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**Attitudes toward the lifting of the moratorium on land sales  
and the development of land markets in Ukraine**

**By**

**Zvi Lerman**

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# **Attitudes toward the lifting of the moratorium on land sales and the development of land markets in Ukraine**

Zvi Lerman<sup>1</sup>

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## A. Legislative framework

### 1. The history of moratorium on land sales in Ukraine

Ukraine recognized private landownership in 1992 (Article 6 of 1991 Land Code as amended on 13 March 1992), after more than 70 years of exclusive state ownership. The amended Land Code also explicitly allowed buying and selling of land shares and land plots as well as other land-related transactions (transfer, exchange, gift, inheritance), but at the same time prohibited alienation during the first six years. This was the beginning of a long history of moratoria on land sales in Ukraine. Subsequent Presidential Decrees (e.g., November 1994, April 1998) reaffirmed the right to buying and selling and other basic land transaction, and all through the late 1990s land transactions in fact took place under various circumstances as part of a standard civil transaction mechanism requiring notarization and registration. No statistical information is available on the scope and frequency of such transactions, but the general impression is that they were sporadic and infrequent.

Nevertheless, at the end of the 1990s, Ukrainian legislators began to express concern that some individuals were amassing “unacceptably” large holdings by buying land shares and land plots from many small landowners. This led to certain parliamentary initiatives that culminated in January 2001 in the adoption of a law “On agreements concerning alienation of land shares”. This short one-article law imposed a temporary ban on buying and selling and other transactions in privately owned agricultural land. The purpose of the moratorium was to allow the new landowners to become used to the concept of private landownership after more than seven decades of exclusive state ownership and thus avoid irresponsible buy and sell transactions due to inexperience. Initially, no end date was specified for the moratorium, and the ban on land transactions would remain in force “until the procedures for the realization of the rights of citizens and legal bodies to land shares are in place” (Article 1). However, in less than a year (October 2001) the Land Code was amended again, removing the conditionality and specifying that the temporary moratorium would remain in force until January 2005.

This was only the first step in a chain of legislative decisions that successively extended the moratorium by another year or two just as the last termination date was approaching (**Table 1.1**). The latest delay was legislated in December 2012, extending at the last minute the end date from January 2013 to January 2016. Thus, more than 20 years after formal recognition of private landownership, Ukraine is still without the legal framework that would allow its rural population to exercise their property rights in an accepted way through land market transactions. The observed outcome of the heated debates between opponents and supporters of land market in Parliament inevitably leads to the sad conclusion that in all probability there is no real interest in allowing land transactions to develop.

**Table 1.1. Chronology of the moratorium on land transactions**

Date	Legal act	Provisions applying to land markets
13Mar1992	Land Code (1992 amendments)	Private landownership recognized for the first time after 70 years of exclusive state ownership; buying and selling of land is allowed (Art. 6), but a 6-year moratorium is imposed on alienation of private land plots (Art. 17)
26Dec1992	CabMin Decree "On privatization of land plots"	Attempt to abrogate the moratorium for land plots of rural households (but not for peasant farms); annulled by the Supreme Rada in January 1992
10Nov1994	Presidential Decree "On immediate measures to accelerate agricultural land reform"	Permission to buy and sell is extended to land shares, which represent a right to an unspecified plot of land: "the right to a land share may be bought and sold, gifted, exchanged, inherited, and mortgaged" (para. 3)
24Apr1998	Presidential Decree "On protecting the rights of land-share owners"	Procedure for alienation of land shares based on civil-law agreements
18Jan2001	Law "On agreements concerning alienation of land shares"	A temporary moratorium is imposed on buying and selling of land shares with unspecified end date: "until the procedures for the realization of the rights of citizens and legal bodies to land shares are in place, land-share owners are temporarily prohibited to enter into transactions involving buying and selling, gifting, or other forms of alienation of land shares" (Art. 1)
25Oct2001	Land Code	Moratorium on buying and selling of land until 1 Jan 2005
06Oct2004	Amendments to Land Code	Moratorium extended until 1 Jan 2007
19Dec2006	Amendments to Land Code	Moratorium extended until 1 Jan 2008
28Dec2007	Law of State Budget of Ukraine for 2008	Moratorium extended without specified end date: until the adoption of laws "On State Land Cadastre"* and "On land market"**
19Jan2010	Amendments to Land Code	Moratorium extended until 1 Jan 2012
20Dec2011	Amendments to Land Code	Moratorium extended until 1 Jan 2013
20Dec2012	Amendments to Land Code	Moratorium extended until 1 Jan 2016; adoption of the law "On transactions in agricultural land" is added as a new requirement (instead of the requirement for the law "On land market" specified in 2007)

\*The Law of Ukraine "On State Land Cadastre" was passed in July 2011, coming into effect on 1 January 2013, to coincide with the lifting of the moratorium as expected at that time.

\*\*Approved in first reading 9 December 2011.

## 2. Prerequisite legislation for lifting the moratorium

All through 2011-2012 the Ukrainian administration worked intensively on the draft of a new law “On land market”, which had been stipulated in 2007 as a requirement for the lifting of the moratorium. The law was approved in first reading on 9 December 2011, but it did not go any further because of internal disagreements and in December 2012, when it had become clear that the prerequisite legislation would not be approved in time, the moratorium was extended yet one more time until 2016 (**Table 1.1**). A new law “On transactions in agricultural land” (Закон «Об обороте земель сельскохозяйственного назначения», variously known in English as Law “On agricultural land turnover” or Law “On circulation of agricultural land”) was added as a requirement for the lifting of the moratorium in 2016 or earlier.

The explanatory note to the draft law (version dated 5 July 2013) admits that the continuing moratorium on alienation of agricultural land “circumscribes the rights of landowners as provided in the Land Code (article 90, first part) and in the Constitution of Ukraine (article 41)”. As unavoidable consequences of the moratorium the note identifies proliferation of “gray” land market transactions, high level of corruption, social distrust, socially inequitable distribution of land rents, rapid monopolization of agricultural land by agroholdings, socio-demographic degradation of the village, marginalization of the rural population, and more.

The draft law has the following main aims (article 2):

- Protection of legal interests of landowners;
- Prevention of speculation and monopolization of agricultural land market;
- Increasing the attractiveness of agricultural land as an investment and raising economic returns;
- Strengthening national food security by increasing land in state ownership

**Table 2.1** summarizes the legal provisions that are expected to achieve these aims.

The draft law identifies two groups of players in the land market who may own agricultural land:

- citizens of Ukraine engaged in commercial farming (including peasant farmers and rural individuals who have received land in exchange for their land shares: the law does not apply to traditional household plots where land allocation did not involve land shares);
- the state or public sector (including central government, local governments, and the newly established, fully state owned Land Bank of Ukraine).

Foreign nationals and legal persons (private corporations) may lease land, but they are not allowed to own agricultural land.

**Table 2.1. Draft law on transactions in agricultural land: policy goals and legal provisions**

Policy goals	Provisions to achieve the goals
Protection of legal interests of landowners	Introduction of a web-based “bidding” mechanism for buying and selling of land plots Disclosure of full information on a land authority web site about land offered for sale
Prevention of speculation and monopolization of agricultural land market	Only physical persons may own agricultural land Maximum area that can be owned by one person is limited to 100 hectares Introduction of a regressive scale of state duties on resale of land plots within 10 years from the original acquisition Imposing restrictive requirements on the qualifications of potential buyers Maximum area that can be leased by one person (physical or legal) limited to 100,000 hectares
Increasing the attractiveness of agricultural land as an investment and raising economic returns	Eliminate land fragmentation through land consolidation programs; Avoid excessive fragmentation in the process of inheritance and change of ownership by setting a minimum size below which no further subdivision is allowed; Set minimum lease term at 15 years
Strengthen food security by increasing land in state ownership	The state is granted a preemptive right to purchase agricultural land offered for sale The state initiates repossession of unclaimed and unused land.

There is a fundamental asymmetry between the two groups of landowners recognized by the draft law – the private sector and the state sector. The state sector (which includes the recently established Land Bank) has a preemptive right to purchase any agricultural land offered for sale, and private buyers may step into the “bidding” only if the state had not exercised its preemptive right within the specified time limit (2 months). This is part of a conscious drive on the part of the government to increase the share of state owned land in Ukraine in the mistaken belief that more state-owned land means greater food security. State-owned land may have an effect on national food security only if it is leased to producers subject to specific production targets (“state orders”), a practice that fortunately disappeared some 20 years ago. World experience clearly shows that individual or family farming on privately owned land achieves highest efficiency and productivity, and it is the objective of land markets to ensure optimal allocation of land among private farmers without any intervention by the state. The land market should be organized in a way that facilitates transactions for private producers, and under normal circumstances there is no room for any preemptive rights for the state – except when land is earmarked for public projects.

Even if we abstract from the draconian provisions that grant the state a preemptive right to purchase privately owned agricultural land, the freedom of action of individual buyers and seller is severely circumscribed in the present draft law. There are two distinct sets of restrictions. First, only persons meeting specific criteria are allowed to buy land. Second, the buy-and-sell procedure involves onerous bureaucratic requirements.

A citizen of Ukraine is eligible to buy agricultural land under the following conditions (article 5, part 3):

- Has resided during the last three years within 20 km of the proposed land plot;
- Intends to use the land plot for commercial farming, primarily by employing own and family labor;
- Has proven experience in agriculture or is currently a registered private farmer/independent entrepreneur.

