



USAID | **AgroInvest Project**

FROM THE AMERICAN PEOPLE

QUARTERLY REPORT **APRIL 01, 2011- JUNE 30, 2011**

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AGROINVEST

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS

| | |
|-------|---|
| AJLEP | Access to Justice and Legal Empowerment Project |
| AMDI | Agrarian Markets Development Institute |
| APTS | Agricultural Policy Transition Support project |
| COP | Chief of Party |
| COTR | Contracting Officer's Technical Representative |
| DCOP | Deputy Chief of Party |
| EBRD | European Bank for Reconstruction and Development |
| ENP | European Neighborhood Policy |
| EU | European Union |
| FTF | Feed the Future Initiative |
| GOU | Government of Ukraine |
| IFC | International Finance Corporation |
| IFI | International Financial Institution |
| LINC | Local Investment and National Competitiveness project |
| LOE | Level of Effort |
| MAP | Ministry of Agrarian Policy and Food |
| MOU | Memorandum of Understanding |
| OEG | Office of Economic Growth |
| PO | Producer Organizations |
| SOW | Scope of Work |
| SMP | Small and Medium Producers |
| UAH | Ukrainian hryvnya |
| VAT | Value Added Tax |

PROJECT OVERVIEW

The purpose of AgroInvest is to provide technical assistance to accelerate and broaden economic recovery in Ukraine and increase the country's contribution to global food security efforts. AgroInvest will achieve this objective by supporting a stable, market-oriented agricultural policy environment, stimulating access to financial services for small and medium producers (SMPs), and facilitating a more effective market infrastructure for SMPs.

The scope of work identifies three main components, refined into six tasks, as follows:

- Component 1: Support a Stable, Market-Oriented Environment
 - Task 1-a: Accelerate Market Oriented Reforms
 - Task 1-b: Strengthen Industry Associations
 - Task 1-c: Provide Public Education for Land Rights
- Component 2: Stimulate Access to Finance
 - Task 2-a: Sustainable Access to Financial Services for SMPs Provided
- Component 3: Facilitate Market Infrastructure for Small and Medium Producers
 - Task 3-a: Producer Organization Development
 - Task 3-b: Develop Wholesale Markets and Other Market Infrastructure

AgroInvest is a five-year project, extending to an estimated completion date of January 24, 2016. The scope of this project encompasses the following US Foreign Assistance Framework Program Areas: 4.2 Trade and Investment, 4.5 Agriculture, 4.6 Private Sector Competitiveness, and 4.7 Economic Opportunity.

QUARTERLY HIGHLIGHTS

In the months April, May and June 2011, the project team launched technical implementation activities in project focus areas and continued with technical and administrative start-up activities that included recruiting local staff, project registration, project introduction to local partners, selection of office space, and procurement of office equipment. Key activities and accomplishments during this reporting period include:

- A Memorandum of Understanding (MoU) was prepared and negotiated with the Ministry of Agricultural Policy and Food. The MoU was signed on May 11, 2011.
- An Agricultural Policy Environment Assessment was undertaken with a main objective of providing an up-to-date and effective policy analysis and reform agenda as well as to identify the most appropriate way to address policy issues with human and budgetary resources available to the Project. A final version incorporating the Mission's comments was sent to USAID on June 8, 2011.
- A position paper titled, "Potential for Ukraine to Participate in USAID's Feed the Future (FTF) Initiative" was developed to inform the Office of Economic Growth (OEG) of opportunities and challenges for Ukraine to become a FTF Partner Country. The paper was discussed with Mission OEG staff on June, 29 2011.

- Three technical assessments were conducted: Rapid Assessment of Legal and Institutional Framework for Industry Associations (Component 1), Assessment of Regulatory and Institutional Barriers for Increasing Access to Finance for Small and Medium-Scale Producers (Component 2) and Wholesale and Regional Markets Assessment (Component 3). These reports were submitted to USAID on June 30, 2011.
- An Implementation Agreement between Chemonics International Inc., USAID Mission to Ukraine, Belarus and Moldova and Agrarian Markets Development Institute (AMDI) was signed on April 4, 2011.
- The AgroInvest Grants Manual was approved by USAID.
- AgroInvest finalized its Subcontracts Manual.
- AgroInvest completed its internal Procurement Procedure Guidelines.
- A grants/subcontracts training for AgroInvest staff was completed.
- A pre-award responsibility determination was conducted for potential grant recipient AMDI.
- Key technical and administrative staff were hired.
- The Project was registered with the Ministry of Economic Development and Trade on June 8, 2011.

SECTION I: ACCOMPLISHMENTS AND PROGRESS TO DATE

Technical Implementation

COMPONENT 1: Support a Stable, Market-Oriented Policy Environment

Task A: Accelerate Market-Oriented Reforms

In April - May 2011 the project prepared an Agricultural Policy Environment Assessment. The main objective of the assessment was to review current the agricultural policy environment and recent trends, identify key issues and recurrent challenges and inform the project team and the USAID OEG on key policy issues and how best to address them with human and budgetary resources available to the project.

The assessment identified key, long-standing policy issues that were prominent in 2011. The most critical policy issues identified were the use of grain export quotas and other trade restrictions, the expansion of managed price and markup margin policies to an ever-lengthening list of food products, manipulation of the Value Added Tax (VAT) against agribusiness, and the chronic need for more skilled and independent-minded policy analysis and skills both in government and in the research community. Three additional policy issues were also identified which contributed to a more challenging policy environment. These included an aggressive move to establish a dominant, partly state-owned grain trading company, the now-imminent lifting of Ukraine's moratorium on

selling agricultural land by the end of 2011, and the country's business climate and corruption levels which are widely acknowledged as having escalated significantly since 2008.

