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## **Ukraine's land market is home for an inflow of investments – Andriy Radchenko**

Mo, 23 September, 16:39



The lifting of the moratorium on the sale of land, when done appropriately, would not only increase activity in the agro-industrial complex, but it would also make the broader economy move faster - Andriy Radchenko

Andriy Radchenko, head of the state-owned company PJSC "AGRARIAN FUND," is lobbying in Washington, D.C. for Ukrainian land reform.

**Dengi.ua: First question – why does Russia pay so much attention to your mission in the United States, and why do they use their propaganda outlet, *Russia Today*, in your particular case?**

Andriy Radchenko: They are trying, using all means, to stop land reform in Ukraine -- they want us not to have a land market, to remain a weak economy, and therefore to not be independent. But the legitimate repeal of the moratorium on the sale of land is an accelerator -- not only for the agro-industrial sector, but also for the whole economy. And of course, this is direct competition for Russia. Today, Ukraine is the seventh largest wheat exporter, while Russia is first. Today, Ukraine's agriculture industry is unanimous that by 2022 we can increase the total grain harvest from 70 to 80 million tons. This 14% new growth will move Ukraine down the export rating list to match many exporters, including Russia. If the moratorium is lifted, it would be possible to increase productivity even more.

**Dengi.ua: You have stated that one of the goals of your visits to the United States is the find a partner for the company you are heading, Agrarian Fund. What kind of joint projects are we talking about?**



would also be interesting.

**Dengi.ua: Why is US business, as well as the establishment, so interested in Ukrainian land reform?**

Andriy Radchenko: The American establishment looks at it from the perspective of a strategic partner for Ukraine. The agricultural industry in Ukraine is the basis of the economy, as it is 40% of the country's foreign exchange earnings and 18% of the country's GDP. And with the proper creation of the land market, it is possible to expand the agricultural sector by another 60–80%. There are three reasons for this.

First, there will be an incentive to invest in land improvement.

Second, the risk of early termination of rent will disappear. For example, instances when you plant a garden, grapes, or other berries, and then suddenly you are asked to abandon the site. In most cases, no one would compensate your lost expenses, and it makes no sense to go into litigation. Accordingly, we will be able to obtain positions of high-added value and build, for example, in Zakarpattia Oblast, our own agricultural model, based on France.

Third, the agro-industrial complex is finally “legalizing” its existing collateral in the form of land and will gain improved access to financing.

And it is not just for internal financing, as up to 60% of our industry's products in certain segments are exported. Therefore, there are no currency risks. The land market represents an inflow of investments. That is why the US is interested in our land reform, as it will, first of all, strengthen its own partner.

**Dengi.ua: Do large American businesses somehow influence the establishment's position regarding Ukrainian land reform? How?**

Andriy Radchenko: No, in all the negotiations, at all meetings with the Washington establishment, not a single American company was mentioned. Business climate, general business issues, and our vision of the future land market and views about the world market were the topics discussed.

**Dengi.ua: What about corruption?**

Andriy Radchenko: Yes. They like to hear the firsthand accounts concerning the real situation in Ukraine. They have some questions concerning the Agrarian Fund. We have to explain that in fact there are two different agrarian funds. The first one is a budgetary institution that operated until 2014, which is involved in a number of criminal trials. And there is another Agrarian Fund – ours -- and I can guarantee we have absolutely zero tolerance for corruption. I have even prepared a report on “How to build a system of successful corporate governance in a state-owned company” that I brought from the banking sector (A. Radchenko was chairman of Index Bank before selling it to French Credit Agricole. - Ed.). My report was presented at the Atlantic Council during a visit to Washington, D.C., where I explained how it is possible to build a Ukrainian state-owned company with zero corruption inside it. For many, this was a discovery, and this illustrates how ingrained the notion is in Washington that everything in Ukraine is corrupt.

**Dengi.ua: At what level was the exchange of views conducted?**

Andriy Radchenko: We met with senators and congressmen, with the officers of USAID, OPIC, and the U.S. Departments of Agriculture and Commerce. Generally, they have an idea of what is happening in Ukraine, but they lack detailed information, and explanations. They are interested in what is going to happen with land reform, what



Andriy Radchenko: To some extent, yes.

**Dengi.ua: Then we have a question – What, in your opinion, is best for Ukraine's interest?**

Andriy Radchenko: The best option for land reform must guarantee the achievement of two goals.

First, there is a decision of the European Court of Human Rights, which correctly confirmed that the moratorium on the sale of land violates the human right of property ownership.

Secondly, land reform should involve as many people as possible in the agricultural sector, so that the number of small and medium-sized farmers growing high-margin crops grows. In other words, we should establish the conditions for the creation of a large number of highly paid jobs in the agricultural sector.

Therefore, the admission of non-residents into the agricultural land market is a very important issue. By the way, the people we have met with in Washington are well aware that small and medium-sized farmers need funds to buy land for farming, but that these resources are extremely expensive in Ukraine. At the same time, non-residents have a surplus of capital and available loans at 3-4% interest. If the state does not provide domestic producers with a competitive advantage (in the process of privatization, in particular) then non-residents will win in this competition. Therefore, it is important to allow only domestic operators to buy land for the first 3-5 years. The next challenge is to launch a mechanism through which farmers will be assured access to financing for land purchases. And finally, it is necessary to ensure the development of price benchmarks. To reach this goal, it is necessary to sell state land in open auctions and these initial sales will indicate the benchmarks, beginning the process.

**Dengi.ua: And what about the limits on the size of landholdings?**

Andriy Radchenko: The prevention of an excessive concentration of agricultural land in the hands of a few is very important to us and that is what our U.S. colleagues are worried about too. Both they and we in Ukraine have concerns that large landowners, unlike ordinary farmers, have enough resources today to buy rented land and to expand in a way that dominates the process.