Furthermore, the administrative procedure allows the seller and the buyer to interact only through the official web site of the state land authority: contrary to the dominant practice in world land markets, face-to-face negotiations and agreements are ruled out. The buyer posts his offer to sell on the official web site, which automatically checks the buyer’s eligibility in light of the above-listed criteria and rejects the posting in case of non-compliance. Initially, for the first two months, the offer is directed only at potential buyers with preemptive rights (the state or the Land Bank). Other potential buyers also have to register their offers to buy on the official web site, but their offers will be considered only starting in month 3 if the preemptive rights had not been exercised (this requires renewal of the buyer’s registration once the preemptive rights have expired). **Table 2.2** lists the documents that the seller and the buyer are required to submit to the official web site. The law explicitly emphasizes that a necessary condition for completing a buy-and-sell transaction is the buyer’s ability to present a document confirming that the preemptive rights of other buyers have been observed (article 14, para. 12).

**Table 2.2. Required submission of documents to the state land authority’s web site**

Seller	Buyer
Location of land plot	Letter from bank confirming existence of bank account
Description of land plot	Letter from bank confirming sufficient balance of funds to complete the proposed transaction
Price asked	Tax declaration and declaration of origin
Bank account particulars (for completing a cashless transaction)	Document confirming that the preemptive rights of other buyers have been observed
Extract from the State Land Register confirming ownership and indicating normative price (provided by the state land authority)	Disclosure agreement regarding personal information

The caps on private land ownership (not more than 100 hectares per person) and on leased land (100,000 hectares per lessee) are obviously intended to arrest the “latifundialization” tendencies that have become quite widespread in Ukraine in the last decade. World practice shows that such caps are usually ineffective and ways can be easily found to circumvent the restrictions. Still, the cap on leased land may eventually constitute a real barrier to agricultural expansion as the draft law stipulates that the limit of 100,000 hectares applies to one (physical or legal) person, “including all persons connected with it by control relations” (article 18, para. 5). This formula seems custom-tailored to the specific organizational structure of Ukrainian agrohholdings, where huge tracts of land are assembled through



numerous lease contracts signed by different enterprises and farms. If this interpretation of article 18(5) is correct, it will block the creation of new agroholdings. The question, of course, remains how the government is going to deal with existing agroholdings, among which 16 organizations have amassed between 100,000 hectares and 532,000 hectares.<sup>2</sup> Latifundist.com, the portal for large agribusinesses in Ukraine, does not appear particularly concerned by the possible negative outcomes of the new law for agroholdings: “as Ukraine irrevocably approaches the abolition of the moratorium on agricultural land, it is not surprising that large and midsized agricultural companies actively increase their land assets.”<sup>3</sup>

### **3. State Land Bank**

The prevailing opinion among officials in Ukraine and other CIS countries is that lack of subsidized credit is a serious obstacle to the development of agricultural land markets. The Government of Ukraine chose to respond to this view by creating (in October 2012) the so-called State Land Bank, which is apparently the only banking institution in Ukraine that is entitled to grant land-related loans at a deeply subsidized interest of 5% per annum. Since subsidized loans using state money can be disbursed through any commercial bank, the State Land Bank was entrusted with a number of additional, highly unusual tasks. First, a special law was passed (as an amendment to Ukraine’s banking law) stipulating that the equity of the State Land Bank could be formed using money instruments (the usual mechanism) as well as land plots. The intent was to transfer state-owned agricultural land to the ownership of the State Land Bank, thus creating an equity base of at least 150 million hryvna. In this way, the State Land Bank would become the sole agency responsible for selling state land. Furthermore, the draft law of transactions in agricultural land discussed above granted the State Land Bank a preemptive right to purchase land from private owners. The combination of these two factors – accumulation of state land holdings and preemptive right to private land – will very likely create a huge state monopolist in the land market, reversing 25 years of land reform that began with the elimination of state monopoly in land ownership.

If the State Land Bank is expected to build its equity on the basis of land plots, it is essential to consider the valuation of these plots: what price will be used to value the land assets held by the Land Bank? In the initial stages, there will be no record of market prices to be used for valuation. The only known price is the normative land price fixed by law and used for taxation purposes. The normative price may be substantially higher than the actual market price, and its use may lead to gross overvaluation of the assets and equity in the Land Bank’s balance sheet. This, in turn, may endanger the Land Bank’s financial stability as judged by the ratio of debt to equity. In developed market economies banks are reluctant to include land in their asset base because of its price volatility: unanticipated downward changes in land prices may lead to insolvency. For this reason, financial institutions known as “land banks” the world over usually operate as regular commercial banks, without relying on land to support their equity. In the U.S., where state- and county-level land banks indeed control physical land plots, this danger is not relevant because U.S. land banks usually take over foreclosed, distressed, or abandoned land, which is anyhow priced well below market due to the former owner’s circumstances.

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<sup>2</sup> <http://latifundist.com/rating/top-100-latifundistov-ukrainy>

<sup>3</sup> <http://latifundist.com/rating/top-100-latifundistov-ukrainy>

In summary, the State Land Bank in Tajikistan has adopted a highly unusual model in world perspective: instead of encouraging land market development it may lead to undesirable monopolistic behavior and its solvency may be endangered by fluctuations in land prices.

#### **4. Prospects for the development of land markets**

As we shall see in the analysis of survey results that constitutes Part B of the report, land markets in the broad sense of the term exist and function in Ukraine. However, these markets are based entirely on land leasing transactions, without any buying and selling of land. Buy and sell transactions have been subject to a periodically renewed moratorium for more than two decades. Lifting of the moratorium is a precondition for the development of buy-and-sell transactions – an essential component of land markets in all market-oriented economies. However, in Ukraine the lifting of the moratorium is legally conditioned on the adoption of the law “On transactions in agricultural land” (variously known in English as Law “On agricultural land turnover” or Law “On circulation of agricultural land”).

The required law has been drafted and debated in Parliament. It is now (end of 2013) in the stage of collecting comments and reservations from all government stakeholders. The ongoing revisions will certainly change many of the details of the draft law, but it is hard to expect any radical change in the two pillars that constitute the conceptual basis of the law:

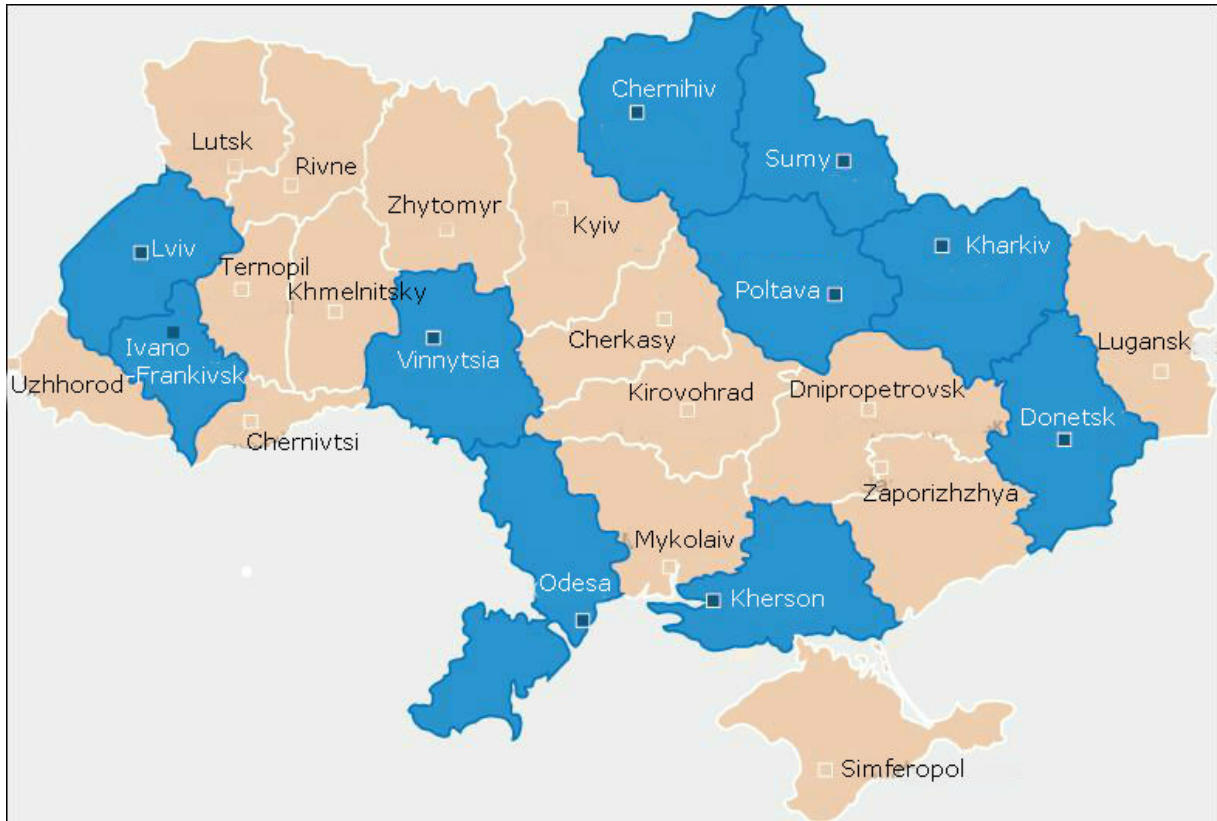
- Granting the state preemptive rights for purchase of land;
- Establishing a State Land Bank as a recipient of physical assets – land plots purchased on behalf of the state from previous owners.

These two fundamental issues are probably driven by ingrained traditional ideology that views private land ownership as an “anti-social evil”. They will ultimately reverse the process of land privatization that began in 1992 and has made tremendous progress in the last two decades. The proposed draft law can only be regarded as an overt expression of the government’s intention to re-nationalize agricultural land in Ukraine. The re-nationalization of agricultural land is to be carried out under the guise of market mechanisms, including auction-style bidding, but it will completely distort freedom of supply and demand in the land market, creating huge asymmetry. While supply may be free (although subject to onerous bureaucratic requirements), demand will be rigidly constrained to the state sector. This will result in gradual but inevitable accumulation of Ukraine’s agricultural land in the asset base of the State Land Bank, which will continue leasing it out to producers (not selling!).