The assessment suggested that all of the above issues merit attention by AgroInvest. Some of them are more near-term in nature and others would be more appropriately addressed in a more sustained and in-depth way throughout implementation of the project. Addressing these issues effectively requires specific and detailed policy actions that focus on the following recommendations:

- Build a close collaboration and capacity-building relationship with the Ministry of Agrarian Policy and Food (MAP) and other government agencies;
- Mobilize rapid-response joint Ukrainian-US analysis teams to quantify the impact of new legislation and high-profile policy decisions;
- Engage internationally recognized US centers of excellence to sponsor Ukrainian policy analysis and government decision maker training;
- Sponsor, through local grant competitions, national policy reform conferences and workshops on policy priority issues;
- Establish close collaboration with key national professional and business associations and international organizations to speak in one voice.

The assessment was prepared by Christopher Brown, an international agricultural economist and Mykola Pugachov, a Ukrainian agricultural economist, in consultations with key project stakeholders, partners and the AgroInvest team. The full Agricultural Policy Environment Assessment is attached as Annex 1.

Building on the Agricultural Policy Environment Assessment, AgroInvest drafted a Strategic Policy Priority Needs Paper to utilize standard criteria to prioritize policy initiatives where AgroInvest can most effectively affect policy reforms. Special attention was given to identifying meaningful on-the-ground impacts and results that will most directly support AgroInvest project goals and objectives. The paper was prepared in consultation with the Ministry of Agrarian Policy and other project stakeholders. To conduct this work, AgroInvest engaged the services of short-term international agricultural economist Christopher Brown who also prepared the Agricultural Policy Environment Assessment. Preparation and drafting of the Strategic Policy Priority Needs Paper included review of existing government programs and plans, a cycle of consultations with the Ministry of Agrarian Policy and Food, other GOU policy makers and opinion leaders, NGOs and local think-tanks involved with agriculture and agrarian policy, and private sector stakeholders. The consultant also utilized recently completed AgroInvest assessments on 1) Regulatory and Institutional Barriers to Increase Access to Finance for SMPs, 2) Rapid Assessment of Legal and Institutional Framework for Industry Associations, and 3) Regional and Wholesale Markets Assessment, to inform the policy priority assessment. The consultations and stakeholder meetings allowed the

consultant and AgroInvest to formulate and draft the Strategic Policy Priority Needs Paper which will be refined and completed in July 2011.

In view of the visibility and importance of President Obama's Feed the Future (FTF) Initiative, AgroInvest prepared a position paper, "Potential for Ukraine to Participate in USAID's Feed the Future (FTF) Initiative" to explore Ukraine's potential to participate in the FTF program. In order to analyze the extent to which Ukraine might help to contribute to the FTF Initiative the project team requested Christopher Brown, international agricultural economist, to assess the potential for USAID/Ukraine to take an active role in FTF. Conclusions of the analysis show that the potential for Ukraine to take an active role in FTF Initiative is limited, primarily due to Ukraine's geographic location in a region of the world that suffers relatively low rates of malnutrition and food insecurity, in relation to Priority Countries. Nonetheless, USAID/Ukraine may wish to explore with the Ministry of Agricultural Policy and Food (MAP) the Ukrainian government's interest in becoming an FTF Partner Country. In case USAID/Ukraine decide to explore this possibility, the Government of Ukraine's (GOU's) commitment to this undertaking would be essential. The FTF position paper is attached as Annex 2.

Activities related to land reform/lifting of the moratorium on sales of agricultural land

AgroInvest worked continuously to monitor policy and legislation discussions on new legislation to lift the moratorium on sales of agricultural land. The project worked closely to coordinate with the LINC project as well as Landesa, a US-based NGO with extensive international expertise on land-related issues. AgroInvest participated in regular meetings held by the USAID OEG to discuss developments with land legislation and coordinate activities among USAID partners on this important and sensitive subject.

Following a May 6 meeting at the USAID Mission to discuss the latest land legislation reform developments and next steps to positively influence the process, LINC and AgroInvest prepared a draft letter on May 27 that could be modified and signed by USAID, the World Bank and other IFIs with comments for improving the draft Law On Land Market. The proposed text of the draft letter is below:

"We have been following the recent discussion regarding lifting the moratorium on agricultural land sales with great interest. The potential of Ukraine as a major producer of food for years into the future is a prospect of world-wide significance. We are pleased that Ukraine is now turning to market relations as a means for maximizing the nation's agriculture productivity. A land market will put land in the hands of the most efficient and effective producers if it is supported by institutions that ensure transparency, contractual fairness, equitable dispute resolution and policies favorable to environmentally clean agrarian practices. We support such an agrarian land market in Ukraine.

We are, however, compelled to express concern about some of the provisions that have circulated regarding the draft law on land markets. Particularly troublesome

is the government land fund that is envisioned in the draft law. This type of fund, with its pre-emptive rights to buy private land and its implicit mechanism for the government to acquire land is, we believe, contrary to the efficiencies and fairness that a land market is intended to promote. Such an idea should, we believe, be subject to rigorous analysis and critical thought. Other features of the draft seem also needlessly anti-market and unfavorable to market benefits, and should similarly be the subject of careful scrutiny.

Another area of concern is that the lifting of the moratorium and ushering in of a land market should not be treated as an overnight process. Rather, the moratorium should be lifted only following a transitional program of careful preparation. Such a program should be implemented in stages and should include establishing a functioning property registration system, taking concrete initial steps toward providing credit to small and medium producers, establishing an evolving and universally accessible land market public information system, and implementing concrete steps to securing a rule of law geared towards ensuring fair land market transactions.

We would be most pleased to assist the GOU in sponsoring dialogue and discussion aimed at establishing a time frame and specific steps to execute such a program for transition to a fair and transparent land market in Ukraine.”

To facilitate public discussion of the draft Law On Land Market, and in response to a request from the State Land Agency for Land Resources, the project funded the publication/printing of 12,000 copies of a bulletin containing the most recent draft Law On Land Market for distribution in rayons and local councils for public discussion and consultations. The publication was done in close coordination with the State Agency for Land Resources and the national NGO Land Union of Ukraine. Printed copies of the bulletin have been distributed by the State Land Agency to village councils and allowed the government to receive valuable feedback to the proposed legislation. This activity was coordinated with and co-funded by the USAID LINC project.



