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## **Presentation of Results of the Survey**

# **Farming and Agribusiness Development in Ukraine**

Written by specialists of  
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## **FARMING OPERATIONS**

### **General Characteristics of the Surveyed Agribusinesses**

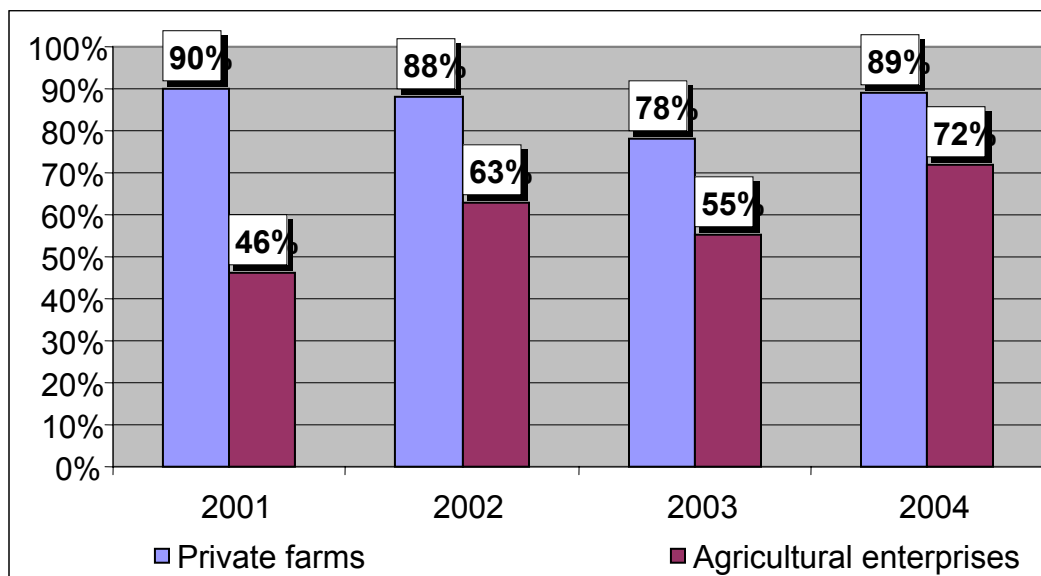
Farming operations tend to be the main source of income for the majority of respondents. 72% of agricultural enterprise and 89% of private farms stated they were involved in no additional activities. Those that were, are engaged in the following supplementary activities: grain grinding, baking bread, leasing machinery out and primary processing of the agricultural output.

Agricultural enterprises appear to run more diversified operations than their private farm peers with primary explanations being better developed material and technical base and larger scale of production of the former.

However, comparison of the findings of the four last surveys demonstrates that involvement of agribusinesses in supplementary activities is in most cases random. While in 2001, 54% of such enterprises stated they had revenues generated by supplementary off-farm activities, in the last year the portion of such respondents dropped to 28% (Figure 1).

The share of income generated by additional types of activities amounts on average to 22% for private farms and 14% for agricultural enterprises. This matches respective values of the three previous years. Therefore, complementary activities run by producers may be viewed as a factor of their income stabilization, specifically in periods, where incomes from farming activities thin out.

**Figure 1. Portion of respondents for which farming activities is the only source of income, % of the general sample.**



Apart from varying level of diversification, the two categories of the surveyed businesses differ by acreage of land plots and number of employees. Although private farms tended to steadily grow over years both by acreage and employment, today they lag considerably behind agricultural enterprise by both parameters. Let's look at the following data: in 2004, the median value of the surveyed private farm acreage was 45 ha, while that of the reformed agricultural enterprise reached 1688 ha.

The hallmark of private farms remains a huge spread between their minimum and maximum sizes. While the minimum size of a PF was only 2 ha, its largest representative was a behemoth of 3800 ha. The ones like the latter tend to be large-scale commodity operations that do not differ from their AE counterparts by the nature of production and development of assets base. Notwithstanding, almost each fifth surveyed private farm (17.3%) noted that its overall area is under 20 ha. Most of these are located in the North-West of the country and their operational manner is very similar to that of individual household farms.

Average size of the surveyed private farm by the number of employees matches the data of previous surveys and is 4 people, two of which are hired employees. These farms rely generally on their own resources while handling their production and operational issues.

Likewise in three previous studies, this study attempted to identify how well agricultural enterprises and private farms are staffed with specialists. As it appears from Table 1 below, the prevailing majority of the surveyed agricultural enterprises employ full-time agronomists, accountants, engineer-mechanics and economists. Agricultural enterprises, as was noted above, are larger in scale and more diversified, and therefore, are better manned thanks to more specialists on staff. In most cases, ag enterprises employ specialists from former collective farms which chose to remain on staff after the latter had been privatized. Only 3% of enterprises-respondents admitted they had no full-time specialists on staff.

**Table 1. Availability of staff specialists, % of the overall number of respondents that have staff specialists.**

	2001		2004	
	Agricultural enterprises	Private farms	Agricultural enterprises	Private farms
Agronomist	91%	25%	84%	27%
Accountant	70%	15%	88%	27%
Engineer/engineer-mechanic	59%	16%	76%	11%
Zootechnician	69%	1%	48%	2%
Veterinarian	36%	1%	40%	4%
Economist	40%	1%	69%	4%
Mechanic	13%	6%	70%	9%
Hydrotechnician	6%	1%	13%	3%
Power engineering specialist	7%	–	49%	1%
Builder	5%	1%	26%	–
Lawyer	4%	1%	27%	1%
No specialists on staff	1%	47%	3%	38%

Good news is that private farms demonstrate improving availability of staff specialists. While in 2001, 47% of the surveyed farmers noted they had no agricultural specialists on staff, in 2003 their portion went slightly down to 43%. According to 2004 survey data, staff specialists were unavailable with 38% of farms.

Higher level of availability of staff specialists at private farms may be explained by the fact that increasingly bigger number of farm owners, or their family members seem to recognize the need for acquiring specialized education and skills. So, in many instances, it is farm owners or their family members who fulfill duties of such specialists, which allows them to run their farming operations on a higher professional level.

Private farms also use services of needed specialists on a part-time basis. One fourth of private farmers admitted they hire part-time employees (against 19% of agricultural enterprises using services on the same basis.) Private farmers tend to most frequently need part-time services of tractor-operators, mechanics and accountants.

Considering that farmers are still not so well manned with their own staff, particularly, in case of private farms, we assumed that there should be a great demand for agricultural extension services. Therefore, this survey also attempted to assess the existing need of agricultural producers for services of off-staff specialists providing agricultural consulting.

**Table 2. Agricultural producers' needs for services of outside specialists, % of total responses.**

	Agricultural enterprises				Private farms			
	Great need	Not a great need	No need	Difficult To answer	Great need	Not a great need	No need	Difficult To answer
Agronomist	9%	8%	81%	2%	3%	14%	80%	3%
Accountant	6%	6%	86%	2%	10%	14%	73%	3%
Engineer/ engineer-mechanic	4%	5%	89%	2%	1%	7%	90%	2%
Zootechnician	5%	4%	87%	4%	1%	3%	94%	2%
Veterinarian	5%	6%	86%	3%	1%	3%	94%	2%
Economist	3%	7%	88%	2%	1%	4%	92%	3%
Mechanic	4%	5%	88%	3%	3%	10%	85%	2%
Tractor driver	4%	4%	89%	3%	6%	12%	80%	2%
Hydrotechnician	2%	6%	89%	3%	1%	6%	90%	3%
Power engineering specialist	5%	4%	89%	2%	-	3%	94%	3%
Builder	3%	5%	88%	4%	-	2%	95%	3%
Lawyer	9%	9%	80%	2%	4%	9%	84%	3%
Marketologist		4%	94%	2%		3%	94%	3%

As may be noted from the table, in most cases farmers state they either don't have a great need or have no need for agricultural extension services at all. This, in our opinion, may be explained by the fact that producers tend to satisfy their need for such services with their own resources. Also we should remember that private farms have financial constraints and may not afford to buy extension services in the market. This is particularly true for private farms. In the biggest demand are services of agronomists and accountants. Thus, 9% and 10% of agricultural enterprises, respectively, recognize their needs for services of these specialists.

Comparing size of demand for agricultural extension services between the two groups of respondents, we should highlight the following: despite generally low demand for such services, agricultural enterprises feel a slightly greater need for advice. This may be explained by larger scale of their operations, and, consequently, higher incidence of problems they face. In addition, we also assume that agricultural enterprises are in a better financial position and can afford to buy extension services in the market.

### **Production specialization of farms and main productivity indicators**

Objects of this survey were farms specializing, mostly, in crop growing. Majority of the surveyed agricultural enterprises specialize in growing grain and technical crops, while primary crops grown by private farms are grain and vegetables. This correlates with data of the previous surveys. Generally, agricultural enterprises have more diversified crop productions than private farms. This is explained, primarily, by better opportunities to develop crop production due to larger acreage of arable lands.

Winter wheat appears to be the major grain crop for most producers grown by 55% of the surveyed private farms and 88% of reformed enterprises. In 2004, average area seeded by winter wheat was 441.7 ha for agricultural enterprises (434 ha in 2003) and 38.9 ha for private farms (21.5 ha in 2003). This data is evidence of the growing size of average acreage seeded by winter wheat. In the regional context, the largest seeded areas under winter wheat are concentrated in Donetsk, Poltava and Kherson oblasts.

Spring barley is second most commonly grown crop: it is produced by 57% of private farms and 78% of agricultural enterprises. Average seeded areas under this crop in 2004 were 38.9 ha (in 2003 - 21.2 ha) and 212.8 ha (in 2003 - 196 ha) for PF and AE, respectively. Comparison of findings of the four surveys conducted in the last years demonstrates that areas seeded with spring barley have a steady growing trend.

Other grain crops have second priority. Among these, most commonly grown are leguminous, grain corn and spring wheat, however, they are primarily produced by large agricultural enterprises.

Major technical crops are sunflower and sugar beets. Sunflower is grown equally by PFs and AEs thank to the generally favorable market infrastructure. In 2004, 51% of the surveyed farms and 52% of agricultural enterprises had seeded areas under this crop. Average seeded areas with sunflower for these two categories were, respectively 47.6 ha (2003 – 21.2 ha) and 337 ha (2003 – 187.0 ha).

Sugar beets are produced prevalently by agricultural enterprises. Over one third (34%) of AE stated they grew sugar beets in 2004. Only 9% of PF admitted they had areas seeded by sugar beets. Average acreage of sugar beets with agricultural enterprises was 109 ha.

In addition to studying seeded areas, this survey also attempted to identify productivity of agrarian business, namely, yields of crops, as one of the main productivity indicator. Availability of four-year data allows undertaking a retrospective analysis and making certain conclusions with regard to yields of main surveyed crops and differences between major groups of producers.

The received data point at considerable difference between yields obtained by private farms and agricultural enterprises. The former perform by far not so well as the latter. This is true for the majority of grain and technical crops at hand. Private farms tend to have more limited access to inputs, more outdated machinery and equipment, and worse practical experience than agricultural enterprises – all these impact eventual performance of crops and explain the difference in yields obtained by these two categories of producers.

**Table 3. Average yield of major agricultural crops, centners per ha**

	2001		2003		2004	
	Private farms	Agricultural Enterprises	Private farms	Agricultural Enterprises	Private farms	Agricultural Enterprises
Winter wheat	24,4	28,8	4,2	6,9	29,7	31,5
Spring barley	18,7	22,3	12,3	14,6	21,3	33,6
Spring wheat	20,7	30,0	21,4	17,9	33,8	36,7
Leguminous	15,3	19,0	14,1	15,2	14,5	24,0
Grain corn	35,5	57,4	21,6	40,6	36,1	50,6
Canola	8,7	13,5	3,8	5,1	18,8	15,4
Sunflower	8,1	10,5	10,3	13,3	9,9	12,2
Sugar beets	182,3	224,3	175,7	194,7	239,8	249,5
Potato	116,7	111,5	110,8	107,7	116,9	127,5
Tomato	162,5	143,4	192,8	231,6	127,3	152,8
Cucumbers	114,7	73,9	315,6	330,0	139,1	174,7
Cabbage	191,7	169,1	186,1	110,1	186,1	110,1
Pepper	172,3	87,4	246,0	185,0	77,7	7,0

Limited time span in which these studies have been undertaken, does not allow to legitimately recognize steady trends in changes of absolute values of crops yields. Low yields received in 2003 may be explained by exclusively unfavorable weather conditions.

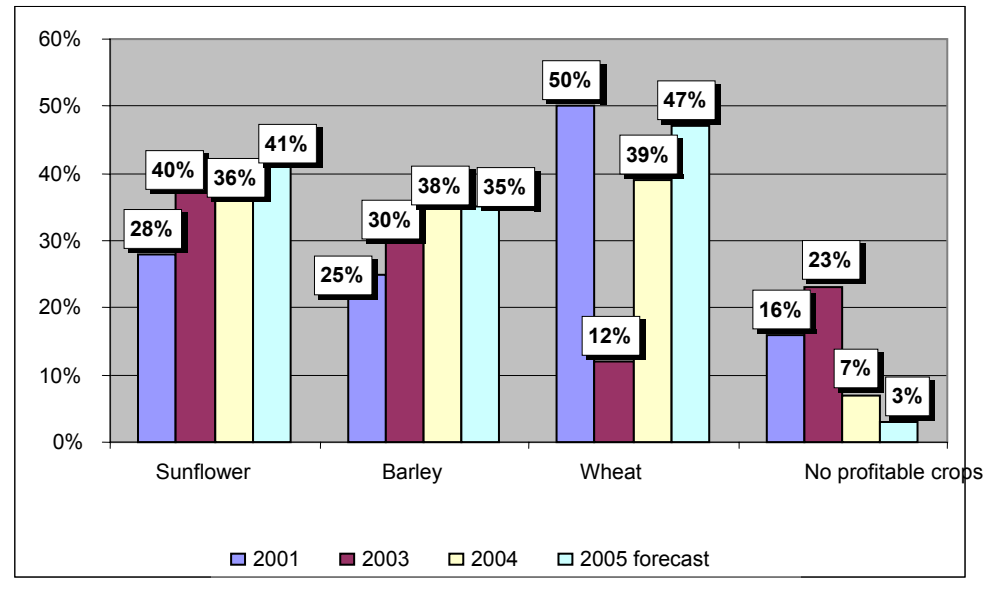
#### **Profitability of production and major production costs**

No business, all the more farming business, may not be viable unless it generates profit. In the course of the survey we tried to identify crops that have been most profitable in 2004. Certainly, data available from the previous surveys, made it possible to trace changes in the list of major profitable crops both for private farms and for agricultural enterprises. Of note, list of these crops may vary from region to region, from farm to farm depending on specialization, and between categories of respondents. Notwithstanding, it is evident that in the last four years of the survey, three most profitable crops for both categories of farms remain: sunflower, winter wheat and spring barley (Figures 2 and 3).

As may be evident from Figure 2, for 39% of the surveyed private farms, winter wheat is the most profitable crop. In 2003, only 12% of farms reported growing wheat was profitable. It is important to remind, that more favorable weather conditions in 2004 ensured higher yields of grain crops. This, in its turn, contributed to bigger profitability of grain group. In opinion of respondents (cited by 47% of the surveyed private farms), wheat will remain most profitable crop in 2005.

Another good news is that the portion of respondents stating they had no profitable crops, has reduced. While in 2003, 23% of private farms noted they had no profitable crops at all, in 2004 the portion of these dropped to 7%. Producers' expectations of production profitability in 2005 are also optimistic: only 3% of the surveyed private farms assume their production will not be profitable.

**Figure 2. Three most profitable crops for PF, % of the total surveyed farms.**



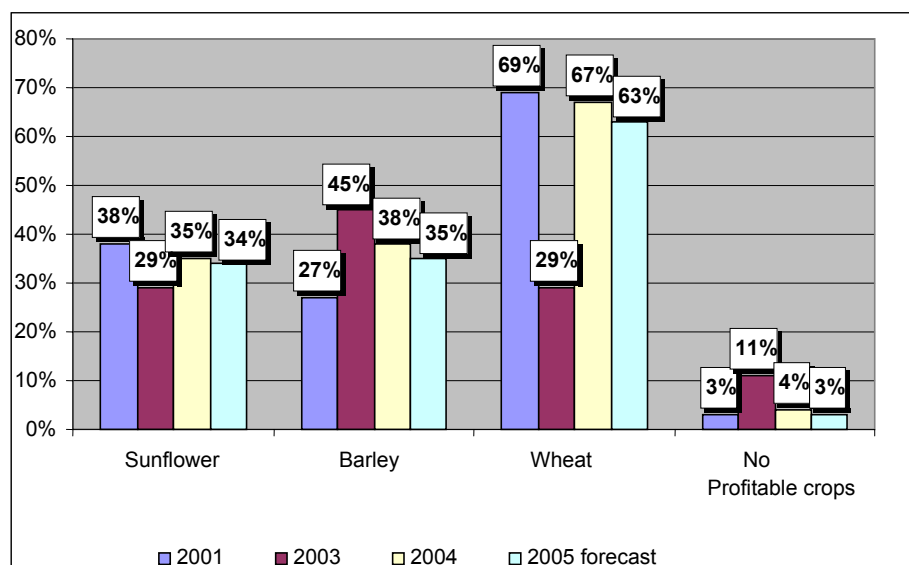
If we look at the profitability of operations run by agricultural enterprises, we'll see that most of these are profitable. This, specifically, concerns the group of grain-growing farms. More than two thirds of surveyed agricultural enterprises (67%) said wheat was most profitable crop in 2004. In our opinion, higher profitability of grain achieved by AE may be explained by higher yields obtained and bigger acreage under the crops. These factors ensure more effective production due to the economy of scale.

The portion of farms having no profitable crop production is lower among AE. As was already mentioned, while in 2004, 7% of farmers reported no profitable crops at all, the percentage of these among AE is twice as low, and reaches only 4%. As a reminder, in 2003, 11% of the surveyed ag enterprises admitted they had no profitable crops.

