

## Perspectives of Implementing Agricultural Land Market in Ukraine within the Context of Reforms of Agrarian Sector

*Jakub Pietrzyk\**

*Maria Curie-Skłodowska University  
20-400, 5 Marii Curie-Skłodowskiej Str., Lublin, Republic of Poland*

**Abstract.** The relevance of the study comes from Ukraine being the largest agricultural country on the European continent by its size, with 41.5 million ha, and the second-largest arable land on the continent, mainly comprising humus-rich chernozems. Agriculture and agribusiness remain one of the driving forces of Ukraine's economy, generating 15% of its GDP, employing 20% of the working population and accounting for 40% of the country's exports. To support and bolster the agricultural sector, the state is developing and implementing reforms, the most significant of which is the introduction of a land market. In this context, Ukrainian agriculture has favourable conditions for development, but the exact effect of the implemented reforms remains unclear. The purpose of the study is to assess the state and trends in the development of agriculture in Ukraine in the context of ongoing reforms. The study employed the following methods: abstract-logical (through this method the main aspects of land reform and economic reform development strategy were identified), system analysis (the state of the Ukrainian economy was assessed), retrospective (the development of the agro-sector since Ukraine gained its independence was considered) and predictive (possible development scenarios were suggested). It was determined that it will take some time to manifest all the positive aspects of the reform, and its implementation involves a number of risks for small-scale farming. It became clear that climate changes also have an impact on agricultural productivity, and under its influence, some lands in Ukraine (e.g., the south) have already started to lose their value due to global environmental issues. The practical significance lies in determining the status and trends of agricultural development in the context of the structural reform of the national economy of Ukraine

**Keywords:** agrarian reform, agricultural sector, rural areas, farm, organic products

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\*Corresponding author

## Introduction

Ukraine is one of the largest agricultural producers. The country produces 80 million tonnes of grain and oilseeds per year, of which 50 million tonnes are exported. In 2020, Ukraine was the world's 6th largest producer of wheat and maize with average yields of 3.8 tonnes/ha per 6.6 million ha and respectively 5.2 tonnes/ha per 5.1 million ha, and a leader in potato production (20 million tonnes), vegetables (9.6 million tonnes) and fruit (2.1 million tonnes) [1; 2].

Crop production accounts for 69% of Ukraine's agricultural production. The main products are maize, wheat, potatoes, sunflowers, beetroot, barley, rapeseed, tomatoes, cabbage, apple, pumpkin, cucumber, carrot, dried peas, rye, buckwheat, walnut, soy, onion, grape, oats, watermelon and cherry. Viticulture is represented by the production of wines in the south of the country. Ukraine is established as a major supplier of poultry products to the EU and also has a large herd of cattle and pigs [3]; it is one of the world's leading exporters of sunflower oil, rapeseed, nuts and honey, corn, barley and wheat [4; 5].

One factor influencing Ukraine's position on international markets is yields. It is limited by low levels of resource use and irrigation, and sometimes by cultivation methods that could be improved. The lack of irrigation networks or their mediocre quality, especially in the south, poses significant risks to drought-sensitive spring crops, which are increasingly affected by the consequences of global warming [6]. Thus, between September 2019 and May 2020, the lack of rainfall compared to normal averages resulted in a lower yield compared to 2019 [7].

The impact of climate change must also be taken into account. S. Wegren & I. Trotsuk argued that climate change is likely to aggravate the agricultural system and cause revolutionary changes in the food system, which would also have a negative impact on food security [2]. S. Shokri et al. state that a large share of agricultural production has been reduced over the past decade due to persistent climate change and flawed institutional arrangements. Rural communities and agricultural producers, especially small and medium-sized businesses, have been affected by climate change and man-made disasters in the form of droughts, floods, abnormal heat and cold [8].

Agriculture is an important source of employment and socio-economic stability in Ukraine. Therefore, another factor affecting Ukraine's exports is the structure of farms. They can be divided into two groups, namely large farms (agricultural holdings) and micro-farms (family farms). Agrohholdings are companies that unite farms involved in agricultural production under their ownership. The owners of agricultural holdings are people who do not work in the company, their main goal is to maximize profits. Such holdings use the labour of hired workers, special equipment with high technological added value, and pesticides. They are also characterised by the predominance of Ukraine's largest land banks. Thus, the two largest agricultural holdings Kernel and UkrLandFarming have land banks of 524,000 ha and 500,000 ha respectively, and the land banks

of the next 8 largest holdings range from 120-380,000 ha [9]. Agricultural holdings account for the largest part of grain and oilseeds production, a significant share of which is exported to foreign markets [10]. The advantage of agricultural holdings is simplified access to investments and loans for their member companies, and, accordingly, greater opportunities for mechanisation and modernisation of production in comparison with other categories of farms, and the creation of non-productive jobs [11]. The negative aspect of agricultural holding is that, due to the modernisation mentioned earlier, many people in rural areas remain unemployed, i.e., without their main source of livelihood, which leads to rural depopulation [12].