AgroInvest participated in a round table “Land Reform In Ukraine: Challenges and Prospects” organized by the USAID Access to Justice and Legal Empowerment project on April 21. AgroInvest also held a separate meeting on public awareness campaign for land issues with the Access to Justice Project on May 16.

On June 7, the project participated in a round table organized by USAID’s Ukraine National Initiatives to Enhance Reforms project (UNITER) to present newly prepared

Land Reform Sectoral Analysis. AgroInvest contributed to the discussion on key issues of land reform and next steps by international projects and local experts to move the land reform agenda forward.

The project also attended a discussion on land issues at the World Bank office on June 1. As a follow up to this meeting, the project attended a presentation on June 17 detailing the results of the national survey on the status of land reform in the agricultural sector carried out by the Land Agency and the World Bank. Prior to the presentation, the project assisted the Land Agency in identifying appropriate invitees from the donor community. The results of the survey will help AgroInvest inform its policy work and delivery of legal services to farmers in targeted communities.

Engagement with AMDI

The USAID Mission to Ukraine, Belarus and Moldova, Chemonics International Inc. and Agrarian Markets Development Institute (AMDI) developed and concluded an Implementation Agreement. The agreement formalized the partnership of Chemonics International Inc. and AMDI as implementing partners for the AgroInvest Project and defined broad objectives of the partnership. The Implementation Agreement was signed on April 4, 2011, and is attached as Annex 3.

AgroInvest met with Carrie Keju, Senior Project Director at AED on April 28, 2011 to discuss AMDI accomplishments and progress with their personnel, operations and financial policy manuals, that were being prepared under the USAID-AED Agricultural Policy Transition Support (APTS) project designed as a bridge to carry AMDI over to co-implementation of the AgroInvest Project.

AgroInvest held regular meetings with AMDI management in order to establish close partnership relations, share workplans, and develop tasks that AMDI can potentially implement under a cost-reimbursable grant from AgroInvest. Key policy tasks for an AMDI grant that have been discussed between AgroInvest and AMDI which are being developed into a SOW for a possible grant include:

- Assist with development of legislation for improvements of credit/financing mechanisms in the agricultural sector (pre- and post-harvest financing)
- Advise the GOU on market-oriented and WTO-compliant agricultural policies, including policy analysis and legislative drafting
- Coordinate and support new GOU PPD Secretarial Support for the Coordination Council on Agricultural Reform
- Support existing GOU Consultative Working Groups
- Promote needed regulatory reforms for Credit Unions and Cooperatives

Coordination with key partners

During the report period, the AgroInvest team initiated and participated in numerous meetings with key project partners and stakeholders to introduce the project, identify areas for cooperation and agree on next steps to coordinate activities. Information presented below highlights a sample of some of the more important meetings.

Discussions were held with Peter Bryde of the EBRD, on April 28, to coordinate activities on pre-harvest finance and other potential areas to increase access to finance for SMPs. It was agreed to maintain regular contact with both the London office and local Kyiv office to coordinate efforts between AgroInvest and the EBRD.

In order to facilitate its engagement with private sector partners AgroInvest became a member of the American Chamber of Commerce on April 29. In parallel, the project team continued attendance of meetings of the Agricultural Committee of the American Chamber of Commerce in Ukraine. On July 7 the project team participated in a special meeting of the Strategic Working Group of the Agricultural Committee of the American Chamber of Commerce in Ukraine. The objective of the meeting was to discuss grain market development, identification of key issues and first-priority tasks of the Committee as well as discussion of the medium-term strategy of agricultural sector development based on free market principles for the next 3-4 years. It was expected that the strategy would be presented to the GOU in September 2011. AgroInvest contributed substantively to the discussion, including comments to the draft outline for the future agricultural sector strategy.

AgroInvest met with US Agricultural Attaché Ann Murphy and her team on May 5 to discuss opportunities for coordination and cooperation. AgroInvest made a presentation on main project activities, learned about USDA supported programs and identified areas for cooperation between Agricultural Attaché's office and project team.

On May 27 AgroInvest participated in a meeting at the USAID Mission with US-based CME Group and their partner in Ukraine: Leo Melamed, Chairman Emeritus, CME Group and Leonid Kozachenko, Chairman of the Council of Entrepreneurs, under the GOU. The discussion evolved around a recent initiative by the CME Group and GOU to establish a futures exchange for grain and other agricultural commodities in Ukraine in the near future and the potential role of USAID to support this initiative. AgroInvest has engaged in follow-up discussions with Mr. Kozachenko to determine what role AgroInvest could play in this important initiative.

On June 7, AgroInvest attended a presentation of a study on retail trade in fresh vegetable produce in Ukraine commissioned by the International Finance Corporation (IFC). The project also purchased a copy of the full study from the IFC. The study helped inform the policy agenda of the project, establish communication with key potential partners and identify issues for the assessment of agricultural sector market infrastructure completed under Component 3 of the project.

A meeting with EU Sector Wide Agricultural Project (SWAP) to coordinate activities between the two projects, in particular on market infrastructure development, was held on April 20. Subsequently, AgroInvest met with Natalia Korchakova of the EU Delegation on June 20 to coordinate support for the Coordination Council on Agricultural Reform under the Ministry of Agricultural Policy.

Task B: Strengthen Industry Associations

A Rapid Assessment of the Legal and Institutional Framework for Industry Associations in Ukraine was conducted to better understand the regulator challenges hindering development of industry associations. In this context, the assessment focused on identifying the most important legal and institutional issues which need to be taken into account by AgroInvest in its future work with industry associations involved within the agricultural sector. The assessment has also identified the industry associations in the sector as a basis for future selection of key associations for potential policy work and capacity building activities. The assessment is attached as Annex 4.