Reduced portion of farms that have no profitable production is a positive fact. However, we are inclined to think that these changes are explained by favorable environment, primarily weather conditions in 2004, rather than represent a sustainable tendency.

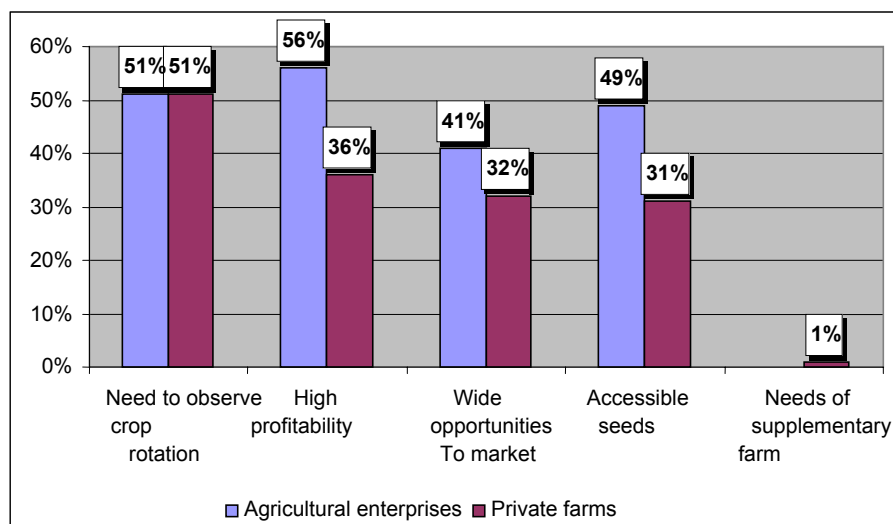


**Figure 3. Three most profitable crops with AE, % of the overall respondents.**



During the survey we tried to identify primary reasons for which agriculture producers grow grain crops. As becomes evident from Figure 4, main reasons are: the need to observe crop rotation, broad opportunities to market output, high profitability of production and readily available seeding material.

**Figure 4. What makes producers grow grain crops, % of the number of grain farms.**



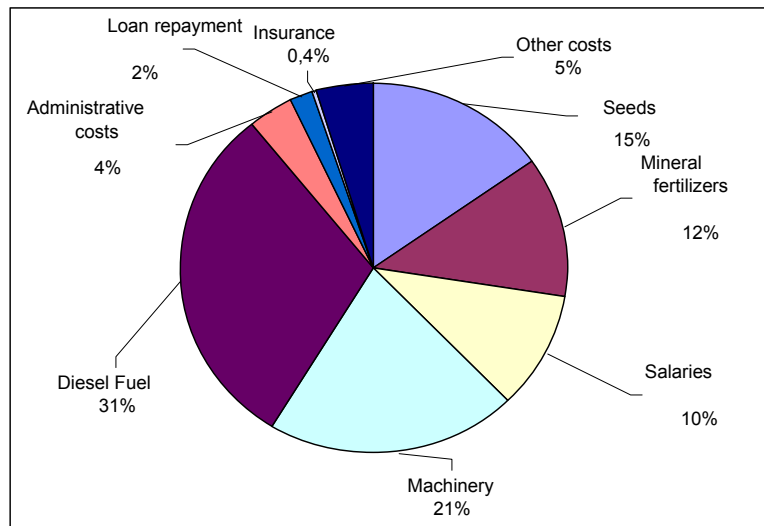
High profitability is the main reasons for which agricultural enterprises grow grain crops, it was stated by 56% of the surveyed enterprises. As for private farms, given their limited seeded areas, the need to observe crop rotation rules plays an important role as an incentive to grow particular crop. It was cited by over half (51%) of the surveyed private farms.

Availability of wide marketing opportunities and accessibility of seeds also play more important role for agricultural enterprises than for private farms in the process of making decision to grow grain. A possible explanation is that large batch of output harvested by AE offer them more marketing opportunities. Moreover, practice demonstrates that AE may gain discounts on purchased inputs,

including seeds. For private farms it is more difficult to have discounts due to considerably smaller quantities of inputs purchased.

The next question we studied in the course of the survey was related to their main production costs per unit of output. Of particular interest for us was to find out the cost of working capital (purchase of production inputs, salaries, loan repayment, administrative costs etc.). These costs represent variable expenses and in the short run are manageable by producer. As may be noticed from charts presented below (Figures 5 and 6), PF and AE have similar cost structure of working capital

**Figure 5. Structure of main costs per unit of output at PF, % of total costs.**

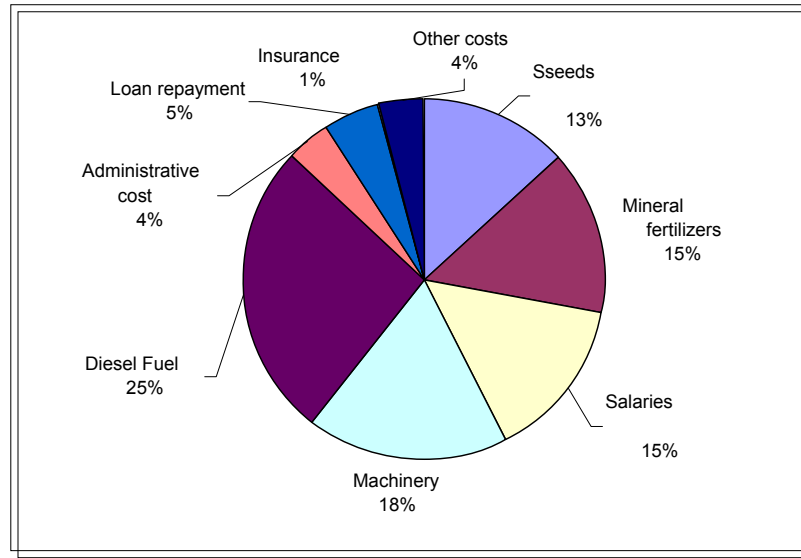


Likewise in previous years, major portion of these costs falls on purchase of fuel, seeds, mineral fertilizers and for maintenance and repair of machinery.

It is important to note, that comparing to the previous year, in 2004 the portion of diesel cost has grown, which may be the outcome of rising market prices for oil.

What clearly catches one's eye is that the percentage of costs associated with loan repayment is twice as low at PF than at AE. This may demonstrate more limited access of PF to external funding.

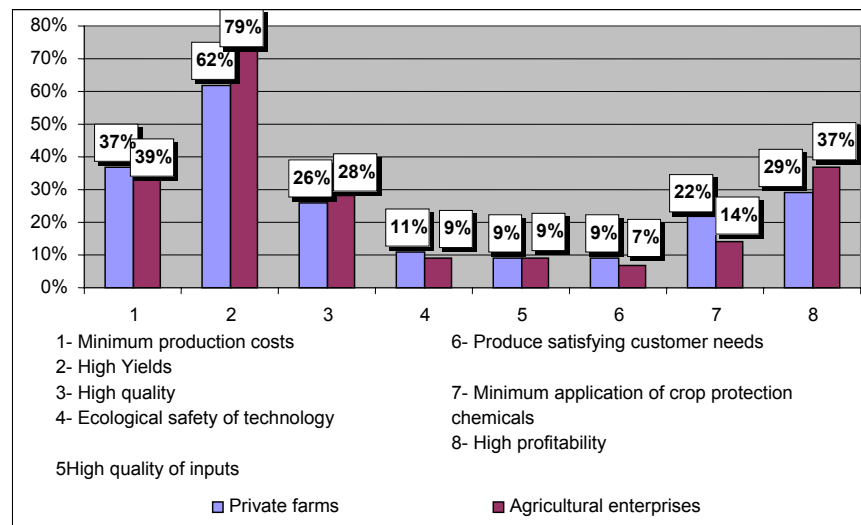
**Figure 6. Structure of main costs per unit of output at AE, % of total costs.**



### Technology and asset base

To describe technological and economic aspects of the production process, respondents were asked what criteria they used to choose a specific crop growing technology. Analysis of the previous survey findings allows to state that the list of main criteria remains unchanged. Thus, high yields, low production costs and high profitability come to the fore as leading criteria for choosing technologies for growing oil and grain crops. Distribution of responses was nearly equal for both categories of respondents (see Figure 7).

**Figure 7. Main criteria for growing grain and oil-bearing crops, % of responses.**



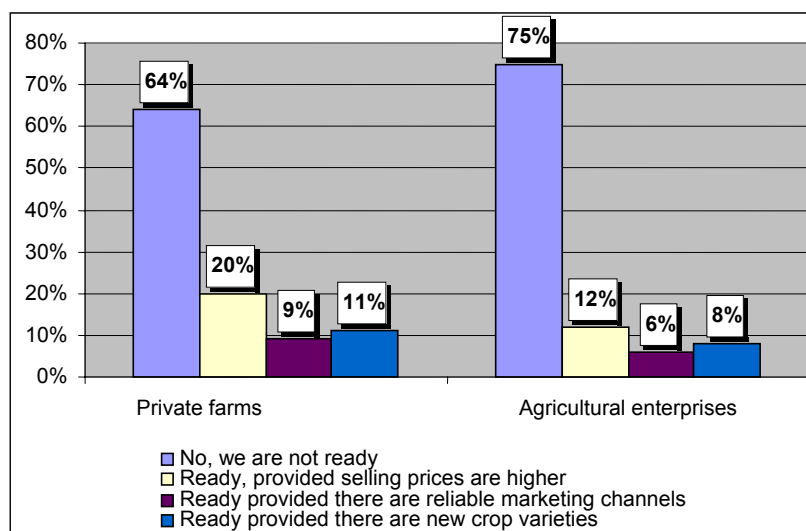
It is important to note, that high yields and low production costs seem to be more important for agricultural enterprises than for private farms as criteria for choosing technologies of growing grain and oil-bearing crops. However, a bigger number of PF than AE emphasized the importance of minimum application of crop protection chemicals: 22% vs. 14% respectively. Limited access of private farms to inputs due to lack of free funds may be an explanation of this fact.

Comparison of 2004 findings with data elicited in the previous years demonstrates growing importance of such factor as product quality. While in 2003 only 7% of the surveyed private farms and agricultural enterprises picked the produce quality as an important factor for choosing a production technology, in 2004, the portion of such responses grew to reach 26% of private farms and 28% of agricultural enterprises. The growing importance of this factor may be explained by increasing competition in agrarian markets, where the produce quality becomes a key precondition to closing a sales contract.

Environmentally friendly technologies have not yet become the number one choice for ag producers. Just each tenth farmer recognized the importance of this factor for choosing a production technology.

The survey findings also point out that producers become increasingly aware of environmental concerns. However, today most producers are not prepared to grow organic food. Answering the question “Are you ready to grow organically, i.e. without mineral fertilizers and chemicals?” - majority of respondents said no. Growing such produce is more costly, and therefore, less profitable; moreover, consumer demand for such produce has not yet matured. Even so, 20% of PF and 12% of AE declared their willingness to grow organically provided they will be able to market at higher selling prices.

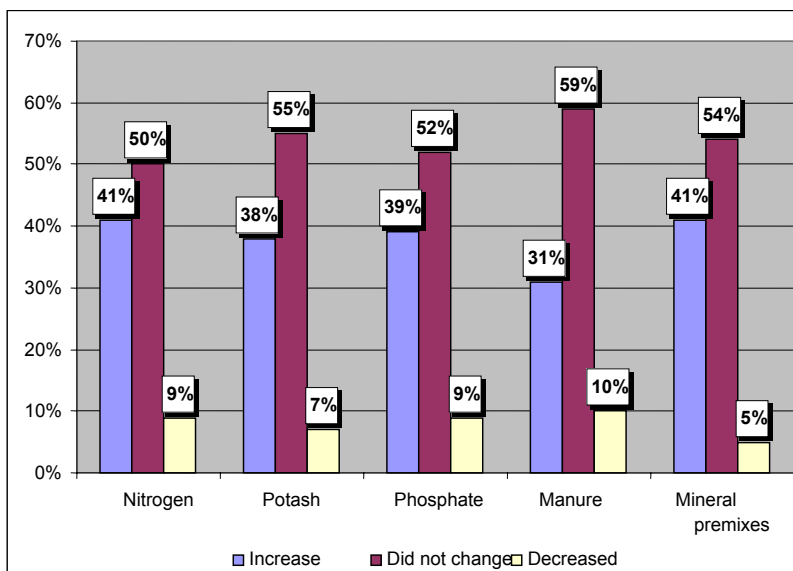
**Figure 8. Producers’ readiness to grow organic food, % of respondents.**



Efficient usage of inputs remains one of the main factors to raise profitability of production. In conditions of conventional farming, efficient usage of mineral fertilizers helps to raise yields and contributes to higher profitability. In view of this, in this survey we attempted to evaluate volumes of main mineral fertilizers used and changes (if any) in volumes.

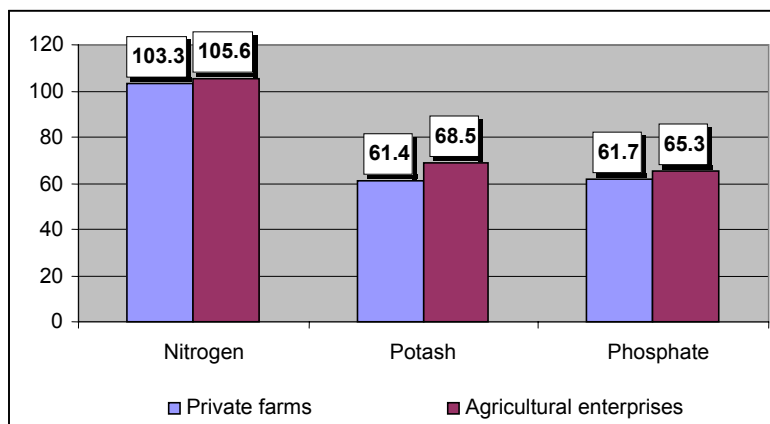
2004 was the first year in the whole range of surveys, when volumes of applied fertilizers actually grew. It was true for both agricultural enterprises and private farms. As may be observed from Figure 9, the portion of respondents that reported application of main fertilizers on larger scale exceeds the portion of those who said they had reduced application of fertilizers. For example, in the case with nitrogen fertilizers, 50% of respondents that used these fertilizers in 2004 noted they still used them in the scope of the previous years. Meanwhile, 41% of respondents increased volumes of applied nitrogen fertilizers, against 9% of those that reduced them. Similar situation may be observed with other types of fertilizers.

**Figure 9. Changes in scopes of main types of mineral fertilizers used, % of respondents that use mineral fertilizers.**



General volumes of mineral fertilizers were growing unevenly in the two categories of farms. Lack of free financial resources restricts buying capacity of private farms making purchase of needed input supplies unaffordable. While 78% of the surveyed AE regularly apply mineral and organic fertilizers, for PF this proportion is 55%. In addition, private farms tend to apply on average fewer fertilizers per 1 ha of seeded area than their AE peers (Figure 10).

**Figure 10. Average volumes of active component applied per 1 ha of seeded area, kg**



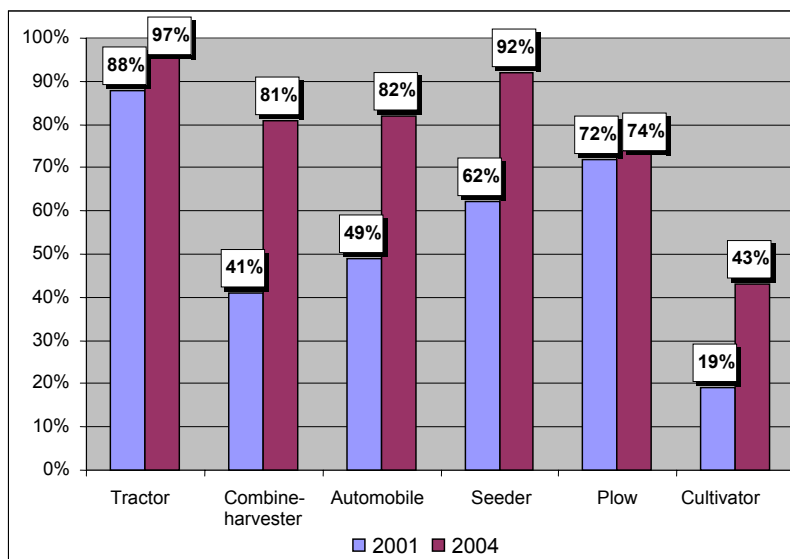
Likewise in previous years, a separate section of this survey studied how well agricultural enterprises are supplied with major production inputs and assets, and, in particular, with agricultural machinery. How intensely agricultural machinery is used is an important indicator of mechanization of production and one of the factors of further rising profitability.

Speaking about general level of mechanization, it is important to note that survey data offer notable variation between two main categories of producers. AE have a much better material and technical base of production which, in most cases, was inherited from former collective farms. Moreover, a higher

level of mechanization of AE and their better supplies of inputs are explained by such objective reasons as larger scope and more diverse operations, and as a result, bigger need for agricultural machinery.

Irrespective of the lower level of mechanization of PF, analysis of data of recent years demonstrates that their level of mechanization is growing steadily (Figure 11).

