WALKING ON THE WEST SIDE

THE WORLD BANK AND THE IMF IN THE UKRAINE CONFLICT

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International financing has played a significant—although not always reported—role in the current conflict in Ukraine. In late 2013, conflict between pro-European Union (EU) and pro-Russian Ukrainians escalated to violent levels, leading to the departure of President Viktor Yanukovych in February 2014 and prompting the greatest East-West confrontation since the Cold War.[1]

A major factor in the crisis that led to deadly protests and eventually President Yanukovych's removal from office was his rejection of an EU Association agreement that would have further opened trade and integrated Ukraine with the EU.[5] The agreement was tied to a $17 billion loan from the International Monetary Fund (IMF). Instead of the EU and IMF deal, Yanukovych choose a Russian aid package worth $15 billion plus a 33% discount on Russian natural gas.[6] This deal has since gone off the table with the pro-EU interim government accepting the new multimillion dollar IMF package in May 2014.[7]

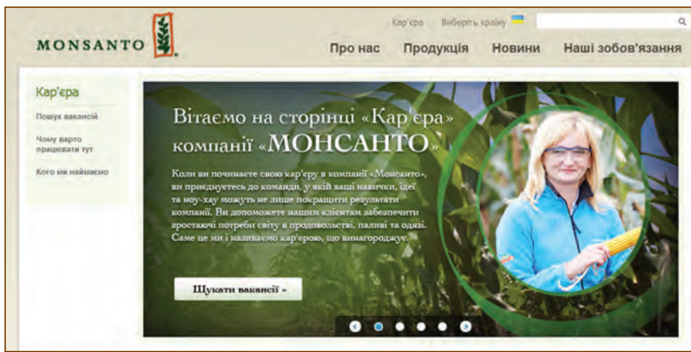
The IMF deal that Yanukovych spurned at the end of 2013 was not the first time he had rejected loans tethered to reform programs from international financial institutions (IFIs). In 2010, the president vetoed tax reform that was part of austerity measures demanded by the IMF as a conditionality for an aid package. In 2011, the IMF put the deal on hold because the government failed to pass a very unpopular pension reform bill, which aimed at cutting public spending through raising the age of retirement for women and increasing the time of workers' salary contribution to their retirement funds by ten years.[8] The IMF was also displeased that the government watered down gas price increases.[9]

The relationship with IFIs changed swiftly under the pro-EU government put in place at the end of February 2014. Just a week after the instatement of the new government, the IMF rushed a mission to Kiev. Assessing the conditions of the $17 billion loan, Reza Moghadam, the IMF European Department Director, declared at the end of this visit that he was "positively impressed with the authorities' determination, sense of responsibility and commitment to an agenda of economic reform and transparency."[10] Announcing a $3.5 billion aid package on May 22, 2014, Jim Yong Kim, the World Bank President, praised the Ukrainian authorities for developing "a comprehensive program of reforms, which they are committed to undertake with support from the World Bank Group."[11] The package of measures financed by the Bank includes reforming the public provision of water and energy, but, more importantly, aims at addressing what the World Bank identified as the "structural roots" of the current economic crisis in Ukraine, including the high cost of doing business in the country. The World Bank imposed neoliberal conditions to lend money to Ukraine, asking the government to limit its own power by "removing restrictions that hinder competition and by limiting the role of state 'control' in economic activities."[12]

The World Bank and the IMF appear to be heavily involved in pushing through structural reforms and austerity measures that will greatly influence the lives of all Ukrainians. While the Bank and the IMF carry out their activities in many countries under the guise of democracy, development, and economic growth, their intent is clear in the case of Ukraine. The rush to provide new aid packages to the country indicates that both institutions rewarded the change to a pro-EU government that is aligned with the neoliberal agenda of the IFIs. On May 27, 2014, the *New York Times* unveiled how the allegiance to the West was certainly not just about geopolitics and democracy. The newspaper observed that "Western interests are pressing for change" and that "big multinationals have expressed tentative interest in Ukrainian agriculture."[13] It further revealed how the reforms of the Ukrainian economy and particularly of its agricultural sector that were tied to the $17 billion IMF deal sought to "bolster the confidence of foreign investors" by addressing the Ukrainian agricultural sector's "red tape and inefficiencies."[14]