In parallel, the project team continued meetings with leading industry associations in order to support joint initiatives; in particular, the project held several meetings with Mr. Klimenko, President of the Ukrainian Grain Association. These meetings allowed the AgroInvest team to learn more about recent policy developments on the grain market, and identify areas for increased cooperation with the Ukrainian Grain Association and its members during the rest of the calendar year. In particular, it was agreed that AgroInvest will review opportunities to support a national Grain Congress to be held in October 2011.

Task C: Provide Public Education for Land Rights

AgroInvest designed a draft strategy and approach to sustainable delivery of legal land services and selection of targeted communities. The project communications specialist and a senior communications specialist from Chemonics Home Office in consultation with AgroInvest, other USAID implementers and other partners and stakeholders reviewed criteria for selecting target communities, provided options for assessing the level of land literacy among landowners and land lessors to set baselines, identified local partners, developed communications approaches, and identified potential media outlets to best reach selected geographic regions and target communities.

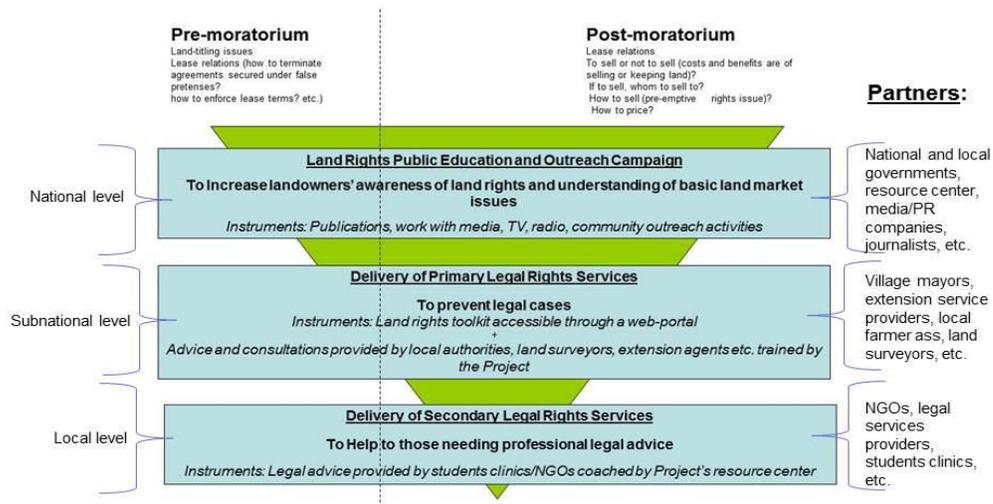
The project conducted a series of consultations with stakeholders and identified various options for delivery of sustainable land rights services. As a result of this effort, the project Communications and Public Outreach Manager and the Home Office Communications Consultant developed the *Land Rights Public Education and Outreach Campaign Strategy* and the *Strategy for Delivering Sustainable Legal Land Rights Services*. Both documents are closely interrelated as they serve a common goal: to help citizens understand their land rights and support them with legal assistance in defined

geographic areas so that rural land owners in these target communities can effectively take actions to defend these rights.

The *Land Rights Public Education and Outreach Campaign Strategy* defines the goals of the campaign, contains audience analysis, messages, channels, and evaluation methods. The campaign will be national in scope and delivered in two phases. First, starting in August, it will take the form of a series of media and public outreach activities to address the most pressing questions landowners have today. Once the land moratorium is lifted, the campaign will enter its second phase and significantly step up efforts and focus on explaining the implications of the land market. Information materials and messaging will link landowners to local and national legal service resources that can assist citizens with both general and legally challenging questions.

The *Strategy for Delivering Sustainable Legal Land Rights Services* contains a comprehensive menu of methods to deliver land rights services and discusses the strengths and weaknesses of each of these methods. It proposes a two-level approach to the delivery of legal services, based on the nature of the legal advice needed in each particular case. Based on the results of earlier initiatives, about 90 percent of land-rights related cases/issues are very similar in nature and, therefore, generic (i.e. primary) legal advice can be devised to help in such cases. Moreover, in many cases it is possible to prevent such cases before they arise by providing needed information and organizing workshops to equip landowners with knowledge that will help them take proactive measures in order not to endanger their land rights.

The proposed framework for the delivery of land rights information and legal services is described in the table below:



COMPONENT 2: Stimulate Access to Finance

During the reporting period AgroInvest staff's main target for Component 2 was to conduct and draft an Assessment on Regulatory and Institutional Barriers for Increasing Access to Finance for Small and Medium-Scale Producers. The assessment will be used to inform the AgroInvest SMP access to finance strategy and also identify regulatory and policy issues that need reform, as well as supply and demand side training needs. In order to accomplish the task, external consultants were contracted, namely, Mr. Robert Homans and Mr. Sergey Khoruzhiy (Kyiv National Economic University). They were accompanied by AgroInvest's Financial Specialist, Mr. Oleg Stoyanov. Their report is attached as Annex 5.

In the process of drafting the report, the assessment team organized and attended 33 meetings with stakeholders, including:

- IFC
- Agrarian Union of Ukraine
- Alfa Bank
- AMACO (agrotechnologies and equipment) and concurrently CEO of Landkom
- Kyiv-Atlantic Ukraine (KAU)
- Cabinet of Ministers of Ukraine/Advisor to the Vice-Prime Minister of Ukraine
- Credit Agricole
- PNP Paribas
- Consorsis Insurance Group
- ADM Ukraine
- Alfred C. Toepfer International (Ukraine) LLC
- BayerCrop Science,
- Northern Black Sea Region, Bayer Ltd.
- Alliance of Credit Unions ("PZV")
- Institute for Economic Research – German-Ukrainian Policy Dialogue in Agriculture
- Kyiv Region Chamber of Commerce (Bila Tserkva, Kyiv Oblast)
- State Registry of Ukraine District Administration, Rushen, Zhytomyr
- Ukraine Micro Lending Programme
- Metro Cash & Carry Ukraine
- UkrAgroConsult
- Agrarian Markets Development Institute (AMDI)
- USAID FINREP Project
- Fozzy

In May 2011, AgroInvest visited 12 farmers/credit/regional suppliers in Odessa oblast and Crimea, including Farm Bilan and Gran LLC. When visiting the farmers, primary data was collected from a questionnaire prepared by AgroInvest that was extensively used by consultants when drafting the access to finance assessment.