The officials and politicians today recognize that land markets cannot develop as long as the moratorium is in force. They should now accept full private ownership of land, which includes freedom of choice regarding who to sell to and who to buy from – not only the products of the land, but also the land itself. Land markets will not develop under a system that grants preemptive rights to one stakeholder – the state.

Removal of the moratorium and abolition of the state’s sweeping preemptive rights are necessary conditions for the development of land markets in Ukraine. Still, even this may not be sufficient, as the

survey results additionally show that the rural population is not enthusiastic about the prospects of selling their land.



**Map 5.1.** Oblasts covered by the FAO 2012 survey (shaded).

## B. Analysis of the FAO 2012 Survey

### 5. Background and sample design

In 2012, when the lifting of the moratorium seemed imminent, FAO designed a rural survey intended to explore the expected social, economic, and ecological impacts of lifting the moratorium on land sales and identify barriers to development of land markets in Ukraine. The survey was carried out in November-December 2012 in ten provinces (oblasts) across the country (**Map 5.1, Table 5.1**). Three groups of respondents were interviewed: owners of land shares as representatives of the supply side of the land market and heads of agricultural enterprises (“managers”) and peasant farms (“farmers”) as representatives of the demand side of the land market. The ten oblasts comprised more than 40% of the total number of entities in each of the three groups in all of Ukraine. Of these, 1605 respondents were randomly selected: 805 respondents in the group of land-share owners and 400 respondents each among enterprise managers and peasant farmers. The original intention was to include in the sample a fixed number of respondents from each of the three cohorts in each province (80 land-share owners, 40 managers, and 40 farmers). This design was successfully implemented for 8 of the 10 provinces surveyed. The actual farm structure in two provinces – Ivano-Frankovsk in Western Ukraine and Odessa in the South – forced a certain departure from the intended design: there were relatively few enterprises and peasant farms in Ivano-Frankovsk so that in practice less than 80 respondents could be sampled from these two cohorts combined; conversely, Odessa Province had a relatively large number of enterprises and peasant farms so that more than 80 respondents were sampled from these cohorts. The deviation concerns only the sampling of managers and farmers: the number of land-share owners was 80 in each of the ten oblasts, as planned (between 9.9% and 10.1% of the total number of respondents in this group; see **Table 5.1**).

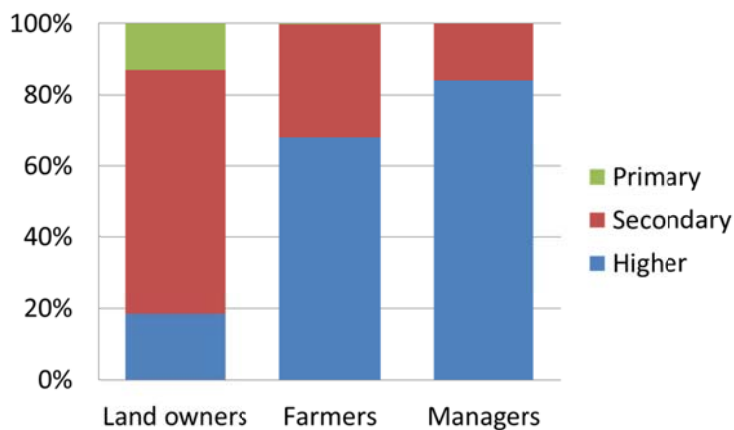
**Table 5.1. Sample structure (percent of respondents in each category)**

Region	Oblast	Land-share owners	Peasant farmers	Enterprise managers
South	Odesa	10.1	12.3	16.0
	Kherson	9.9	10.0	9.3
East	Donetsk	10.1	10.0	10.0
	Kharkiv	9.9	10.0	10.0
Center	Poltava	10.3	10.0	10.0
	Vinnytsia	9.9	10.8	10.0
West	Lviv	9.9	10.0	10.0
	Ivano-Frankivsk	9.9	7.0	4.8
North	Chernihiv	9.9	10.0	10.0
	Sumy	9.9	10.0	10.0
Total		100.0	100.0	100.0
Total number of respondents		805	400	400

## 6. Respondent profiles: age, gender, education, occupation

The average land-share owner in the survey is 57 years old, which matches the average age of the rural population in Ukraine (58). This means that in 1996, when land shares were distributed to the rural population, the average age was 40, so that land-share owners are basically people who grew up and were educated under the Soviet system. This should be borne in mind when examining their attitudes to reform-related issues, and in particular buying and selling of land. The managers of farm enterprises and peasant farmers are younger: the average age is 49 for both groups. The age difference between land-share owners and producers (enterprise managers and peasant farmers combined) is statistically significant at  $p = 0.01$ .

Classified by gender, 60% of land-share owners surveyed are women and 40% are men. This does not imply preferential distribution of land shares to women, as the proportions are close to the national gender proportions: women predominate in the entire population of Ukraine (53% women vs. 47%), with the proportion of women rising above 60% in the older age groups (above 65). The predominance of women among land-share owners is thus more of an age effect than a result of any policy biases. In contrast, most agricultural enterprises and peasant farms are managed by men: 84% of producers are men and only 16% are women (the proportions are practically the same for enterprises and peasant farms). Women producers (enterprise managers and farmers combined) are younger than men (average age 47 compared with 49 for men; the difference is statistically significant); women land owners, on the other hand, are older than men (average age 58 compared with 55 for men; the difference is statistically significant).



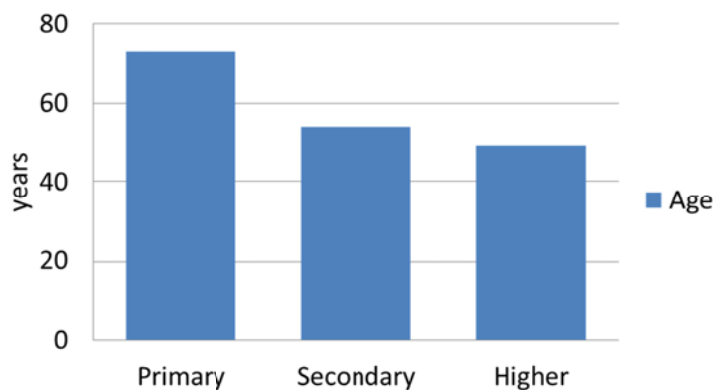
**Figure 6.1.** Educational attainment for different cohorts of respondents.

Educational attainment differs strongly among the three groups of respondents, with managers of farm enterprises at the top and land-share owners at the bottom (**Figure 6.1**). Among enterprise managers 84% have higher education (completed or uncompleted) and the rest report completed secondary education (vocational or general); among land-share owners only 18% have higher education and 69% have secondary education, with the remaining 13% reporting primary or uncompleted secondary education. Peasant farmers fall in between: there is a lower proportion of peasant farmers with higher

education than among enterprise managers (68% compared with 84%) and a higher proportion with completed secondary education (32% compared with 16%). All pairwise differences in educational attainment are statistically significant at  $p = 0.05$  (by the Bonferroni test).

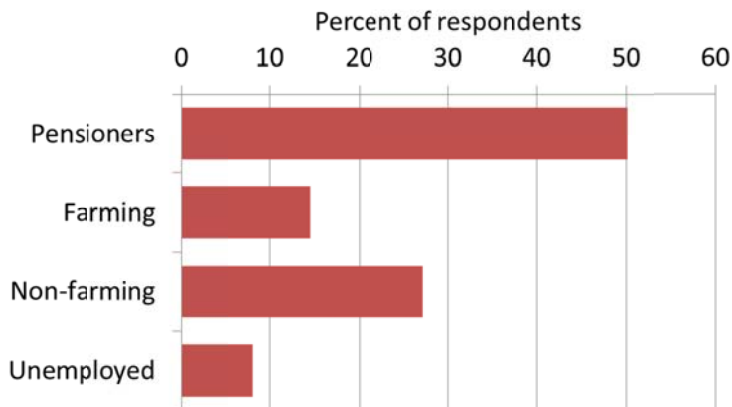
No gender biases in education are observed among managers and farmers. Among land-share owners, on the other hand, women on the whole have lower educational attainment than men: while the percentage of land owners with higher education is the same among men and women (about 18%), a much higher proportion of women than men report only primary or uncompleted secondary education (16% among women compared with just 8% among men).

There is a strong negative correlation between educational attainment and age: younger people enjoy higher educational attainment than older people. The average age for respondents with higher education is 48, compared with 54 for respondents with completed secondary education and 73 for respondents with primary or uncompleted secondary education (**Figure 6.2**; the pairwise age differences are all statistically significant).



**Figure 6.2.** Negative correlation between age and educational attainment.

Pensioners or retirees are the largest contingent among the respondents, accounting for 50% of land-share owners (**Figure 6.3**, dark red bars). The average age among the pensioners is 68, significantly higher than among all the rest (46). The second largest occupation group consists of those working outside agriculture (28%), whereas agriculture is the main occupation for only 14% of land-share owners (both wage employees and self-employed on own land). Slightly over 8% are formally registered as unemployed.



**Figure 6.3.** Principal occupation of land-share owners.

The percentages above reflect the respondent’s main occupation and as such may understate the extent of agricultural employment in rural areas. Indeed, pensioners, unemployed, and even respondents with main occupation outside agriculture may devote time and effort to cultivating their own land plot as secondary occupation. Analysis of the survey data shows that 11% of pensioners, 12% of formally registered unemployed, and 14% of respondents with main occupation outside agriculture actually engage in self-cultivation of their land as secondary occupation. The share of land-share owners actually engaged in agriculture is thus effectively higher than the 14% who report farming as their main occupation.

