



The Invincible
LAND

LAND MARKET REVIEW UKRAINE

Q3'2023



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CAPITALIZATION OF THE AGRICULTURAL LANDS MARKET IN UKRAINE IS GROWING



Agricultural land prices continue to grow average price of the agricultural land increased by 10.4%

Despite a slight decrease in the number of agricultural land sales transactions in July 2023, the total volume of the agricultural land market in Q3'2023 as compared to the previous period remained almost unchanged - 21,400 sale transactions of 43,500 ha in Q3'2023 against 21,400 sale transactions of 44,000 ha in Q2'2023.

At the same time, market volumes in Q1'2023 were much lower - 15,700 sale transactions of 32,000 ha.

A total of 172,800 sale agreements were concluded since the opening of the land market, with a total area of almost 380,500 thousand ha traded. Thus, as of the end of September 2023, 0.92% of all agricultural land of Ukraine within the borders of 1991 or 1.08% of agricultural land in the territories controlled by Ukraine were in circulation.

According to the results from the three quarters of 2023, the weighted average price increased by 10.4% up to 38,500 UAH/ha. Given that Ukraine has 31.1 million hectares of land in private ownership, the price increase by 10.4% is equal to an increase in the capitaliza-

tion of the agricultural land market by UAH 115.1 billion, which is almost similar to the tenth of the income of the general fund of the country's budget in 2023.

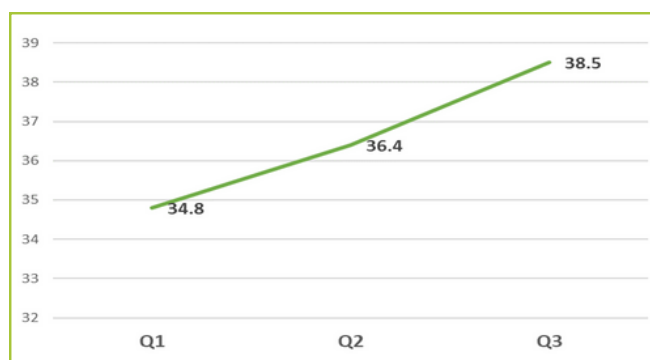
The volume of lease agreements with agricultural land exceeded sales three times, which is predictable given the significant market constraints at the first stage when only individuals have the right to acquire land and no more than 100 hectares each.

Fig. 1. Dynamics of sales transactions of agricultural land in Q1-Q3'2023



* Based on the data of StateGeoCadastre

Fig. 2. Dynamics of the weighted average price of 1 ha of agricultural land, thousand UAH



* Based on the data of StateGeoCadastre

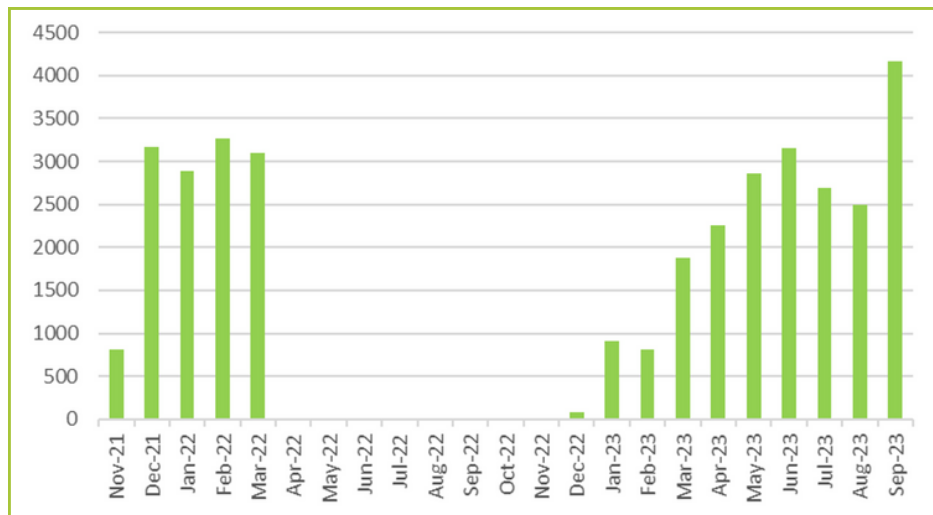
Record high number of land auctions at Prozorro.Sales

In September 2023, local councils leased 4,159 hectares of communal agricultural lands through "Prozorro.Sales", which is almost double the average monthly figure for the previous eight months of 2023 (2,100 ha) and is an absolute record since October 2022, when land auctions at Prozorro started.

Prices for renting communal land, which have

been steadily decreasing since the beginning of 2023, stabilized in September at UAH 7.8 thousand/hectare. At the same time, rental prices at land auctions after the start of the full-scale invasion of Russia into Ukraine continued to be significantly lower than until February 2022, probably due to the deterioration of the financial capacity of agricultural producers due to the fall in domestic prices for the key agricultural products.