Key findings and conclusions from the assessment include:

- Many SMP's believe that the GOU is their best source of finance and support and, therefore, the only "obstacle" to greater SMP access to credit is that the GOU does not appropriate even more money to agriculture beyond what they are already appropriating. The project must focus not only on the supply side of access to finance, but also needs to better educate and prepare SMP borrowers to fully understand both how to access credit and the benefits of increased access to financing.
- The major institutional obstacle expressed by SMP's, at least with respect to banks, is that banks charge high interest rates. Typically, the most challenging obstacle to SMP finance is access to credit and high interest rates. AgroInvest should provide training and capacity building to both providers of credit and borrowers to reduce their risk and improve their understanding of how to access finance, respectively.
- Without documented cash flow and liquidity SMP's will continue to have difficulty obtaining credit, even with the best policy environment and highly liquid suppliers of credit.
- There is currently a lack of banking institutions that are willing to provide funding for SMPs. There are several reasons for this, including decreased bank sector efficiency in the second quarter of 2011 and banks' intentions to develop agribusiness credit portfolios based on large agroholdings to maximize return and minimize loan processing costs.

COMPONENT 3: Facilitate Market Infrastructure for SMPs

Task A. Development of Producer Organizations

An analysis of existing organizational and legal structures of producer organizations, including state supported national and regional programs, was conducted during the reporting period. Criteria were developed for selection of potential producer organizations for capacity building programs.

In the assessment, a preliminary mapping of organizational and legal forms of agricultural producer organizations was completed. This portion of the assessment will advise the project as it seeks to develop and implement capacity building programs to

increase competitiveness and improved access to markets and market infrastructure. Under existing legislation, the most appropriate legal forms of producer organizations for AgroInvest to support are:

- agricultural service cooperatives; and
- joint ventures, or organizations of producers not established as a legal entity. Such organizations, by their structure and economic nature are not intermediary organizations, but operate on behalf of their members.

When possible, AgroInvest will support the development of agricultural producer cooperative organizations and coordinate with the GOU under their initiative on “State Target Economic Program for Support of Agricultural Service Cooperatives for the Period until 2015” (approved by Decree of Cabinet of Ministers of Ukraine No. 557 as of June 3, 2009). To fulfill the programme, the State Budget of Ukraine provides funds in the amount of UAH 5.0 million, approved by a Decree of the Cabinet of Ministers of Ukraine as of March 9, 2011 “Order of Use of Funds Allocated by the State Budget for Support of Agricultural Service Cooperatives”.

AgroInvest has reviewed and analyzed secondary data and public information related to current initiatives of local authorities and their material and technical support for the development of agricultural producer cooperative organizations. Local initiatives of Zhitomyr, Rivne, Ivano Frankivsk, Chernivtsi, and Kherson regions provide for UAH 400-600 thousand for financial support of agricultural cooperatives including partial compensation of acquisition of equipment for procurement and distribution of agricultural products. For example:

- Rivne region in 2011 will provide UAH 600 thousand for subsidizing the cost of equipment for agricultural (milk) service cooperatives;
- Chernivtsi region has allocated UAH 800 thousand from the regional budget and UAH 300 thousand from Storozhynets’kyi district budget for cofinancing with donor projects for the development of milk producing and distribution cooperatives.

Leveraging national and regional programs for the development of producer organizations, AgroInvest will design and implement capacity building programs to support agricultural producer cooperative organizations in the selected geographic regions to be identified in the next reporting period.

Along with support to producer cooperative organizations, the project studied their legal framework and suggests putting into practice the provisions of Article 1130-1143 of the Civil Code of Ukraine to integrate small agricultural producers into marketing groups through the organizational and legal form of a joint venture. Such a form of producers’ integration based on “agreements on joint activity” is much simpler and less costly to create and can serve as a first “start-up” stage for creation of market-oriented agricultural service cooperatives.

Cooperation with technical assistance projects of other international donors

Preliminary agreements were reached for potential cooperation with other technical assistance projects and donors who are also working to improve the legal environment for the development of agricultural producer cooperative organizations at the national and regional levels. Some of these cooperating partners include:

- UNDP Project "Integration and Development Program of Crimea" in which the program "Social and Economic Development of the Village" is being implemented by supporting small farmers and creating agricultural service cooperatives in rural districts of Crimea. In 2006-2010 this project provided support to 29 cooperatives and launched a series of training events for members of cooperative organizations.
- "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector", project which supports activities of dairy and horticulture producers.
- CIDA-funded "Improving the Competitiveness of the Dairy Sector in Ukraine" project, which aims to stimulate entrepreneurship in the dairy sector, improving the conditions of milk marketing (agreements and partnership between producers and processors) in Dnepropetrovsk and Lviv regions.
- CIDA's "Horticulture Development Project" implemented in Zaporizhyya region and Crimea with the objective to improve the financial stability and increase the competitiveness of small farms. The project furthers partnerships between local associations of farmers and advisory services with the goal of training and providing other services to small farms to improve production and market access.
- Canadian Policy Reform and Implementation Support Mechanism project "PRISM" project's "Capacity Building of the Ministry of Agrarian Policy of Ukraine to Develop and Implement a Policy for Agriculture Service Cooperatives in Ukraine" which has the following key objectives:
 - To improve knowledge of MAP staff in best international practices to support agricultural service cooperatives and understanding of perspectives for its application in Ukraine;
 - To improve knowledge and skills of MAP staff "On Directions for the Development of Agriculture Service Cooperatives until 2020;
 - To raise awareness of stakeholders on the need to develop agricultural service cooperatives.
- Project of the Government of the Netherlands (EVD Agency of the Ministry of Economy of the Netherlands) "Harmonization of National System of Legislation and Development of Agricultural Service Cooperatives in Ukraine", which aims to help the Ministry of Agriculture and Food of Ukraine in implementing the state

program of agricultural service cooperatives by way of sharing experience in this area and applying relevant EU standards.

