

Social impact of large scale agro- investments in the FSU: Lessons from Ukraine's experience

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Ukraine: country background

- Ukraine is a former Soviet Union country in Eastern Europe that gained independence in 1991
- The country has a territory of 603 700 sq. km and population of 46 mn, of which 14.5 mn in rural area
- Ukraine is middle-income country with per capita income of USD 3 920 in 2008
- Agriculture makes up 7% and 8% of employment and GDP respectively

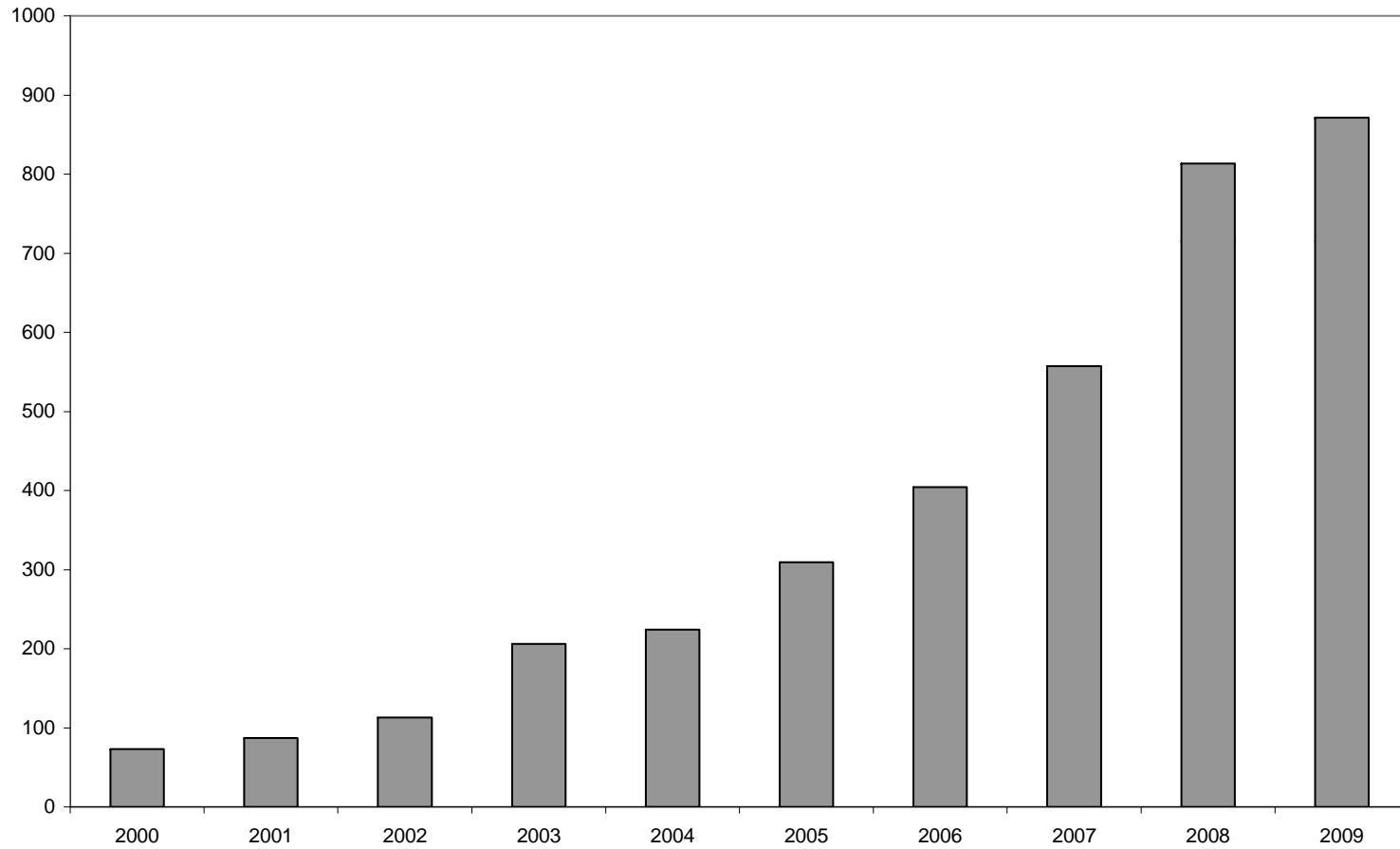
Summary

- The social impact of investments on local communities, specifically the elderly, is positive
- Yet, positive outcomes are often marginal for land owners because of their small bargaining power and poor institutional environment
- Proceeding with the land reform is not enough: fiscal decentralization, administrative reform are equally important

Methodology

- Interviews took place in three regions
- Three types of investors were studied:
 - foreign company
 - local, family owned firm
 - foreign non-strategic investor
- Companies focus on crops and one of them owns pig farms
- Leased land area: 10 000–300 000 ha

FDI in Ukraine's agriculture, mn USD



Investments in Ukraine's agriculture increased dramatically

- Investments were driven by:
 - progress in land reform in 2000
 - resumed economic growth
 - WTO membership, Orange revolution
 - global trends
- Investors lease land since it cannot be sold (and owned by foreigners)
- Large investors are a very diverse group, usually leasing 5–300 thou ha of land for 5–25 year terms

Land owners in Ukraine

- Land owners in Ukraine are rural households, owning relatively small parcels of land (4 hectares of land)
- Land is often not cultivated: large Soviet farms collapsed while peasant farms are small and have limited capital inputs
- Working-age people massively migrate to towns and abroad

Social impact is positive

- Investment projects positively impact local communities through the following channels:
 - Lease payments
 - Cultivation of land
 - Social policy
 - High-paid jobs (accompanied with labor shedding)
- Large agribusinesses have high yields and create positive externalities for the food sector as well

Pensioners are the largest and greatest beneficiary

