



AGROINVEST

ANNUAL WORK PLAN - YEAR 1

JANUARY 25 – SEPTEMBER 30, 2011

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ACRONYMS

AJLEP	Access to Justice and Legal Empowerment Project
AMDI	Agrarian Markets Development Institute
EBRD	European Bank for Reconstruction and Development
FINREP	Financial Sector Development Project
GDP	Gross Domestic Product
GOU	Government of Ukraine
IFC	International Finance Corporation
LINC	Local Investment and National Competitiveness Project
NBFI	Non-bank financial institution
NPL	Non-performing loan
PAR	Portfolio at risk
PO	Producer organization
PPD	Public-private dialogue
PPP	Public-private partnership
SMP	Small and medium-sized producer
VAT	Value-added tax

SECTION I

Introduction to AgroInvest

A. Contract Background

AgroInvest is a five-year project (2011-2016) funded by USAID/Ukraine. The purpose of the project is to provide technical assistance to accelerate and broaden economic recovery in Ukraine through support to the agriculture sector and increase the country's contribution to global food security efforts. The contract is a Level-of-Effort award with a ceiling of \$20,605,641.

B. Project Scope of Work

AgroInvest will accelerate broad-based economic recovery through a more inclusive and competitive agricultural industry. AgroInvest is designed around three separate but interrelated component objectives, each supported by specific expected results under each component as illustrated below in the Results Framework.

Component 1 activities involve both a supply- and demand-side approach to supporting a stable, market-oriented policy environment. From the supply side, AgroInvest will promote the implementation of less volatile, more market-oriented policies that stimulate increased investments in the agricultural sector. On the demand side, Component 1 activities will strengthen the capacity of industry associations to shape agricultural policies and provide public education on land rights among rural landowners. Under Component 2, AgroInvest will stimulate access to finance by strengthening partnerships between financial service providers and value chain actors, including input suppliers and buyers, to facilitate sustainable access to financial services for small and medium producers (SMPs). Finally, Component 3 activities will create a more effective market infrastructure for SMPs and increase the profitability of farming through better access to markets, the development of wholesale and regional markets, and capacity building for producer organizations (POs).

C. Project Results Framework

Attainment of component objectives will allow us to realize the project's purpose of accelerating economic recovery in Ukraine through support to the agricultural sector. Ultimately, AgroInvest supports the U.S. Foreign Assistance Framework economic growth objective and four program areas: trade and investment, agriculture, private sector competitiveness, and economic opportunity. The project's monitoring and evaluation (M&E) system, introduced in the Performance Monitoring Plan (PMP), is designed to measure and report on progress against these objectives and expected results using 28 indicators. These indicators and their associated annual and life-of-project targets are listed in the table shown in the PMP.

AgroInvest Results Framework



SECTION II

Annual Work Plan – Year 1

A. Project Context

The global economic and financial crisis hit Ukraine particularly hard given pre-existing macroeconomic imbalances, structural weaknesses, and policy shortcomings. Ukraine's GDP contracted by 15 percent in 2009 but has been steadily recovering with growth estimated at 4 percent in 2010¹. The growth has primarily been buoyed by exports of steel; however, the Ukrainian economy remains largely undiversified with significant unrealized potential as an agricultural producer and exporter. The agricultural sector in Ukraine contributes 10 percent to GDP and employs 16 percent of the population². Ukrainian agricultural capacity is currently operating at one-third of its production capacity and providing only one-half of its potential contribution to GDP³.

The agricultural sector in Ukraine faces significant challenges, including various issues at the legal and regulatory level, weak linkages between financial institutions and value chain providers of credit, and deficiencies in the production and marketing capacity at the producer level. AgroInvest will address each of these issues to facilitate the development of less volatile and more market-friendly agricultural policies, sustainable access to finance for SMPs, and a more effective, efficient and profitable infrastructure for SMPs. Taken in sum, achievements in these three areas will hasten Ukraine's economic recovery and enhance its position to contribute to global food security.

AgroInvest in the context of global food security efforts. The United States Government (USG) and other global leaders have responded to the combined effect of underinvestment in agriculture and food security, the steep rise in global food prices, and the economic crisis by committing to "act with the scale and urgency needed to achieve sustainable global food security." This commitment is reflected in the Feed the Future Initiative, which aims to reduce global hunger and build sustained agricultural-led growth. Reducing chronic hunger is essential to building a foundation for investments in health, education, and economic growth and is critical to the sustainable development of individuals, communities, and nations. According to the United Nations Food and Agriculture Organization, GDP growth generated by agriculture is up to four times more effective in reducing poverty than growth generated by other sectors.

