

PUBLIC-PRIVATE PARTNERSHIP AS A FACTOR TO ENSURING SUSTAINABILITY OF AGRIBUSINESS IN UKRAINE

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A b s t r a c t. Agriculture and agribusiness of Ukraine are not sustainable due to the lack of own financial sources and chronic state underfunding. On the other hand there are no incentives for private business, both domestic and foreign, to invest in Ukrainian agriculture. One of efficient ways to attract investments is introduction public-private partnership as a way of cooperation between state, represented by public sector and private companies which may benefit for both parties and for the sustainable development of respective area. The article highlights essence of PPP as a type of partnership widely implemented in other branches of economy, but rarely applied in agribusiness of Ukraine, as opposite to foreign, mainly, less developed countries. It is also focused on the operation of wholesale agricultural market as a concrete example of PPP in Ukraine and discusses legal restrictions as an important constraint of its development.

INTRODUCTION

Ukrainian agricultural producers just as farmers in most of other countries are faced with many challenges of traditional business and specific problems, which are typical for agriculture and agribusiness. The lack of modern techniques and technologies that directly affect the performance level, poor advisory services and extension, limited or no access to financial and wholesale markets remain among the core reasons for their underdevelopment. One of the crucial challenges that face Ukrainian agribusiness is the lack of financial resources. Needless to say that sustainable development is hardly possible in such conditions. Increased investment is needed not only in primary agricultural production and downstream services, but also in innovation, research, infrastructure, natural resources and complementary services such as education and health.

Figure 1 shows vicious circle that operates where absent, poor or costly infrastructure limits on-farm productivity, agroprocessing and market access. This in turn acts as disincentive to private investor to achieve productivity. Productivity and growth prospects are thus insufficient to justify public investments in more affordable and relevant infrastructure services [Warner et al. 2009].

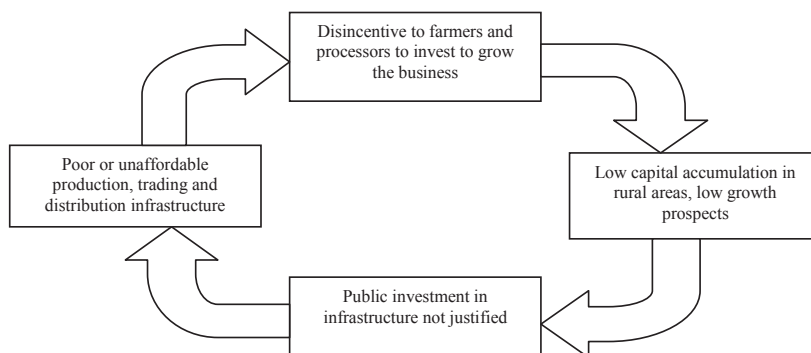


Figure 1. Poor infrastructure and low agricultural development: a vicious circle
Source: [Warner et al. 2009].

Due to budget limitations the government is unable to provide renovation, modernization and extension of infrastructure. The attraction of additional investment can be satisfied by introducing public-private partnerships (PPP) that provide some incentives for private capital (tax and credit preferences, access to attractive and closed areas of management, the sole right to provide certain services for a defined territory, etc.). The international practice [Ferroni, Castle 2011, De Man 2009, Warner et al. 2009, *Rural Development...2005*] demonstrates how implementation of PPP provides significant benefits both for the state, private sector and local communities.

RESULTS

The low level of funding for research in agriculture of Ukraine from government sources, as well as its lack of private investment explains that having a strong agricultural potential, Ukraine joined the ranks of countries that import food products.

Most investment in Ukrainian agriculture is made by the private sector within the country, including farmers themselves. But international investment, both from private sources and through official development assistance, may also play an important role. Today's intense competition for financial resources drives them to be directed to those countries where there are the most favorable conditions for business.

Agri-food business in Ukraine is one of the few sectors of the economy that survived global economic crisis of 2008-2009. Agricultural output has practically not diminished as compared to pre-crisis level and was even surpassed in 2011, with moderate growth in livestock sector and relatively good harvest of main crops. Nowadays state regulation is still one of the major factors of the development of agrarian business in Ukraine. While quoting of cereal export restricted adjustment of domestic prices up to the level of world prices, maintaining of principal preferential regimes of taxation for agrarians in new Tax Code will surely support attractiveness of agribusiness in nearest future.