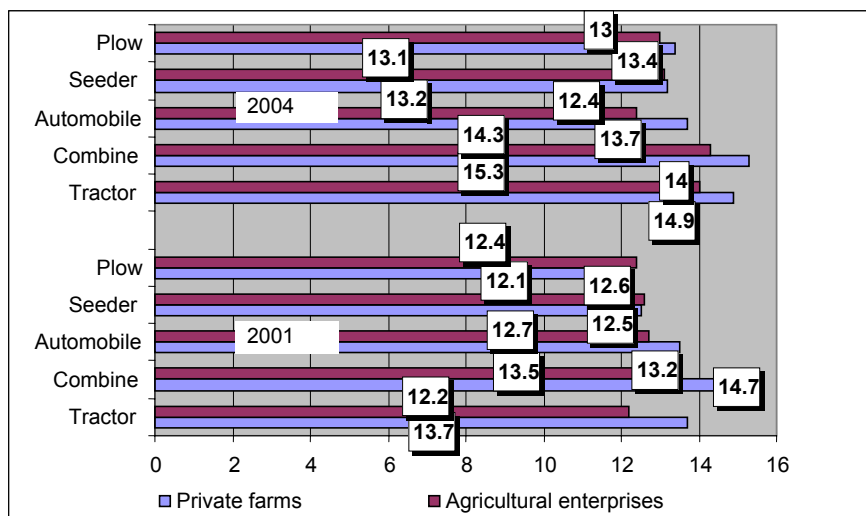
**Figure 11. Level of mechanization of production, proportion of PF that use ag machinery in the general sample of PF.**



While in 2001, 88% of all surveyed PF used tractor in their production activity, in 2004, the portion of such farms grew to 97%. Similar trend is observed with the usage of other types of machinery. This data support the hypothesis that private farms gradually grow in scope and volumes of output.

Despite the growing mechanization of production, gradual moral and physical ageing of machinery is also ubiquitous. Data on the average age of machinery are presented in Figure 12.

**Figure 12. Average age of main types of machinery, years.**



2001 and 2004 data demonstrate that both PF and AE experience gradual ageing of material and technical base of production. This circumstance, however, may pose a significant obstacle to further increase of ag output and growth of farms' profitability.

The survey also tried to elicit information about the needs of agricultural producers for various types of machinery (Table 4).

**Table 4. Needs for main types of machinery, % of total received responses.**

	Private farms				Agricultural enterprises			
	Great need	Not a great need	No need	Difficult To answer	Great need	Not a great need	No need	Difficult To answer
Tractor	38%	18%	42%	2%	57%	16%	26%	1%
Combine-harves	47%	12%	40%	1%	58%	15%	26%	1%
Truck/van	29%	25%	44%	2%	32%	29%	38%	1%
Seeder	29%	17%	53%	1%	49%	16%	34%	1%
Plow	24%	17%	56%	3%	38%	18%	42%	2%
Cultivator	25%	24%	49%	2%	43%	14%	42%	1%
Sprinkler	11%	12%	74%	3%	17%	12%	68%	3%
Potato-planter	3%	4%	92%	1%	10%	9%	78%	3%

Respondents were requested to choose one of the following answers: "great need", "not a great need", and "no need". Aggregate responses presented in Table 4 may be interpreted as a potential demand for such machinery.

As may be observed from the above table, the two categories of producers experience different levels of needs for agricultural machinery. In most cases the PF's need for agricultural machinery appears lower than that of AE. For example, a great need for, respectively, tractors and combine-harvesters, was experienced by 38% and 47% of PF, and by 57% and 58% of AE. Major explanation of this difference in the size of potential demand lies in different scale of production and its diversification. AE run bigger and more diversified farms, and therefore tend to have bigger need for a variety of agricultural machinery.

### **Production/operational problems**

The survey attempted to identify a circle of problems producers face in their day-to-day activity. Since this survey is fourth in the row, the survey took particular interest in ranking the gravest problems in 2004 vis-à-vis 2001. The received data are presented in Table 5.

It is important to note, that in order to obtain a full picture of the production problems, some questions have been modified. Thus, questions about inefficient usage of mineral fertilizers and chemicals, and about ineffective operation of machinery were expanded to include a question about lack of fertilizers/chemicals and machinery. This, to a certain extent, impacted the rating of problems given by farmers in their answers.

In 2004, ineffective usage/lack of machinery and inefficient usage/lack of mineral fertilizers and crop protection chemicals ranked highest in the list of problems. The first problem is a concern for 44% of private farms and 48% agricultural enterprises, second – for 41% and 48% of these categories, respectively. Thus, the problems of using inputs in farming production are getting apparently worse. Unsatisfactory state of ag machinery and low level of usage of mineral fertilizers is characteristic for both categories of farms and may be an explanation of this situation.

**Table 5. Main production problems facing producers most frequently, % of total responses.**

	2001		2004	
	Private farms	Agricultural enterprises	Private farms	Agricultural enterprises
Ineffective usage of mineral fertilizers And crop protection chemicals	16%	23%	41%	48%
Soil erosion	18%	17%	15%	14%
Problems with introduction of land-reclamation measures	15%	19%	14%	10%
Introduction of new crops and new varieties	18%	25%	22%	24%
Problem with observation of crop rotation	11%	13%	18%	9%
Ineffective usage/lack of machinery	17%	26%	44%	48%
Lack of capital	4%	4%	14%	14%
Difficult to answer	5%	7%	8%	13%
No problem	19%	16%	6%	7%

Among other problems that bother farmers, is the problem of introduction of new varieties of crops and soil erosion. These problems are equally a concern for both PF and AE.

Analysis of the four year surveys demonstrates that problems in all major areas of farming get worse. In our opinion, this situation may be explained both by bigger weight imparted by farmers to these problems, and to greater awareness of these problems by producers. This statement is supported by the fact that the portion of respondents admitting they had no production problems has reduced. While in 2001, 19% of private farms and 16% of agricultural enterprises reported no production problems faced, in 2004 the percentage of these responses dropped to 6% and 7%, respectively.

As may be observed from Table 5, one of the problems that still stand out is observation of crop rotation patterns. This was reported by 18% of private farms and 9% of agricultural enterprises in the overall sample.

In 2004, proportion of farms who tend to regularly observe crop rotation patterns was 81% for PF and 77% for AE (Figure 13). Of note, as opposed to three previous years, private farmers appear to be more compliant with crop protection chemicals. While 14% of PF report they observe crop rotation from time to time, the portion of complying AE is higher, reaching 17%.

Why don't farmers conduct crop protection regularly? According to the received responses, two most commonly given answers were: the need to grow highly profitable crops, and no need to observe crop rotation. As a comment to the received data, we would like to note, that insufficient quantity of inputs (e.g. seeds for crop rotation) may be a likely explanation of farmers' inability to comply with crop rotation.



**Figure 13. Observation by producers of crop rotation rules, % of total respondents.**



## MARKETING AGRICULTURAL PRODUCE

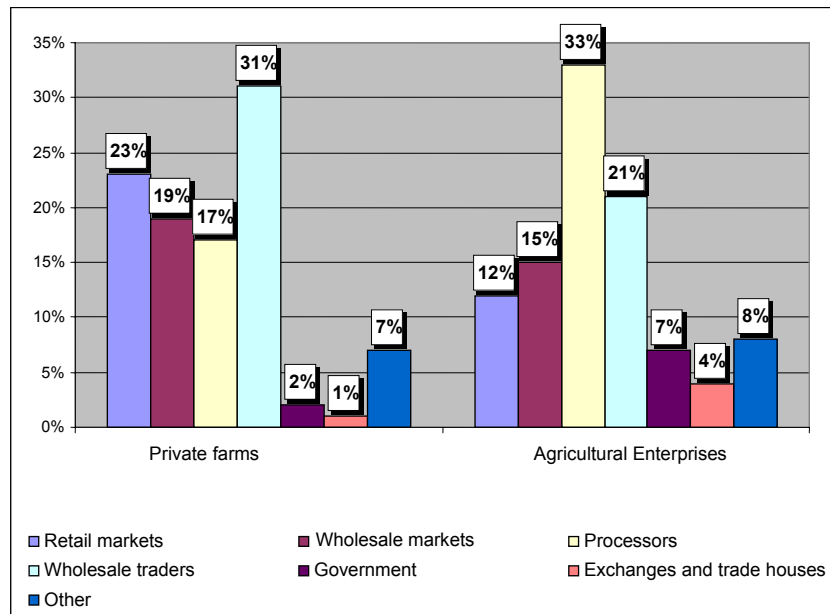
In a market-driven environment success and profitability of farming operations depend both on effective organization of the production process, and on efficient marketing of grown output. Therefore, the possibility to sell the produce at a good price is the prerequisite of running farming operations profitably. In view of that, a whole section of the survey was devoted to studying specifics of marketing agricultural produce and problems with distribution.

### Main distribution channels

Given inexistent centralized procurement of agricultural output, farmers need to make extraordinary efforts to establish distribution channels. Establishment of effective distribution channels ensures timely sales of output at good prices. How do producers market their produce and how do they rate importance of these channels?

According to the survey findings, private farmers recognize wholesale companies as their major distribution channel for grain and oil crops, while for agricultural enterprises, the most important channel is represented by processing companies (Figure 1). In 2004, 31% and 33%, respectively, of all grain and oil crops were marketed by these categories of farmers through these channels.

**Figure 1. Weight of main distribution channels employed for sale of grain and oil-bearing crops, % of the total sales of these crops.**



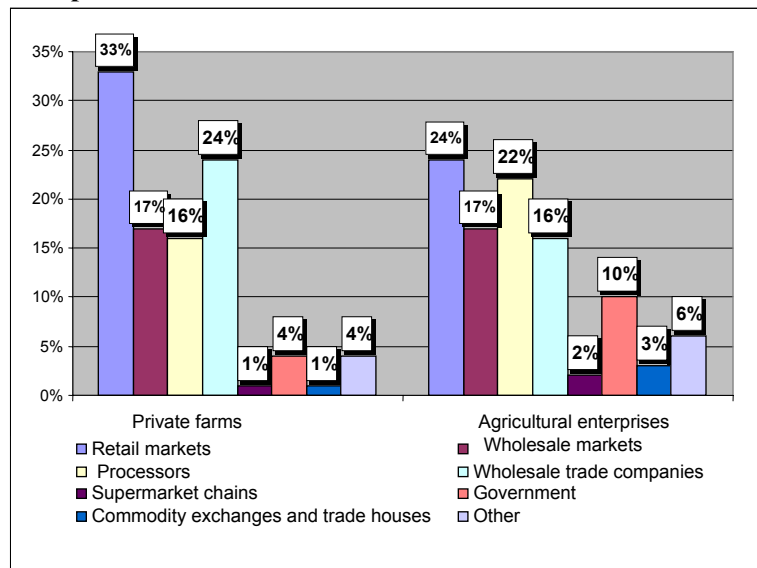
Wholesale and retail farmer markets also rank among most important distribution channels. Although the proportion of output sold through these channels in 2004 was smaller than the year before, wholesale and retail markets appear to be particularly important for PF. In our view, popularity of these channels may be explained by the possibility for farmers to obtain better prices without intermediaries. Meanwhile, marketing through retail and wholesale markets does not allow selling big batches of produce.

Such distribution channel as government institutions (e.g. armed forces and educational institutions) appears to be in a bigger favor with agricultural enterprises. Approximately 7% of the overall volume of grain and oil crops is marketed to these institutions.

The proportion of grain and oil crops sold via exchanges and trade houses remain negligible. According to the survey data, only 4% of grain and oil crops marketed by AE and 2% - marketed by PF are sold via exchanges and trade houses. This provides evidence that this segment of agrarian market is generally underdeveloped.

Specifics of marketing vegetable produce slightly differ from sales of grain and oil crops (Figure 2). Retail markets appear to be the top choice marketing channel, which may be explained by smaller aggregate volumes of grown vegetables. 33% of vegetables grown by PF and 24% of those produced by AE are marketed via retail markets. Processing companies and wholesale markets rank second most important distribution channels. Let's note that the former tend to be important for AE, which use this way to market 22% of their overall output.

**Figure 2. Proportion of vegetable produce sold via main distribution channels, % of overall sales.**

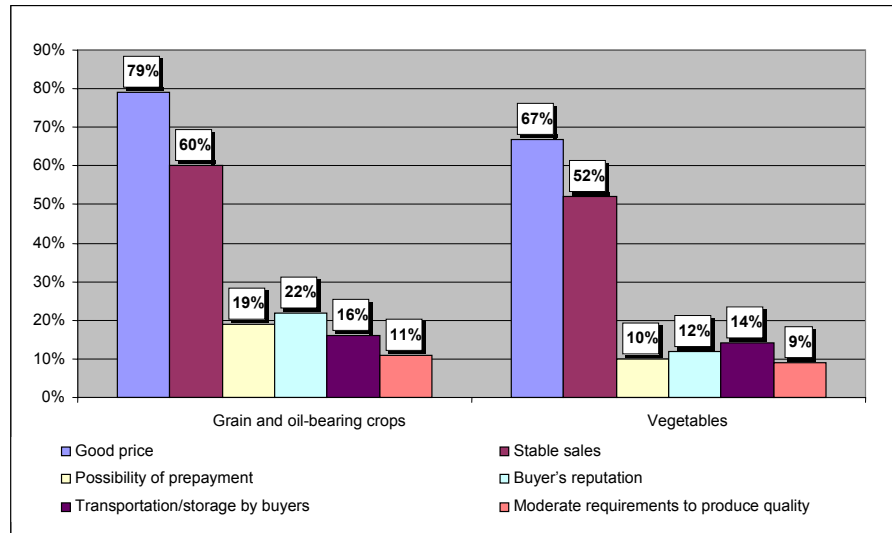


Analysis of the sales data over last years allows discerning certain diversification of distribution channels. First of all, direct sales to supermarkets began shaping as a distribution channel. Although the volume of produce marketed via supermarket chain is insignificant (1% for PF and 2% for AE), the fact that at least some of the produce is distributed through supermarkets, is doubtlessly positive.

In addition to the mentioned above specifics of agricultural marketing, it is important to emphasize differences between two categories of producers. Likewise in previous years, private farms tend to employ fewer distribution channels. This is true for both number of employees handling particular distribution channels and volume of produce distributed via these channels. Objective causes, providing explanation to this situation, includes lower volumes of output produced by private farmers.

What are the criteria commodity producers use to choose specific distribution channel? As may be observed from Figure 3, a good price for produce and stable sales remain primary criteria for choosing a particular channel. Thus, 79% of the surveyed producers of grain/oil crops and 67% surveyed vegetable-growers recognize price as the decisive factor for choosing a particular customer. This situation may be explained by the producers' need to receive cash for their produce as this is their primary source of income.

**Figure 3. Criteria for choosing distribution channel by producers, % of overall responses.**



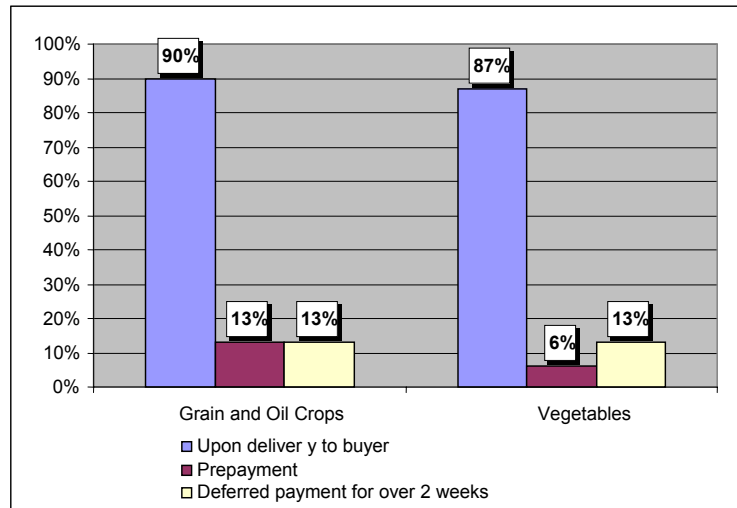
Stable sales as a factor for choosing a particular market ranks second among most important factors. This was admitted by 60% of grain and oil crop growers and by 52% of the surveyed vegetable producers. Stable sales allow producers to correctly estimate future volumes of output and with a greater degree of certainty plan their financial activity. Other factors (reputation of customer, transportation of produce by buyer, possibility of prepayment) appear to be less important.

Discussing criteria of choosing a distribution channel, it is crucial to emphasize the following: although in most cases, private farms and agricultural enterprises share nearly same priorities in choosing a channel, in certain cases some variations may be observed. Thus, the possibility of transportation/storage of produce by buyer appears more important for PF than for AE. This was reported by 20% grain and oil crop growing PF, vis-à-vis 7% of AE with similar specialization.

### **Payment for delivered product**

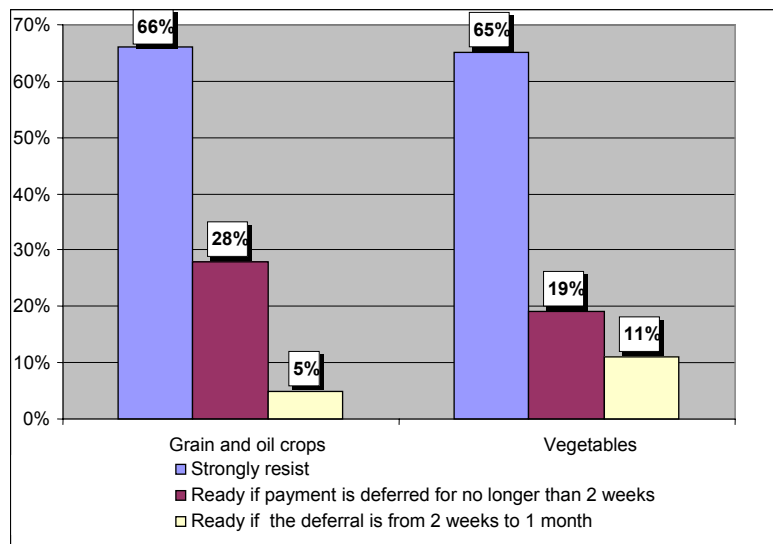
In the course of the survey, we also studied forms and schedule of payment for the delivered output. According to the survey findings, payment for produce is made predominantly upon delivery to the end customer (Figure 4). 90% of grain and oil-crops growers are paid only upon delivery. This is equally true for both PF and AE. Only 13% of grain and oil producers and 6% of vegetable growers receive prepayment. A lower percentage of vegetable growers receiving prepayment may be explained primarily by the fact that a considerable portion of vegetables is sold via farmers markets, where payment is made no earlier than the customer buys the produce.