Fig. 3. Dynamics of sale of lease rights at land auctions, ha



* Based on the data of Prozorro.Sales

Over 70% of lands in turnover are in use of legal entities

The analysis of the socio-economic profile of buyers of agricultural lands conducted by the team of the "Invincible Land" project [1] shows that legal entities allegedly use more than 70% of all land in circulation. Meanwhile, the buyers - sole proprietors or individuals - cultivate less than 30%. Men predominate among buyers of land plots.

The percentage of men among investors (76.5%-86.8%) is higher than among those who purchased land for their agricultural production (72.7%). Thus, according to our estimates, the percentage of women among buyers who purchased land for agricultural production was higher than among buyers who purchased land for investment purposes - 27.3% versus 13.2%- 23.5%.

[1] The project team expresses its gratitude to the Ministry of Agrarian Policy, as well as to the companies "Tvoye kolo" and "Land Club" for the data provided for analysis

Less than 0.5% of sold agricultural lands have changed their designated purpose over the last two years

Since the land market's opening in July 2021, as of the end of September 2023, the share of agricultural lands that were sold and subsequently changed their intended purpose to non-agricultural was at most 0.5%. At the same time, among land plots with an abnormally high cost (370,000 UAH/ha and above), located mainly near big cities, about 8% allegedly changed its purpose to non-agricultural. Therefore, most agricultural lands in the circulation are used for farm production and contribute to the country's food security.

Of course, it is too early to talk about the effect of the land market on Ukraine's or the world's food security, as the market is just developing. However, market growth gives an optimistic view for further use of land as collateral, which will increase the productivity of agricultural production. At the same time, an increase in market capitalization will increase the purchasing power of landowners.

Local budgets received almost 12% of all tax revenues generated by the use of agricultural land

According to the official budget web portal of the Ministry of Finance of Ukraine, in Q2'2023, agricultural land continues to serve as an essential source of community well-being. Thanks to the turnover and use of agricultural land, community budgets received over UAH 9.2 billion, or almost 12% of all tax revenues (UAH 80 billion). For the first half of 2023, local communities received 17.2 billion UAH in tax revenues from agricultural land.

It is important to note that revenues of local budgets from agricultural land in Q2'2023 exceeded the payments for the similar period of both 2022 (+59%) and 2021 (+20%).

The combination of state guarantees with the program of affordable loans will facilitate the access to financing for small farmer

The recovery of Ukraine's agricultural sector of Ukraine will require significant capital. One of the tools for developing farmers' access to financing is the Partial Credit Guarantee Fund in Agriculture (PCG), which has already been established and will soon begin providing partial guarantees for borrowed credit resources to agricultural producers with up to 500 hectares of land bank.

Since the beginning of 2023, as of the end of September, more than 11,100 agricultural producers received bank financing, of which more than 8,600 obtained bank financing under the "5-7-9" state program. The total volume of loans raised by agricultural producers in 2023 amounted to UAH 56.3 billion, including UAH 33.3 billion under the "5-7-9" program.

At the same time, the state portfolio guarantees covered about 35% of the loans raised by Ukrainian agricultural producers. However, such guarantees were mainly provided to medium and large agricultural producers cultivating above 500 hectares. Therefore, the need to fully function PCG is quite urgent because the fund will cover at least part of the credit risk of producers with a land bank below 500 ha.

According to the World Bank and survey research, approximately 63% of small farmers interested in loans are ready to pay at least 5% per annum, and 37% are prepared to spend at least 7% per annum using the loan. Therefore, if PCG cooperates with the state program "5-7-9", potentially 6.5-11.1 thousand small agricultural producers can take advantage of the Fund's guarantees. Suppose PCG does not cooperate with the "5-7-9"

program - then no more than 1.2 thousand agricultural producers will be able to become beneficiaries of the Fund due to the low demand for loans with a high-interest rate.

Fig. 4. Farmers with a land area of under 500 hectares answered, "What was the interest rate on your last credit?"

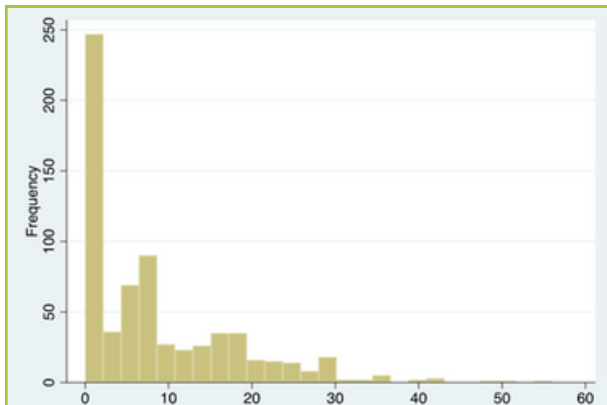
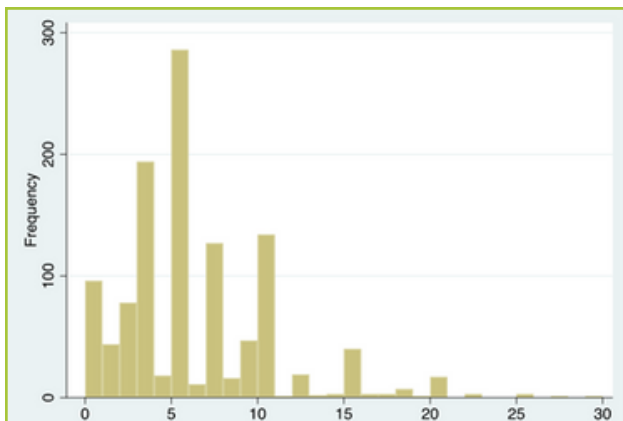