So far, investment attractiveness of the sector is ensured on account of external factors, those being global growth of food prices, tense balances and prospects of future increase of global demand [*Doing Agribusiness...2011*]. Besides, according to the World Bank [*Foreign Direct...2012*] the overall level of investment capacity of private investors in the world continues to grow.

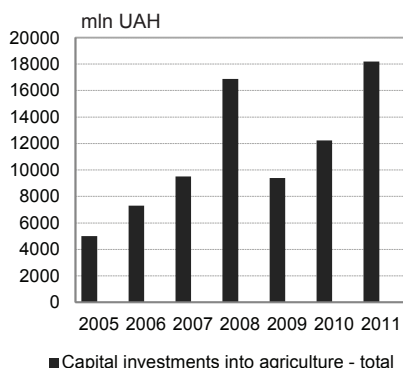


Figure 1a. Investment into agriculture, forestry and hunting

Source: grouped by author based on [State Statistics, in agriculture 2012, National Bank...].

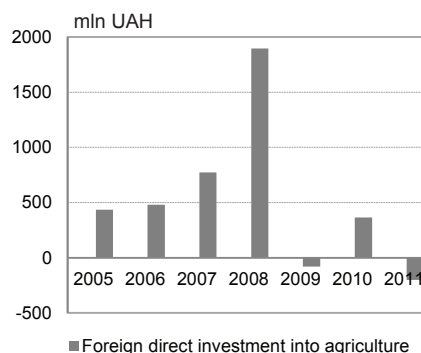


Figure 1b. FDI into agriculture

Source: see fig. 1a

Thus, for the period from 1992 to 2011 the domestic agriculture managed to attract USD 2.82 billion of FDI, including USD 2.02 billion invested in food processing and manufacturing industry and only USD 0.8 billion – in agricultural production [In agriculture...2012].

In spite of sharp decline in the total volume of capital investments into agriculture and related industries in 2009, in 2011 their level reached UAH 18 billion (Fig. 1a). In accordance with Ukrainian Agrarian Confederation (UAC) data [In agriculture...2012], FDI into Ukrainian agriculture in 2005 amounted USD 86 million, in 2008 – USD 246 million¹, in 2009 – investment outflows totaled USD 10 million, and in 2011 – FDI outflows reached USD 25 million (Fig. 1b).

But anyway, Ukraine remains an attractive area for domestic and foreign investors. This is due to stable demand, a reasonable level of profitability in key sectors and relatively cheap labor force [Farmers sow ... 2012].

Despite the fact that agriculture demonstrates strong multiplier effects on other economic sectors, falling food prices in recent decades, lack of supportive policies and infrastructure in many countries, farm subsidies and protection in some OECD countries have all affected the capacity and efficiency of investment in agriculture and discouraged production in developing countries [Progress towards... 2011].

Public spending on scientific research in agriculture is more than 1% of the share of GDP accounted for by agriculture in most countries of the OECD, and reaches 4% in the U.S. However, these expenditures in OECD countries grow slowly (0.2% per year in the U.S. and 0.5% in Japan in the 2000's,) or even decrease [Sustainable Agricultural... 2012].

As for Ukraine, in 2012 the cost of programs to support agriculture and rural development in total public spending with respect to GDP is lowest for the last 6 years [Kuznetsov, Nivievskiy 2012]. Each year, in budget they allocate funds for the implementation of scientific and technological developments and research in different areas and programs. Specifically, in 2012 it was allocated UAH 13.7 million. However, during the abovementioned period these costs did not exceed 3.5% (in 2010) of the total expenditures of the Ministry of Agrarian Policy and Food of Ukraine, and in 2009 amounted only 1.5% [On State Budget... 2005-2012].

¹ Significant growth was caused by decline of the national currency exchange rate against the U.S. dollar by nearly one and a half.

Thus, the present state of agriculture in Ukraine is not very favorable neither for attracting investors nor to rely too much on governmental support due to different reasons and constraints. At the same time increasing price volatility, successive food price spikes and their consequences on food security have to increased interest in agriculture, which presents the sector with growing opportunities. These opportunities, if exploited well, can bring about a gradual but steady growth in profit. Besides, there are effective ways in which public and private sectors can work together, combining the advantages of profit and sustainable development of agricultural sector and rural areas. One of these ways can be public-private partnership.