**Figure 4. Payment schemes used by producers for their produce sold, % of overall responses.**



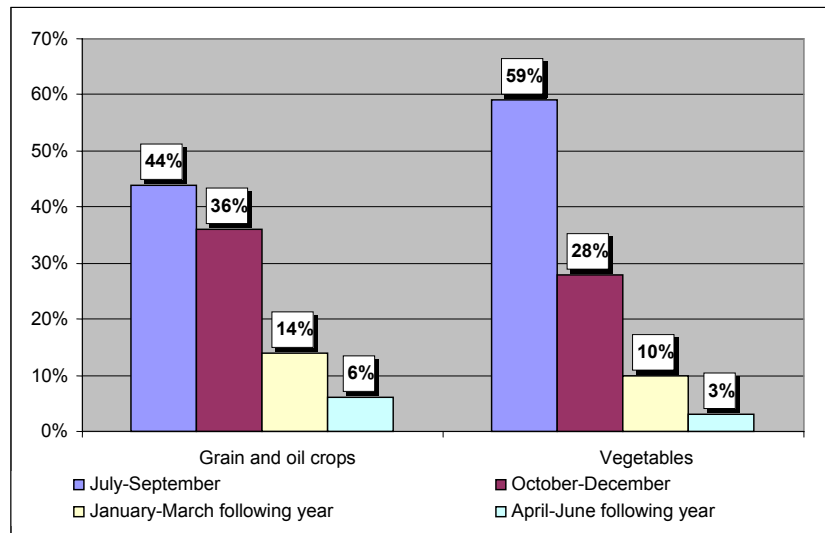
How much are the producers willing to sell output for deferred payment? Responses to this question are presented in Figure 5. As may be observed from the Figure, most producers are reluctant to sell for deferred payment. Main explanations include their need to receive cash, lack of trust to the supplier and, consequently, the fear that they will not receive payment at all. Meanwhile, agricultural enterprises are less reluctant to market their produce for a deferred payment, than their private farm counterparts. Let's look at the following data on two major categories of grain and oil crops growers. Over 70% of the surveyed private farms (71%) note, they are absolutely reluctant to sell produce for a deferred payment. The portion of those who would agree to sell produce with no more than 2 weeks deferral equals 25%. As for agricultural producers, the portions of these responses equal to, respectively, 53% and 35%.

**Figure 5. Whether producers are ready to sell their produce for deferred payment, % of overall responses.**



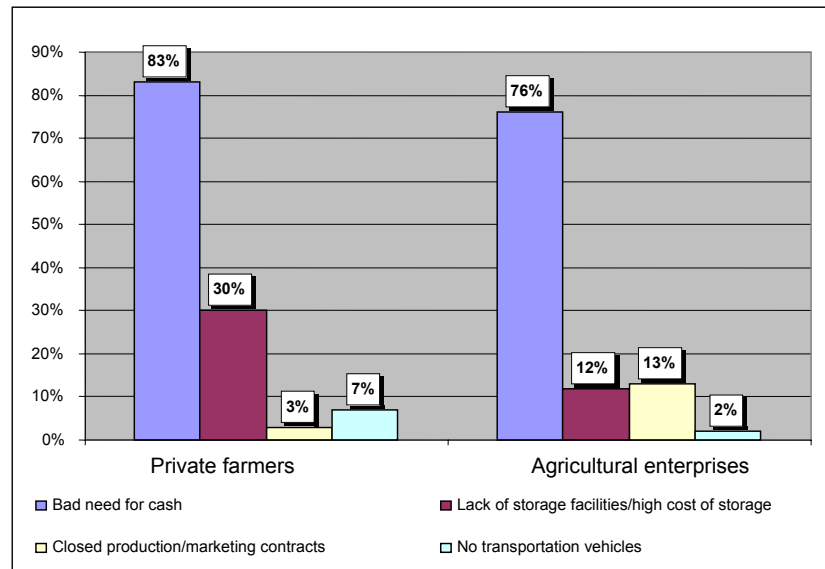
Uneven supply of output to the market remains one of the major problems of agrarian marketing. As may be observed from the received results, considerable portion of agricultural produce is marketed immediately after harvest. Another 44% of produced grain and oil crops and 58% of vegetables are sold in the period between June and September. Meanwhile, sales of big volumes of produce over a short period of time results in rapid plummeting of market prices. Certainly, it eventually affects producers' revenues.

**Figure 6. Proportion of produce sold in the course of marketing year, % of overall responses.**



What are the main reasons making producers sell their output immediately after harvest? Bad need for cash appears to be the key explanation of this practice (Figure 7).

**Figure 7. Main reasons for selling produce after harvest, % of overall responses.**



This was reported by overall 76% of agricultural enterprises that market their output immediately after harvest, and even a bigger portion of private farmers: 83%. Producers need cash badly for two reasons: (i) to repay loans and (ii) pay for inputs supplied earlier.

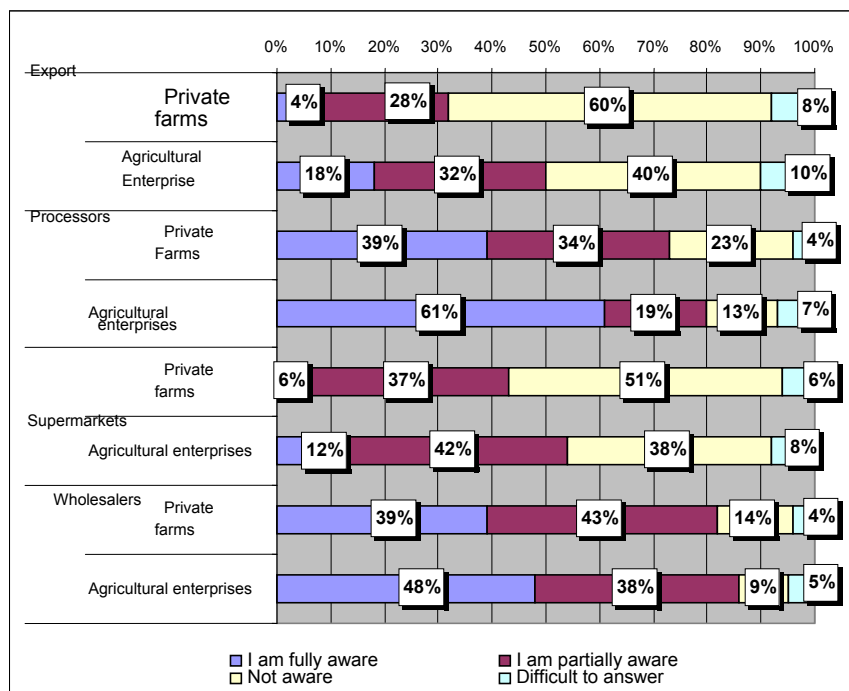
Second most frequently cited force driving producers to quickly sell their produce is lack of storage facilities. This problem appears particularly acute for private farms, which generally have fewer assets and in less apt shape.

It is important to note, that on-going contracts closed by producers with buyers appear to be the explanation of quick sales only for 13% of agricultural enterprises and 3% of private farms

## Main requirements for sale of produce

One of the preconditions of a good cooperation between producers and buyers of agricultural produce is producers' awareness of buyers' requirements to the quality of particular produce. The better producers are informed about requirements the less they are likely to encounter problems with buyers. In the course of the survey we attempted to find out how well producers are aware of requirements to produce in the context of main purchasing organizations (Figure 8). To identify the level of awareness, the survey used the following characteristics: "fully aware", "partially aware" and "unaware".

**Figure 8. Producers' awareness of requirements to sale posed by purchasing organizations, % of total responses.**

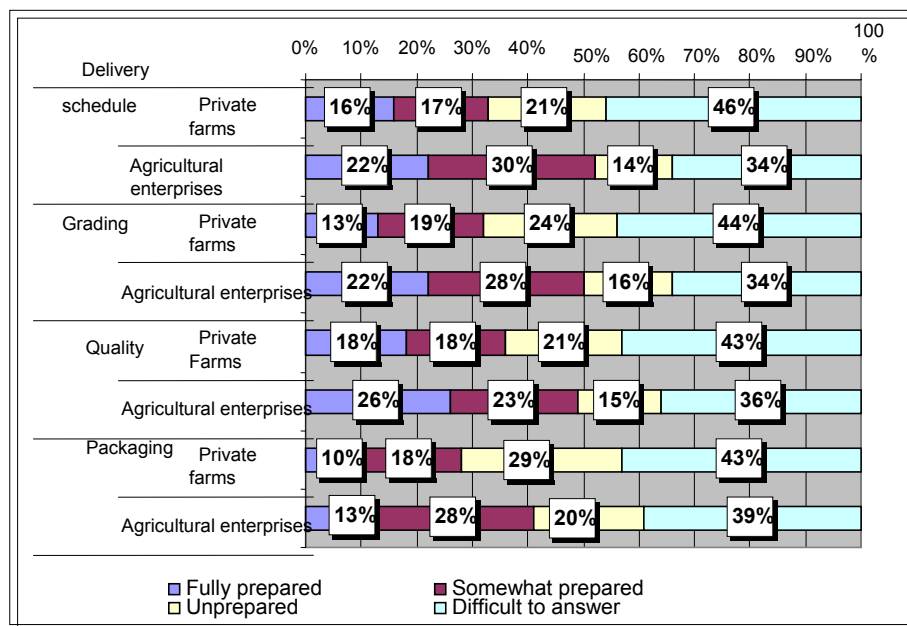


The elicited data demonstrate that producers are best aware of requirements to produce posed by wholesale companies and processors. As was noted earlier, these are two primary categories of counteragents, agricultural producers have most developed relationship with. It is also important to note, that agricultural producers appear to be better aware of these requirements than private farms. Notwithstanding, both AE and PF report lack of skills with regard to marketing their produce to large supermarket chains and export. Let's look at the following data: only 18% of the surveyed AE and 4% of PF stated they were familiar with "rules of the game" in the Ukrainian agriculture output export market.

In addition to probing into the level of awareness, the survey also intended to find out how well producers are prepared to meet requirements of buyers regarding quality of produce, schedule and size of shipments, presale processing (e.g. grading) and packaging (Figure 9). Level of preparedness was determined on the following scale: "not prepared", "prepared" and "fully prepared". Where producers were not sure about their answer, they could choose option "difficult to answer". It is important to note that this question did not include any specific quantitative rating indicators regarding compliance with such requirements.

As may be observed from the presented responses, farmers predominantly chose "Difficult to answer". This relates to all main categories of requirements. A possible explanation of these results may be lack of any quantitative benchmarks with regard to buyers' requirements.

**Figure 9. Producers' preparedness to meet requirements of buyers, % of total responses.**



Meanwhile, the elicited data allow making the following conclusions. First, in addition to being generally hesitant regarding rating of one's own preparedness to meet buyers' requirements, nearly one fourth of the surveyed agricultural producers express partial preparedness to meet the requirements. Second, notwithstanding insignificant proportion of producers fully prepared to meet buyers' needs, this quantity includes a slightly bigger share of agricultural producers. It is also important to note that two last annual surveys demonstrated that today agricultural producers (particularly, private farms) are least ready to meet the requirement of produce packaging.

### Problems of agricultural marketing

As becomes evident from the above, it takes ag producers time and effort to develop effective distribution channels and enter new markets. Meanwhile, in the process, they do encounter certain problems. In the course of the survey we tried to find out what particular problems face producers and how painful these problems are for farmers.

Results of the survey are presented in Table 1. As may be observed, low purchasing prices is the highest ranking problem. It is a concern for 90% of the surveyed private farms and 78% of agricultural enterprises. Of note, low selling prices were recognized gravest problem in three previous yearly surveys. Thus, in 2001, 79% of PF and 91% of AE emphasized this was the largest problem for them.

**Table 1. Main problems with agricultural marketing and their acuteness for producers**

	Private farms				Agricultural enterprises			
	Very big concern	Not a big concern	Not a concern	Difficult to answer	Very big concern	Not a big concern	Not a concern	Difficult to answer
Lack of large batches of commodity	22%	40%	32%	6%	19%	43%	34%	4%
Transportation problems	35%	36%	28%	1%	23%	50%	24%	3%



Few purchasing organizations	39%	33%	27%	1%	37%	30%	30%	3%
Problems with packaging	12%	33%	53%	2%	11%	38%	47%	4%
Lack of information on sales markets	26%	34%	38%	2%	29%	39%	28%	4%
Low demand for produce	52%	22%	24%	2%	51%	26%	19%	4%
Storage problems	54%	32%	13%	1%	30%	48%	19%	3%
Low selling prices	90%	7%	2%	1%	78%	16%	4%	2%

In our opinion, the problem of low selling prices is the derivative of several objective and subjective factors. Agricultural production is a sector of human activity, where prices for output tend to fluctuate greatly. This is particularly true for crops with domestic prices affected by global market prices. Moreover, today purchasing capacity of Ukrainian citizens, albeit growing, is still lower than in other countries. Also, we shouldn't neglect the fact that the cost of production in agricultural sector in Ukraine in many instances is very high. All these factors prevent Ukrainian producers from obtaining desirable price.

In addition, in many instances agricultural producers can't yet enter new markets and take advantage of more profitable distribution channels. This last inefficiency also affects market prices for output.

The problem of storage also remains outstanding. Private farms seem to be particularly concerned about storage of their produce. It was reported by nearly over a half (54%) of the surveyed farmers. As was noted earlier, lack of storage facilities forces most producers market their output shortly after harvest. As a result, huge supply of freshly harvested produce in the market brings down prices. This may serve another explanation of why so many producers are bothered with low product prices.

The problem of transportation should be noted among other problems. It stands particularly acute for private farmers, reported by over one third (35%) of these, who tend to have weaker asset base, first of all, transportation vehicles.

Limited number of purchasing organization represents a concern for 39% of the surveyed private farms and 37% of agricultural enterprises. However, we would dare to assume that this problem may be a derivative of producers' lack of information about selling markets. The lack of information was recognized as a problem by 26% of private farms and 29% of agricultural enterprises.

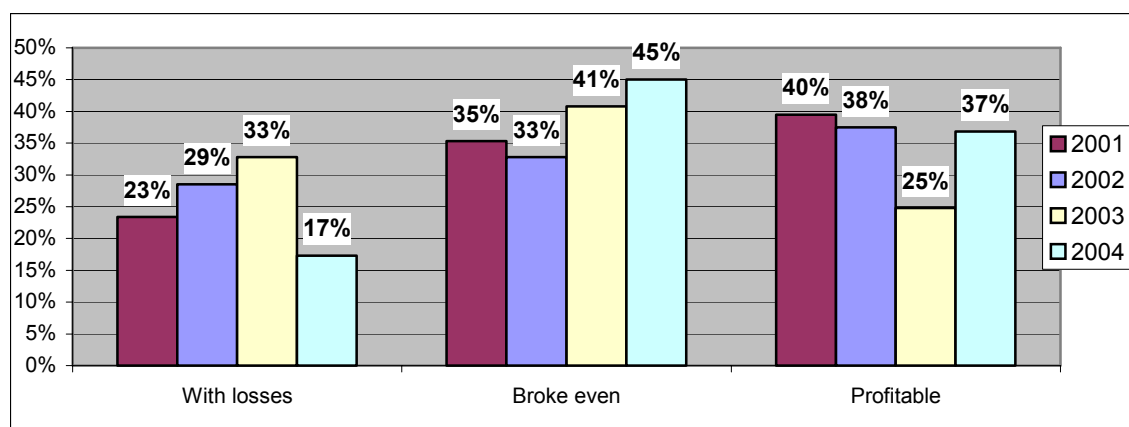
## 5. AGRICULTURAL LENDING AND INSURANCE IN UKRAINE

### 5.1 Financial performance of farms

In 2004, farms performed financially considerably better than before, thus having reversed the negative tendency of two previous years (Figure 1). In 2004, the number of loss-making farms decreased by 16 p.p.<sup>3</sup>, while the number of businesses that ended financial year with profit has risen by 13 p.p. The quantity of businesses that broke even at the end of the year, has grown by 4 p.p.

Zhytomyr oblast appeared to have done worst in 2004, with 41% of farms ending the year with losses (in the previous year this oblast ranked second by the number of loss-making farms after Kherson oblast), while Ivano-Frankivsk and Poltava oblasts were least loss-making with only 10% of respondents in each reporting end-year losses. Financial performance of agribusinesses in Kherson oblast has improved notably: the number of farms that admitted they made losses dropped from 53% in 2003 to 14% in 2004.

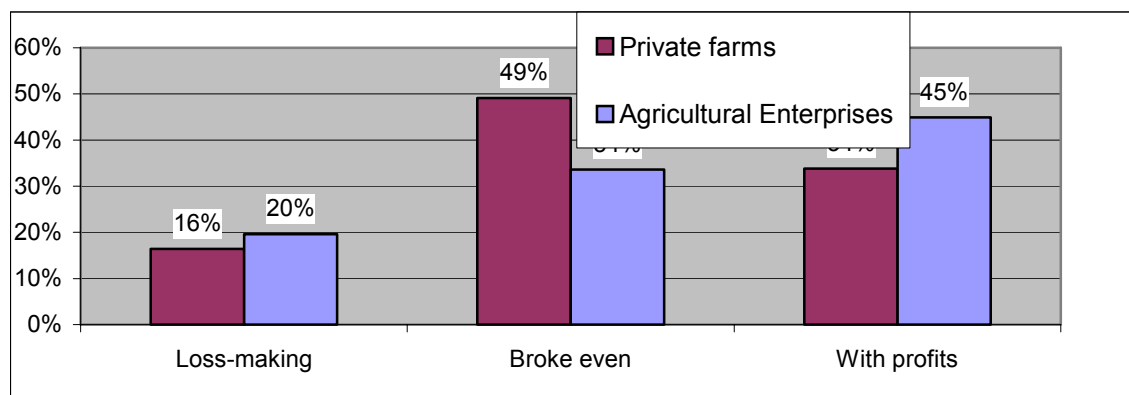
**Figure 1. Dynamics of financial state of agricultural producers in Ukraine (2001-2004), % of overall responses**



In 2004, financial performance of both private farms and agricultural enterprises has improved. Number of loss-making private farms dropped by 16 p.p., and of agricultural enterprises – by 14 p.p. against the previous year. According to results of the surveys fewer private farms tend to make losses than agricultural enterprises (this hypothesis was consistently confirmed during four years of study). Meanwhile, profitability of agricultural enterprise grows more rapidly, than that of private farms. Compared to 2003, the quantity of profitable AE has grown by 16 p.p. to reach 45% of the overall number of surveyed farms, while profitability of private farms in this period has increase by 11 p.p. and reached 34% of the surveyed sample.