As an exporter of grains and oilseeds, Ukraine has the potential to significantly impact the world food situation, while realizing significant gains in terms of export revenue, economic growth, and rural development. Ukraine is one of the four countries in the world (in addition to Russia, Kazakhstan, and Argentina) that has significant untapped capacity to contribute to growing global food security needs. The president of the Ukrainian Agricultural Confederation recently stated that Ukraine is probably the only one of the four countries that could supply the estimated 50 million additional tons of wheat needed to sufficiently fill the grain bins of the world if properly organized and

¹ IMF Country Report No. 11/52, February 2011

² CIA World Fact Book, January 2011

³ 2008 United Nations Food and Agricultural Organization (FAO) Estimate

motivated. In line with the Feed the Future Initiative and the USG commitment to reduce hunger and increase global food security, AgroInvest will work with partners and stakeholders to advance action that addresses the needs of small scale farmers and agri-businesses, and harnesses the power of women to drive economic growth.

B. Work Plan

This annual work plan covers the 8-month period from January 25, 2011 to September 30, 2011 and outlines planned activities and expected results for each Project component.

During the development of this work plan, AgroInvest staff met with stakeholders and potential partners to discuss the numerous economic and political changes that have taken place in Ukraine since the time when the original scope of work was developed. These meetings served the purpose of validating and/or updating key assumptions for all three project components and developed the foundation for a strong partnership between the Project and stakeholders.

Year 1 will be a critical time period for AgroInvest since first-year activities will lay the foundation for the entire project. During Year 1, we will comprehensively assess the current AgroInvest regulatory environment and existing market challenges and opportunities for value chain actors. Project surveys and assessments will provide a solid, realistic basis for formulating strategic directions for each component in the project. The Project team expects the political and economic environment to remain dynamic and fluid in Ukraine, therefore AgroInvest will remain flexible so as to be able to respond quickly to unexpected opportunities that may arise in line with Project objectives. At the same time, we will be prepared to re-focus strategic priorities (in close consultation with USAID) should external factors or political challenges prevent implementation of planned Project activities.

C. Technical Activities

Component 1 – Support a Stable, Market-Oriented Policy Environment

The agricultural sector in Ukraine is significantly constrained by inconsistent and unpredictable agricultural policies. These policies are too often driven by short-term political interests or distorted as a result of the excessive influence of specific industry groups/businesses through lobbying efforts. Recent examples of such policies include the following: (i) The establishment of quotas on the export of grain products and non-transparent procedures for the allocation of licenses for these quotas; (ii) GOU policies aimed at introducing profit and trade margin controls on key staple food products; (iii) Draft law No. 8053 which proposes to prohibit the export of key agricultural commodities for all companies except for state-run monopolies (government agents) or agricultural producers. AgroInvest will address the following additional obstacles preventing the development of a stable, market-oriented policy environment:

- *Government policies in the agriculture sector are not well prioritized.* At present there are various strategic documents and economic reform programs underway; however, these initiatives are uncoordinated and often lack realistic

implementation strategies and timeframes and are occasionally at odds with other programs. Policies put in place often lack the necessary funding to facilitate implementation.

- *Administrative reform.* Recent amendments to the Constitution have redistributed powers between the President, the Cabinet of Ministers, line ministries, and the Verkhovna Rada (Parliament of Ukraine). Such administrative reforms have affected the agriculture sector by strengthening authority and scope of responsibilities of the Ministry of Agricultural Policies and Foodstuff and eliminating the position of Deputy Prime Minister for Agriculture. Most mechanisms for public-private policy dialogue which existed earlier have been disbanded with the administrative reform. With few exceptions, the GOU has refrained from engaging the private sector in discussions over key agricultural policies, which has led to a wide disconnect between the Government and agricultural business community.
- *Land reform.* The government has implemented a land reform program in the agriculture sector which allocated most of the agricultural land to farmers through a national land titling program and most farmers have already received their titles. However, with the moratorium on the sale of agricultural land in place, farmers often lack options other than renting their land to larger farming enterprises. The Government recently declared its intention to lift the moratorium on the sale of agricultural land. If this happens, it is expected that a large number of farmers will opt to sell their land.