### 7. Land ownership and leasing

The average household has 1.5 land shares, most of which (1.1) are owned by the respondent (usually the head of household). One land share is “worth” 3.4-3.5 hectares on average, but the average household has 6.2 hectares in ownership, which is more than the area underlying the household’s land shares (**Table 7.1**). The difference of 0.8 hectares between total land owned by the household and the area in land shares apparently represents the household plot that the family has traditionally held irrespective of the distribution of land shares.

Most owners (83%) lease out their shares to others and only 13% report that they cultivate their land themselves (**Figure 7.1**). Leasing in is reported by only 2 respondents and is thus virtually nonexistent in the survey. This suggests that the land shares are leased by agricultural enterprises and peasant farms, not by other individuals (*see below*). Households that lease out land have a larger endowment of privately owned land (6.5 hectares compared with 4.4 hectares in households that do not engage in leasing transactions – see **Table 7.1**; the difference is statistically significant at  $p = 0.01$ ). Yet, they lease out a substantial proportion of their holdings (84%) and as a result are left with only little land for own cultivation: households that lease out land cultivate on average 1 hectare on their own, compared with 3.5 hectares for households that do not engage in leasing transactions (**Table 7.1**). Furthermore, this 3.5 hectares under own cultivation is less than the total area of owned land (4.4 hectares), so households that do not engage in leasing have an uncultivated residual, which may constitute a reserve for future

leasing. Yet leasing out and own cultivation cannot be regarded as complementary activities in the surveyed households: those who lease out have very limited own cultivation, and on the contrary those with substantial own cultivation do not lease out.

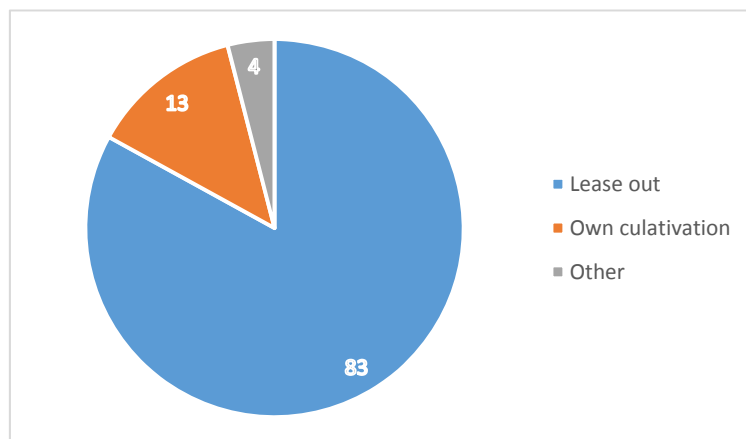
**Table 7.1.** Lease out and no leasing based on q31\_1: lease out N=671, no leasing N=134

	All respondents (N=805)	Lease out (N=671)	No leasing (N=132)
Area in land shares			
Respondent	3.85	4.02	2.86
Entire household	5.36	5.60	3.94
Total owned by household, ha	6.18	6.45*	4.39*
Leased out, ha	-4.56	-5.45	--
Leased in, ha	+0.03	--	--
Cultivated by hh, ha	1.46	0.97^	3.54^

Note: Two respondents who lease in land are included in the first column (N=805) and excluded from the last two columns (N=803). The respondents who lease in land do not report leasing out.

\*Significantly greater (at  $p = 0.01$ ) for respondents who lease out.

^Significantly smaller (at  $p = 0.01$ ) for respondents who lease out.



**Figure 7.1.** Leasing out and own cultivation by landowners (percent of respondents, n=805).

Enterprises and farmers manage areas that are equivalent to tens and even hundreds of individual land shares (recall that the average land share is 3.4-3.5 hectares). Their land is primarily arable (90% for enterprises, 96% for farms), with very little perennials and pastures. Most of their land holdings (95%) constitute leased land (**Table 7.2**), and the land is leased primarily from land-share owners. These are mostly outsiders who are neither workers nor members of the enterprise or the farm: land shares of members and workers have been mostly bought out by the enterprise or the farm and in the survey they constitute a mere 5%-15% of leased land (**Table 7.2**). Since land-share owners lease out most of their land (74% of their total owned land; see above), this firmly indicates that they feed the supply side of the land market, while enterprises and farmers constitute the demand side for leased land.

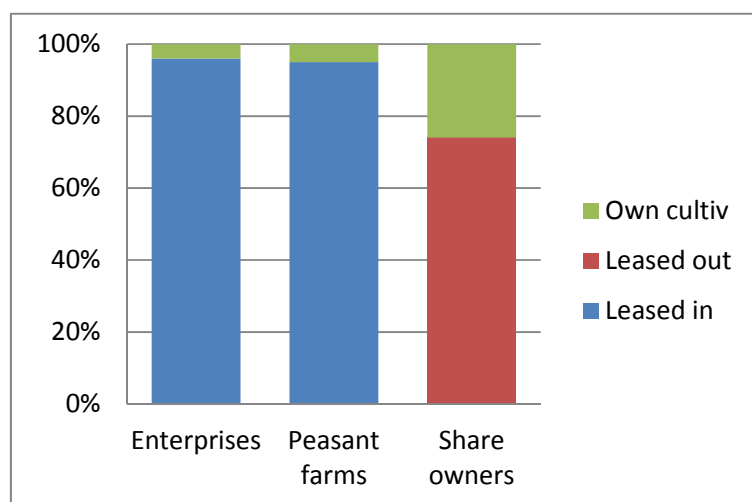


**Table 7.2. Land leasing and land sources for enterprises and farmers**

	Enterprises		Farmers		Land-share owners	
	ha	%	ha	%	ha	%
Total land	1240	100	288	100	6.18	100
Leased out	0		0		4.56	74
Leased in	1195	96	275	95	--	
<i>Sources:</i>						
Land shares -- total	1098	92	250	91	4.56	100
Land shares – workers and members	178	15	16	5	--	
State land	92	8	24	9	--	
Other enterprise	5	0	0	0	--	
Total leased	1195	100	274	100	4.56	100

As we see from **Table 7.2**, land-share owners are the main source of leased land for enterprises and farmers (more than 90% of total leased land). A distant second source is the state, which provides 8% of leased land for enterprises and farmers. Leasing from other enterprises and farmers is virtually nonexistent.

**Figure 7.2** shows the share of leased land in the resources of different types of respondents. For enterprises and peasant farms virtually all the land is leased in; landowners, on the other hand, lease out three-quarters of their land and cultivate themselves only about one-quarter of the land they own. It is clear that the commercial producers – enterprises and peasant farms – constitute the demand side in the existing land market, while rural households are the supply side.



**Figure 7.2.** Share of leasing in land resources of different types of respondents: demand and supply side of the existing land market.

## 8. Profiles of lessors and lessees

Most land-share owners lease out their land and only a small minority cultivate their holdings (see **Figure 7.1**). Yet, as we shall see in **Section 11 (Tables 11.2. 11.3)**, land leasing is disadvantageous in terms of income compared to independent farming. In this section we examine the profiles of respondents who lease out land in comparison with those who farm independently. First, somewhat surprisingly, there are no significant age differences between the two groups of respondents: those who lease out and those who do not lease out are 57 years old on average and pensioners represent about 50% of respondents in either group (**Table 8.1**). Nor are there significant gender differences: about 40% of respondents in either group are males. Yet there is a significant difference in family size: those who lease out have smaller families (2.8 family members compared with 3.4 for families that do not lease out their land; **Table 8.1**). Larger families need larger incomes and thus turn naturally to farming, which as we show in **Section 11** is more remunerative than leasing. Finally, households that do not lease out land are characterized by a higher educational attainment than households that lease out land (56% of respondents with higher education compared with 47% in households that lease out land; the difference is statistically significant). This may suggest that people with higher education are better prepared to assume the higher risks (and higher returns) of independent farming.

**Table 8.1. Demographic profile of households by leasing status**

	Households that lease out land (N=674)	Households that do not lease out land (N=131)
Age of head of household, years	57	57
Proportion of pensioners, %	50	49
Gender		
Male, %	39	44
Female, %	61	56
Family size, persons	2.8*	3.4*
Education		
Secondary, %	53	44
Higher, %	47^	56^

\*Differences statistically significant at  $p = 0.01$  by t-test.

^Differences statistically significant at  $p = 0.10$  by chi-square test.

Although the share of leased area is roughly the same in enterprises and farms (slightly more than 90%; see **Table 7.2**), the percentage of lessees among enterprises is substantially higher than among farms: 90% of enterprises lease land compared with 68% of farms. It may thus be interesting to compare farmers who lease land to those who do not lease, as we have done for land-share owners. The first observation is that land leasing is clearly a market tool for farm enlargement: farms that do not lease cultivate 18 hectares of own land, whereas farms that lease land cultivate a total of 415 hectares (of which just 11 hectares are own land – roughly the same as in farms that do not lease). This finding is observed in many other transition countries, where farms with leased land are typically much larger than farms operating only on own land. There are no age differences between farmers in the two

groups: the average age is 49 for those who lease land and those who do not lease. This finding is similar to what has been observed for land-share owners. Yet contrary to land-share owners, where no significant gender differences were observed in leasing behavior, female farmers are more reluctant to lease land than male farmers (the difference is statistically significant, see **Table 8.2**). Higher education is also conducive to leasing decisions (similarly to what we have observed for landowners). Thus male farmers and farmers with higher education are more willing to assume risks implied by land leasing.

**Table 8.2. Demographic profile of farmers by leasing status**

Level of wellbeing	Farms that lease in land (N=272)	Farms that do not lease in land (N=128)
Percent of farms in the survey	68	32
Total land, ha	415	18
Own land, ha	11	18
Leased land, ha	404	--
Age of head of household, years	49	49
Gender		
Male, %	88 <sup>^</sup>	79 <sup>^</sup>
Female, %	12	21
Education		
Secondary, %	7	16
Higher, %	93 <sup>^</sup>	84 <sup>^</sup>

\*Differences statistically significant at  $p = 0.01$  by t-test.