<sup>3</sup> p.p. – percentage points, change in percentage against previous year.

**Figure 2. Financial state of private farms (PF) and agricultural enterprises (AE) in 2004, % of overall responses**

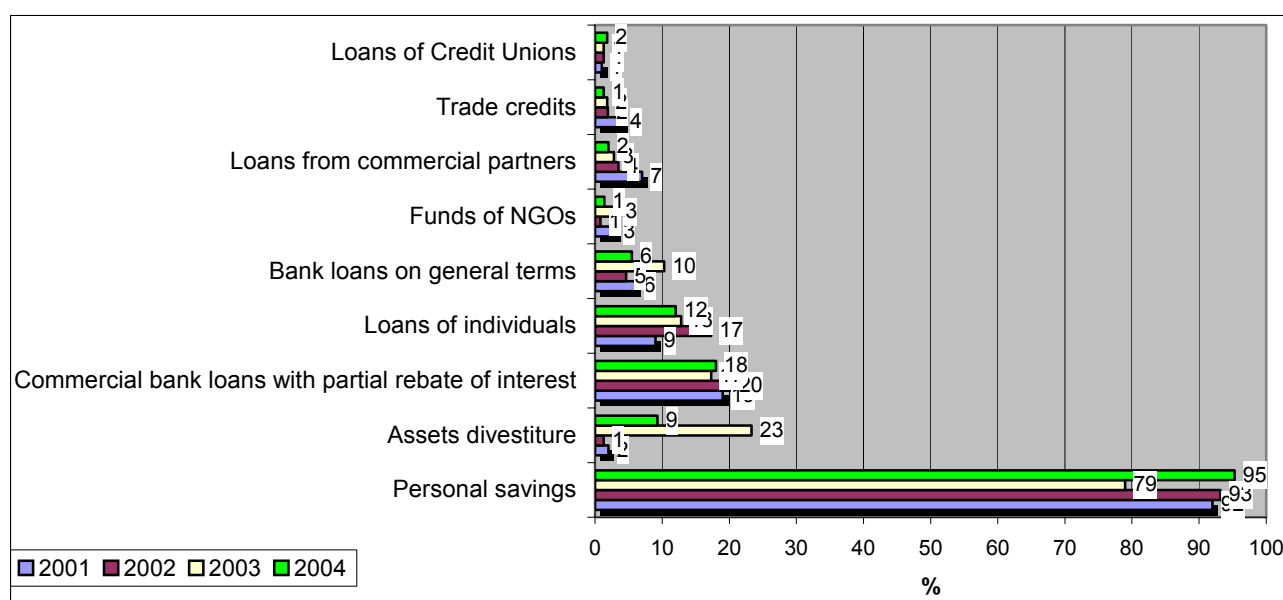


## 5.2 Main sources of funding

According to the survey results, farms' savings constituted the principal source of funding (Figure 3). Of note, the percentage of respondents who admitted it, has grown again to reach 95% (against last year's 79%).

Second most common source of funding in 2004 was commercial bank loans with partial rebate of interest (18% of the overall number of respondents, which closely correlates with the level of previous year, 17%). Third most frequently cited source of financing by agribusinesses was loans provided by individuals (reported by 12% of the surveyed farms).

**Figure 3. Evolution of the sources of funding used by ag producers in the period between 2001 and 2004**



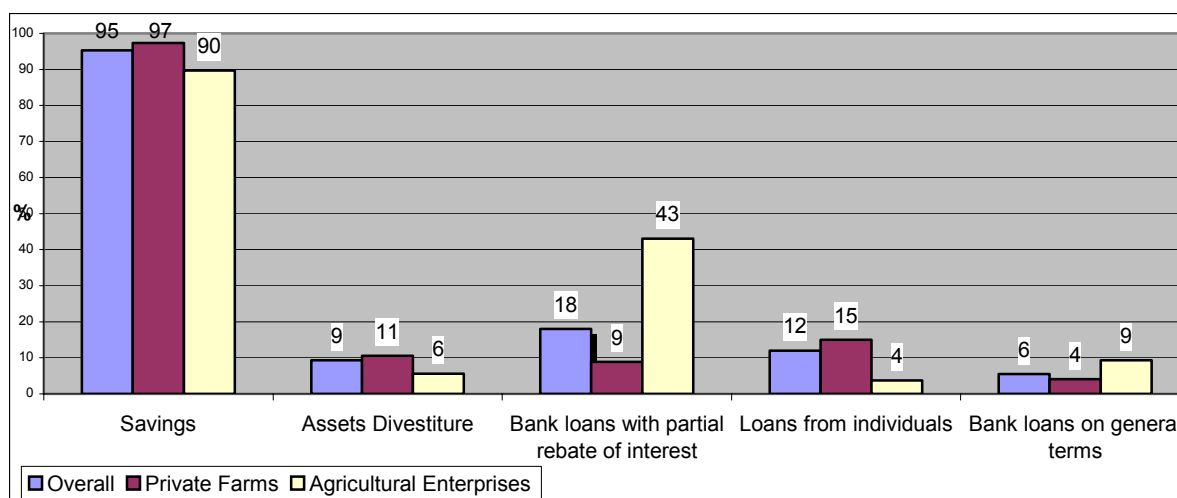
The correlation between type of farm and sources of its financing has also preserved (see Figure 4).

For both types of respondents, savings remain primary source of financing of their operational needs. However, while agricultural enterprises also rely on bank loans, prevalently, using the mechanism of partial rebate of interest, for private farmers, options of funding are limited by their own resources and a possibility to borrow from individuals. For private farms, loans from individuals rank second most important source of funding (reported by 15% of PF), and assets divestiture ranks third (cited by 11%).

For agricultural enterprises, the second and third ranking most important sources of funding were, respectively, commercial bank loans with partial rebate of interest (43%) and bank loans on general terms (9%).

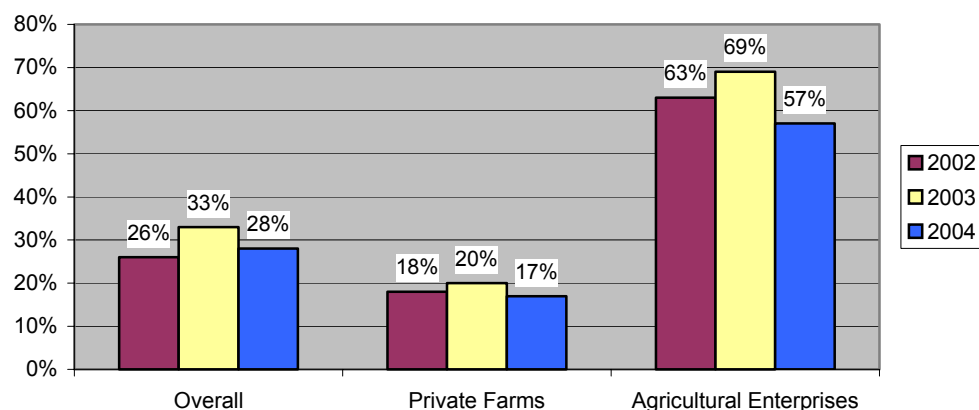
Out of the 400 farms in the sample, 111 obtained loans in 2004 (or 28%), which is by 5 p.p. fewer than the year before. Particularly, loans were extended to 50 private farms (or 17% of the surveyed PF, which is by 3 p.p. less than the previous year), and to 61 agricultural enterprises (or 57% of the surveyed AE, which is by 12 p.p. less than the year before). As may be observed, the proportion of AE that were lucky to obtain bank loans in 2004 is three times bigger than the portion of PF (the trend of previous years has persisted).

**Figure 4. Types of farms and sources of funding in 2004**



According to the survey results, those agribusiness that obtained loans in 2004, used them to finance on average 51% of their production needs. Size of an average extended loan equaled approximately 73% of the requested amount. These results are almost same for agricultural enterprises and private farms.

**Figure 5. Percentage of the surveyed farms, that obtained loans in 2002-2004.**

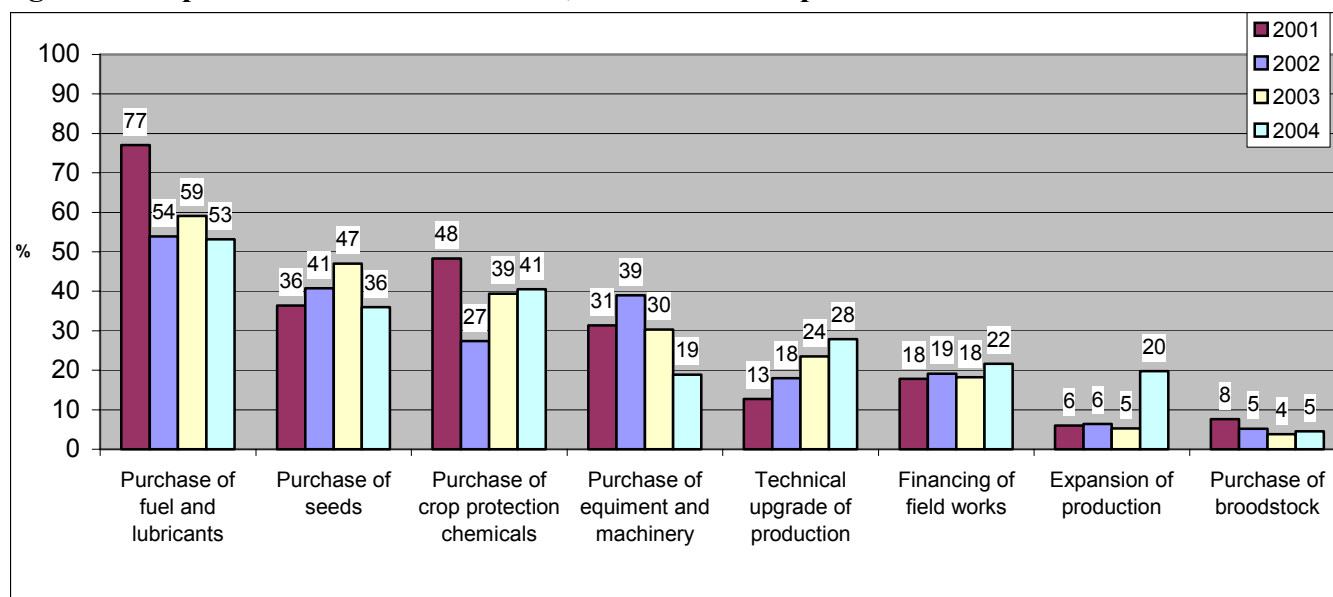


### 5.3 Purposes of loans

As earlier, the majority of those who experienced needs for loans, used them for financing short-term operational needs, i.e. purchase of fuel and lubricants (53% of respondents), crop protection chemicals (41% of respondents), seeds (36% of respondents) etc. (Figure 6).

In addition, there is a clear growing tendency towards spending funds for technology upgrade (consistent growth over last three years, totaling 15 p.p.) coupled with the significant growth of expenditures for expansion of production in 2004 (by as much as 15 p.p.). However, it is important to note, that spendings on purchase of brood stock remain on an extremely low level.

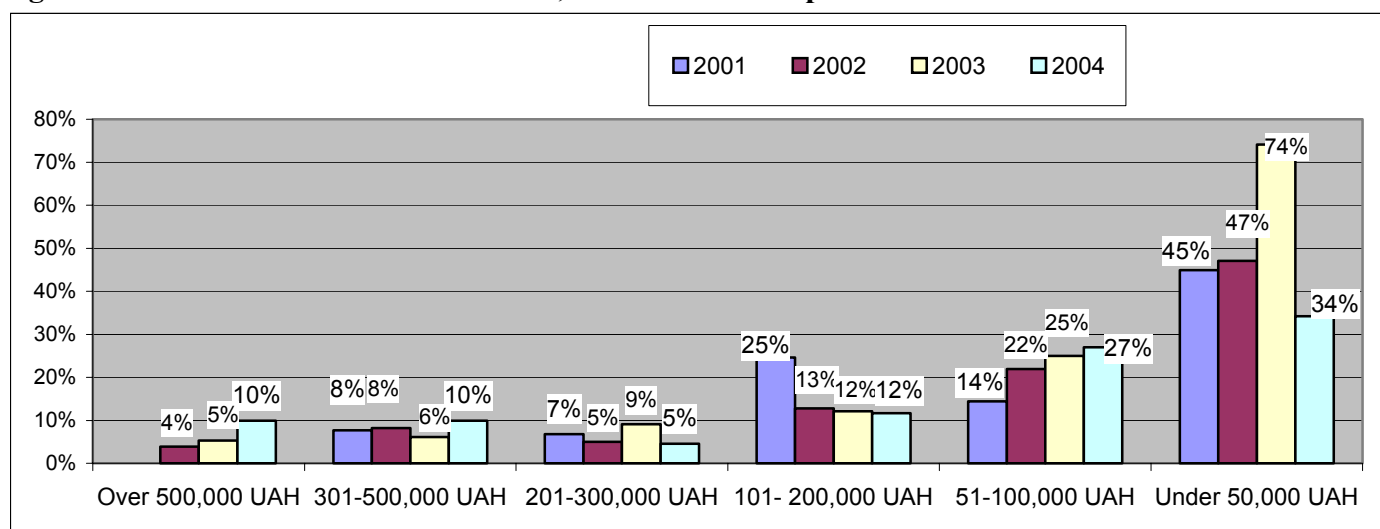
**Figure 6. Purposes of loans in 2001 - 2004, % of overall responses**



## 5.4 Size of loans and interest rates

Likewise in previous years, loans of the smallest size constituted the biggest share of all extended loans. Particularly, 34% of those respondents who obtained loans, noted their loans were under 50,000 UAH, while 27% claimed their loans ranged from 50,000 to 100,000 UAH. So, generally, nearly 60% of all extended loans were less than 100,000 UAH.

**Figure 7. Sizes of loans extended in 2004, % of overall sample**



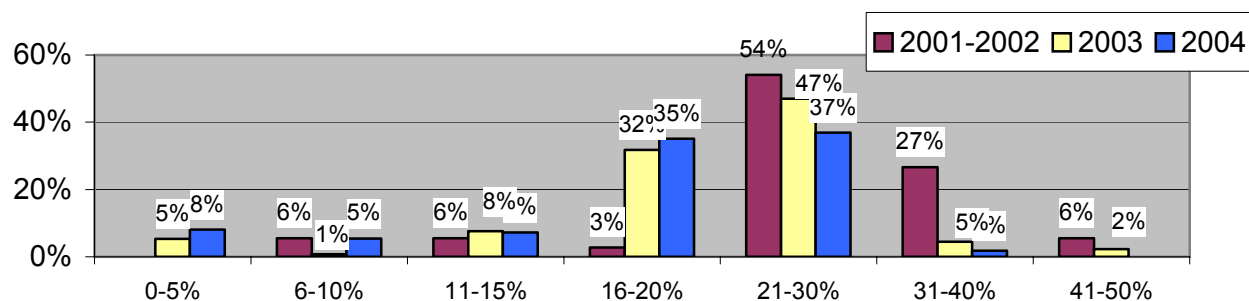
Meanwhile, it is important to emphasize certain positive changes in sizes of loans: for the first time since 2001, the number of those who received smallest loans has decreased considerably (from 74% to 34%). Instead, the number of those who received largest loans (over 500,000 UAH) has doubled from 5% to 10%, except for loans in the range from 200,000 to 300,000 UAH.

Figure 8 presents data on interest rates for loans, obtained by farmers in the period between 2001 and 2004.

As may be observed from the figure, in 2004, the decreasing tendency for interest rates has persisted. Thus, the portion of respondents who obtained loans under interest rates higher than 20%, is steadily going down. Particularly, although loans extended with interest rates ranging from 21% to 30%, remained most common, their portion has reduced by 10 p.p. Loans with 30-40% interest rate were issued extremely rarely (their quantity has decreased in 2004 by 3 p.p. and equals only 2%).

Instead, the portion of loans with interest rates under 20% has grown considerably. Specifically, loans with rates between 6%-10% have increased by 4 p.p. and with interest rates from 0% to 5% - by 3 p.p.