Micro-farms, also known as family farms, are farms of several dozen acres, the model of which is based on manual labour or animal traction. In family farms, the role of labour is performed by the owner of the land and their family members. Hired labour is also allowed [13]. Their goal is to maximise the added value created on the agricultural land they own. Family farms provide 60% of gross agricultural output, mainly fruits, vegetables and animal products [14].

An optimal balance between agricultural holdings, which have more financial resources and contribute to progressive rural depopulation, and micro-farms, which help to limit rural desertification but have less access to finance, is one of the key elements for the Ukrainian agricultural sector. Less financial capacity makes it more difficult for micro-farms to modernise production and thereby improve efficiency. Another important factor is that Ukraine has a moratorium on selling land so that landowners can only lease it for up to 50 years. The legislative regulation of land relations is also addressed by A.N. Artyomkin. According to him, smallholder farmers need to be provided with a number of new rights and opportunities, which will make them more competitive [1].

The state is also attempting to find the balance mentioned earlier, to ensure the development of the agricultural sector and empower landowners to use their land. In March 2020, the Verkhovna Rada adopted a land reform, and in April 2021, the law was signed by the president [15]. The document was received ambiguously by the public and agricultural producers and by some in a strongly negative light. This perception of the law can be explained by the low public awareness of the reforms, a large number of myths regarding the introduction of the land market, and the possible negative consequences of the reforms for small producers.

Given the above, *the purpose of this study* is to examine the agricultural sector of Ukraine's economy in the context of its ongoing reforms in order to assess its effectiveness.

## Materials and Methods

The methodological basis for the study was provided by the following approaches: monographic, abstract-logical, structural, predictive, retrospective and systematic analysis.

The monographic approach makes it possible to define the strategic objectives of the state in the agricultural

dimension, to analyse the means at its disposal to achieve its objectives and, finally, to examine the results of the strategy. For this purpose, the text of the land reform [15] will be analysed, as well as the strategy for the development of Ukraine's agricultural, food and processing industry exports for the period up to 2026 [16]. The study of the documents will determine the main steps to reform the industry.

The abstract-logical method was used to summarise the provisions of the documents reviewed in the study and to compare the goals stated in the Development Strategy with the reforms adopted. This made it possible to determine whether the reform is in line with the overall development plan for the sector – whether it is a continuation of the reforms initiated by the previous government, or whether it represents an alternative way of developing agriculture.

The system analysis method was used to assess the level of economic development in Ukraine, and the measures taken by the government to facilitate agriculture and access to finance for small-scale farmers. This made it possible to identify the main problems in the economy targeted by the reforms and to assess the effect of the ongoing reforms.

The retrospective method was used by the authors to study the development of agriculture since Ukraine's independence and the reforms implemented between 2014 and 2019 that directly or indirectly affected agriculture and the rights and obligations of actors involved in it. Such an analysis is essential as it is not possible to get a full impression of the changes adopted outside the context of the events that preceded it.

The predictive method is used to make hypotheses about possible scenarios for land reform implementation and their effects.

## Results and Discussion

An analysis of the sources showed that the first reforms in the agricultural sector were already being implemented in 2015. Then regulations were adopted aimed at reducing the number of certificates and permits required by the administration for the production and sale of agricultural products. These simplifications have accelerated the pace of production modernisation carried out by private investors and driven by the need to improve food quality. Today's Ukrainian farms are heavily dependent on imported genetic resources and machinery. This context opens up opportunities for suppliers of agrifood equipment and technology, materials, genetics and breeding animals. The main appliance brands operating in Ukraine are often leaders in their industries. Fiscal benefits in the form of tax incentives and input support remain relatively small but have contributed to the overall positive support for producers seen over the past two years. General interest service support has been increasing since 2015 but remains low compared to other countries. During 2017-2019, GSEs accounted on average for 1.7% of value-added in agriculture [17].