<sup>^</sup>Differences statistically significant at  $p = 0.05$  by chi-square test.

## 9. Lease payments and terms

Virtually all those who lease out land receive lease payments (95% of lessors). The reported lease payments range from 130 hrvn/ha to 5,000 hrvn/ha, with mean of 770 hrvn/ha and median of 600 hrvn/ha. These estimates are consistent with the lease payments reported nationally: the minimum lease payment is legally fixed at 3% of the normative price of land, which in 2012 reached 20,000-25,000 hrvn per hectare of arable land; the statutory minimum lease payment is thus 600-750 hrvn/ha. The average lease payment reported in 2011 (last year for which statistical data are available) was 610 hrvn/ha.

The most common form of lease payments to landowners is in kind (i.e., products and services). Lease payments in kind are reported by 57% of respondents, generally paid once a year (**Table 9.1**). Payment in cash is a distant second with about 19% of respondents, again generally paid once a year. Mixed payments – both in cash and in kind – are reported by another 19% of respondents. The mixture is fairly evenly distributed between payments in cash and in kind with a slight preference for cash payments: on average 52% of the amount of lease payments is in cash and 48% in kind (the difference is not statistically significant). **Table 9.1** shows the frequencies of the various payment modes as well as the mean lease payment for each mode. There are no significant differences in lease payments made in cash

or in kind (about 730 hryvna/ha), but mixed payments – both in cash and in kind – are significantly higher (900 hryvna/ha).

**Table 9.1. Distribution of lease payments by different modes of payment: landowners**

Mode of payment	Percent of respondents (N=672)	Mean payment (2012)
<b>Cash payments</b>	<b>19</b>	<b>726</b>
Lump sum, once a year	16	709
Installments	3	821
<b>Payments in kind</b>	<b>57</b>	<b>735</b>
Lump sum, once a year	51	740
Installments	6	698
<b>Mixed: cash and in kind</b>	<b>19</b>	<b>918*</b>
Lump sum, once a year	10	801
Installments	9	1,043
No lease payments received so far	5	--
Total lessors	100	770

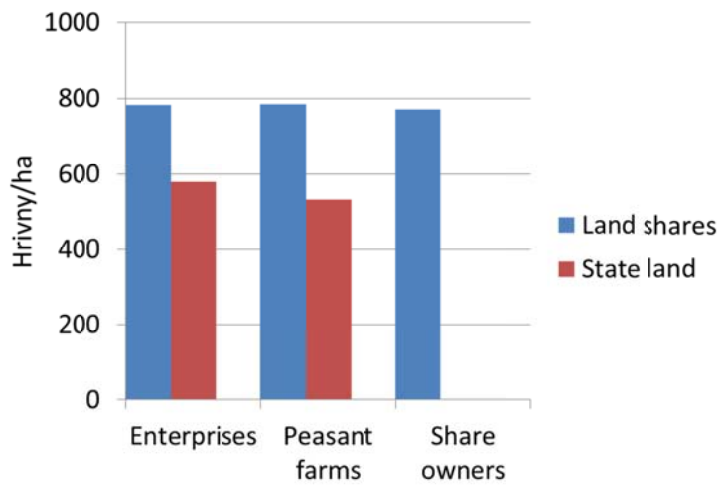
\*Significantly higher (at  $p = 0.01$ ) than other modes of payment by ANOVA and Wilcoxon tests.

The most common form of lease payments reported by lessees involves mixed payments in cash and in kind (**Table 9.2**). Mixed lease payments are reported by about 45% of lessees, generally paid once a year. Payments in kind only or in cash only are reported by about 30% and 25% of lessees, respectively. These findings based on the information provided by the lessees are clearly different from the findings from the survey of land-share owners (the lessors): for land-share owners payments in kind constitute the most common form, while mixed payments are the least frequently reported option (see **Table 9.1**). The frequencies of the various payments modes are presented in **Table 9.2**, which also shows the mean lease payment for each mode. There are no significant differences in lease payments made in cash or in kind (about 730 hryvna/ha), but mixed payments – both in cash and in kind – are significantly higher (about 900 hryvna/ha).

**Table 9.2. Distribution of lease payments by different modes of payment: enterprises and peasant farms**

Mode of payment	Percent of respondents		Mean payment (2012)	
	Enterprises (N=353)	Farms (N=270)	Enterprises	Farms
<b>Cash payments</b>	<b>22</b>	<b>26</b>	<b>679</b>	<b>714</b>
Lump sum, once a year	18	22	708	756
Installments	3	4	557	420
<b>Payments in kind</b>	<b>31</b>	<b>28</b>	<b>744</b>	<b>742</b>
Lump sum, once a year	27	26	743	750
Installments	4	2	752	642
<b>Mixed: cash and in kind</b>	<b>47</b>	<b>42</b>	<b>829*</b>	<b>863*</b>
Lump sum, once a year	28	29	788	796
Installments	19	13	888	1011
Did not pay so far	0	4		
Total lessors	100	100	783	784

\*Significantly higher (at  $p = 0.01$ ) than other modes of payment by ANOVA and Wilcoxon tests.



**Figure 9.1.** Lease payments by lessees (enterprises and peasant farms), lease revenue for land-share owners (hrivny per hectare).

Agricultural enterprises and peasant farms lease more than 90% of their land from share owners, and the majority of these lessors are outsiders who are neither members nor workers of the leasing farm (see **Table 7.2**). The remaining 10% is land leased from the state, and it is here that we observe differences in lease terms and lease payment rates between state-owned land and land leased from land-share owners: state land is leased for a longer term and carries a lower payment rate (**Table 9.3**, **Figure 9.1**). Lease payments reported by farmers and enterprises per hectare of land leased in from land-share owners are consistent with those reported by land-share owners per hectare of leased out land (**Table 9.3**).

**Table 9.3. Lease terms and lease payment rates for land leased from different sources**

Sources of land	Lease term, years		Payment, hrivn/ha		
	Enterprises	Farmers	Enterprises	Farmers	Land-share owners
Land-share owners	10	10	783	784	770
State land	17	21	578	531	--

For lessees – agricultural enterprises and peasant farms – lease payments are one of the components of production costs and their magnitude should be compared to the value of gross agricultural production (as a proxy for production costs). **Table 9.4** summarizes some data on the value of production in agricultural enterprises and peasant farms. The first calculation in **Table 9.4** gives the weighted average value of production in hrivny per hectare (line 3). The weighted average is a direct ratio of the average value of production and the average land area taken over all producers as a single number. This calculation often replaces the mean of case-by-case ratios when the variability of the corresponding components is very high (as in our case). We did carry out case-by-case calculations of the value of production per hectare, but the table shows the median instead of the mean as the more robust estimate (line 4). It is surprising to see that the medians of case-by-case ratios show an excellent order of magnitude agreement with the weighted averages: they range around 3,000 hrivny per hectare. Lease payments of around 700 hrivny per hectare thus represent over 20% of the value of production per hectare – a hefty charge. It should be noted that the means widely deviate from these estimates by

an order of magnitude due to extreme large outliers produced by some very small land areas and some very large production values.

**Table 9.4. Value of production per hectare of land for agricultural enterprises and peasant farms**

	Agricultural enterprises (n=206 nonzero observations)	Peasant farms (n=169 nonzero observations)
Average value of production per producer, '000 hrivny	3,583	738
Average total land per producers, ha	1,006	323
Value of production per ha, hrivny/ha (weighted average)	3,562	2,284
Median of value of production per ha (case-by- case calculations), hrivny/ha	3,133	3,600

Note: Calculations carried out for a subsample of producers with nonzero value of production.

The payment discipline appears to be very good: 89% of lessors (n=671) report having received the lease payments in full. Consistently with this positive result, 84% of lessors report that they do not have any problems in their relations with lessees. The main complaints concern the allegedly low level of lease payments received (12% of lessors) and certain difficulties with timeliness of payments (voiced by just 4% of lessors).

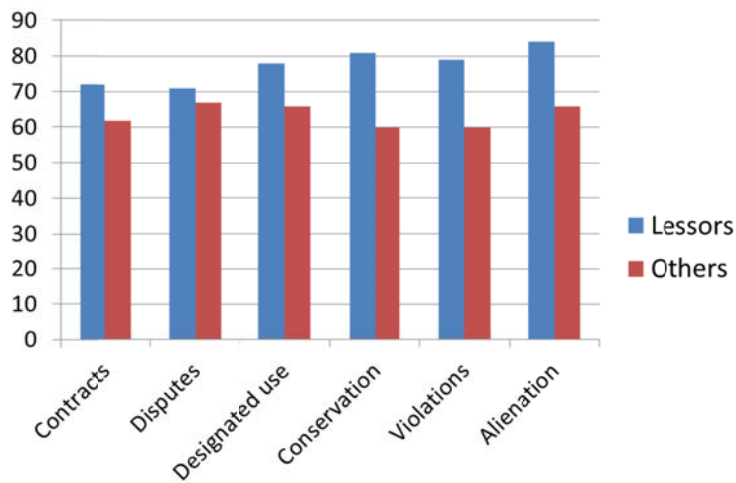
#### 10. Evaluation of difficulties managing land shares

Lessors are not fully satisfied with the way their leased land shares are cultivated by the lessees. Only 52% of lessors state that in their view the leased land shares are utilized efficiently. This, however, does not necessarily mean that the land shares are utilized inefficiently: only 6% of lessors hold this view, while the remaining 42% state that they have no information or are not interested.