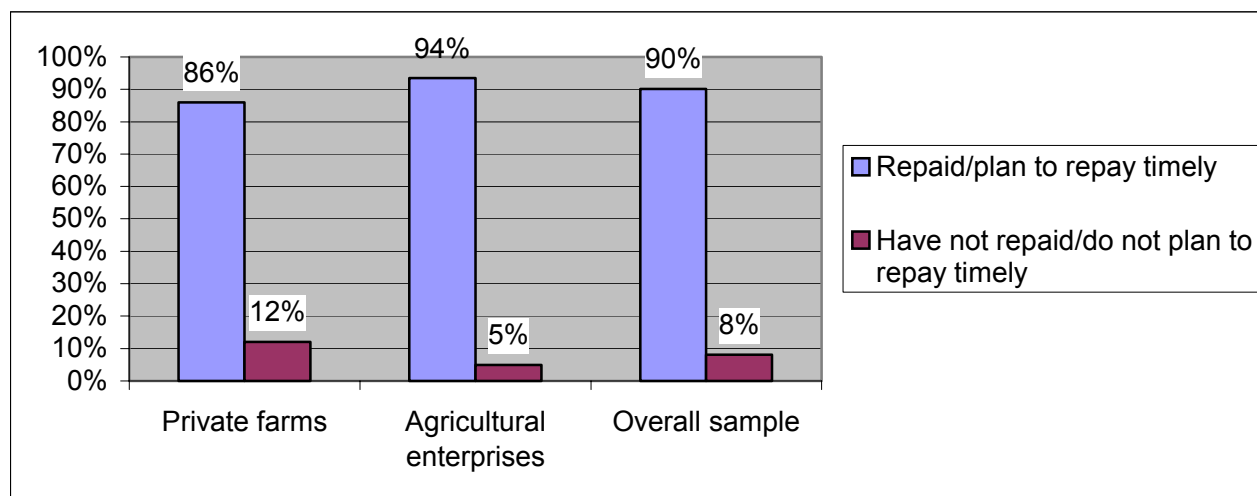
**Figure 8. Interest rates in 2001-2004, % of the total number of respondents that obtained loans**



### 5.5 Loan repayment

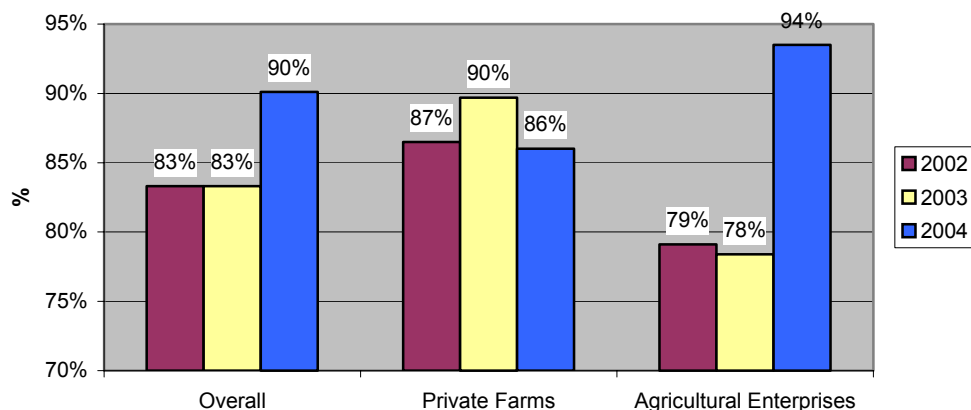
Repayment of loans by agricultural enterprises in 2004 has improved compared to the previous year: of those respondents that obtained loans, 90% have already repaid or plan to repay loans in a timely fashion (against 83% last year). Still, 8% have not repaid or do not plan to repay loan timely (in 2003, this portion was 15%, in 2002 – 17% and in 2001 – 14%).

**Figure 9. Performance on loans in 2004, % of overall loans received**



For the first time in the four years of study, agricultural enterprises have demonstrated better performance rate on loans. In 2004, AE have repaid or plan to repay 94% of loans, which is by 8 p.p. more than for PF, and by 16 p.p. higher than the similar value for AE in the previous year. Likewise regarding the percentage of loans that have not been repaid timely: AE have not returned or did not plan to return 5% of loans, which is by 7 p.p. less than the similar rate for PF, and by 15 p.p. less than the portion of non-performing loans for AE in the previous year.

**Figure 10. Repayment of loans in 2002-2004, % of overall sample**



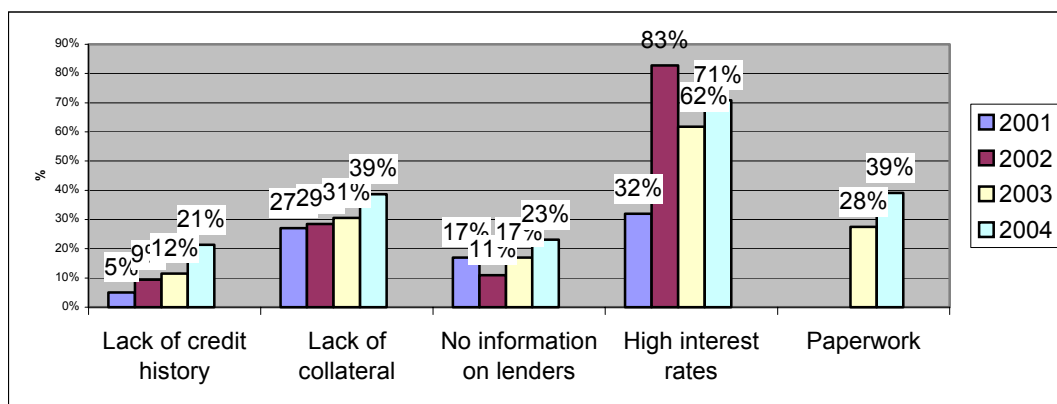
Of those 111 producers that obtained loans in 2004, only 9 (or 8% of the group) have defaulted: including 6 private farms and 3 agricultural enterprises. Major explanations of their failures were lack of profits due to growing production costs (33%) and bad yield of crops (33%). In addition, among other reasons for non-performing loans respondents cited ineffective usage of borrowings (22%) and underreceived profits due to non-fulfillment of contractual obligations by their counterpart agents (22%).

### 5.6 Major obstacles to obtaining loans

Likewise in previous years, major obstacles to obtaining loans, most frequently cited by respondents, were high interest rates (quoted by 71% of respondents.) Second most frequently cited obstacles were lack of collateral and burdensome loan application procedure (39% of respondents rated these obstacles as very important). It is important to note, that paperwork and burdensome formal procedure of bank loan issue has become worse in 2004 (by 11 p.p. compared to the previous year).

It is also important to note, that over the last four years, ag producers became increasingly more aware of the importance of credit history (the overall portion of these in 2004 was 21% which is by 9 p.p. higher than the level of previous year). The importance of such obstacle as lack of information about lenders has also gained importance over the last four years (23% in 2004, which is by 6 p.p. higher than the previous year).

**Figure 11. Impediments to obtaining loans, 2001-2004, % of total responses**

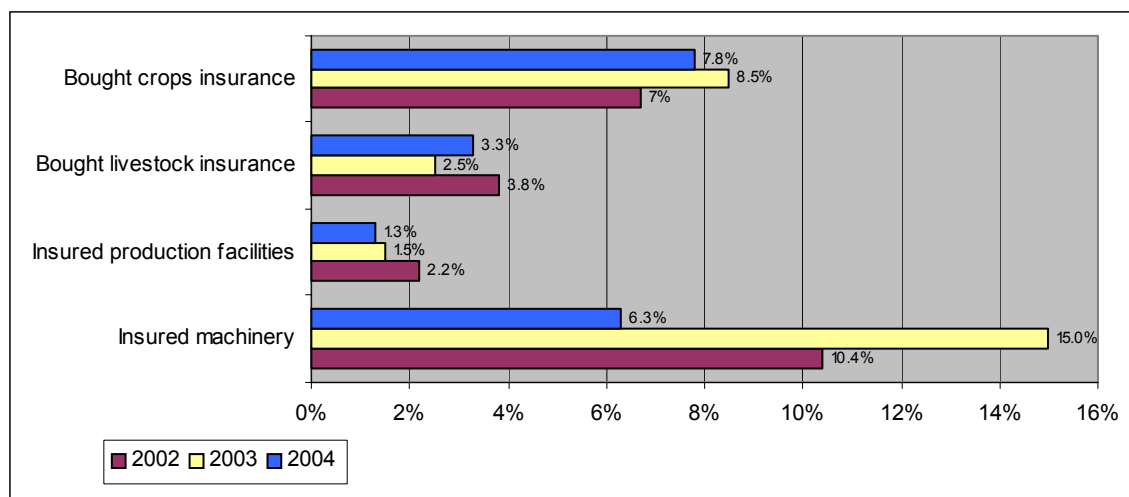




## 5.7. Insurance

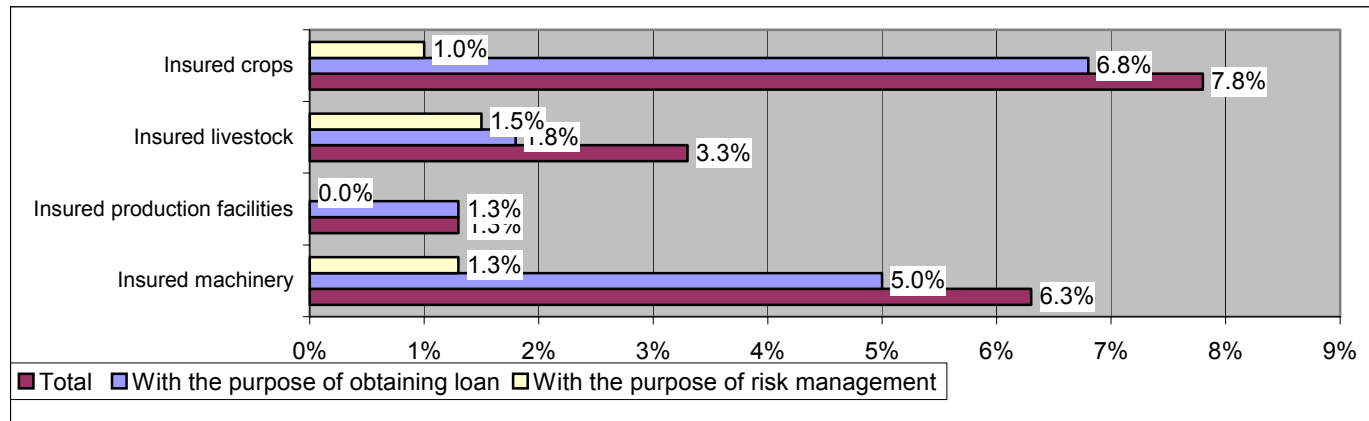
In 2004, volume of insurance by all major agricultural objects was low. As may be observed from Figure 12, only 7.8% of ag producers bought crop insurance in 2004, this is even less than in 2003. Percentage of those who insured production facilities has also dropped to 1.3%, and those who insured agricultural machinery – to 6.3% (this is by 8.7 p.p. lower than the value of previous year).

**Figure 12 Change in volumes of insurance in 2002-2004, % of total respondents**



Once again, results of 2004 survey corroborated the fact, that farm risks are insured in Ukraine primarily in order to obtain loan, and not to mitigate risks. Thus, 7.8% of those respondents who bought crop insurance in 2004, 6.8% did it to secure obtaining funding, and only 1% - in an effort to manage risks (see Figure 13). The situation is quite similar with insurance of production facilities and agricultural machinery. The only object insured by producers for reasons beyond obtaining loan, is livestock.

**Figure 13. Purpose of agricultural insurance in 2004, % of overall respondents**



What insurance rates prevailed in 2004?

**Figure 14. Insurance rates in 2004**

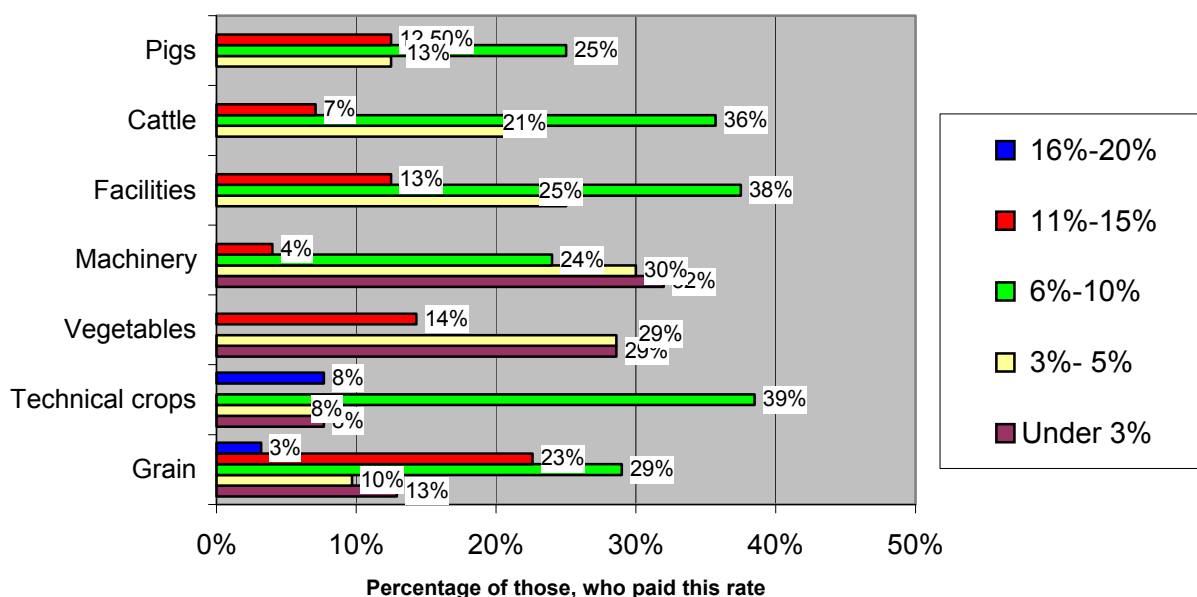


Figure 15 presents what risks ag producers insured in 2002-2004 and what risks they are likely to insure in 2005. As may be observed, multi-risk insurance, although ranks highest among most common types of insurance (34% of those who did insure, chose multi-peril insurance under the mandatory insurance program), however, tends to become less popular. Instead, producers are more likely to buy hail insurance, and hedge such risks as cattle death, drought and winterkill.

**Figure 15. Farm risks insured in 2002 - 2004 and plans for 2005, % of overall insured.**

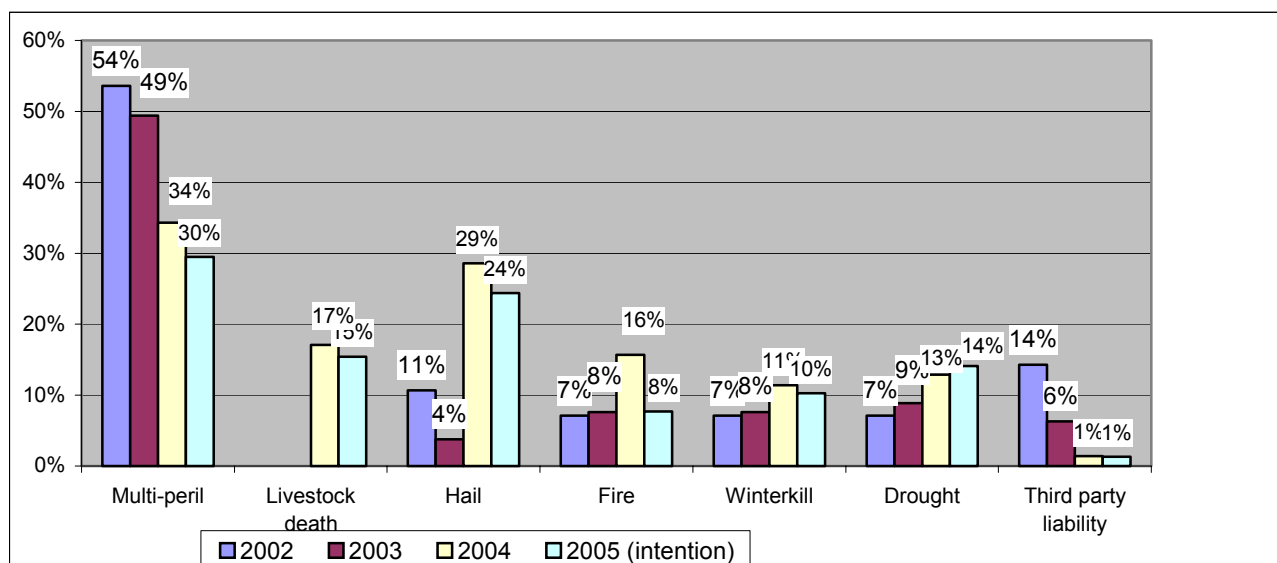
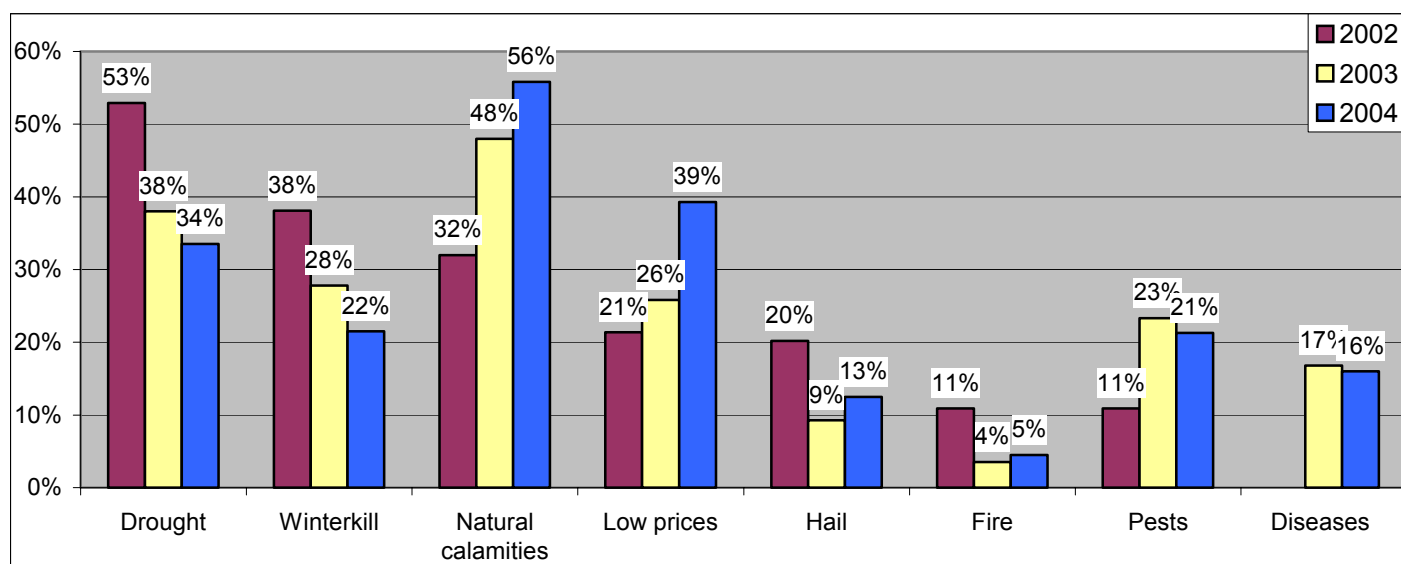


Figure 16 below presents farmers' perception of their biggest exposures, according to survey findings between 2001 and 2004.

