in rights private agricultural enterprises different in sizes and efficient by the level of production;
- transformation of peasant in private owner – master of his land;
- increasing of standards of living and improvement of social standards in rural areas;

The most valuable lessons and questions, requiring logical solution:

- finish settling property and land relations in enterprises and farms that have been created based on reformed collective agricultural enterprises;
- create organizational system which is adequate to market conditions;
• conclude development of land market;
• rationalize state support system for agriculture;
• conclude accession to the WTO, as the beginning of European integration processes.

For further development of land market it’s necessary to develop the Unified system for land and real estate registration that have started with the support of the World Bank. At the same time it’s necessary to develop actively mechanisms for introduction of land in the system of commodity-money relations taking into account the experience of the Central and Eastern European countries after their accession to the EU.

Adequately to the new tasks it’s necessary to improve the acting system of state support of agricultural sector. The most distinctive feature of the domestic support system is non-transparency its distribution mechanisms and non-availability of budget funds for significant part of agricultural enterprises, farmers, almost all small-scale commodity enterprises of population. State support policy of agriculture favors constant enrichment of small part of owners and workers who are employed in large-scale production at the expense of increasing poverty of the other part of rural population. Finally such practice narrows access to means of survival for significant part of peasants and triggers depopulation in rural areas.

Increasing effectiveness of budget support should be aimed at supporting competitiveness of small and medium farms, subsidizing commodity producers instead of stimulating production, developing possibilities for marketing, harmonizing ratio between the production and development of rural communities.

References