GERMAN ADVISORY GROUP FOR ECONOMIC REFORMS
WITH THE UKRAINIAN GOVERNMENT

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Notes on the Draft

Decree of the President of Ukraine "On Insuring the Formation and Functioning of Agrarian Markets"

The draft decree addresses a number of very important issues related to the development of agricultural markets in Ukraine and the factors which have hindered this development in recent years. The development of commodity exchanges for agricultural products as well as wholesale and retail market structures for food products, the modernisation of market information systems and statistical reporting networks, and the improvement of education in the areas of agricultural economics and marketing are key priorities and it is, in principle, very positive that the decree stresses their importance.

The draft decree contains a number of very positive passages that deserved to be fleshed out and implemented as quickly as possible. The passages under article 2 that provide that the state only procure agricultural produce on a competitive basis and the call for non-interference in the activity of commercial structures, banning restrictions on agricultural product movements are of vital importance. The German Advisory Group has stressed repeatedly in recent months that the coming harvest will be a sort of litmus-test. If government structures at the central or regional level interfere in the marketing of the grain harvest this fall, despite promises that this will not occur, then the already damaged credibility of Ukrainian agricultural policy in the eyes of domestic and foreign commercial actors will suffer a severe and perhaps fatal blow. If, on the other hand, the coming harvest is indeed marketed freely without any government interference, commercial actors will have concrete evidence that there has been a serious turn-around in agricultural policy in Ukraine. As a result, they will step up their activities, thus improving the basis for fall and spring field work in 2000 and 2001. These provisions of the draft decree must be implemented with rigour.

At the same time, however, we are concerned that the decree does not reflect a complete understanding of the role and limitations of government agricultural policy in a market economy. While the state is responsible in most market economies for the collection and dissemination of market information, and while the provision of secondary and higher education is generally regulated and financed by governments throughout the world, the state in a market economy is not responsible for the creation of networks of storage points, credit unions or service co-operatives. It is also not responsible for the creation of networks of retail trade stores for agricultural products such as supermarkets etc.

There are few good reasons why the state should be involved in these latter activities. Different providers of agricultural inputs, for example, will develop different distribution structures. Some will wish to be present in every region with sales representatives and supply centres, others may prefer a more centralised distribution structure with supply centres in selected key regions. Some retail food store chains will want to be present at a very local level with small stores while others may prefer to establish looser networks of larger stores. These are purely commercial decisions that firms make on the basis of their strategies, market assessments, and resources. The state should not attempt to force firms to adopt a particular structure. Thus, we would recommend that the decree not include passages such as the following that calls for the creation: "In every administrative rayon ... [of] trademark stores of industrial enterprises which produce inputs such as mineral fertilizers, plant protection means, fuel and lubricants etc." A passage such as this would be viewed by firms as a threat to their freedom to make commercial decisions. Many input suppliers may not wish to be present in every rayon in Ukraine. Thus, if this decree were implemented it could reduce rather than increase the activity of input suppliers in Ukrainian agriculture.

In this regard it is especially important to recognise that agricultural markets are changing rapidly. In North America and Western Europe the development of the internet and electronic commerce is already leading to significant changes of the structure of agricultural input supply and output marketing. It appears quite likely that the days of the traditional agricultural sales representative driving from farm to farm in the countryside are coming to an end. Farmers can collect information, place orders and receive advice 'on-line'. Ukraine, with its structure of relatively few large agricultural producers appears to be ideally suited to the adoption of such modern information and distribution technologies. We recommend that government policy not attempt to impose structures on agricultural markets in Ukraine but rather be directed towards making it possible for modern structures to develop.

It is important to recognise, as well, that the lack of success of the agricultural exchanges as well as wholesale markets etc. to date in Ukraine is not due to a lack of government imposed structures and assistance, but rather due to excessive government interference. It is an illusion to expect that farms will voluntarily shift to transparent cash transactions as long as the Kartoteka II

implies that cash is subject to seizure. It also makes little sense to expect that decreeing the creation of credit unions in rural areas will actually increase the provision of credit to farms in Ukraine. Farms are not supplied with credit because they are not profitable (and this is largely due to government interference such as the tax on sunflower seed exports, or the repeated regional export bans and confiscations of grain in past years) and because even those farms that are profitable often do not repay their debts (and this is due to poor repayment moral generated by repeated debts forgiveness by the state in the past, and by the moratorium on bankruptcy in agriculture which leaves creditors with almost no means of ensuring that farms treat debts seriously and responsibly).

What is called for, therefore, are steps that remove policy induced barriers to the development of agriculture and agricultural markets, not steps that attempt to force the creation of market infrastructure despite the continued existence of these barriers.

Ukraine's agricultural potential is such that domestic and foreign commercial structures will quickly respond to real and effective steps by the government to deregulate and liberalise agricultural markets.

Section 3 on programs of secondary and higher agrarian education is short but may be the most important passage in this decree. As modern economies become more knowledge- and less resource-based, the potential value of investments in human capital is increasing dramatically. For a country with such a large agricultural potential, Ukraine's capacities in the areas of agricultural economic research, analysis, and education are comparatively small. It is important to recognise that article 3 of this decree has very far reaching implications. First, it must be recognised that many teachers and professors in the Ukrainian agrarian education system are not trained to carry out research and provide training and education in the areas of agricultural economics and agricultural marketing under market economy conditions. The government of Ukraine would be well advised to create programs that enable young researchers and teachers to receive training abroad, and to return to positions of responsibility in Ukraine. This implies that it must be possible in some cases for young well-trained Ukrainians to bypass established academic and research structures. If young teachers and researchers with modern training see no perspective for their careers other than that of being forced to serve under older and often less-qualified individuals, then they will leave teaching and research in Ukraine for positions abroad or in the private sector. To improve the quality of education in agricultural economics and agricultural marketing, the government of Ukraine should create new, well and punctually paid positions for teachers, researchers, and professors.

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