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THE MARKET OF AGRICULTURAL LAND IN UKRAINE: STAGES OF FORMATION AND ECOLOGICALLY SAFE FUNCTION

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Abstract: The article presents the main results of investigation of the land market and its problems in Ukraine. Three stages of agricultural land market are singled out and described. The necessity of a moratorium on the sale of agricultural land is present in Ukraine. Basic arguments are considered in relation to organization of land market on the basis of lease. The authors emphasize the necessity of introducing the market mechanism in agricultural production and the ecological aspects of the land market development. The main reasons are analyzed which determine the intensification of state regulation of the agricultural land market. The necessity of using experience of the western countries in Ukraine has also been substantiated, as well as a series of laws that should be approved, taking into account ecologically safe land use.

Key words: agricultural land market, land lease, ecologically safe land use, state regulation.

Introduction

The formation of civilized market of agricultural land and the creation of stratum of its owners is one of the urgent problems in reforming economical relationships connected with the land use. Food security of the state, the efficiency of agriculture and ecological compatibility land use depend on the successful functioning of agricultural land market. Land resources and the effectiveness of their use determine the efficiency of agricultural enterprises and the agricultural sector as a whole. The evolutionary process of development and establishment of the land market depends on the regulatory impact of the state. The state regulation of land market formation process contributes to the revival of ecologically safe land use, ensuring high efficiency of agricultural production.

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Research field and main questions

Wide range of issues on land market were studied by many Ukrainian scientists (Bulatova, 1998; Tretiak, 2002; Yermakov & Kravchenko, 2007; Kozhushko & Velesik, 2009; Shebanina, 2009; Yurchenko, 2009; Martyn, 2011; Krasovsky & Tolchevska, 2014). Along with this, many foreign scientists also dealt with problems of the land market development (Lipsky, 2003; Korolyuk, 2011; Tomashitskaya, 2015).

However, theoretical approaches to this problem are very diverse, sometimes diametrically opposed. This indicates a particularly difficult problem. However, issues on state regulation of the land market, the introduction and development of various forms of the land market transactions remain relevant and require further study. The aims of our study are to investigate the current state of forming agricultural land market, to justify its development prospects in the context of strengthening environmental land use as important resources in the agricultural sector.

Research results

Sound and regulated by the state agricultural land market is part of a general system of market relations. Land market formation in Ukraine aimed for more efficient agricultural land use by redistributing land to more efficient landowners. Land is an important economic resource; its use determines the level of economic growth, quality of life and health of the nation. It is a very high proportion of land resources to ensure economic development in Ukraine. In particular, the proportion of land is 40–44%, fixed and working capital — 20–21%, workforce — 38–39% (Shebanina, 2009). Major economic resource in agriculture land is characterized by the following features:

- the land is not possible to create artificially, it is limited in space, the proposal land is fixed;
- agricultural land is a strategic resource for food security and food independence of every society, in terms of total globalization it becomes particularly important because agriculture products are unique and with no replacement;
- agricultural land provides employment for farmers, protect the country from negative effects of urban processes;
- functional role of agricultural land for each society is growing due to increased world population and growing problem of food self-sufficiency (Paskhaver, 2010).

Land is the most valuable natural resource of Ukraine. It has a third of the world reserves of black earth (World Bank, 2014) and the largest quantity of land per person among European countries. High potential of national land and efficient and rational use allows Ukraine to produce food for 140-180 million of people (Yurchenko, 2009). High proportion of arable land in agricultural land is among the highest in the world. The average percentage of cultivated land in Ukraine is currently 53.8%. In some regions of Ukraine, the average of cultivated land is more than 80% (Krasovsky & Tolchevska, 2014). For comparison, in the US this figure is 27%, in France 42%, in Germany 33% (Plaksa & Venizhenko, 2012).

The land market is a special commodity market of economic sector where economic relationships on the sale, mortgage, lease and exchange of land are realized, as well as the effective implementation of economic activity and use of this economic resource in terms of environmental well-being. The land market performs three tasks, firstly, it implements the principle of efficient use of land; secondly, it forms a special value related to land, contributes to the improvement of land and its fertility; thirdly, it provides increased access of peasants to land, especially those who can effectively manage, produce necessary products for the agricultural markets. The essence of the agricultural land market manifests itself through the functions that it performs. In our opinion the land market has the following functions: to provides information about the status of land, prices of land, the demand for land and its proposal; to provides redistribution of land between corporations and individuals; to forms the land prices due to specific market conditions; to establishes direct contacts between the subjects of the land market; and to creates competitive conditions on the land market.