In Ukraine, producer support as measured by PSE has been volatile over the past three decades, mainly due to changes in market price support, reflecting average producer

prices below international reference prices, but with significant differences depending on one product and from one period to another. Import-tariff-protected prices for sugar and some meat products have exceeded world prices. Prices for some cereals, sunflower seeds and milk were generally slightly below the reference prices. The impact on prices of the interventions of the Agrarian Fund and the Public Food and Grain Company, both state bodies, as well as the Annual Wheat Export Memorandum, is likely to be limited. This approach is more specifically related to land use, job creation, innovation and digital technologies, and market regulation. Ukraine has adopted new support measures for small and medium-sized producers. New farms receive higher payments for the first three years after their establishment, provided that the land in question is used for agricultural purposes. Another new measure provides for the reimbursement of amounts invested in the construction or reconstruction of grain storage and processing infrastructure, up to 30%.

In Ukraine, producer prices remain below world levels in some export-oriented sectors, especially sunflower seeds and milk. Export duties applied to certain products, trade activities of state-owned enterprises and restrictions on export infrastructure can all contribute to negative support [18]. To benefit from the competitiveness of its agriculture, Ukraine needs to take additional measures to facilitate exports, such as continued investment in its logistics and transport system to match the increase in export volumes. It is expected that after the abolition of special VAT regimes that helped producers acquire various resources, the integration of farmers into the general economic VAT system will increase the efficiency of the sector and reduce administrative costs. Ensuring the proper functioning of the means of production market, including in terms of providing loans to farmers, remains important for improving producers' access to agricultural production. Agricultural productivity has increased rapidly over the past decade, but equipment wear and tear, probably caused by political and economic uncertainty, threatens its future growth. Political and macroeconomic stability will be of key importance for maintaining and then increasing the productivity of the agricultural sector [19; 20].

Public spending on services of general interest has begun to recover from the economic downturn of 2014-2015 but remains low in relative terms. The emphasis on the inspection and control system is necessary to support export-oriented activities. However, to guarantee the high performance of this sector, which is very sensitive to the variability of meteorological conditions, specifically in the context of climate change, Ukraine will also have to provide itself with effective knowledge and information management system with sufficient means. This approach must be supported by improvements in regulatory efficiency and infrastructure [21].

Although Ukraine has made significant progress, the country's efforts to carry out democratic and economic reforms have been seriously affected by Russian aggression

in east Ukraine. This conflict poses a threat to the territorial integrity of the country, as well as its social, economic and political development [22]. Development assistance for Ukraine aims to reduce poverty in the country by supporting efforts to stabilise the economy and reduce citizens' vulnerability through increased participation in the democratic process, strengthening the independent media and judiciary, and promoting the rule of law, particularly in crucial areas such as public administration, taxation and agriculture. In this regard, one of the priorities of socio-political reforms in Ukraine has become the reform of land relations, that is, agricultural land trade. The land reform initiated in the 1990s has acquired strategic importance [23]. Global economic processes, which influence the dynamics of development processes in almost all sectors of the economy in every country, cannot ignore the agricultural sector. Therefore, the further course of agrarian reform, one of the main goals of which is free trade in agricultural land, becomes a very relevant issue. Reform will help to improve the sectors of the economy based on the exploitation of natural resources, especially agricultural land [23].

The dynamic changes in modern life caused by the implementation of many reforms show the need for further clarification of the directions of agrarian reform, especially at its final stage. The initiated land reform is part of the general socio-political process of moving away from the system of economic and legal relations that was introduced in Ukraine during the long Soviet period. Land reform has become part of Ukraine's national strategy for socio-economic development. Its main purpose was to redistribute land between private and common property and promote the equal development of different forms of land management and the formation of a multi-faceted economic system. In recent years, there have been gradual and continuous changes in the sphere of agricultural land trade, collateral lending, including mortgage lending, and the improvement of the legislative framework. There was no further guidance on where reforms should be directed, so several regional programmes were set up to regulate and protect land trade. The development of the agricultural land market was one of the fundamental issues in the concepts for reforming the sphere [24]. The strategy developed at the time suggested the need for a unified system of state registration of agricultural property and agricultural property rights; stimulating the privatisation of non-agricultural and agricultural land; functional separation of the agricultural land market from other land uses; creation of favourable conditions for equal participation of territorial clusters in the land market by the relevant local authorities; and intensification of work on financial value assessment.