Another very active donor in the field of technical and investment support of producer cooperative organizations is International Charitable Organization "Public Welfare" (previously known as ICF "Heifer Project International") which since 1994 has implemented 68 projects, and organized approximately 11,000 rural families into 55 agricultural service cooperatives in Ukraine.

Task B. Development of Effective Market Infrastructure for Small and Medium Producers

During the reporting period, AgroInvest conducted a Wholesale and Regional Markets Assessment, a comprehensive analyses of current and prospective organizational and legal structures for the development of market infrastructure components of the agriculture and food sector in Ukraine (wholesale markets, regional markets, local market infrastructure and logistics). Based on the assessment, proposals for the formation of stable channels and value chains for agricultural products were developed. The Wholesale and Regional Markets Assessment is attached as Annex 6.

The assessment included four main groups of participants in the agricultural market infrastructure, which today, both at legislative and organizational levels, are not integrated into a unified system of market infrastructure. These groups are:

Inter-regional wholesale markets. These are agricultural product markets that have been created and operate under the Law of Ukraine "On the Wholesale Markets of Agricultural Products" and fall under the state program of financial support for their creation. The current "Shuvar" market in the Lviv region and markets that are being built in Kyiv, Donetsk and Zaporizhya regions have been officially classified as inter-regional markets and awarded the respective status. All of these markets are privately owned.

Regional markets. At the legislative level, the status of regional markets is not defined. There is no specific legislation for regulation of regional agricultural markets and state support for development of these is not provided at the legislative level. In practice, such markets offer wholesale and wholesale/retail trade of agricultural products. Typical examples of these markets are the "Kopany" market in Kherson region and "Krymskiy privoz" in Crimea, whose activities were analyzed in the assessment.

Local markets. The network of local markets in Ukraine is the most developed. It includes 2,758 markets, among which 1,825 have allocated places for agricultural trade, including 248 specialized markets exclusively for agricultural trade. Depending on the region, the share of primary agricultural products sold in local markets will average from 15 to 35% of total local consumption. In certain seasons however, sales of primary agricultural products in these markets jump to 68% of potatoes, 72% of vegetables, 84% of fruits and berries of the total quantity of locally purchased products. Local markets have

been established and operate under different organizational and legal forms (public, private, and cooperative).

Procurement and distribution producer organizations and logistic centers. The assessment indicated that one of the most relevant segments of market infrastructure in Ukraine for AgroInvest intervention is that of procurement and distribution for postharvest processing and handling of agricultural products. According to IFC assessments, about five million tons of fruits and vegetables with a value of more than \$1 billion dollars are lost every year in Ukraine due to inadequate market infrastructure. In addition, the IFC survey shows that only 4% of storage facilities for potato, 10% of storage facilities for other vegetables and 19% storage facilities for fruits comply with current market demands. The survey demonstrates that the annual needs for cold storage include approximately 4 million tons for potatoes, 1 million tons for other vegetables and 298 thousand tons for fruits.

Key conclusions based on the market assessment include the lack of proper wholesale agricultural markets networks, and underdeveloped concepts and legal frameworks for agricultural market development on the basis of value chain integration. Particularly important for SMPs is the creation of infrastructure to access the agricultural wholesale markets that are being established with state support.

Recommendations from the assessment for a comprehensive solution to integrate market infrastructure and activities with Agroinvest assistance include:

- Improve the legal and regulatory framework of agricultural markets and logistics centers to facilitate creation and integration of value chains (local, regional and interregional).
- Establish networks of markets of fresh agricultural products by uniting local and regional markets into the wholesale markets network through logistics centers and procurement and distribution organizations.
- Develop and promote the adoption of standard guidelines, rules and procedures for the creation and operation of agricultural markets and strengthen the role of farmer service cooperatives and private logistics centers.
- Prepare a training program to improve the technical capacity of small agricultural producers in using modern wholesale markets and logistics centers to utilize wholesale markets and increase their sales volume of fresh fruits and vegetables.
- Create a consolidated market information system on prices at markets of all levels to provide market pricing information for all agricultural market participants.
- Support at least one producer association in the Kherson region and promote GlobalGAP standards adherence by association members.
- Support the development of a wholesale market of agricultural products in Rivne city, taking into account opportunities to expand activities on adjoining districts of Volyn, Zhytomyr and Khmelnytsky regions.

Administrative Implementation

Project Office. During the months between February and June 2011, the AgroInvest start-up and project team operated out of the LINC project office while looking for a permanent project office at the same time. The search criteria for the permanent office included: space for approximately 20 staff members, conference room facilities for meetings and trainings, location serviced by public transport, parking for project cars, building with sufficient security for project staff and U.S. Government property, and a reasonable price per square meter based on market research. The start-up and project team engaged real estate agents to assist in identifying adequate office space throughout Kyiv. The initial space identified during the previous reporting period located at 101 Volodymyrska Street did not work out as the owner pulled out after weeks of negotiations. AgroInvest has since found new office facilities at 4 Volodymyrska Street and signed a lease agreement with the owner; move-in is expected the beginning of August.

Project Registration. Following the negotiation and signing of a Memorandum of Understanding on May 11 between with AgroInvest and the MAP, a prerequisite for further processing of project registration (see Attached Annex 7); on June 8, 2011 Agroinvest was registered with the Ministry of Economic Development and Trade of Ukraine. The project (program) registration card # № 2543 was issued on June 8, 2011 (see Attached Annex 8). The project team with the help of the USAID/Ukraine Contractors Support Unit representative also recently received project accreditation under local law.

Grants/Subcontract. The first draft of the AgroInvest Grants Manual was submitted to USAID on April 15, 2011, feedback was provided from USAID and addressed by the AgroInvest field office and home office teams. On June 23, 2011 USAID approved the AgroInvest Grants Manual (see attached Annex 9).