Adverse weather conditions and natural calamities pose biggest hazard to producers, and the significance of this risk has been growing steadily in this period (in 2004, it was recognized by 56% of respondents, which is by 8 p.p. more than the year before).

It is interesting, that the significance of economic risks continues to grow, too. In 2004, risk of low selling price was second most frequently cited risk (mentioned by 39% of respondents, which is by 13 p.p. higher than the year before). This fact speaks in favor of the need to develop farmers' income insurance in Ukraine.

**Figure 16. Risks posing biggest hazard to farming operations, 2002-2004**



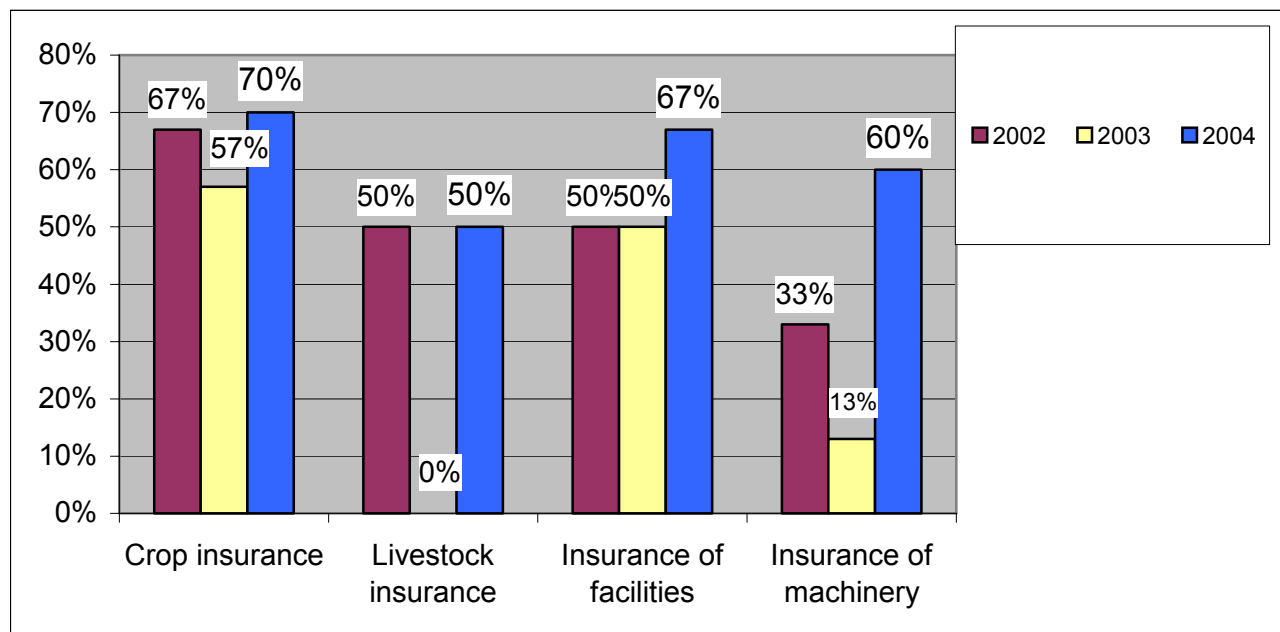
Finally, a very important objective of the survey was to find out how insurance companies meet their payment obligations before the insured, as this is a key element of farmers' trust to insurance, and a precondition for stimulating customer demand for insurance services.

Analyzing answers to question, how insurance companies meet their payment obligations before the insured, let's look at the following two indicators: (1) level of claims paid (correlation between those who had insurance policies and incurred loss, to those who had policies) and (2) received indemnity as a percentage of total losses incurred (in cases where a farm was insured, incurred losses and received indemnity).

Figure 17 below presents percentage of those who carried insurance policies (respectively, in 2002, 2003 and 2004) for crops, livestock, facilities and machinery, and was indemnified as a result of insurable event. As may be observed from the chart, in 2004, claims were paid to 70% of those who bought crop insurance and suffered losses, which is by 13 p.p. higher than the previous year. It is important to note, that in 2004, fewer respondents than in 2003, suffered insurable events (32% of all insured who suffered losses, against 41% of all insured respondents who suffered losses in 2003). The number of insurable events under livestock insurance has increased: from 27% of all insured in 2003 to 31% in 2004. A half of those who insured livestock and incurred losses have been indemnified. Claims paid under insurance of agricultural facilities have increased by 17 p.p. in 2004 to reach 67%. Meanwhile, the incidence of

insurable events has somewhat reduced to 60% (against 67% in the previous year). Finally, level of indemnities paid under insurance of agricultural machinery demonstrated the biggest growth, from 13% in 2003 to 60% in 2004 (with incidence of insurable events growing insignificantly from 13% in 2003 to 20% in 2004).

**Figure 17. Claims paid between 2002 and 2004 by types of insurance, % of those who was insured and received indemnity as a result of insurable event**



So, we can observe that in 2004, level of indemnities paid has somewhat risen compared to the previous years.

As regards the share of losses indemnified to farmers, we can note, that it was 33% on average, which is by 7.7 p.p. higher than in the previous year, when only 26% of losses on average were reimbursed. It took insurers four months on average to pay these claims.

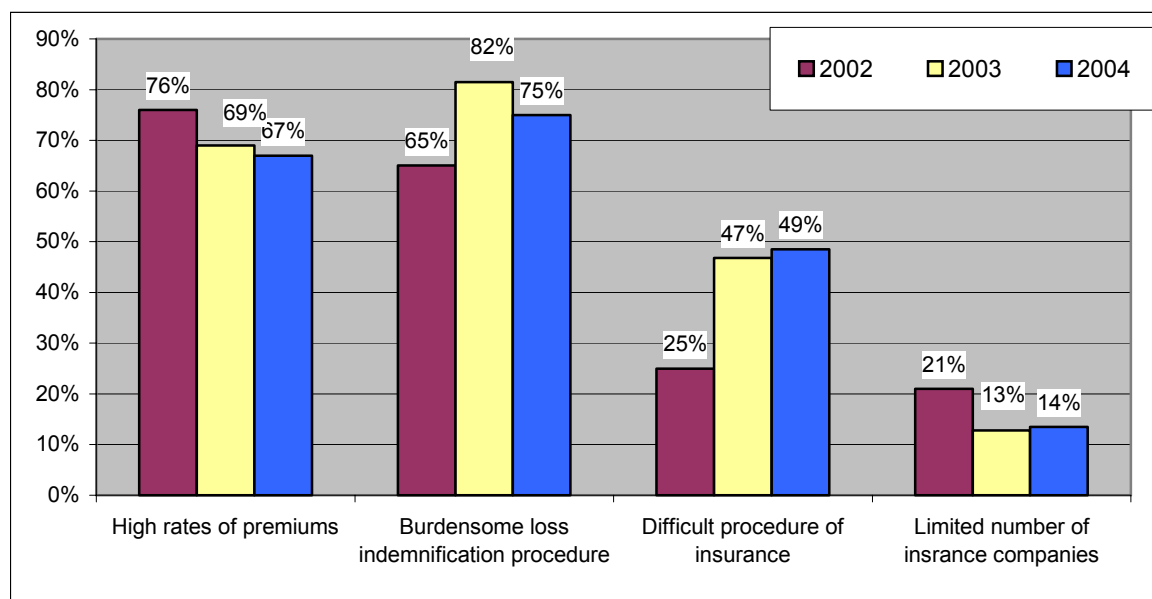
So, in 2004, insurance companies fulfilled their obligations before clients slightly better than before.

Figure 19 presents results of the surveys between 2002 and 2004 regarding farmers' perception of problems with insurance. As we may see, the problem of high premium rates, which clearly stood out in 2002, continues losing its significance: in 2004, its importance dropped by 2 p.p. against 2003. For the second time in a row, respondents rank highest the problem of receiving indemnity on claim (the portion of those who admitted this problem as most important reached 75% in 2004).

It is also important to note, that more producers were concerned about difficult overall insurance procedure (the portion of those who admitted this was a major problem, has grown from 25% in 2002 to 49% in 2004). In our opinion, these results expressly demonstrate that a combination of scarce funds available and high premium rates is an effective obstacle preventing producers from buying insurance; however, it is not the only and not the major impediment.

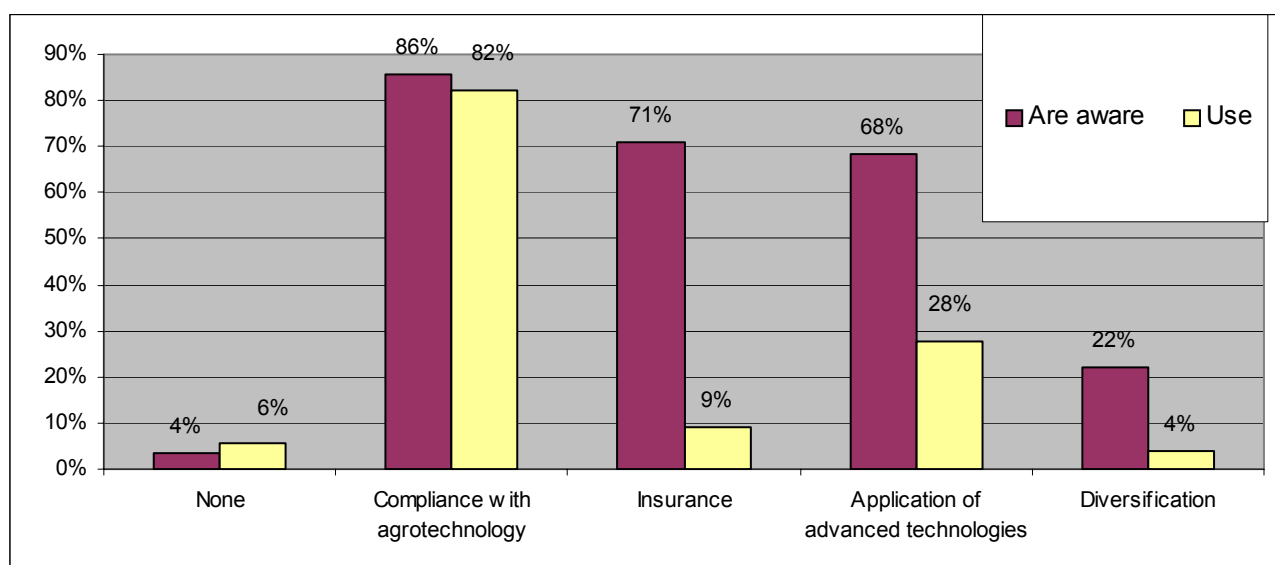
Instead, farmers are discouraged by lack of insurers' credibility, as they are concerned about complicated and opaque procedure of receiving indemnity, which hardly brings them hope that their losses will be repaid fairly. Moreover, farmers are scared off by the insurance procedure per se, as it fails to give them a clear picture of insurance products on offer, and/or farmers' rights and responsibilities.

**Figure 19. Attitude to problems of farm insurance in 2002-2004**



In the course of the survey producers were asked an open-ended question about any risk mitigation strategies they might know and use in their operations. Responses to this question are presented in Figure 20.

**Figure 20. Risks mitigation strategies of which ag producers were aware and used in 2004**



## **MANAGERIAL AND LEGAL ASPECTS OF FARMING OPERATIONS**

Studying various questions in the area of legal and managerial aspects of farming operations has been traditionally included as a component of the sociological annual survey undertaken by the International Finance Corporation Agribusiness Development Project for the fourth year in a row. Main goal of this survey was to study the current state of farming sector in Ukraine, keep track of changes taking place in the sector and monitor their dynamics, and to determine a circle of problems facing agriculture producers.

Of course, these issues did not constitute a portion of production or finance and economic issues, however, in agriculture all these issues are so tightly intertwined, that it may help to understand if and to what degree legal and managerial principles of farming may contribute to raised effectiveness of farming operations.

Likewise in previous years, the survey sample was made up primarily of heads of private farms and managers (deputy managers) of agriculture enterprises, including those, that came into being in place of former collective farms as a result of reforms in agrarian sector. As was noted before, the general sample of the survey included 400 respondents from five regions of Ukraine. 293 respondents represented private farms (further, the subgroup PF) while the other 107 – agriculture enterprises (subgroup AE)<sup>1</sup>.

Respondents were asked questions organized in several groups, where one group was devoted to general organizational principles predominant in agrarian business, another portion dwelled upon land title relations, including rent, purchase and sale of land plots, and the rest of questions were targeted at eliciting information on how well agriculture producers were aware of legal regulations in their sector. Meanwhile, major emphasis in this survey section was placed on identifying problems with land relations, where the explicit growth trend was observed. This tendency raised lots of concern, since it is the existing terms and procedure of acquiring title to land plots, their transparency and simplicity which represent important factors implying how easily agriculture producers can grasp their main means of production, i.e. land. Ultimately, all these things impact sustainability and effectiveness of agrarian business.

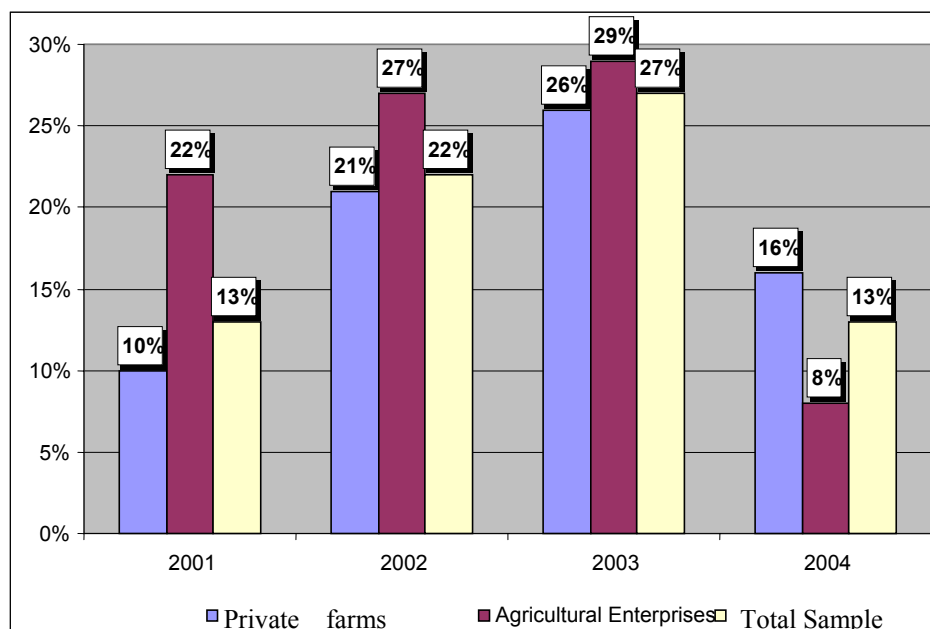
## **LAND RELATIONS**

According to findings of the previous studies, problems with lease of land plots and usage of land shares have been most sensitive. Thus, while in 2002, problems with rent were reported only by 21% of the general sample, and in 2003, the portion of those reached 26.7%, we are relieved to note that in 2004, these problems were reported by a much smaller number of respondents, almost equal to that of 2001, 14%, against 13% in 2001. (Figure 1). For subgroups PF and AE, in 2002 these portions were 20.5% and 27.1%, and in 2003, 25.9% and 29%, and in 2004 they dropped to 16% and 8.4%, respectively. In the regional context, Kherson and Zhytomyr oblasts demonstrated best and even improved, compared to the last year, results, with 90.9% and 95.9% of respondents there reporting they face absolutely no problems with rent of land plots.

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<sup>1</sup> Further throughout the text, in some cases, each of these two groups of respondents may be taken as 100%, in order to identify the share of respondents answering differently in each of the mentioned groups.

**Figure 1. Percentage of producers that faced problems related to rent of land plots, % of the sample**



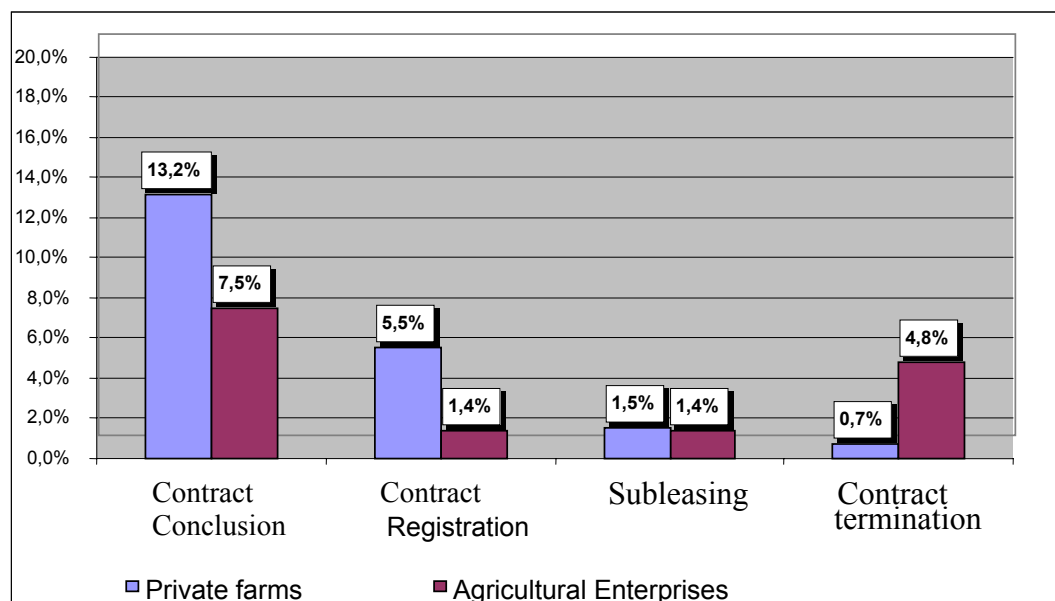
So, disregarding a somewhat slower pace of reduction in the PF subgroup, we can observe an optimistic and promising tendency to lower level of problems in practically all segments of land relations that were studied. According to the survey results, in 2004, by one third fewer respondents had difficulties connected to closing rent agreements<sup>2</sup>, while in the previous year these problems represented the lion's share in the structure of problems related to rent. While in 2003 this problem was reported by 18.8% of all respondents, in 2004 – by 11.8% of respondents, thus having approached the level of 2002 – 11.7%. In the subgroups PF and AE in 2002, these figures were 11% and 12%, while in 2003 - 20% and 16%, respectively (Figure 2).