**Dengi.ua: What kind of limitations, in your opinion, would be optimal for implementation?**

Andriy Radchenko: For the moment there are several different options that could be implemented starting with plots that are 0.5% to 1.0% of all agricultural land of Ukraine. Half a percent today is about 200 thousand hectares of land. But what should be done with those who have at their disposal 400 thousand hectares? And, basically, land where the cultivated land is leased?

That's the dilemma: to limit 200 thousand hectares for property and 200 thousand for rent, or not to limit, to let them freely buy as much as they can? Therefore, it probably makes sense to limit sale to 0.5% to 1% throughout Ukraine. Within one oblast, for instance, the limit can be from 10% to 15%. If we are talking about the district, then a maximum of 30–35% of district agricultural land could be owned by one person.

**Dengi.ua: But what about land concentration through subsidiaries or affiliates? How is it possible to identify it?**

Andriy Radchenko: I don't see any problems in controlling this, as on the one hand, there is a land cadaster and on the other hand, in Ukraine, there are registries of legal entities with information about their beneficiaries. There is



Andriy Radchenko: Unfortunately, so far, very few documents have been published that could be discussed, supplemented or amended. For example, it is possible to arrange financing for the purchase of land by farmers on the basis of the state-owned enterprise "Agrarian Fund." We can be a state land mortgage lender for farmers, for example, for 10 or 20 years, and at 12% per annum, as stated by Oleksiy Honcharuk. I hope later it will be possible to make it even cheaper. Agrarian Fund may also buy land from owners who want to sell it, so that the price doesn't change after the market opens. To finance these processes, we can issue bonds in the domestic market and we can issue Eurobonds, and in the other direction, we will receive financial flows from farmers who pay by installments for the purchased land. But this is only one of the possible models.

**Dengi.ua: Do you communicate with expert groups that work for the government?**

Andriy Radchenko: Yes, there is certain communication. And we are ready to do more.

**Dengi.ua: From land privatization to privatization of state-owned companies, what could be the fate of the Agrarian Fund, in your opinion?**

Andriy Radchenko: Agrofond has nothing but the building in which we are located, tables and chairs in it, as well as our team and its experience. There is a balance: accounts receivable, money in the account, stock balance in warehouses and elevators. Therefore, each time we discuss the privatization scenario of the Agrarian Fund, we come to the conclusion that there really are only two options. The first one is to close down the enterprise, and to return the proceeds to the state budget. But at the middle of last year, such a shutdown of the Agrarian Fund would have been a balance in the red for the state, taking into account the previously stolen money withdrawn through banks before 2014. The second option is the concession model. In this case, we would hold a tender, determine concession conditions, and sign a concession agreement with the management company. Through the implementation of this option the state would receive taxes, dividends and a position on the supervisory board. And the management company that would sign the concession agreement would receive its remuneration. And at the same time, the managing and operational processes would be disconnected from political ones.

**Dengi.ua: Are there any large American companies that would like to be engaged in agribusiness, and would they be interested in getting such an asset through the concession?**

Andriy Radchenko: Through the concession, I guess so. But through the privatization process, unfortunately, no. Or, fortunately, no. They are afraid so far.

**Dengi.ua: You often remind us that the Agrarian Fund is a trading company. You work mainly in the market of products, which are well produced both on a rental basis and without reform. So why are you interested in the reform's implementation?**

Andriy Radchenko: Very good question. We work directly with farmers and, unlike banks, have learned how to use future harvest as a collateral. Now, if we could also use land as collateral, the farmer would receive much greater capital leverage. We are interested in comprehensively supplying a farmer's demand and understanding his business. The diversification itself is good thing, but there is much less risk to finance a business than financing a product.

**Dengi.ua: We met two and a half years ago and talked about the Agrarian Fund. For example, we talked about financing the chain "fertilizer production - commodity credit to farmers - agricultural production." What has changed since that time?**



**Dengi.ua: Last time you said that you were lengthening production chains and launching the production of finished food products, including in retail packaging. What about these projects?**

Andriy Radchenko: Yes, our products are present on shelves in retail chains - flour, cereals. We sell flour in wholesale. And we also export flour, but so far in small volumes – from 10,000 to 12,000 tons per year.

**Dengi.ua: And what is the company export share in the total turnover?**

Andriy Radchenko: About 20% –25%. But we are absolutely flexible -- and therefore, we have no currency risks. That is why we have good market positions for attracting capital from the USA or from the European capital market.

**Dengi.ua: Trading is risky, especially taking into consideration the corruption risks in transactions. How do you prevent these risks?**

Andriy Radchenko: We have implemented respective and recommended documents with procedures that we must follow. In addition, we have a separate and specific job position authorized by the anti-corruption program -- the Ombudsman, as we call this person. This person is functionally subordinated to the head of the company, but administratively, to the Ministry of Agrarian Policy (now -- to its successor ministry). Well, we use these and other tools that I managed to bring to the company, implementing my experience in banking. We started with a deep analysis of the client and ended with collegial decision-making by our working committees. In such an approach, the chance for collusion or corruption is substantially reduced. It is also important that we managed to increase the average salary in the company -- from about 5,000 hryvnias at the time of my appointment to the Agrarian Fund to about 50,000 hryvnias as of today.

**Dengi.ua: Have you succeeded in conveying to the representatives of the U.S. establishment and stakeholders you have met that Ukraine is not a totally corrupt country?**

Andriy Radchenko: I am sure of that, yes. By presenting the example of our successful case. That corruption can be fought not only by force, but that there are more suitable and effective ways – economic instruments

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