All land-share owners (and not only lessors) were asked about their views on various legal and administrative aspects of managing their land shares. The responses are presented in **Table 10.1**, broken down between lessors and all other land-share owners.

**Table 10.1. Evaluation of difficulties related to management of land shares by landowners**

	All respondents (n=805)			Lessors (n=671)			Rest (n=134)		
	Major	Minor	None	Major	Minor	None	Major	Minor	None
Execution of lease contracts	8	22	70	6	22	72	15	23	62
Resolution of disputes with lessees	6	23	70	5	24	71	10	23	67
Designated land use	5	19	76	3	18	78	15	19	66
Land conservation	5	18	77	3	16	81	13	26	60
Responsibility for violation of land legislation	5	19	76	4	16	79	10	30	60
Forced alienation of land plots	4	15	81	3	13	84	10	24	66
Average score	5.5	19.33	75	4	18.17	77.5	12.17	24.17	63.5



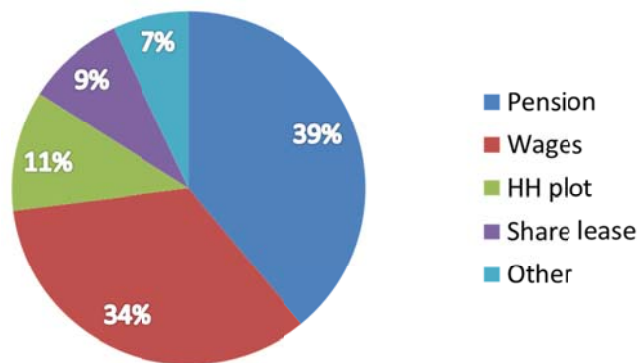
**Figure 10.1.** Percent of respondents among landowners reporting “no problems” across six areas related to management of land shares.

On average, 75% of all respondents reported that they had no difficulties in the six areas listed in **Table 10.1**. Among the remaining 25%, only 5% regarded the difficulties across various areas as major, while 20% classified them as occasional and minor. Lessors in general were less critical of the existing situation than those share owners who did not lease their shares. Even in the two areas that specifically concerned leasing – execution of lease contracts and resolution of disputes with lessees – only 5%-6% of lessors saw major difficulties, compared with 10%-15% among those who do not lease out their shares. **Figure 10.1** clearly visualizes the substantially higher level of “no problems” responses among the lessors. This is an example of a situation where people without actual experience are much more apprehensive about potential difficulties than people who are actually exposed to the relevant factors.

## 11. Family income and wellbeing: landowners' survey

The underlying goal of all rural reforms is to improve the income and wellbeing of the rural population. Land reform in Ukraine, as in all CIS, distributed agricultural land to rural families with the objective of increasing household incomes through increased production and sales and the family level. Reforms aimed at the development of land markets are expected to reinforce these goals. We accordingly start our study with an analysis of family income and wellbeing of individual respondents (land-share owners), highlighting their relation with land holdings and land transactions (mainly land leasing).

It is notoriously difficult to obtain accurate income data in a survey, as respondents treat quantitative income-related question with suspicion. Instead of asking direct questions about the amount of income from different sources, a less threatening question was posed inquiring about the share of different sources (in percent) in total family income. This question produced the average structure of family income shown in **Figure 11.1**.

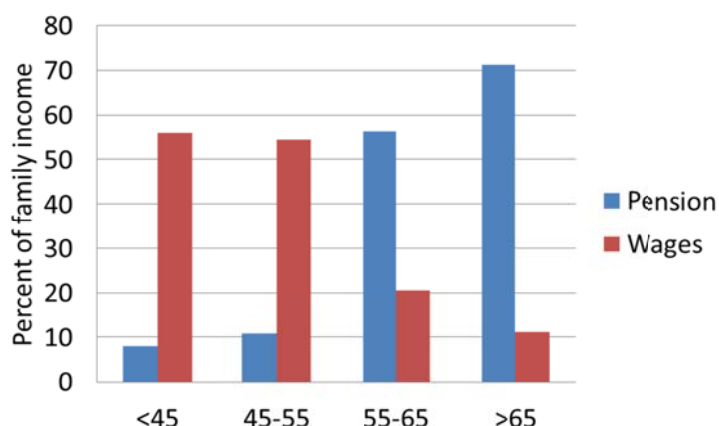


**Figure 11.1.** Structure of family income by sources, in %.

Pensions and wages are the two main sources of family income in the survey, accounting for 73% of the total. Income from the household plot ranks third at 11% and lease income from land shares brings in a substantial 9% of the total (rising to 11% for the subsample of respondents who actually lease out their land). This is direct evidence of the existence of land market transactions in rural Ukraine and the ability of land-share owners to exploit land markets for income generation.

There is a positive correlation between the share of pension income and respondent's age; on the other hand, there is a negative correlation between the share of pension income and respondent's age (the two correlation coefficients are statistically significant). Thus, the older the respondent, the greater is the family's reliance on pension income, while younger respondents rely more on wage income. These relationships are illustrated in **Figure 11.2**, where the share of wage income drops dramatically in families where the head of household is over 55 years of age, while the share of pension income correspondingly increases.





**Figure 11.2.** Structure of family income as a function of age, in %

In the absence of absolute income numbers, the level of wellbeing of land share owners was further explored through a qualitative question asking what needs the family can satisfy from its income. The respondents classified their perceived wellbeing into six categories:

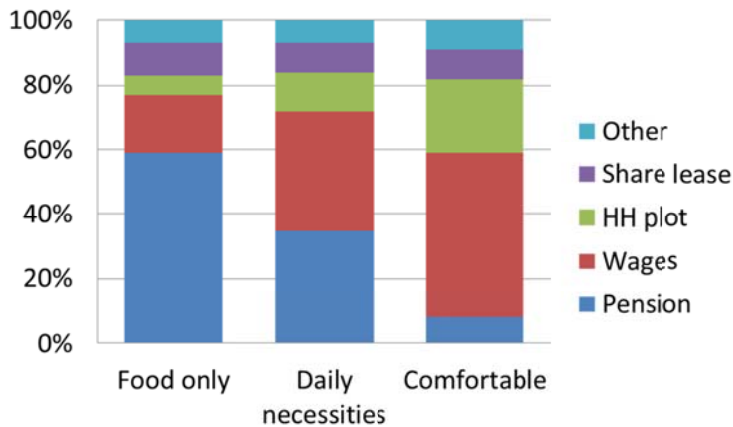
- 1 – family income is hardly sufficient to buy food,
- 2 – family is sufficient only to buy food
- 3 – family income is sufficient to buy and basic necessities
- 4 – family income is sufficient to buy also clothes and footwear
- 5 – the family can also purchase household appliances and durables
- 6 – the family does not experience any financial difficulties.

For purposes of statistical analysis, the six categories were aggregated into three levels: categories 1, 2 were jointly characterized as “food only” (low level of wellbeing), categories 3, 4 were grouped into “daily necessities” (moderate level of wellbeing), and categories 5, 6 were grouped into “comfortable” (high level of wellbeing).

Most respondents (77%) fall in the moderate wellbeing category (able to satisfy their daily necessities; see **Table 11.1**). The share of families reporting their wellbeing as “comfortable” is low (about 4%), while the share of poor families (income sufficient to buy only food) is fairly high at 19%. Clear correlation is observed between the standard of living and the structure of family’s income sources (**Table 11.1**, **Figure 11.3**): the poorer families (“food only”) rely mainly on pension income; families in the “comfortable” category (can afford durables) rely to a much greater extent on wage income and also income from the household plot. Lease income from leasing-out their land shares contributes 9%-10% of total income across all wellbeing categories.

**Table 11.1. Structure of income sources by wellbeing categories (percent of family income, n=805 respondents)**

Wellbeing level	Pension	Wages	HH plot	Share lease	Other	Total	Mean age, years
Food only (19.4%)	59	18	6	10	7	100	63
Daily necessities (77.1%)	35	37	12	9	7	100	56
Comfortable (3.5%)	8	51	23	9	9	100	48



**Figure 11.3.** Income structure by wellbeing categories.

Consistently with the negative correlation between income structure and age shown in **Figure 11.2**, respondents in the low wellbeing category (“food only”) are older (63 years) than respondents in the “moderate” and “comfortable” wellbeing categories (56 and 48 years, respectively; see **Table 11.1**, last column). The age differences across categories are statistically significant by ANOVA and Wilcoxon tests. Thus, as is usual in most studies, older people relying on pension income are generally poorer than younger people with a higher share of wage income.

Payments received from leased land shares account for about 10% of family income (**Figure 11.1**, **Table 11.1**). Does land leasing affect family wellbeing? Households that lease out some of their land report lower perceived wellbeing levels: a smaller percentage of these households fall in the “comfortable” wellbeing category and a higher percentage fall in the “low” wellbeing category than among households that do not lease out any of their land (**Table 11.2**; the differences are statistically significant). Yet land in own cultivation has a significant positive effect on family wellbeing (as does the total amount of privately owned land): families reporting a comfortable level of wellbeing cultivate on average 5 hectares of land, compared with less than 1 hectares for families in the low wellbeing category; similarly households in the comfortable category own on average 10 hectares of land, compared with less than 6 hectares for families in the low wellbeing category (**Table 11.3**; the differences are statistically significant). There are no significant differences in the area of leased out land across wellbeing levels. It thus seems that the income derived from land lease payments does not offset the loss of farming income derived from own cultivation.

**Table 11.2. Households that lease out land report lower levels of wellbeing**

Level of wellbeing	Households that lease out land, % (N=674)	Households that do not engage in leasing transactions, % (N=129)
Food only	20*	17*
Daily necessities	77	76
Comfortable	3*	7*

Note: The classification into two groups in this table is based on the question that asks about the area of land leased by all household members, not just by the respondent (q25).