On June 24 the home office submitted the first draft of the AgroInvest Subcontract Manual for the grants/subcontracts team to review (see attached Annex 10). The AgroInvest field office team in collaboration with the home office project management unit will finalize the Subcontract Manual during the following reporting period.

During the reported period, Chemonics home office grants manager, Stephanie Barret, conducted a one-week training on grants and subcontracts for the AgroInvest grants and subcontracts team. Other relevant technical field office staff, including all project component leaders, participated in a one-day training, with an overview of project staff respective roles and responsibilities throughout the grants and subcontracts life cycle to address management issues and



Grants Start-up Assessment. Participants: Vladimir Nakonechnyi, Grants & Subcontracts Manager, Tatiana Pavalenko, Financial & Administrative Director, Stephanie Barret, Chemonics Grants Department Manager.

challenges in the administration of grants and subcontracts.

With the assistance of Stephanie Barret, the AgroInvest grants/subcontracts team conducted a pre-award responsibility determination to assess the management, financial, and administrative capacity of potential grantee Agrarian Markets Development Institute's (AMDI) and determined that they meet the minimum responsibility requirements as a pre-requisite to a grant award, as per the AgroInvest Grants Manual.

The pre-award responsibility determination included site visits to AMDI's offices in Kyiv and meetings with AMDI's key staff including the director, deputy director, and chief accountant to discuss policies and procedures and administrative and financial management of the organization. Additionally, AgroInvest also checked the organization's references and conducted a check on terrorist watch lists. Documentation reviewed during the pre-award responsibility determination included: personnel manual, financial manual, operations manual, organizational chart, proof of registration, past performance references, security manual, final report under AED APTS project, pay scale, security manual, June 2011 bank statement, 2007 Pricewaterhouse Coopers Audit, scopes of work for director, deputy director, chief accountant, HR specialist, and bookkeeper, copies of timesheets, Kyiv audit group 2007 financial and legal audits, personnel files, procurement files, and financial reports.

Based on the results of the pre-award responsibility determination and due to AMDI's limited financial capabilities, the project will consider special awards conditions to ensure accurate financial reporting and help mitigate risk for the project. Such conditions may include:

- more frequent reporting
- training and mentoring from the AgroInvest accounting staff in AMDI's offices when developing financial reports
- financial audit after the first year of implementation

AgroInvest initiated discussions with AMDI on SOW tasks for development of a full grant application.

Project management systems. Throughout the quarter, the home office team worked with local administrative and management staff to introduce administrative, financial, personnel, procurement, and security systems and develop forms, templates, and other materials necessary to facilitate project activities such as budget monitoring, personnel processing, and procurement of goods and services.

Staff mobilization. The project Senior Accountant began working on April 4. On June 1, the Finance and Administration Director joined the project team. On June 20, the Grants and Subcontracts Manager started with AgroInvest, on June 10 a Grants and Subcontracts Coordinator was hired and on June 14 the Communications and Public Outreach Manager started. The Market Infrastructure Component 3 Leader joined the project team on June 20. The Agricultural Finance Specialist for Component 2 joined the project team on May

17. Finally, the Component 2 Leader started on July 1. An interpreter/translator has been identified but will not begin work until the following reporting period. The latest AgroInvest Staffing Plan is attached as Annex 11.

Monitoring and Evaluation

Throughout the quarter, the AgroInvest team worked on “To Be Determined” baseline data in the Performance Monitoring Plan (PMP). According to the PMP, baseline TBD indicators are 1.3.2 “Awareness on land rights among target communities” and 1.3.5 “Percentage of legal aid service costs covered by non-project sources”. During the quarter, the project team researched secondary data from surveys done by international organizations (FAO, OECD) and the National Statistical Committee. Following calculations and assumptions it has been determined that the aggregate percentage on awareness on land rights among Ukrainian rural and urban population is approximately 28%. This figure is taken as a departing point and subsequently the project will identify target communities to make final disaggregation and integration of actual data for indicator 1.3.2 “Awareness on land rights among target communities”; and the approach for collecting data for indicator 1.3.5 will be finalized during the following reporting period.

During the reported period, AgroInvest Monitoring & Evaluation/Gender Specialist prepared a general overview of the “State program on development of Ukrainian villages until 2015”. Following the election of Victor Yanukovich as President in 2010 the Program has been stated as a leading State document on guidelines for the development of Ukrainian agriculture. The structure of the Program consists of a general action plan description and tables with future targeted results to achieve. For more on the Program see attached Annex 12

On May 30 the assessment team and AgroInvest M&E and Gender Specialist met with local farmers and authorities in the Zhytomyr region of Ruzhyn to better understand supply and demand dynamics of SMP access to finance in the regions.



Ruzhyn Local Government, Volodymyr Bondarenko (right) in the 1350 ha field of sugarbeets of local farm “Mykilski”, with a main focus on production of wheat, sugarbeet and barley

Project Communications

AgroInvest developed a draft Communications Strategy and Action Plan, which clearly sets the project's communications goals, including the overall communications goals for each of the project's target audiences, contains analysis of the target audiences, messages for each of these audiences and a menu of communications channels which are most suitable for them.

The Strategy contains a detailed Action Plan for the first year and tip-sheets for the team members on media relations, USAID branding, typology of success stories, etc.

The Strategy also defines the roles and responsibilities of each team member in providing efficient and effective communications with the target audiences.

On June 30, the project Communications and Public Outreach Manager and Tamara Babiuk, home office Communications Consultant, organized an orientation session for the team, presented an overview of the Communications Strategy, and discussed with the team messages for the target audiences, USAID branding requirements and the team members' roles and responsibilities in project communications efforts.

In consultation with the USAID Public Outreach Manager, the project initiated a weekly publication, *USAID AgroInvest Weekly Update* – an electronic newsletter which provides overview of recent trends in Ukraine's agricultural sector, as well as project-related news and activities planned which is submitted to USAID every Monday morning.