Grabbing the Breadbasket of Europe

The East-West competition over Ukraine involves the control of natural resources, including uranium and other minerals, as well as geopolitical issues such as Ukraine's membership in NATO.[15] The stakes around Ukraine's vast agricultural sector, the world's third largest exporter of corn and fifth largest exporter of wheat,[16] constitute a critical factor that has been often overlooked.[17] With its ample fields of fertile black soil that allow for high production volumes of grains and cereals, Ukraine is often referred to as the "breadbasket of Europe." In the last decade, the agricultural sector has



Monsanto's expansion in Ukraine. Monsanto-Ukraine website: www.monsanto.com/global/ua/pages/default.aspx.

been characterized by a growing concentration of production within very large agricultural holdings that use large-scale intensive farming systems.[18]

The presence of foreign corporations in the agricultural sector and the size of agro-holdings are both growing quickly.[19] In recent years, more than 1.6 million hectares (ha) have been signed over to foreign companies for agricultural purposes.[20] The largest land deals involve 405,000 ha to a company listed in Luxembourg, 444,800 ha to Cyprus-registered investors, 120,000 ha to a French corporation, and 250,000 ha to a Russian company.[21] China signed an agreement for 3 million ha of prime farmland in Eastern Ukraine in September 2013 but it is unclear if this deal will go forward with the change of government. According to media reports, this deal is now "disputed."[22] If it is implemented, the agreement would give China control over an area roughly the size of Belgium that accounts for 5% of all arable land in Ukraine.[23]

Whereas Ukraine does not allow the use of genetically modified organisms (GMOs) in agriculture,[25] Article 404 of the EU agreement, which relates to agriculture, includes a clause that has generally gone unnoticed: it indicates, among other things, that both parties will cooperate to extend the use of biotechnologies.[26] There is no doubt that this provision meets the expectations of the agribusiness industry. As observed by Michael Cox, research director at the investment bank Piper Jaffray, "Ukraine and, to a wider extent, Eastern Europe, are among the "most promising growth markets for farm-equipment giant Deere, as well as seed producers Monsanto and DuPont."[27]

Drastic Reforms to Attract Investment and Improve Business Rankings

In recent years, despite President Yanukovych's reluctance to accept the adjustment programs pushed by international institutions, a number of reforms were introduced to improve the country's attractiveness to foreign investment. In 2013, Yanukovych challenged his government to score among the top 100 countries of the World Bank's Doing Business rankings.[28] Over the last year alone, Ukraine jumped 28 spots in the rankings, from 140 in 2013 to 112 in 2014.

The ranking is only one of the instruments used by the World Bank to influence reforms in Ukraine. In 2012, the Bank initiated a program to expand agribusiness in Ukraine through the International Financial Corporation (IFC), its private sector arm. The IFC established the Ukraine Investment Climate Advisory Services Project, which seeks to enhance the

Figure 1: Land Deals in Ukraine per Country of Origin (hectares)[24]