Fig. 5. Farmers with a land area of under 500 hectares answered, "At what maximum interest rate are you ready to take a loan?"



* Based on the data of the World Bank Post-Russian Invasion Survey of Smallholder Farmers 2022 [2]

More efforts to improve land legislation are necessary

Ukraine has achieved substantial progress in the implementation of the state anti-corruption program in the field of land relations - a legislative basis was created for the reform of the right to permanent use of state-owned lands (Law of Ukraine No. 3272-IX dated 07.27.2023), the pilot project on the registration of land plots by certified land surveyors was renewed (CMU Resolution No. 766 dated 25.06.2023), the Resolution on the pilot project on the mass land valuation was developed and approved (CMU Resolution No. 1078 "Some issues of implementation of the pilot project on mass land valuation" dated October 13, 2023).

However, there are pending issues requiring the attention of policymakers, such as the cancellation of free privatization of land, legislative settlement of the problem of consolidation of agricultural land, cancellation of the ban on the sale of state and communal land, introduction of public monitoring of land relations and creation of a transparent mechanism for the sale of such land through electronic land auctions on the Prozorro platform. Sales and others.

[2] [The World Bank, Post-Russian Invasion Survey of Smallholder Farmers 2022](#). The data used in this study were obtained thanks to the international technical assistance of the "Supporting transparent land governance Ukraine" project implemented by the World Bank with the financial support of the European Commission (ENI/2017/387-093 and ENI/2020/418-654).

LAND MARKET NEWS

August 18, 2023 - The National Agency on Corruption Prevention presented the public system for monitoring the implementation of the State anti-corruption policy for 2021-2025 (Law No. 2322-IX) and of the State Anti-corruption Program for 2023-2025 (CMU Resolution No. 220 from March 4, 2023). As of September 2023, four land-related activities from the section "2.5. Construction, land relations, and infrastructure" were implemented. Namely, a technical assessment (audit) of the national cadastral system was completed, and the legislative basis for reforming the right to permanent use of state-owned lands was established (Law No. 3272-IX). Moreover, the Cabinet of Ministers of Ukraine renewed the pilot project on registering land plots in the State Land Cadastre by certified land surveyors, and the Parliament adopted necessary changes to the legislation allowing for the implementation of the mass land valuation pilot. The most significant lag behind schedule has been observed in implementing measures regarding the inventory and definition of the boundaries of cultural heritage objects.

August 18, 2023 - The President of Ukraine signed the Law No. 3272-IX, "On Amendments to Certain Legislative Acts of Ukraine on Improving the Efficiency of Use of State-Owned Agricultural Lands" (Draft Law No. 7588), which allows state-owned enterprises and institutions to transfer their state-owned land plots on the right of permanent use in sublease through electronic land auctions. In addition, the law provides for the National Academy of Agrarian Sciences of Ukraine, the penitentiary service, and other state-owned enterprises to lease agricultural lands in permanent use at 12% of the normative monetary value. However, to make it work, changes to the Tax Code are necessary,

namely, the establishment of a 12% rent rate for the enterprises which re-registered permanent use for rent, as well as the cancellation of the norm according to which the amount of the sublease fee cannot exceed the amount of the rent. Law No. 3272-IX entered into force on September 3, 2023.

September 27, 2023 - The Ministry of Agrarian Policy and Food approved its Anti-Corruption Program for 2023-2025, dealing with land relations and land management. The main focus is increasing transparency through electronic auctions, limiting the free privatization of land, digitizing land documents and opening access to data on natural resources, and simplifying land management procedures. MAPF plans to introduce mass land valuation for a more objective market approach to determining the tax rate and the amount of rent, improve professional standards for land surveyors, and decentralize the certification process.

October 13, 2023 - The Cabinet of Ministers of Ukraine adopted Resolution No. 1078, "Some issues of the implementation of the pilot project on mass land valuation," the ultimate goal of which is to replace the normative monetary land valuation with market mass valuation based on the information about actual prices of land plots, real estate located on them, cost of property rights or the amount of rent for the use of land plots and other real estate. The State Service of Geodesy, Cartography, and Cadastre of Ukraine will implement the pilot project on the mass land valuation within 11 months from the resolution's adoption date.

CONTACTS

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