

Ukrainian agro-barons: the offspring of a poor business environment

Ukraine is gradually restoring its status as the “breadbasket of Europe”. The export value of agricultural goods has topped the export value of metals. Although ordinary farmers do not reap benefits, recently materialized agro-barons do.

They expand and expand and expand. The appetites of giant Ukrainian agroholdings have no limits. The biggest one – UkrLandFarming – manages over 670 thousand hectares of arable land in 23 (of 25) administrative regions of Ukraine. As a result, just one, out of a couple of dozen of Ukrainian agricultural giants, controls land equal to half the farmland in Belgium. Following heavy industry and energy, the agricultural sector has also become the territory of oligarchs. The owner of the agricultural holding Kernel, ex-Parliament member Andrey Verevskiy, recently joined the billionaires club. He was one of the first agro-barons. According to the Forbes rating, fifteen out of 100 of the wealthiest people in Ukraine have stakes in agribusiness.

Does being larger means being more efficient?

Due to access to low interest loans, agroholdings are better equipped with modern machinery compared to mid- or small sized farms. In addition, the diversified geographical location of holdings causes lower weather risks. “Nonetheless, the continuous expansion of agroholdings has not made them the most efficient yet”, says the German researcher Simon Walther. As a team member of the international scientific network *agri benchmark*, he has been examining the efficiency indicators of large agricultural operators and the best performing individual farmers of Ukraine. “The efficiency of agroholdings on average is lower. Management of agricultural giants is complicated; the decision making and implementation processes are extensive, due to complex hierarchy. Besides the centralized management results in additional expenses for personnel”, Simon Walther points out, based on the results of farms analyzed.

In the current situation, German experts forecast the further expansion of Ukrainian agroholdings. Ukraine has no working land market. At the same time, rent rates are several times lower than in Western Europe. These reasons result in the expansion of the most successful holdings through merging individual farms and less successful smaller holdings. Meanwhile the economically rational scale of business has gone far beyond.

Farmers are out of the game

More than 40 thousand small and medium sized farms may only dream of large profits. “The majority of farmers fight for survival, having no state support”, the president of the Association

of farmers and land owners Mykola Myrkevych complains. Farmers would like to change the market rules: "Occupation by oligarchs can be stopped only by means of the introduction of a differentiated taxation system and state support. The bigger the agricultural producer, the smaller state support should be and higher taxes should be imposed. And vice versa: smaller farms should get significant support. This would establish fair opportunities for all agricultural producers", Mr. Myrkevych comments for Germany's international broadcaster "Deutsche Welle"(DW).

The experts who had been interviewed by DW have acknowledged unequal business opportunities for agricultural operators of different sizes. Indeed large agroholdings have access to comparatively cheap loans on international financial markets, while small farmers have to borrow from local banks at around a 20% interest rate. "National Government and the Parliament should provide equal opportunities for all kinds of producers, regardless of their size. The smaller producers without access to affordable capital, have worse chances for development and access to investment programs", the Senior Agribusiness Operations Officer of the International Finance Corporation Heinz-Wilhelm Strubenhoff states.

A better business climate instead of subsidies

"Additional pitfalls for Ukrainian farmers, in contrast to agrobarrons, are the bureaucratic obstacles- as state services are heavily corrupted and sluggish," points out Mr. Strubenhoff. "If Government is intended to support agricultural producers, it should lessen bureaucratic pressure and cut the number of permits", emphasizes Heinz-Wilhelm Strubenhoff. He states that in some cases, farmers have to wait up to three years to obtain all necessary documents and permits to start construction of a silo.

Mister Strubenhoff believes that Ukrainian farmers may manage without direct state support due to the relatively low cost of production of agricultural goods. The key factor of success in this case, is access to low-interest credit. "The recent monetary policy of the Government and the National Bank of Ukraine resulted in a shortage of liquidity in the banking sector. Commercial banks need resources denominated in the national currency to enable wider lending to businesses, including smaller farms", the German expert emphasizes. In his opinion, the Government should improve the entire business climate and facilitate the inflow of investments into the basic economy. This would stimulate healthy functioning of the agricultural market. Ukraine's joining the Free Trade Agreement with the European Union could have the essential, positive impact for the sector's development.