Public-private partnership is a popular type of cooperation in many sectors around the world. Partnerships between public agencies and private individuals or organizations in different forms existed for centuries. There are many examples of higher education, as well as areas such as defense, pharmaceuticals, roads, the Olympics, etc. Recently, there is growing awareness of the value of PPP in agriculture, and especially for projects that benefit farmers in developing countries. Nevertheless, to date there are very few examples of PPP in agriculture. And they all pretty much have the experimental nature and form a new field of practice and knowledge to the participants [Ferroni, Castle 2011].

Application PPP in the agricultural sector of foreign countries is meant primarily for the implementation of research activities and innovations, which are necessary to ensure food security and sustainable development of agriculture which is hardly possible to initiate or finance by farmers themselves. In 2011 leaders of Group of Twenty (G20) promised to undertake all measures aimed at steady increase of production and productivity in agriculture, as discussed in paragraph 43 of Cannes Declaration. Therefore, it was agreed to continue increasing investment in agriculture, particularly in the poorest countries to encourage joint efforts of public and private capital [*Cannes Summit*... 2011].

Clearly, private companies are often more efficient and better run in agribusiness than bureaucratic public authorities. The synergy effect stipulated mainly by the unique character of this business is happening on the cross-roads of opportunities, resources and interests of each player on the agromarket. Taking into account its important synergistic role in the agricultural sector of Ukraine, PPP may be used in following areas: wholesale agricultural commodities markets, elevators and warehouses construction, machine and tractor station, agricultural research and innovation, education, seed production, fertilizer production, export promotion, public procurement, amelioration projects, irrigation infrastructure projects, biofuel and biotechnology [Kolchanov 2009].

In agribusiness the form of the PPP mainly depends on the features of specific goals to be reached by the PPP. Its models vary from complex PPP arrangements (concession contract) to simple management contracts. The concession is the most pertinent PPP construction for agriculture infrastructure projects. Another way to PPP in agriculture sector is a joint activity agreement. Nowadays in Ukraine the development of partnerships between private business and government is at its initial stage, there are some examples of successful projects, but all of them refer to the transportation infrastructure, medicine, real estate management, etc.

One of rare examples which were found in Ukraine concerns development of infrastructure object. Wholesale agricultural market "Nezhdanna" is located in village Velyki Kopani (Kherson region) [*Nezhdana*... 2012]. Being the largest market in Southern Ukraine it attracts farmers and entrepreneurs from Odessa, Mykolayiv, Kharkiv, Crimea and even Vinnytsya and Lviv, having commodity turnover of 2000 tons per day as of July 2012 [Heroï 2012]. Its current capacity takes 700-1000 tracks per day (Tab. 1). The Velyki Kopani market

Table 1. Market components of Ltd “Multisectoral Production Company “Nezhdana”, Ukraine

Component	Description
Production traded	Fruits and vegetables, meat, milk and fish products, fertilizers, seeds, etc.
Infrastructure	Physical
Ownership	Ltd, private
Employees	1000 permanent and 500 temporary workers
Land area and ownerships	8 hectares, land rented from state – 49-year lease
Capacity	500-3000 tons per day, 700-1000 tracks per day
Operation	All year round
User market fees	USD 0,32 per day, USD 1,15 to USD 18 per track depending on track type
Financing	USD 150000 equity (est),
Subsidies	None, tax relief proposed in Law of Ukraine “On Wholesale Agricultural Markets”

Source: grouped by author based on [Warner et al. 2009; Nezhdana... 2012; Negoï 2012, On Wholesale...2009; Kravchenko, Rozwadowski 2007].

Table 2. Build-Operate-Own (concession for a wholesale market: model components)

Component	Characteristics
Strategic purpose	Provide outlets for farmers to market their products. Improve price transmission and quality information from export and urban markets, increasing domestic competitiveness
Infrastructure coordination	Parallel public (or private) investment in utilities infrastructure likely to be essential (access roads, electricity and water supply, waste management, etc.) State land grants
Resourcing types	Capital subsidies for infrastructure construction (mainly from central governments, donors or municipalities) Private or FDI equity
Cost recovery	Trader user fees: Volume of commodities traded by vehicle or weight; fees for stands or trading space; fees for storage and other facilities Indirect sources: development of land for sale or sub-leasing, advertising revenues
Contractual agreement	BOO concession (ownership of built assets only, or land + built assets) Facilities construction and maintenance contracts competitively bid by owner-operator
Risk	Demand risk (volume of traded commodities, subscriptions, etc.) Foreign exchange risk if FDI of funding.