The project also developed a Project Backgrounder – a usable one-page publication that can be handed out at any project meeting/event to provide general overview of the project, its goal and components. A comprehensive plan for similar component-by-component publications for various target audiences has been developed and included in the Communications Strategy and Action Plan.

SECTION II: DELIVERABLES

The following deliverables and reports have been completed and submitted during this reporting period:

| Deliverables | Date Submitted |
|---|-----------------------|
| Assessment of Legal and Institutional Framework for Industry Associations | June 30 |
| Assessment of Regulatory and Institutional Barriers for Increasing Access to Finance for Small and Medium-Scale Producers | June 30 |
| Wholesale and Region Markets Assessment | June 30 |
| AgroInvest Grants Manual | June 15 |

SECTION III: SCHEDULES

Although all project activities are progressing, AgroInvest has experience some delays in implementing the ambitious activities outlined in the Year 1 Work Plan. The amount of time necessary for project start-up was underestimated; however, office space has been identified and a move-in date is set, the project is nearly fully staffed; most technical activities experiencing delays, including assessments, have started, and the project team expects to be fully caught-up by the end of the calendar year. The Planned versus Actual Implementation Schedule according to the Year 1 Work Plan is attached as Annex 13.

SECTION IV: CHALLENGES AND PLANS TO OVERCOME THEM

Project Accreditation

Although the AgroInvest project was registered by the Ministry of Economic Development and Trade on June 8, the Project has yet to receive “accreditation” which is also done by the Ministry of Economic Development and Trade. Until AgroInvest is accredited, procurement of office IT equipment and furniture is “on hold” as the project

can not pay VAT. AgroInvest has followed-up frequently with the proper authorities regarding the accreditation process and has been assured that there are no problems. The project expects to receive accreditation before the end of July.

Identification and mobilization of Short-term expat LOE

Recruitment of international experts for project assessments and other short-term ad hoc policy requests, particularly agricultural economists and economists with land market experience, has proven to be more challenging than expected. It has also taken time to understand how best to approach various assessments to make them most effective in informing AgroInvest activities. In addition, qualified and experienced candidates are often professors with teaching obligations or other excellent candidates in high-demand and unavailable on short notice. The AgroInvest home office support team and field office staff have developed an expanded network of expatriate professionals who could potentially work on the project and frequently contact them regarding their other commitments and to ascertain their availability.

SECTION V: PLANNED ACTIVITIES FOR NEXT QUARTER

Component 1

- Complete Strategic Policy Priority Needs Paper
- Finalize AMDI co-implementer grant
- Monitor AMDI implementation of policy agenda under grant
- Complete evaluation of Agricultural Industry Associations and make selections for AgroInvest support
- Design capacity building and policy development grants for competitively selected industry associations
- Contract external expertise to research the potential land distribution consequences under the current draft Law on Land Market
- Finalize Communication Plan for Land Rights
- Finalize strategy for Sustainable Delivery of Legal Land Services
- Select target communities for legal rights strategies

Component 2

- Develop Action Plan/Strategy for increased access to finance to SMPs; the best scenarios will be selected, developed and submitted for approval
- Select partner financial institutions and providers of credit for assistance and cooperation
- Sign MOUs with at least four providers of credit

- Develop and begin implementation of capacity building programs for partner financial institutions and providers of credit
- Facilitate development of innovative products and strategies for agricultural financing
- Develop and facilitate capacity building programs for SMP borrowers
- Identify geographical focuses for Component 2 targets
- Initiate development of at least two innovative products for SMP lending

Component 3

- Complete Producer Organizations Assessment and Evaluation
- Select geographic region(s) outside of Kyiv for Component 3 work
- Finalize POs survey and implementation strategy
- Identify and select at least 10-15 POs for potential project support
- Design capacity building programs for POs through competitive process,
- Implement capacity building programs for POs
- Solicit proposals for capital improvement grants from POs and SMPs
- Complete wholesale markets and/or infrastructure strategy
- Select market infrastructure development sites

Subawards

- Request and receive full application package with a complete program description and budget from AMDI
- Evaluate and negotiate the grant application per the procedures in the approved AgroInvest grants manual for AMDI
- Draft the negotiation memorandum, grant agreement and seek unsolicited grant approval from USAID to award AMDI
- Proceed with signature of AMDI Grant Agreement if approved
- Assist technical team to develop SOW for grants/subcontracts programs
- Prepare and issue Request for Applications or Annual Program Statements for grants/subcontracts programs to support capacity building and training needs of Components I, II and III
- Hire grants/subcontracts accountant

Administrative

- Receive project accreditation
- Hire additional Kyiv-based project staff for: Component 1, Component 3, Grants/Subcontracts Accountant, Program Assistant and Driver.
- Begin project technical work in Crimea
- Select geographic region(s) outside of Kyiv for project implementation

SECTION VI: LEVEL OF EFFORT REPORT

| LOE MATRIX* | | | | |
|--|------------------------------|---|---|--|
| LABOR CATEGORY | TOTAL (work days) | TOTAL IN CURRENT INVOICE (work days) | TOTAL INVOICED TO DATE (work days) | TOTAL REMAINING (work days) |
| Long-Term Technical Assistance (Key personnel) | 1,270.00 | 22.00 | 100.00 | 1,170.00 |
| Long-Term Technical Assistance (Expatriate) | 111.00 | 0.00 | 0.00 | 111.00 |
| Long-Term Technical Assistance (CCN) | 14,405.00 | 55.00 | 145.00 | 14,260.00 |
| Short-Term Technical Assistance (Expatriate) | 755.00 | 51.00 | 91.00 | 664.00 |
| Short-Term Technical Assistance (CCN) | 420.00 | 0.00 | 18.00 | 402.00 |
| Home Office Support | 199.00 | 27.50 | 86.30 | 112.70 |
| TOTAL | 17,160.00 | 155.50 | 440.30 | 16719.70 |

*LOE as of June 30, 2011