The data presented above allow making a conclusion that against the general reduction trend there is a growing tendency in the gap between PF and AE perceiving rent relations as a problem. This phenomenon may be explained by the inertia of worried expectation of farmers, which in accordance with the Transitional Provisions of the Land Code of Ukraine, were required to change their permanent usage title for ownership or rent titles during 2004 and by January 1, 2005. In October 2004, Parliament of Ukraine adopted the Law “On Changes of the Land Code of Ukraine<sup>3</sup>”, whereby this deadline was postponed until January 1, 2008. That's why, it would be totally reasonable to assume, that this adjournment of change of land title by private farmers has only partially contributed to the general reduction of problems perceived by this group of respondents. As for the group of AE, they demonstrate even bigger stability in their land usage patterns and, consequently, lower dependence on rent of land plots in the government and communal ownership.

<sup>2</sup> It would be absolutely reasonable to assume, that reporting this problem, respondents meant not only obtaining possibility to close agreement, but rather, all related procedural requirements: coordination of terms, writing and signature of agreement, executing it in writing etc.

<sup>3</sup> Law of Ukraine as of October 6, 2004 poky # 2059-IV.

**Figure 2. Main problems faced by producers leasing land plots, % of responses.**



The following highest ranking problem in this section of the survey was the one with registration of the land rent agreement. While in 2002, it was reported by 6% of those respondents who admitted availability of problems, in 2003 this portion grew to 8%, and according to 2004 survey results, it has reduced almost by half, to 4.3%. This problem appears standing more acute for private farmers (5.5%) than for agricultural enterprises (0.9%), which, in our opinion, is the direct outcome of problems with rent agreements closure. The general trend to reduction of problems in this segment looks rather promising and is evidence of more efficient law enforcement<sup>4</sup> practices and streamlining of registration procedures, particularly, as a result of adoption of the Law of Ukraine “On the State Registration of Titles to Immovable Property and Limitations Thereof”.

In last year survey, we presented results of the survey with regard to sublease relations as a convincing illustration of the plausible conclusions made on the basis of the survey findings, and a vivid example of how a timely legal response to the society’s pressing needs may reduce the level of problems. 2002 survey report made a comment regarding higher level of problems in subgroup of AE (6.5%) compared to the subgroup PF (2%) where it was noted that the most probable explanation was legal limitations, due to which legal entities<sup>5</sup> are not entitled to provide for sublease plots of farm land. With adoption of the new version of Land Rent Law, the limitation was alleviated, and it has obviously improved the situation, as was demonstrated by results of the 2003

<sup>4</sup> Last year survey did mention some of the collisions between the Commercial Code of Ukraine and the new version of the Law of Ukraine “On Rent of Land”. While the Law of Ukraine “On Rent of Land” does not require that agreements on rent of land be verified by a notary, the Commercial Code imperatively states the requirement to have them verified. As was demonstrated by practice, it is this circumstance that registration bodies refused to have agreements registered where they had not been verified, or procrastinated with such registration.

<sup>5</sup> First of all, corporate entities, like agriculture enterprises, because private farms in most cases have land owned by individual members of private farms, rather than private farm as a legal entity.



survey. While in the PF subgroup the share remains on the same level of 2%, in the AE subgroup the share has dropped to 0.9%. This conclusion was fully supported by results of 2004 survey, where the respective percentages appeared almost unchanged for subgroup PF (1.7%) and completely unchanged for AE subgroup (0.9%). This situation gives grounds to believe that this level of problems is a constant not related directly to the legal regulation of the relations at hand.

Grounds for optimism are offered by results of 2004 survey regarding problems with usage of land shares, which demonstrated a clear decreasing tendency by all parameters in this segment. While in 2002, problems with usage of land shares were reported by 18.6% of the overall sample, and in 2003 their number grew to 30.7%, according to 2004 survey, it was admitted by only 13% of respondents. For groups of private farms and agricultural enterprises in 2002 these portions were 17.7% and 22.4%, in 2003 – 31.1% and 29.9%, and in 2004 – 14% and 12%, respectively. It is important to note, that a portion of responses in private farms group admitting problems in this segment of the survey may be the consequence of difficulties arising at the time of enforcement provisions of the Land Code of Ukraine regarding privatization of land plots by members of private farms “in the size of land share to which is eligible a member of agriculture enterprise located on the territory of the respective [rural] council<sup>6</sup>”. In this case difficulties with privatization may be erroneously admitted by farmers as problems with acknowledging their right to land shares of former collective farms’ members.

Lower rating of problems perceived by respondents is observed in all regions where the survey was conducted, however, Donetsk and Kherson oblast look best, since only 8% and 11% of respondents, respectively, admit facing problems. For those who in the general sample stated they had problems in 2004, for 6.5% vs. 15.5% in 2003 they were related to the acknowledgement of their right to land share, additional 5.5% vs. 8.5% in 2003 had problems with rent of shares, and 1.8% and 2.5% in 2004 – with their allocation on the surface or with change of title, vis-à-vis 7% on the respective value in 2003. This considerable improvement may be an outcome of the whole range of circumstances. First, reform of agricultural enterprises on massive scale has been almost complete, which resulted in the revision of lists of persons entitled to land shares; second, the aggregate number of “loose” land shares is rapidly decreasing, since more and more of these are allocated on the surface and assigned to specific owners. Third, the new version of the Law of Ukraine “On Rent of Land” has reinforced legal protection of land plots (shares) lessees<sup>7</sup>. The Law of Ukraine “On the Procedure of Allocation on the Surface of Land Shares between Land Plot Owners”<sup>8</sup> adopted in June 2003, has also contributed to the reduced graveness of problems.

While assessing the state of problems arising at the time of acquiring additional areas for farming purposes, we observe a rather stable dynamics to improvement. The number of respondents claiming lack of problems has slightly increased in 2004 to reach 92% vis-à-vis 77.2% and 78.3% in 2002 and 2003, respectively. Specifically, share of respondents that reported problems while going through privatization of land or sales and purchase of land plots, has reduced from 12.8% in 2003 to 4.8% in 2004. This has adequately affected both target groups, although problems for private farms subgroup look twice as grave, than for agricultural enterprises, despite the generally reduced rating

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<sup>6</sup> Article 32 of the Land Code of Ukraine

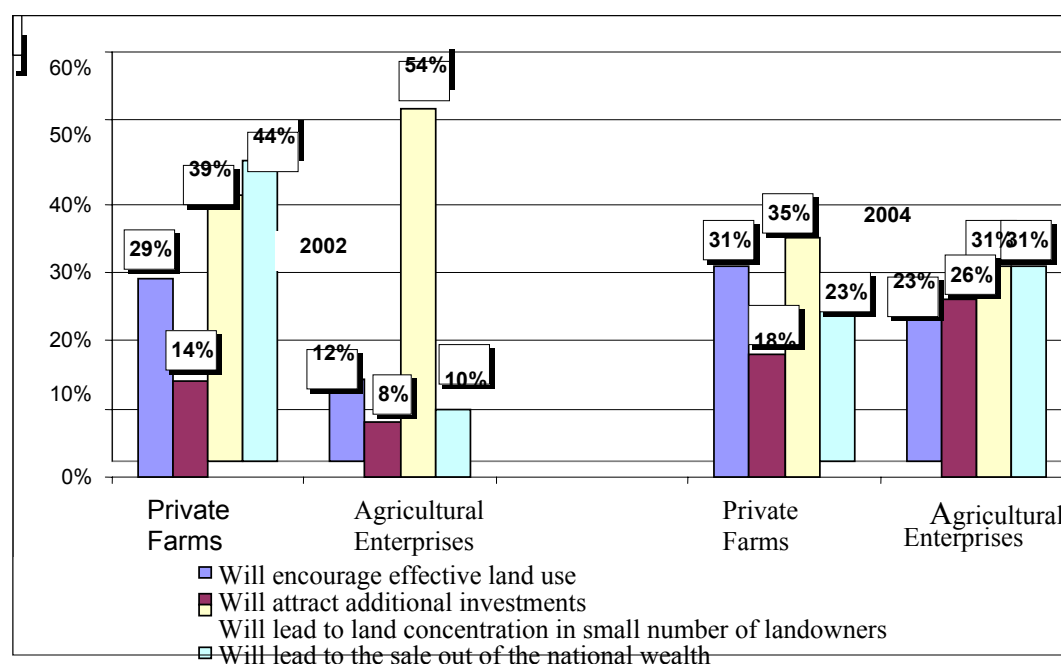
<sup>7</sup> In accordance with part 2 of the Transitional Provisions of the Law, after land plots have been allocated on the surface to land share owners, the land lease agreement must be renewed subject to the state act on the ownership title to the land plot, on the same terms as previously, and may be revised only upon agreement of both parties.

<sup>8</sup> Law of Ukraine as of June 05, 2003, #899-IV

of problems: 5.5% of AE against 2.8% of PF in 2004, and 15% against 8% - according to 2003, respectively. An explanation behind this imbalance may be that (1) private farms recognize greater importance in such relations and that (2) mechanisms and procedures of land privatization by farm members, prescribed in the Land Code of Ukraine, are inefficient.

Respondents demonstrate slightly more optimistic attitude towards prospects of implementing a full-fledged farm lands market<sup>9</sup>. As may be observed from chart in Figure 3, while in 2002, 45.6% and in 2004, 49.5% of the general sample was likely to think that this will result in the sale out of the national wealth, by the 2004 survey results the portion of these has almost halved to reach 25%. Additional 36.8% in 2002 and 48.3% in 2003, respectively, believed that it will lead to concentration of land in hands of a small group of owners. However, their portion in this year survey is 34%. Meanwhile, in 2004 the share of those who believed in more effective usage of land as a result of market circulation has risen to 29% vis-à-vis 19.5% in 2002 and 26.3% in 2003.

**Figure 3. Producers' attitude to the possibility of sale and purchase of land plots, % of total respondents.**



Meanwhile, in 2004, likewise upon results of 2003 survey, the least conservative answers were given by respondents in Zhytomyr and Ivano-Frankivsk oblasts. Their portions have even grown from 58% to 86% (on question one) in Zhytomyr oblast, and from 65% to 82.5% on question 2 in Ivano-Frankivsk oblast. Respondents in Poltava oblast expressed the biggest caution with regard to prospects of farm land market - 36% and 48% on questions 1 and 2, respectively. It is interesting to note that portions of respondents in subgroups AE and PF choosing different options answering

<sup>9</sup> The survey was undertaken when it was publicly known about the prolongation of moratorium for sales of farm lands designed for running commodity farming operations.

these questions, are almost equal. Since by results of 2003 survey, negative expectations with regard to the implementation of land market have aggravated, it was important to find out what particular circumstances could change the trend to the reverse and make respondents revise their preferences. One can assume that there are a number of explanations. First, it was the acceleration in 2004 of the process of handing land plots into private hands, as a result of which the number of “loose” land shares has considerably reduced, and, in parallel, the weight of land owners has grown almost to reach a critical mass (nearly 60%), which has inevitably resulted in change of psychology and impacted on rating. Every owner experiences all inconveniences caused by the ban on transactions with land designed for farming purposes. Second, prolongation to 2007 of the moratorium for sales of farm lands has put off the “threat” of quick implementation of the land market and has softened their appraisals. Third, citizens have become better aware of land relations, now that the society is better informed on the strengths and weaknesses of the land market.

## **LEGAL AWARENESS OF AG PRODUCERS**

Over the last 2004 year, legislation of Ukraine was complemented by a whole range of important legislation acts, needed for further development of the society and which directly concern agrarian sector, specifically, land relations. These are (including but not limited to) the following: Civil<sup>10</sup> and Commercial<sup>11</sup> Codes of Ukraine<sup>12</sup>, Law of Ukraine “On Agricultural Extension services”<sup>13</sup>, “On the State Registration of Property Titles to Immovable Property and Limitations thereof”, and “On Third Party Arbitration Courts”<sup>14</sup>.

It would not be an exaggeration to say that awareness of rights and duties of subjects in various areas of social relations, and the ability to exercise them properly, especially under conditions of dynamic development of legislation, is the pledge of stability of business, all the more agrarian business. In view of that, a separate section of the questionnaire was aimed at finding out how well respondents are aware of regulatory acts related to agrarian area, their importance for the sector, and consequently, respondents’ perceptions of impact of these regulations. A separate question asked how well respondents are cognizant about provisions of the new Civil and Commercial Codes of Ukraine, adopted in 2003, and becoming effective on January 1, 2004. The importance of these two documents cannot be overstated, while awareness of their main provisions gives rural residents a possibility to properly exercise and protect their inherent rights, which, eventually, results in a solid position of ag producers in the market.

Respondents’ answers received in subgroups of PF and AE, surprisingly were equal: 10% of respondents in each group stated they know nothing about either of these Codes coming into effect in 2004, however, the portions of those who were somewhat or fully aware of their provisions were much bigger: 60% for Civil Code and 63% for Commercial Code, respectively. In the regional context, Kherson and Donetsk oblasts looked best, where the respective figures for the Civil Code were 88% and 63%, and for the Commercial Code - 91% and 66%. This level of awareness may be

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<sup>10</sup>Civil Code of Ukraine as of January 16, 2003 # 435-IV.

<sup>11</sup> Commercial code of Ukraine as of January 16, 2003, # 436-IV.

<sup>12</sup> Doubtlessly, these two documents are bound to produce a huge impact on agricultural business, however, the survey did not aim at studying respondents’ attitude to these documents, because they only came into effect on January 1, 2004.

<sup>13</sup> Law of Ukraine of June 17, 2004 # 1807-IV.

<sup>14</sup> Law of Ukraine of May 11, 2004, # 1701-IV;

rated as high, specifically, in view of the rather voluminous size of these documents and a large number of new provisions they introduced.

As may be observed from Table 1, respondents demonstrated high level of awareness of other legislative acts, regulating other relationship in agriculture. Moreover, it is obvious, that the awareness is higher where the legislative act has been in effect longer. Thus, respondents of both subgroups appear better informed about adoption of the Laws of Ukraine “On Family Farms” and “On Personal Household Farm”, which have been in effect for quite a while. And, to the contrary, respondents revealed lower awareness of the Law of Ukraine “On the State Registration of Property titles to Immovable Property and Limitations Thereof” and “On Third Party Arbitration Courts” which may be explained by the relative newness and short-term effect of these acts. It is also important to note, that generally, AE seem to be have better awareness of legal acts, compared to PF, which may be explained by both differing capabilities of farms to hire specialists, and their diverse needs and specifics of operations.

While results of the survey demonstrated a rather high level of awareness of the adopted legislative acts, respondents were rather reserved while rating the impact of these acts produced on operations of farms. Respondents demonstrated most positive attitude towards the new version of the Law “On Private Family Farm” – it was stated by 43% of the overall sample, or 45% of private farms and 38% of agricultural enterprises. Then, the Law of Ukraine “On Personal Household Farm” was second most favorite law with 40% of respondents recognizing its positive impact (41% of private farms and 39% of agricultural enterprises).

**Table 1. Agricultural producers’ awareness of adopted legislation acts and impact of these acts on their operations, % of overall number of respondents.**

	Are respondents aware of the adoption of legislative acts?		Impact of legislation on respondents’ operations			
	Yes	No	Negative	Positive	No impact	Difficult to answer
<i>Law of Ukraine “On Private Family Farm”</i>	93%	7%	6%	43%	49%	3%
<i>Law of Ukraine “On Personal Household Farm”</i>	87%	13%	4%	40%	49%	6%
<i>Law of Ukraine “On Agricultural Extension Service”</i>	68%	33%	4%	32%	53%	12%
<i>Law of Ukraine “On Changes to the Law of Ukraine “On Rent of Land”</i>	75%	25%	6%	35%	48%	12%
<i>Law of Ukraine “On Mortgage”</i>	66%	34%	5%	21%	59%	16%
<i>Law “On the State Registration of Rights to Immovable Property and Limitation thereof”</i>	60%	40%	4%	22%	57%	17%
<i>Law of Ukraine “On Third Party Arbitration Courts”</i>	61%	39%	2%	22%	52%	24%

In perceptions of respondents, the Law of Ukraine “On Changes to the Law of Ukraine “On Rent of Land” has preserved high rating, however, lost leading positions. This is surprising, taking into consideration those positive steps that the legislators have made in the new version of the Law with

regard to alleviation of unjustifiable restrictions and elimination of conflicting provisions in regulating rent relations, which, eventually, resulted in their liberalization.

Laws of Ukraine “On Agricultural Extension Service” and “On the State Registration of Property Rights to Immovable Property and Limitations Thereof” received medium rating of respondents, - 31% and 22%, respectively.

The Law of Ukraine “On Mortgage” was rated lowest (admitted by 21% of respondents) among legislation with positive impact, and it is natural, because effect of this law in agrarian area is very limited due to the existing moratorium for purchase and sale of farm lands.

How would respondents prefer to resolve problems they may encounter in their day-to-day operations? The prevailing majority, 61% of the survey sample, who admitted having problems, stressed that they would make efforts to resolve these problems on their own. In this group, 64% were private farms, and 52% - agricultural enterprises.

Another 22% of respondents, in the disputable situations would solicit advice of their friends, while additional 9% would contact government officials. The proportion of those who preferred applying to common courts is low, less than 8%, while the share of respondents willing to resolve their disputes in TPACs is negligible, which is logical, considering very reserved ratings of the positive impact of this Law. However, if the number of those willing to go to common courts has been invariably low and not exceeding 10%, then in case with TPACs, it is reasonable to assume, that a mere lack of information about their operations is the result of recent adoption of the Law. Respondents that declared they wanted to resolve disputes on their own or via intermediary, represent potential clients of third-party arbitration courts.