Source: [Warner et al. 2009].

is located in an area of high growth potential, well-known by regional producers and accessible for international traders from Russia, Belarus and the Baltic States [Warner et al. 2009].

The following components are the examples of optional characteristics for the wholesale market operation, taking into account its specific functions, goals and PPP model (Tab. 2).

This is an example of how partnership of state authorities, business and local community may carry significant opportunities for each party. An effect of Velyki Kopani market has been the improvement in client-oriented production by domestic producers in response to exposure to foreign competition. Besides, wholesale markets and trading centers bring

the forces of comparative pricing to bear on agricultural inputs and sales, enhancing the prospect of farmers securing fairer deals than might be achieved by purchasing or selling through single traders. More accurate pricing information of the wider trends on the cost of agricultural inputs provides farmers with greater confidence to make investments and improve productivity [Warner et al. 2009, Kravchenko, Rozwadowski 2007].

It is vitally important to have a clear legal framework for regulation of PPP in the agricultural sector. So far we do not have the complex legislation that would regulate this type of activity. The Law of Ukraine “On Public-Private Partnership” [2010], which defines the organizational and legal framework of public and private partners and the basic principles of the partnership contract has been passed recently. However, unfortunately there is nothing concerning the possibility of PPP in agriculture in it.

CONCLUSIONS

Agricultural research and rural development should be the driving forces of sustainable development of agribusiness and the focus must be on concrete actions at the national level. Working in partnerships is instrumental in making the best out of investments in agriculture. Successful development should be showcased, promoted, and good examples must be multiplied.

At the national level boosting agricultural production stimulates overall economic growth and development, particularly in those countries which have a high economic dependence on agriculture. Thus, agricultural and rural sustainable development acts as an engine for sustainable economic development making an effective contribution to national economic growth. This is vitally important for Ukraine as for one of highly agriculture oriented states with high export potential.

In the context of emerging and competing priorities, as well as growing needs of the government to satisfy a wide range of different purposes, public-private partnership creates tools and favorable conditions for generation additional opportunities in every sector of the national economy, ensuring proper institutional and legal supply, and agriculture must not be an exception.

Food security and sustainable agricultural development require constant and continuous improvement of instruments and tools available to agricultural entrepreneurs. This includes not only the development of new technologies, but their adaptation to local needs and conditions, their efficient application by qualified and knowledgeable farmers. Neither the private business nor the public sector can achieve these goals alone. Therefore, to our opinion, taking into account the financial and economic situation in Ukraine, one of the possible scenarios aimed at improving the situation in agricultural sector is implementation of public-private partnership.

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PARTNERSTWO PUBLICZNO-PRYWATNE JAKO CZYNNIK ZAPEWNIĄCY ZRÓWNOWAŻONY ROZWÓJ AGROBIZNESU NA UKRAINIE

Streszczenie

Rolnictwo i agrobiznes na Ukrainie nie są zrównoważone ze względu na ograniczone możliwości finansowania z własnych źródeł i braku dofinansowania ze strony państwa. Nie ma też zachęt dla przedsiębiorstw prywatnych, zarówno krajowych, jak i zagranicznych, do inwestowania w ukraińskie rolnictwo. Jednym z efektywnych sposobów przyciągnięcia inwestycji jest wprowadzenie partnerstwa publiczno-prywatnego jako sposobu na współpracę między państwem reprezentowanym przez sektor publiczny oraz firmami prywatnymi. Obie strony dzięki takiemu rozwiązaniu mogą osiągnąć korzyści, jak również mogą przyczynić się do zrównoważonego rozwoju danego obszaru. Partnerstwa publiczno-prywatne jest powszechnie wdrażane na Ukrainie w innych gałęziach gospodarki, jednak rzadko stosowane w agrobiznesie. W artykule zaprezentowano również funkcjonowanie hurtowego rolnego rynku jako konkretnego przykładu partnerstwa publiczno-prywatnego na Ukrainie. Dodatkowo omówiono ograniczenia prawne jako ważny aspekt hamowania rozwoju tej formy współpracy.

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