

Ukraine Agriculture Stuck In Time Warp As Reforms Stall

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SHIBENE, Ukraine -(Dow Jones)- Despite the legendary fecundity of Ukraine's land, the country could soon be a net importer of food.

Eight years after the country gained its independence from the Soviet Union, few of its farms are privately owned, while those that are must struggle against price controls, taxes, and a lack of capital.

The problems that beset Ukrainian agriculture are clear in this farm village located in the Bordyanka region just outside the Ukrainian capital of Kiev.

It's just after lunch and the village is eerily silent. Although the grain harvest is over, vegetables are still growing, and one might expect Shibene to be a hive of activity. But the only movement to be found is on the village's outskirts, where several women and one barefoot man are picking potatoes in the privately-owned fields of Sasha Baglai and his son Yuri.

The Baglais farm 28 hectares of vegetables and wheat, and have been successful enough to enable Yuri to build a new, four-bedroom house for his family. Like other private farmers, however, the Baglais face shortages of capital that make it difficult to expand their operation.

"We need more investment," Yuri Baglai said. "It's difficult to grow without it."

Little Change Seen After Elections

Critics pull no punches in describing the agricultural reform efforts of both foreign consultants and the government as a failure. Powerful regional governments limit the autonomy of collective farms, blocking even minor attempts at reforms. Agricultural bureaucrats impose price controls and duties on exports that cut into the margins of even moderately profitable private farms.

In just one recent example, parliament last month approved a 23% export duty on sunflower seeds. The duty is likely to help the country's seed crushers, analysts said, but government officials insist the measure will protect farmers who, they said, were selling their crops at well below market prices. The International Monetary Fund suspended its loan program to Ukraine following the adoption of the tariff.

Few expect the situation to change in the wake of the Oct. 31 presidential elections.

"Agriculture in Ukraine is a national con game," a western agricultural consultant said. "We don't see any true short-term solutions."

Although multilateral lenders insist the country has made limited progress, they concede that the vast majority of Ukraine's farm sector remains virtually unchanged as production continues to fall.

Most agricultural land remains within the country's former state farms, the structure of which has changed little since the brutal period of collectivization in the early 1930s. Initial reforms, including a 1993 law on restructuring collective agricultural enterprises, sought to wean the farms from central planning targets and break them into more efficient units.

Technical assistance from western donors, such as the U.S. Agency for International Development's Agricultural Land Share Project, was designed to help the collectives allocate and register parcels of land to their members, with most workers receiving around three to four hectares for their own use.

But the transition has been much slower than expected.

Collectives Lack Autonomy

Many farms have yet to begin the process of allocating land, analysts said, and in those farms where it's been completed, most workers remain reluctant to claim their stake of land, let alone leave the collective and strike out on their own.

As a result, today only around 20% of all agricultural land in Ukraine is privately farmed, and no more than 3.1% is composed of non-subsistence farming.

Collectives were encouraged to elect their own directors. But analysts say that although these managers are theoretically independent, they remain subject to the whims of regional officials, including the all powerful governors, who can remove managers at will.

"Reforms were formalities; they changed nothing," said Sergei Feofilov, director of Ukragro Consult, a Kiev-based independent analysis firm.

An estimated 75% to 90% of farms are insolvent, but the government doesn't try to bankrupt collectives because of the political and social consequences, he added. The youngest residents continue to flee to cities where job opportunities are comparably more lucrative, leaving the collectives as little more than "rural geriatric clinics," analysts said.

"It's also a cultural problem. You exit from the farm, and no longer are a member of the community," said World Bank economist Aleksander Kaliberda.

The country's politicians aren't interested in speeding up the process in the immediate future. Ukraine's left-leaning parliament remains firmly opposed to private ownership of agricultural land, an obstacle that could become even more entrenched if one of several leading left-wing candidates replaces incumbent President Leonid Kuchma. And even if Kuchma succeeds in winning another term, analysts see little chance of a land privatization law before 2003, when parliament's term expires.

For private farmers like Yuri and Sasha Baglai, there's the challenge of gaining access to finance, marketing and insurance, making profitable operations "islands of success," Kaliberda said.

And for private farmers making the effort to earn a profit, government policies are often stacked against them. With most processing plants still in state-hands and a political incentive to keep food prices down, the country's Agriculture Ministry has imposed controls on grain prices, hitting farmers hardest.

Yet the government's measures are unlikely to have the desired effect.

Annual grain production fell by 25% on the year to 26.5 million tons in 1998, or half of the 1990 level, and isn't expected to exceed 25 million tons this year. With agricultural exports likely to fall to 3.5 million tons this year from 6.5 million tons in the previous harvest, domestic prices could be in for a substantial increase, fueled by a 60% grain import duty, Feofilov said.

In the absence of reform, Feofilov said, "Ukraine will turn into an importer of grain, rather than an exporter."

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