The context of legal regulation of land relations shows that the process of creating agrarian law in Ukraine is slow and, as a result, in practice leads to partial implementation of legal norms in this area. In the process of reforming agricultural legislation, an agricultural property market has emerged in which the demand for other plots depends not on the fertility of the land, but the location of the plot. The market for non-agricultural land is in place and constantly

expanding. This situation is caused by the lack of a regulatory framework and inconsistent state policy in agrarian reform. Law is the main element of the continuous development of the state and European integration. For Ukraine, EU membership is a strategic goal, a way to modernise its economy and a multitude of investment opportunities. For this reason, in the further reform of the agricultural land market, it is important to take into account the European principles and norms of EU legislation. An analysis of judicial practice, state-building experience, and research into the regulation of land law shows that there is still no clear model for the reform of agriculture, in particular the arable land market. The state pursues a policy of shaping land relations and defines directions for reform based on its own historical experience and the experience of other countries, which introduces electronic land auctions, a chance for every Ukrainian to participate in an auction and set up their own farm [25].

It is worth noting that no uniform stance exists both in the assessment of legal relations in the Ukrainian agricultural land market and in the assessment of the market itself. The financial difficulties of most Ukrainian enterprises deprive them of the opportunity to buy agricultural land. The rural population, most of which are people of retirement age, cannot work effectively on the land. The fundamental issue is not only the reform of the agricultural land market but also the prospects for foreign agricultural investment. Agriculture in Ukraine is experiencing a serious shortage of working capital. Short-term loans are issued at high-interest rates, and long-term loans are not available due to the lack of real estate for collateral. Hence the need to include encumbrance of agricultural plots with a mortgage. In assessing the lengthy process of introducing agricultural land trade, it is worth noting that the lack of a unified concept regarding the final effect of agrarian reform, especially with regard to the agricultural land market, remains a concern. At the present stage of socio-economic development of Ukraine, many of the proposed changes create new social needs. First and foremost, the land market must be analysed through the prism of the tasks and responsibilities related to the protection of property rights and ensuring continuous agro-industrial development. In addition, the applicable national legislation must be brought into line with the legislation of the European Union. The introduction of mechanisms for the development of the agricultural sector of Ukraine is necessary to create a market for agricultural land. It is beyond doubt that these issues must be addressed and that the discussion on free trade in agricultural land is virtually meaningless without their resolution.

For the purposes of this context, consideration should be given to land reform. According to the authors and supporters of the law, its main purpose is to unblock the possibility for citizens to sell their land, thus ensuring the full implementation of the constitutionally enshrined right to property [26; 27]. Landowners will be able to sell their land, or vice versa, buy it from others. At the same time, the priority right to purchase a land plot will be with those persons who rent it. It is also possible to issue bank loans for

the purchase of land, using the purchased land as collateral. The maximum size of the plot that one person can buy is 100 hectares. As from January 1, 2024, individuals and legal entities can purchase up to 10,000 hectares [28]. Part of the state-owned land outside settlements will be transferred to territorial communities. The possibility of selling land will increase its liquidity, thus solving one of the issues causing difficulties in attracting investment and credit funds faced by agrarians. [29]. The reform involves the creation of special databases on land transactions and the transfer of these operations to an online format, which will lead to greater market transparency and reduce corruption. The introduction of a land market is expected to raise the value of land and hence the cost of leasing land, thus solving another problem: landlords not receiving revenue for renting out their shares. The implementation of the reform also echoes the strategy for the development of agricultural, food and processing industry exports in Ukraine until 2026, in particular by facilitating access to land to increase production with little domestic demand [16].

Considering the reform in a broader context, it should be noted that land trade in Ukraine is not possible without the participation of the state, as it affects the formation of new social relations and the creation of clear mechanisms of land relations [30]. In addition, the fundamental issue of reform and the basis for the development of any society is the protection of property rights. Regarding the involvement of the local community in the agricultural land trade, it is mainly the current reform of local government that is causing many changes in the concept of socio-economic development of Ukraine and thus in the vision of the completion of land reform. The most important aspect of the reform is its result, namely the participation of the local community in the use of local agricultural land and the possibility of its participation in the creation of a land market. Other ongoing reforms are definitely important, as they affect various spheres of public life. In Ukraine, almost all spheres of life are being reformed, which is a consequence of the new challenges of society. It should also be remembered that due to the specific nature of each area of activity, its regulation must be appropriate. For the agricultural land market to function to its fullest potential, relevant amendments to the Land Code of Ukraine must be made, and a number of other laws must be passed to consider the transfer of state-owned land outside of settlements to municipal ownership in settlements, suburban settlements and city councils, providing for substantial simplification of the procedure for changing the designation of especially valuable land.