\*Differences statistically significant at  $p = 0.10$  by chi-square test.

**Table 11.3. Land has a positive effect on family wellbeing**

Level of wellbeing	Total owned land, ha	Independently cultivated land, ha	Leased out land, ha
Food only	5.7*	0.8^	4.9
Daily necessities	6.1	1.4	4.5
Comfortable	10.3*	5.1^	5.1

\*, ^ Differences in land area statistically significant (at  $p = 0.05$ ) between wellbeing levels.

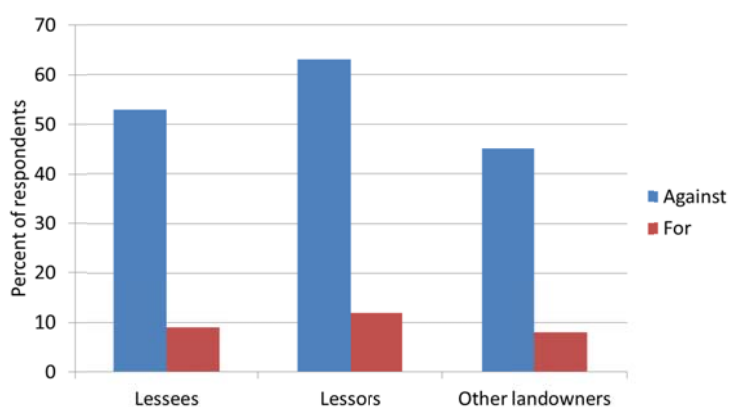
The number of children in a family often provides one of the most important poverty indicators. In our survey, however, the results deviate from this pattern. Taken over all families ( $n=805$ ), including those without any children, the average number of children in poor families falling in the lowest wellbeing category (“food only”) is actually less than in wealthier families falling in the highest wellbeing category (“comfortable”): 0.41 children per family compared with 0.89 (the difference is statistically significant). For the subsample of families with children ( $n=231$ ) the direction is reversed in accordance with prior expectations: 1.68 children on average in low-wellbeing families compared with 1.56 in wealthier families, but the difference is not statistically significant.

## 12. Development of land markets

The prevailing view among the lessees (enterprises and farmers) and the land-share owners is that agricultural land should not be available for buying and selling. This conservative view is held by more than 50% of lessees and by 60% of land-share owners (**Table 12.1**). Among the land-share owners, who are the main source of leased land in Ukraine, the views are strongly polarized between those who actually lease out their land (“lessors” in **Table 12.1**) and those who do not lease out: 63% of lessors are opposed to buying and selling of land, compared with 45% among the rest of the land-share owners. It seems that lessors feel more secure in their property rights as long as there are no full land markets in Ukraine, i.e., as long as buy and sell transactions are prohibited. Another 20%-30% of respondents in different categories are also opposed to buying and selling of land, but less categorically: they are willing to accept buying and selling of agricultural land in some unspecified time in the future, once the proper legal framework for land transactions is in place. Here again land-share owners who do not lease out their land at present are more liberal in their views on the future of buy and sell transactions (**Table 12.1**). **Figure 12.1** visualizes the huge gap between those who support the proposal to allow buying and selling of agricultural land and those who oppose it.

**Table 12.1. Attitude toward the proposal to allow buying and selling of agricultural land**

	Producers/lessees			Land-share owners		
	Enterprises (n=400)	Farmers (n=400)	All producers (n=800)	All owners (n=805)	Lessors (n=671)	Others (n=134)
No buy/sell of agricultural land	51	56	53	60	63	45
Allow buy/sell when proper legislation in place	29	24	27	20	17	34
Free buy/sell of agricultural land	10	9	9	9	12	8
Buy/sell restricted to local residents	6	8	7	10	11	8



**Figure 12.1.** Buying and selling of land: opinions for and against.

Currently 83% of land shares are leased out and 13% are owner-cultivated (**Table 12.2**). Considerable inertia in land use practices is elicited by the question that inquires about the land use after the lifting of the moratorium. Fully 68% of land-share owners intend to continue leasing out their land and 10% plan

to cultivate the land independently (**Table 12.2**). These percentages are lower than current use proportions, because 16% of land-share owners intend to sell or gift their land once the moratorium is lifted. Alienation will mainly affect the land that is currently leased out, so the lifting of the moratorium cannot be expected to have a major impact on expansion of land use through reduction of unused land.

**Table 12.2. How will land use structure change after the lifting of the moratorium**

Status today	Total (n=805)	Planned use when moratorium removed					
		Lease out	Self-cultivate	Sell	Gift	Other*	No response
Leased out	83	67	1	8	3	1	3
Self-cultivated	13	0	8	1	2	0	1
Other uses/ Unused	4	1	1	1	1	0	1
Total	100	68	10	10	6	1	5

\*Other includes, in particular, exchange for another asset and invest in equity capital of agricultural enterprise.

The lessees (enterprises and peasant farms comprising 80% of all 800 respondents in these two groups) are not planning to purchase land on a significant scale once the moratorium is lifted. Fully 44% of lessees state that they have no intention to buy the land shares that they currently lease and another 35% are still uncertain about what they will do. Only 21% of lessees are considering the option to buy the land shares, but a mere 5% have actually offered to buy land shares from the owners and just 1% have reached a preliminary agreement (mostly informal). Less than 2% of lessees have been approached by land-share owners with an offer to buy their share. At the other extreme, less than 1% of enterprises and peasant farms plan to sell part of their land once the moratorium is lifted; about 1% report that they plan to sell the whole enterprise or farm. These findings clearly suggest that the land markets are unlikely to bloom once the moratorium is lifted. Still, there are likely to be some changes in the status quo as 13% of respondents indicate that they plan to encourage land-share owners to invest their land shares in the equity capital of the enterprise or the peasant farm, thus transforming from lessors to shareholders or members. It is doubtful, however, that land-share owners will respond to this offer from enterprise managers: zero respondents indicated that they planned to invest their land shares in the equity capital of an agricultural enterprise once the moratorium is lifted (see the column “other” in **Table 12.2**). They presumably prefer the safety of keeping the land shares under their control.

The survey provides limited information on land prices. This is not surprising, as only 17% of producers intend to buy out their leased land after the moratorium is lifted and only 10% of land-share owners plan to sell their land. Within this small subsample of respondents intending to embark on buying and selling of land, very few give any indication of prices per hectare of land, either offered or asked, and the estimates are therefore highly unreliable (**Table 12.3**). Based on the few responses available, land-share owners indicate that prices around 20,000-25,000 hrivny/ha are acceptable for buying and selling in the future (this figure is close to the normative price reported by land-share owners and recently announced

by the State Land Agency on their web site<sup>4</sup>); heads of agricultural enterprises and peasant farms, on the other hand, are willing to offer substantially lower prices (around 10,000 per hectare) and are of the opinion that land-share owners also expect a lower price (around 12,500 per hectare). Given that the lease payments as estimated from the survey are around 700 hrivny/ha, the estimated land prices of 10,000-20,000 hrivny/ha point to a 15-30 year payback period or capitalization at 3.5%-7% over an infinite horizon. This estimate is higher than the statutory limit that sets lease payments at 3% of normative land price (i.e., 3% of 20,000 hrivny per ha, or 600 hrivny per ha, see above under **Table E**).

**Table 12.3. Land prices: producers and land-share owners**

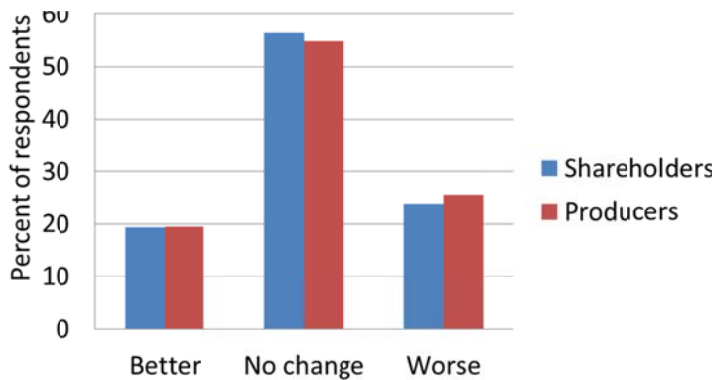
	Number of observations	Mean, hrivny/ha	Median, hrivny/ha	Range, hrivny/ha
Offered by lessees (q56)	12	12,000	10,000	2,000-30,000
Asked by land-share owner (q58)	7	15,930	12,500	4,000-45,000
Normative price (q52 domo)	115	32,060	20,000	2,000-150,000
Selling price (q57)	8	44,075	25,000	7,600-120,000
Buying price (q60)	10	21,750	20,000	10,000-40,000

### **13. Anticipated effects of lifting the moratorium: views of land-share owners and heads of enterprises/farms**

Respondents were asked to assess the expected effect of lifting of the moratorium on a number of operating indicators. The list of specific indicators was of necessity different for land-share owners and for producers (managers of agricultural enterprises and peasant farmers), but overall more respondents expect the lifting of the moratorium to have negative effects than positive in many dimensions (**Table 13.1** for land-share owners and **Table 13.2** for producers; the separate evaluations by managers of agricultural enterprises and peasant farmers were generally very close and are not shown). More than 50% of respondents do not envisage any change as a result of lifting of the moratorium.

The average frequency scores across the various indicators (see bottom line in **Tables 13.1 and 13.2**) are shown in **Figure 13.1**. Although land-share owners and heads of enterprises and farms were asked to evaluate different lists of indicators, it is noteworthy that the overall evaluations of positive and negative effects match for the two groups of respondents. There is little optimism or enthusiasm in anticipation of the eventual lifting of the moratorium. This is of course consistent with the generally negative attitude of all types of respondents toward buying and selling of land (see **Table 12.1** and **Figure 12.1** above).