Component 1, Task A Activities: Accelerate Market-Oriented Reforms

AgroInvest will promote agricultural policies that are more predictable, market-oriented and WTO-compliant. Local capacity-building will be one of the key elements in improving the policy environment. The Project will strengthen the potential of local organizations, including AMDI and others, including industry associations.

AgroInvest will facilitate public-private dialogue through advisory council sessions which the Project will facilitate. AgroInvest will also provide targeted technical assistance on priority agriculture policy issues and be responsive to requests for assistance from the Ministry of Agrarian Policy that align with project objectives and goals.

General Approach to Task A Activities

AgroInvest will negotiate and sign a sub-award/grant with AMDI following the development of a multi-year strategy and implementation plan. AMDI will be an important AgroInvest partner in revitalizing public-private advisory councils, providing limited analytical and secretarial-type assistance to these councils, and delivering technical assistance on the agricultural policy reform agenda as needed. Both the AgroInvest chief of party (COP) and deputy chief of party (DCOP) will meet frequently with AMDI to provide organizational support, ensure consistency of Project policy priorities and delivery of key policy messages, and promote active participation of implementing partners and other members in meaningful dialogue to facilitate market-oriented policy reforms.

AMDI, with AgroInvest support and participation, will reach out to the government, NGOs and other similar organizations (including industry associations and POs), SMPs, financial institutions, donors, and other private sector stakeholders to conduct a Strategic Policy Priority Assessment which will list and prioritize agricultural policy reforms. The strategy will identify policy priorities; it will also serve as the basis for the allocation of grants for Ukrainian organizations (including industry associations under Component 1 - Task B) to lead on certain policy priorities and the analysis needed to formulate policy recommendations. AgroInvest may involve short-term expatriate expertise to augment the assessment and enhance policy analysis to ensure a more comprehensive policy perspective.

Based on our preliminary assessment, AMDI and AgroInvest will likely focus on issues related to lifting the moratorium on agricultural land sales; taxation as it affects the agricultural sector and value chain stakeholders; regulatory barriers to agricultural finance (including pre-harvest finance); cooperatives legislation; tariff and non-tariff barriers; fine-tuning of warehouse receipts legislation; and wholesale markets legislation.

In a recent meeting at the Ministry of Agrarian Policy, the Ministry acknowledged the need to better understand policy actions, learn from international best practices, and has requested Project assistance to provide analysis of the impacts of policy decisions. The Ministry articulated the following priority policy reform items:

- Land market reform
- Regulations on pre-harvest finance mechanisms to reduce risk for traders and credit suppliers in the food chain
- Agricultural insurance and a GOU indemnity fund
- Warehouse receipts market and harmonization of related but contradictory legislation
- Food stamps to subsidize the most vulnerable groups in the population and reduce inefficient and distortive sector subsidies
- Framework agricultural law similar to the US Farm Bill

AMDI will take the lead in re-establishing platforms for public-private policy dialogue (PPD) through public-private advisory councils. AMDI and AgroInvest will provide assistance to establish a Policy Secretariat. A key prerequisite for a proper PPD forum is high-level support and buy-in from the GOU, and a GOU chairperson(s) for the PPD council(s), with members representing Project partners and diverse public and private sector views. AMDI will be well-placed to secure high-level GOU buy-in to PPD forums facilitated by AgroInvest.

The Project will establish contacts and engage with relevant donors and their projects actively working on agricultural policy issues. In particular, the project will work with:

- USAID's Local Investment and National Competitiveness (LINC); Financial Sector Rehabilitation Program (FINREP); Access to Justice and Legal Empowerment Project (AJLEP); and Public-Private Partnership (PPP) projects

- IMF/World Bank/IFC projects on the moratorium on land sales, lifting export quotas/licenses for grain exports, agri-insurance/agri-finance development, and mandatory certifications
- The European Union's project for Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector
- EBRD on warehouse receipts and pre-harvest financing

AgroInvest is well-positioned to play a facilitating function for donor coordination of agricultural sector initiatives and will hold or facilitate regular meetings of donors and donor-funded projects working in the sector.