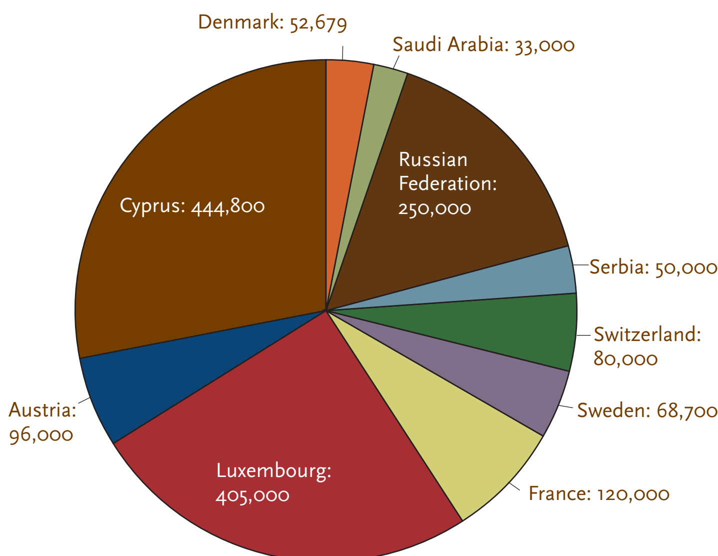


Table 1: Foreign Investments in Agriculture in Ukraine

Company	Country	Land area (ha)
Public Investment Fund (PIF) of Saudi Arabia, Saudi Al Rajhi Group, Almarai Co.	Saudi Arabia	33,000
MK Group	Serbia	50,000
Trigon Agri	Denmark	52,679
Agrokultura AB	Sweden	68,700
Glencore Xstrata PLC	Switzerland	80,000
MCB Agricole	Austria	96,000
AgroGeneration	France	120,000
Sintal Agriculture Plc	Cyprus	146,800
Renaissance Group	Russian Federation	250,000
Mriya Agro Holding Public Limited	Cyprus	298,000
Kernel Holding S.A.	Luxembourg	405,000
Total		**1,600,179**

investment climate specifically for agribusiness.[29] The project proposes to improve the agricultural business environment by streamlining or eliminating 58 different procedures and practices by 2015.[30] For instance, IFC advised the country to "delete provisions regarding mandatory certification of food in the listed laws of Ukraine and Government Decree," and to harmonize its laws with international standards around pesticides, additives, and flavoring, to avoid "unnecessary cost for businesses."[31]

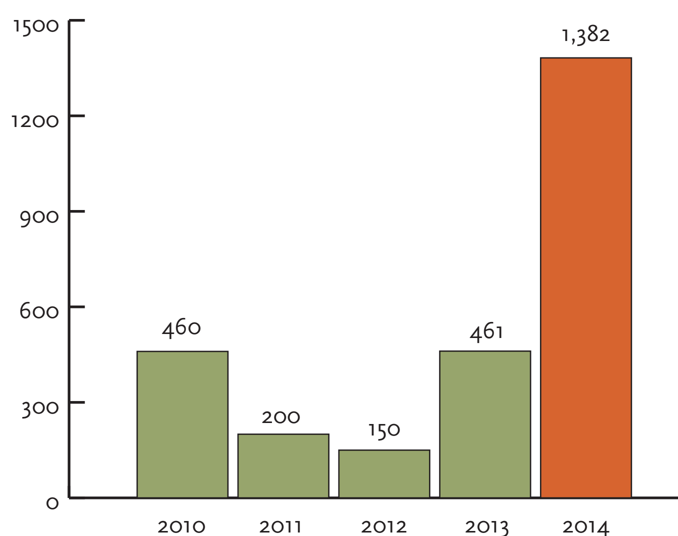
The World Bank also provided an $89 million loan for the Ukraine Rural Land Titling and Cadastre Development Project.[32] Completed in 2013, the main objectives of the program were to privatize state lands and communal farm enterprises, allocate land parcels and issue deeds to land parcel owners, and establish an electronic land cadastre. Through these goals it encouraged "the restructuring of farms into more efficient units."[33] This program aligns with practices that receive high marks on the Doing Business measures, as registered property is considered important to support investment, productivity, and growth.[34] Given the struggle for resources in Ukraine and the influx of foreign investors in the agriculture sector, an important question is whether the results of the program will benefit Ukraine and its farmers by securing their property rights or pave the way for corporations to more easily access property and land.

Given the above, it is no surprise that Ukraine was selected in 2013 to be one of the 10 pilot countries in the World Bank's new *Benchmarking the Business of Agriculture* (BBA) project. Still in its preliminary stages, the BBA seeks to promote agricultural policy reforms and will rank countries according to ease of doing agricultural business, much like the Doing Business ranking but exclusively for the agriculture sector.[35] By encouraging reforms such as the deregulation of seed and fertilizers markets, it appears to be an additional effort to open the country's agricultural sector to foreign investment. The Bank's ranking activities and its loan and reform programs seem to follow a single goal, which is to favor the expansion of large industrial holdings in Ukrainian agriculture owned by foreign entities.