<sup>4</sup> <http://land.gov.ua/ru/news-ru.html?view=item&id=104697:v-ukraine-pervichnaya-normativnaya-denezhnaya-otsenka-zemel-provedena-v-29528-naselennykh-punktakh&catid=120:top-novyny>



**Figure 13.1.** Respondents' evaluation of the effect of moratorium removal.

The respondents' evaluations were expressed on a scale of 1 (substantially worse) to 5 (substantially better) and the extreme scores (1, 2 and 4, 5) were aggregated into two categories ("worse" and "better") for purposes of presentation in **Tables 13.1 and 13.2**. Score 3 represents the category of "no change".

The first three columns in **Tables 13.1 and 13.2** show the percentage of respondents that registered the corresponding evaluations. The last column in **Tables 13.1 and 13.2** shows the mean score calculated as the average of the original point scores before aggregation (1-5). Upward deviation from the "no change" level (3) indicates that the percentage of "optimists" expecting the moratorium to have a positive effect (scores 4-5) is higher than the number of "pessimists", whereas mean values below 3 imply that the percentage of "pessimists" is higher than the percentage of "optimists". Since the average percentage of respondents for "worse" is higher than the average percentage for "better", the grand mean score is below 3 for both groups of respondents combined: the overall expectation is that the moratorium will produce a generally negative effect.

**Table 13.1. Effects of lifting of the moratorium: Evaluation by land-share owners (percent of respondents)**

	Better (4,5)	No change (3)	Worse (1,2)	Mean score (1-5)
Development of private entrepreneurship in the village	33	48	19	3.10
Income of village residents	26	46	28	2.91
Development of agricultural production in the village	25	48	26	2.95
Socio-economic state of the village	23	49	27	2.89
Employment of village residents	23	49	28	2.88
Village budget	21	57	22	2.93
Overall family income	19	60	21	2.97
Personal income	19	59	22	2.96
Development of agricultural processing in the village	19	55	26	2.89
Infrastructure (water gas, communication, road maintenance, etc.)	19	68	13	3.05
Transport	17	73	9	3.07
State of agricultural land	13	51	36	2.67
State of the environment	9	64	27	2.73
State of water resources	7	62	31	2.67
Average	19.5	56.36	23.93	2.91

**Table 13.2. Effects of lifting the moratorium: Evaluation by heads of agricultural enterprises and peasant farms (percent of respondents)**

	Better (3, 4)	No change (3)	Worse (4,5)	Mean score (1-5)
Access to credit	30	49	22	3.07
Availability of farm inputs and resources	24	56	20	3.03
Profitability of production	23	50	27	2.92
Productivity of labor	23	61	15	3.07
Workers' wages	23	59	18	3.03
Village budget	22	56	22	2.97
Production volumes	21	51	28	2.88
Cost of production	21	50	29	2.86
Transport	20	67	13	3.05
Number of jobs	19	56	25	2.89
Infrastructure	19	63	18	3.00
State of agricultural land	11	45	44	2.56
State of water resources	9	51	40	2.54
State of the environment	9	55	36	2.64
Average	19.57	54.93	25.5	2.89

Peasant farmers are generally more pessimistic than enterprise managers in their evaluation of the outcomes of lifting the moratorium. The grand mean score for peasant farms over the 14 factors is 2.84, compared with 2.95 for enterprise managers (**Table 13.3**). Peasant farms are thus on the whole closer to evaluating the effects as “worse” (score 1-2), while enterprise managers are closer to a “no change” evaluation (score 3). The differences in mean scores between peasant farms and enterprise managers are significant for 7 of the 14 factors evaluated. Peasant farms are consistently pessimistic concerning all three environmental factors: agricultural land, water resources, and the state of the environment.

**Table 13.3. Separate evaluations of the 14 effects by enterprise managers and peasant farmers (mean scores on a scale of 1 to 5)**

	Mean score (n=800)	Enterprise managers (n=400)	Peasant farmers (n=400)	Signif.
Production volumes	2.88	2.94	2.82	*
Profitability of production	2.92	3.00	2.84	*
Availability of farm inputs and resources	3.03	3.06	3.00	
Productivity of labor	3.07	3.15	3.00	*
Workers' wages	3.03	3.10	2.97	*
Number of jobs	2.89	2.93	2.84	
Cost of production	2.86	2.88	2.84	
Access to credit	3.07	3.09	3.05	
Transport	3.05	3.07	3.03	
Infrastructure	3.00	3.02	2.98	
Village budget	2.97	3.00	2.95	
State of the environment	2.64	2.71	2.57	*
State of agricultural land	2.56	2.65	2.47	*
State of water resources	2.54	2.64	2.45	*
<b>Grand mean</b>	<b>2.89</b>	<b>2.95</b>	<b>2.84</b>	

\*Difference between enterprises and peasant farms statistically significant.



Agricultural producers – heads of enterprises and peasant farms – were asked their opinion about possible advantages and dangers of lifting the moratorium on land sales. The main advantages of the new situation when buying and selling of land is allowed are perceived as the ability to use land in the form of collateral for credit and the option to buy land – either buy out currently leased land or buy new land for farming (**Table 13.4**). Other options enjoy a substantially lower response rate and it is noteworthy that fully one-third of respondents – heads of enterprises and peasant farms – do not know what the advantages the lifting of the moratorium may bring.

**Table 13.4. Advantages of lifting the moratorium (percent of respondents giving “yes” answers)**

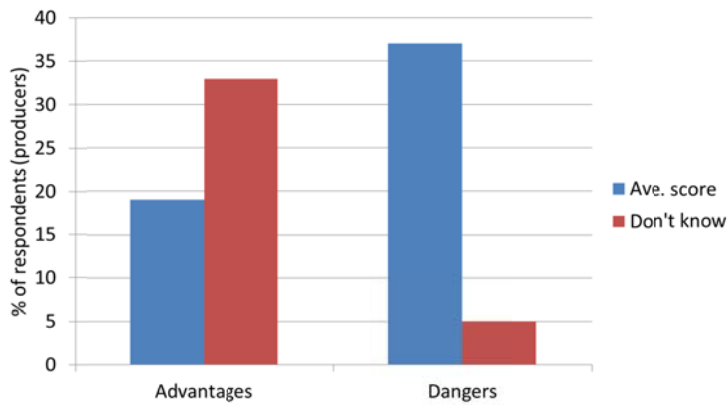
	All producers (n=800)	Enterprise managers (n=400)	Peasant farmers (n=400)
Using land as collateral	31	30	31
Buying out part of leased land	27	31	23
Buy additional plots for farming	25	23	27
Attract new shareholders through investment of land plots in equity capital	18	19	16
Invest own share in equity capital	14	15	13
Buy plots for investment as protection against inflation	9	10	7
Buy plots as assets for later resale	6	5	6
Other	0	0	0
Don't know	33	30	36

**Table 13.5. Dangers of lifting the moratorium (percent of respondents giving “yes” answers)**

	All producers (n=800)	Enterprise managers (n=400)	Peasant farmers (n=400)
Outside investors (agroholdings) and more profitable producers may buy large areas of land leaving our enterprise without options to grow	50	46	54
Speculators will buy large areas of land leaving our enterprise without options to grow	48	48	48
May lose part of currently leased land	46	53	38
Higher probability of capture by raiders	30	27	32
Substantial increase in production costs due to inclusion of cost of land acquisition	21	22	19
Deterioration of environment and soil quality as new producers maximize short-term profit while ignoring long-term effects	24	24	25
Other	1	1	1
Don't know	5	5	5

On the other hand, the main dangers of lifting the moratorium are perceived as the possibility that outside investors (agroholdings), more profitable enterprises, or speculators will buy large areas of land and the average enterprise will be left without any options to acquire land and grow (**Table 13.5**). There is also concern that the elimination of the moratorium will spur lessors to sell their land and thus

deprive the enterprise of its resources of currently leased land. The proportion of “don’t know” responses is much lower in the dangers category than in the advantages category. It seems that most people have a firm opinion of the dangers of the new situation and are much less clear about the potential advantages.



**Figure 13.2.** Balance of opinions regarding advantages and dangers of allowing buy-and-sell transactions (heads of enterprises and peasant farms)

**Figure 13.2** summarizes the results of **Tables 13.4 and 13.5** in the form of a single indicator calculated as the average score of the various responses in the first column of each table (blue bars). The score for “don’t know” is excluded from the calculation of the average and is presented separately (red bars). It is noteworthy that by this overall measure the dangers of the new situation outweigh the advantages by a considerable margin.

### C. Conclusion

During the last 20 years rural families have received land in private ownership, first in the form of land shares and then as physical plots. However, only a small percentage of the beneficiaries actually cultivate their land and contribute to food production: most simply turn around and lease their land, mainly to agricultural enterprises and peasant farms. This may be predetermined by the demographic profile of the rural population, where 50% are pensioners and pensions contribute 40% of family income. All lessors receive lease payments for their land from the lessees, and this constitutes around 10% of family income. The main active occupation among the rural landowners is wage employment – either in agriculture or in other industries.

There is no obvious willingness to engage in buying and selling of land, either among the landowners or among the producers. Landowners prefer to lease their land, while heads of enterprises and peasant farmers regard buying and selling of land with suspicion. Land leasing operations are widespread and given the reserved attitude to buying and selling of land among all stakeholders, it seems that in the foreseeable future land market transactions will continue to be based on lease contracts. The attitude to buying and selling of land may change radically once people begin to witness successful and simple transactions in the market. For such positive experiences to be possible, the government should strive to simplify the registration procedures and ensure that the system functions in a “civilized” manner,

without corruption and intimidation that are rampant today. To encourage confidence building among landowners and land users, the government should abandon its intentions to introduce pre-emptive rights for the state to buying agricultural land/