Assumptions for Successful Implementation of Component 1, Task A Activities

- AMDI is a viable co-implementer, but will not be able to engage in Project activities until fully compliant with USAID rules and regulations. Full compliance of AMDI is expected at the end of their bridge contract cooperation with AED in May 2011
- AMDI staff will be available to work under service agreements with AgroInvest until AMDI is approved by USAID as co-implementer; this will involve short-term technical work and local LOE
- If AMDI is not ready in six months from the AgroInvest start date of January 25, 2011 then the Project will seek other alternative partners and options
- Members of the GOU are willing and able to lead the public-private council

Component 1, Task B Activities: Strengthen Industry Associations

Many industry associations in the agriculture and related sectors are weak, fragmented, and diverse. Capacity building and policy development measures are needed so that these associations can exert greater influence in local and national-level agricultural policies that impact these groups directly.

General Approach to Task B Activities

In Year 1 the Project will conduct a comprehensive needs assessment of the agriculture industry associations to ascertain the largest gaps and design and launch capacity building programs and trainings that will be practical for selected industry association partners. Following the policy priorities assessment, a competitive grants solicitation will be issued for industry associations to provide support for policy analysis and policy advocacy. Although grants under this task will be primarily focus on policy development, competitive grants may be provided to support associations' organizational development as well.

AgroInvest will also conduct a rapid assessment of the legal and institutional framework under which industry associations operate. AgroInvest will provide support to partner associations to help them become more effective in terms of undertaking policy changes that will enhance their ability to organize, serve member needs, and advocate for their own interests to accelerate market-oriented policy reforms. Selected industry associations will participate in public-policy councils. AgroInvest will explore opportunities for coordinating with USAID's civil society development activities working with business associations.

Component 1, Task C Activities: Provide Public Education for Land Rights

Most Ukrainian agricultural landowners do not fully understand the implications of lifting the current moratorium on agricultural land sales. More important, there are few outlets and support centers that landowners feel comfortable visiting to obtain information on land issues. To address this, AgroInvest will implement a public awareness campaign in partnership with local organizations to improve landowners' knowledge of their land rights. Secondly, the project will ensure that an accessible network of legal support exists for small land holders by establishing sustainable face-to-face consultation arrangements between affected land owners and legal service providers.

Should the moratorium on the sale of agricultural land be lifted, the Project will shift the emphasis of its public education program from current issues related to land rights (for example: land lease agreements, rental payments, land disputes) to issues more specific to a full-scale agricultural land market. The Rural Development Institute (now known as Landesa), will also conduct an assessment covering a broad range of land issues; including economic, legal and social issues. The Landesa assessment is expected to highlight key land issues and related outreach and legal rights messages.

General Approach to Task C Activities

The Project will develop a communications, awareness, and outreach plan to reach selected communities and individuals in rural areas to increase their understanding of their land rights. In the development of the strategy, we will evaluate the utility of various communications approaches and media platforms (e.g. television, radio, and Internet where appropriate) to best reach selected geographic regions and target communities. AgroInvest will establish criteria for selecting target communities (e.g. the number of vulnerable rural landowners in a given region). After selecting the targeted communities based on the selection criteria, AgroInvest will develop and implement the approved communications strategy.

An important aspect of the development of the communications, awareness, and outreach strategy will be to identify key partners that have existing outreach programs and strong economic incentives to provide these services to potential clients. These key partner groups include agricultural extension programs, agricultural finance agents (lenders and insurers), and NGOs that currently provide advisory services to farmers and landowners. AgroInvest will work with Landesa who will be contracted under the LINC project (most likely in April), to assist them with implementation of a strategy they are developing to increase rural people's capacity to protect their economic and social rights in Ukraine.

The Project team will work closely with the USAID LINC project's land lawyers and the new AJLEP project, thereby ensuring that the AgroInvest team has the most current information on evolving land laws, land rights, and mechanisms for supporting landowners.

Assumptions

- The land moratorium will be lifted
- Landesa will demonstrate a credible outreach strategy

Component 2 – Stimulate Access to Finance

Following the global economic crisis, high levels of non-performing loans (NPLs) in the Ukrainian commercial banking system represent a major challenge for banks to increase lending, despite high liquidity in the banking system as a whole. Bank credit to enterprises has shown some signs of revival; however, lending to the agricultural system, in particular, is perceived as a high credit risk.