New Loans Come with Conditionality and Drastic Reforms

Ukraine had to make considerable reforms to jump 28 spots on the Bank's 2014 Doing Business rankings. These included, among others, easing property transfers for businesses by "streamlining procedures and revamping the property registration system," making paying taxes less costly by "simplifying tax returns" for companies, and reducing the number of inspections at customs in order to facilitate trade.[36] Amid the current turmoil, the World Bank and the IMF are now pushing for more reforms to improve the business climate and increase private investment.[37] In March 2014, the acting Prime Minister, Arseny Yatsenyuk, welcomed strict and painful structural reforms as part of the $17 billion IMF loan package, dismissing the need to negotiate any terms.[38] The IMF austerity reforms will affect monetary and exchange rate policies, the financial sector, fiscal policies, the energy sector, governance, and the business climate.[39] The loan is also a precondition for the release of further financial support from the EU and the US. If fully adopted, the reforms may lead to significant price increases of essential consumer goods, a 47 to 66% increase in personal income tax rates, and a 50% increase in gas bills.[40] It is feared that these measures will have a devastating social impact, resulting in a collapse of the standard of living and dramatic increases in poverty.[41]

Figure 2: World Bank Lending to Ukraine, 2010-2014 (Millions of dollars) [42]



This austerity program is fully supported by the World Bank, which in April 2014 stressed the need for vast structural reforms to encourage more business activity and foreign investment.[43] In May 2014, the Bank signed a Protocol of Support endorsing the Memorandum of Understanding for the Ukrainian Anti-Corruption Initiative between Ukraine, the European Bank for Reconstruction and Development (EBRD), the Organization for Economic Cooperation and Development (OECD), and the Ukrainian business community. Despite the Bank's rhetoric around helping "civil society play a greater role in the monitoring of the budget,"[44] the acknowledged goal of the Memorandum is not as much improving governance for Ukrainian citizens or ending corruption as it is fighting the "unfair treatment of business [...] to improve the business

A woman signs papers at the local welfare office, Ukraine. © Dmytro Derkach / World Bank.

climate in Ukraine."[45] In the document's introduction, the link between corruption and bad business is clearly stated, and all parties agreed that "Ukraine must ensure that its markets are open and efficient." Thus, the aim of the initiative echoes many of the Doing Business targets, including attracting foreign investment, contributing toward improvements in the investment climate, and eliminating barriers to investment.[46]

In May 2014, the World Bank also approved $1.5 billion in funding for three development projects as part of a new $3.5 billion aid package announced for Ukraine for 2014.[47] About half of the approved amount ($750 million) is geared toward "high-priority reform measures" under a Development Policy Loan (DPL), which is not subject to the Bank's environmental and social safeguard policies. This is a concern since, as recognized by the Bank itself, "given the cross-cutting nature of many of the supported governance and business climate reforms, some of the expected social impacts of this DPL are difficult to quantify. In the short run, the adjustment [...] may lead to adverse social impacts through income and employment shocks that may hurt the poor."[48]

Conclusion

Although Ukraine started implementing pro-business reforms under President Yanukovych through the Ukraine Investment Climate Advisory Services Project and by streamlining trade and property transfer procedures, his ambition to mold the country to the World Bank and IMF's standards was not reflected in other realms of policy and his allegiance to Russia eventually led to his removal from office. With the acceleration of structural adjustment led by the international institutions following the installation of a pro-West government, there has been an increase in foreign investment, which is likely to result in further expansion of large-scale acquisitions of agricultural land by foreign companies and further corporatization of agriculture in the country. Whereas it is feared that the structural adjustment program will increase foreign control of the economy as well as increase poverty and inequality,[49] the financial institutions have failed to demonstrate how such programs will improve the lives of Ukrainians and build a sustainable economic future.

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