- Pensioners are the majority among those who own and lease land in Ukraine (up to 50%)
- The elderly benefit from investment projects since they:
 - have one of the lowest incomes
 - cannot cultivate land themselves
 - rely on business-supported social infrastructure (health care, local utilities)
- Another socially vulnerable group: families with a single head

Positive outcomes are marginal

- Social contribution of investors in household incomes tends to be marginal:
 - Low competition for land
 - Investment environment is risky
 - Small bargaining power of land owners
 - Inadequate negotiation procedures and contracts

Structure of pensioners' resources in rural area in 2008, %

Pensions	61.0
Value of consumed products obtained from own farming	12.4
Income from selling agricultural products	8.7
Use of savings and loans	3.9
Value of non-cash privileges	3.3
Monetary assistance from relatives and acquaintances	2.8
Labor compensation	2.4
Income from leasing out a land plot	2.3
Other kinds of social assistance	0.9
Other incomes	2.2

Source: State Statistics Committee

Conflicts are costly for all

- Research findings imply that conflicts may arise over:
 - Improper use of land
 - Inadequate lease terms
 - Negative externalities (environmental pollution and damage of roads)
- Both investors and land owners incur costs since mechanisms of conflict resolution are not effective

Strategies for local communities

- Insist on concluding the investment memorandum in addition to the contract
- Establish effective communication flows with an investor from the very start
- Seek contacts with the relevant NGOs and media in the area

Strategies for investors

- Address prevailing expectations from the Soviet past
- Formalize the company's social policy: know the needs of the community and control policy implementation
- Communicate about company activities regularly and in a timely manner
- When possible, pay taxes locally and assist local farmers

Strategies for authorities and donors

For authorities

- Promote alternative employment opportunities
- Develop rural infrastructure. To do it, fiscal decentralization and administrative reform are needed

For donors

- Aside from the land reform, target transformation in areas that are important for the rural development
- Reconsider approaches in supporting NGOs as many of them have proven to be not sustainable