The practice of Western countries confirms that there are no free and unrestricted right of private ownership on land and uncontrolled operations of buying and selling land. Establishment and functioning of a civilized market of agricultural land is now in need of strengthening state regulation of the land. State regulation of land market in the national economy provides an output not only from the agrarian crisis, but from the economic crisis in general. According to the international experience, each percent of products produced in the agricultural sector, after all stages of processing, increases in GDP by 3–4 times, encourages the development of all related industries (Bulatova, 1998).

The process of a civilized land market formation is very complex, gradual and lengthy in time. The evolutionary path of development land market implies several stages. In our view, three stages can be distinguished in the formation of agricultural land market in Ukraine. The first stage began in 1992; it is associated with the process of land privatization and the transfer of the

ownership to collective farms. The second phase began in 1997 due to the formation of land private property based on restoration of land to private ownership and receiving a land certificates. The third stage starts from 2000 and is characterized by the development of lease relations, preparation for mortgage lending, the formation of an effective regulatory framework and strengthening the state's role in the land market. The world experience of state regulation of land relations includes the following main areas: ensuring the proper use of land; limiting the size of agricultural land that is owned by a separate entity; preferential right of the state and local governments with the purchase of land; restriction of rights for the purchase of agricultural land by foreign citizens, which can only lease land.

In Eastern Europe, the state also restricts the private ownership of land. In Bulgaria family may own not more than 30 ha and in areas of intensive agriculture not more than 20 ha. In Bulgaria, there was a 10-year moratorium on the purchase of land from the state and collective land fund (Tretiak, 2002). The maximum size of the family land ownership is 100 ha in Romania and 300 ha in Hungary per person (Balyan, 2001). In Hungary, the landowner must have agricultural education. In Germany, a buyer of land must have experience in agricultural production — he has the right to buy land he rented at least 10 years (Lipsky, 2003).

In Ukraine, the process of formation of a civilized market of agricultural land continues. At the present stage, agricultural land cannot be bought nor sold, there is a moratorium on sale of agricultural land. In our view, today the problem is not in the continuation or lifting of the moratorium — there is a need for an integrated approach to the problem of efficient production in the agricultural sector of the national economy. We are convinced that an integrated approach involves, firstly, the formation of a civilized mechanism of state regulation of agricultural land, and secondly, the formation of market economy mechanism in agriculture and its support at the level of state policy. The experience of developed Western countries and the mechanism of management in agriculture, which is the basis of state policy regulating this industry involve, firstly, the state order in agricultural production, secondly, the regulation of state purchasing prices, thirdly, the system of subsidies in agriculture from the state budget and the availability of affordable long-term loans, fourthly, the state program of production of equipment and other capital goods for the agricultural sector and government investment in this program (Martyn & Moscwa, 2011). We do not agree with the point of view: moratorium on land sale will soon be repealed in Ukraine and agricultural land market will start functioning (Kozhushko & Velesik, 2009). Today the market is realized through the land lease, which is a

type of market land transactions. Rent of land is the main form of market land transactions in Western countries. For example, in Belgium about 70% of the land is leased, in France and Germany — more than 60% and the average for the EU leased land makes 40% of all agricultural land (Yermakov, & Kravchenko, 2007). In Ukraine, about 90% of agricultural land is subject to lease (Yermakov & Kravchenko, 2007). However, the practice of leasing relations in Ukraine requires improvement.

In Western Europe, almost 90% of lease contracts are concluded for more than 5 years, and most of them — 10–15 years (Shulga, 2012). In Ukraine, short term rental dominates. Short-term lease does not meet the interests of tenants and does not provide conditions for rational use and protection of soils, the tenants do not carry out investments to improve soil fertility. Practice confirms that many Ukrainian farmers do not adhere to the scientific system of crop rotation; there is a glut of technical crops, insufficient use of herbicides, organic and mineral fertilizers. This causes overdevelopment exhaustion of the soil, decrease in land fertility. Moreover, the issues of irrigation of fields, application of complex reconstruction and modernization of irrigation systems, application of progressive cropping systems and the use of water for irrigation still remain unsolved.