After the law establishing the land market came into force on 1 July 2021 [31], supporters of the law say that the land market is a necessary condition to attract foreign investment, which will allow Ukrainian agriculture to reach its full economic potential, estimated at \$50-85 billion profit in the next 10 years [32], and a GDP growth rate of 1-2% annually for 5 years [33]. Their vision of the effect of the reform was presented in more detail above. However, many citizens, in particular landowners, are distrustful of the reform [34; 35] and believe that this law will have the

effect of increasing corruption in the agricultural sector. Banks are able to seize land pledged as collateral for a loan if the rent is not paid but will have to sell it at auction for agricultural use within a maximum of 2 years. Although the ban on foreign individuals and companies buying land in Ukraine will remain in place, it is still possible to lease it, which also raises fears on the part of sceptics. The government positions agricultural reform as a way to “unlock” the full potential of Ukrainian farmland, making this sector more attractive to international investors, which will allow Ukraine to realise its economic potential and improve the lives of Ukrainians [36].

The expected positive impact of the agrarian reform on economic growth remains the key argument put forward by its supporters. However, there is concern that many small farmers will not be able to buy much land before 2024 due to high prices and many of them are already experiencing financial difficulties and debts. While farmers may hope to benefit from the right of the first refusal guaranteed by the new law to current tenants, this clause could actually encourage the concentration of land in the hands of larger ones, since many of the tenants are also large agricultural enterprises. As a result, most land may be concentrated under the ownership of a few large companies [37].

## Conclusions

The agricultural sector plays an important role in the economy and international trade of Ukraine, thus necessitating its development and reform. One of the main reforms urgently needed by the agricultural sector is the creation of an open, civilised land market that would increase the investment appeal of agriculture, establish an objective market value of agricultural land and, above all, ensure the realisation of the right of private ownership for all subjects of agrarian relations.

However, the process of introducing a land market will be a lengthy one, as a number of laws still need to be passed to complete the reform. Under favourable conditions, the free sale of agricultural land will further contribute to the development of monetary relations in Ukraine and raise its status as a reliable partner in the international arena. Applying truly effective and open instruments can help to balance supply and demand in the agricultural land market and become a driver of the country's economy in the long term. The effectiveness of these instruments will be evaluated only after the entry of legal entities into the land market. It is assumed that by 2024, land acquisition by small and medium-sized farms will be the most realistic part of market opening. However, the exercise of this priority right will be greatly hampered by factors such as financing and the willingness to sell the land to owners. In the south of the country, land is already losing its value due to increasing droughts and soil degradation associated with global warming. Currently, only a small number of Ukrainian farmers have sufficient financial resources to buy them out, and Ukrainian banks will not be able to provide a loan to anyone wishing to buy land, as they need to have good financial records and provide adequate collateral to obtain such a loan.

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## Перспективи запровадження ринку землі сільськогосподарського призначення в Україні у контексті реформування аграрного сектору

Якуб Петржик

Університет Марі Кюрі-Складовської  
20-400, вул. Марії Кюрі-Складовської, 5, м. Люблін, Республіка Польща

**Анотація.** Актуальність дослідження полягає в тому, що Україна є найбільшою аграрною країною на Європейському континенті за своїми розмірами з її 41,5 млн га, а також другими за обсягом орними землями на континенті, основу яких становлять чорноземи, багаті на особливо родючий гумус. Сільське господарство та агробізнес залишаються однією з рушійних сил економіки України, генеруючи 15% її ВВП, забезпечуючи зайнятість 20% працездатного населення та 40% експорту країни. Для підтримки та нарощування агросектору держава розробляє та впроваджує реформи, найбільш значною з яких є створення ринку землі. У цьому контексті сільське господарство має сприятливі умови для розвитку в Україні, однак точний ефект від реформ, що впроваджуються, залишається неочевидним. Мета дослідження – оцінити стан та тенденції розвитку сільського господарства в Україні в контексті реформ. При написанні статті було використано такі методи: абстрактно-логічний (завдяки цьому методу було визначено основні аспекти земельної реформи та стратегії розвитку економічної реформи), системний аналіз (було оцінено стан української економіки), ретроспективний (розглянуто розвиток агросектору з моменту здобуття незалежності України) та прогностичний (запропоновано можливі сценарії розвитку). Було визначено, що для прояву всіх позитивних аспектів реформи потрібен певний час, а її впровадження пов'язане з багатьма ризиками для дрібного фермерства. Стало зрозуміло, що вплив на продуктивність агросектору також справляють кліматичні зміни, і під їх впливом деякі землі в Україні (наприклад, південь) вже почали втрачати свою цінність. Практична значимість полягає у визначенні стану та тенденцій розвитку сільського господарства у контексті структурного реформування національної економіки України

**Ключові слова:** аграрна реформа, сільські території, ферма, органічна продукція