Ukrainian economists believe that under current conditions buying–selling of agricultural land is premature. We support this point of view, because, in Ukraine, firstly, there is no effective demand for land, secondly, there is a possibility for transformation of land to the object of black market, thirdly, the development of agricultural production requires large investments, but the buying–selling of land have diverted funds from branch, fourthly, it is necessary to adopt a number of laws regulating the land market. In our view, compelling arguments for continuing the moratorium on sale of agricultural land are the following provisions (Martyn & Moscwa, 2011):

1. Lack of scientifically based methodology for assessing the value of land. Cancellation of the moratorium means that farmers will sell their land cheaply, they will not receive adequate revenues from land sale.
2. Cancellation of the moratorium will lead to buying land at low prices by wealthy people who tend not to use it for agriculture. Ukrainian development model creates favorable conditions for land concentration by financial groups.
3. The absence of land market infrastructure. The land market infrastructure can be improved with development of land banks, agricultural insurance companies,

land exchanges, consulting firms, marketing organizations, registration of land and rights to them and also the specialized state institution that will act as market regulator and manager of state-owned agricultural land. These specialized institutions in the market of agricultural land in Europe are *Bodenverwertungs- und-verwaltungs GmbH (DVVG)* in Germany, *Societe d'amenagement foncier et l'etablissement rural (SAFER)* in France, *Magyar Nemzeti Vagyonkezele Zrt.* in Hungary and *Agencja Nieruchomosci Rolnych* in Poland (Martyn, 2011).

4. In the current situation in Ukraine, the introduction of buying–selling of agricultural land and mortgage lending may lead to a situation where banks will become owners of large tracts of land. It is possible that agricultural land can be turned into non-agricultural land.

5. The State must necessarily regulate the access of foreign companies and individuals on the land market in Ukraine. In domestic legislation, such rules are not provided. Banning the sale of land to foreigners, in our view, is a guarantee of national security.

6. The complete inventory of land is not yet established in Ukraine.

7. In our view, the market mechanism of managing the agrarian sector of the national economy should be introduced in the first place.

8. For ensuring effective functioning of land market in Ukraine it is important to adopt the laws such as the Law on the agricultural land market, the Law on the land mortgage, the Law on the state (mortgage) bank, which must foresee the mechanism of higher responsibility for the agricultural land usage and provide a system of economic stimulation of land efficiency.

The Parliament of Ukraine adopted only the first reading of the Law on the land market, which provides the following: Limit for foreign citizens on the sale of agricultural land (foreigners are allowed to buy non-agricultural land); Quantitative restrictions on leased land in the territory of district and region; Limit the purchase of land by a person (100 ha); Establishment of the State Land Bank; and The exclusive right of the state to purchase land.

However, the law should provide agricultural education to land buyers and tenants. Due to the adopted laws, it is necessary to develop the programs of land fertility safety, which must provide, firstly, an immunity of degraded and underproductive land, secondly, decrease of destruction of Land Fund, and thirdly, a system of economic stimulation of the effective usage and efficient land protection. This will facilitate the sustainable use and protection of

productive land, efficient land preservation and fertility increase. Laws should provide a number of restrictions on land use — they obligate the land user to meet certain requirements: to cultivate agricultural land and not to let it lie idle, to use agricultural land for agricultural purposes only and to maintain the land fertility. State should establish special fiscal regimes for agricultural land sales on derivative market and prohibit conversion of agricultural land to urban land. State should provide monitoring on land exhaustion, soil depletion, land development and land reclamation. In our view, today is important not freely dispose of land, and ensure effective and ecologically safe land use.

Conclusion

Formation of a civilized land market is very complicated and lengthy process that requires a strict state regulation, development of several regulatory and legislative acts. Further development of the agricultural land market should be based on the criteria for optimization of land use, protection and conservation of land, ecological safety of the environment, the sustainable development of the national economy and the raising of living standards.

The solution of the existing problems in the agricultural land market is only possible with increased state regulation. With this purpose, the state must implement a set of measures, it is necessary to reduce the proportion of arable land and to implement economic-ecological land use mechanism. It is also necessary to develop regional programs to improve soil fertility and to provide control over their implementation.

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