Because of the difficulty in finding suitable collateral, most banks and leasing companies are reluctant to provide credit to SMPs. Should the moratorium on agricultural land sales be lifted, this could provide increased opportunities for SMPs to access finance through formal financial institutions by using land as collateral. However, few banks, if any, understand primary agricultural production and crop cycles, funding requirements of SMPs, and how to accurately assess agricultural sector risk. Recent discussions with Project stakeholders even suggest that some banks that were previously active in rural lending have retrenched altogether and are no longer providing rural finance (e.g. ProCredit).

Commercial banks are not the only sources of agricultural finance. Some larger processors, traders, and input suppliers are providing pre-harvest finance for their suppliers. For example, Chumak provides up to 25 percent pre-planting trade credits. However, Chumak initially began working with more than 1,000 small growers and is currently only working with 17 of the most efficient and reliable SMPs.

General Approach to Component 2

AgroInvest will conduct a comprehensive assessment of suppliers of SMP credit (bank and non-bank) and financial instruments to identify existing market failures and inefficiencies to providing SMP finance (including pre-harvest financing, banks and credit unions, leasing, value chain financing, warehouse receipts, and agri-insurance) and then develop market-oriented solutions. The assessment will also examine opportunities and obstacles for increasing SMP finance from the angle of regulatory barriers, which can be advocated and promoted by stakeholders as part of AgroInvest Component 1. The assessment will form the basis of a well-informed strategy, developed in the first part of Year 1 of the project, to lay a solid foundation for implementation of the AgroInvest Component 2 strategy in Years 1 – 5. The initial assessment will be continuously updated, on an as-needed basis, to identify new opportunities for increasing access to agriculture sector finance.

Through stakeholder meetings and assessment findings, AgroInvest will identify the most promising financial institutions and value chain actors for providing and facilitating SMP credit. Subcontracts and technical assistance will be utilized for training and capacity building on both the supply and demand sides of the equation to increase SMP access to finance. Capacity building for banks, credit unions and other NBFIs may include training on risk management of agricultural sector SMPs and

enterprises, development of agriculture and agribusiness loan (and deposit) instruments, agriculture-specific lending policies and procedures, and loan officer training. AgroInvest grants will be targeted more toward SMPs and value chain actors for market development of agricultural lending; with any grants to for-profit financial institutions requiring COTR approval.

Capacity building for SMPs will improve their organizational effectiveness and ability to access credit by assisting them to become more conversant in credit and documentation requirements necessary for borrowing (including but not limited to financial records), advantages and risks of borrowing, legal requirements and obligations, and increased access to information for more informed decisions when working with buyers.

AgroInvest will work with financial institutions, NBFIs and value chain actors to raise awareness of the potential market opportunities of engagement with SMPs. With new, innovative lending products and financing arrangements, AgroInvest supported credit providers will generally move from short-term lending products to those with medium to long-term tenor. The Project recognizes that it is much easier for an SMP to initially qualify for a short-term line of credit (from financial institutions, buyer or supplier credit), than it is to qualify for medium-term financing, for the simple reason that the lender only has money at risk for less than a year. Short-term lending can be used as a means for SMP's to develop a credit history and build relationships of trust, which can then be used as the basis for extending medium and longer term credit. Through value chain risk-sharing and off-take agreements, SMPs will find it easier to access finance.

There are some non-bank financial institutions (NBFIs) such as the MEDA project's Agricredit Capital Management (ACM) fund (with approximately \$2 million in capital, consisting of 600 loans with total portfolio value of \$3 million operating in the horticulture sector only, in Crimea and Zaporizha) that the Project will evaluate for potential partnering arrangements. The Project also plans to work with IFC's Agricultural Insurance Project to facilitate the introduction of reliable crop insurance products in Ukraine as a means to increase access to finance for SMPs.

In addition to engaging SMPs and suppliers of credit to foster stronger relationships within value chains and facilitate the introduction of new or innovative financing products, AgroInvest will bring together stakeholders to advocate for policy reforms needed to stimulate access to finance. AgroInvest will facilitate the inclusion of partner financial institutions and others providers of credit in public-private sector dialogues designed to facilitate the improvement of the legal and legislative climate underpinning the lending market in Ukraine, including:

- Draft law on land markets (provide input and promote transparent law)
- Grain warehouse receipts (harmonize contradictory legislation)
- Pre-harvest finance (introduce any necessary legislative or regulatory requirements)
- Law on Cooperatives (amend tax status)
- Mandatory certification requirements (eliminate many)

Assumptions

- Banks and NBFIs are interested and willing to extend credit to the agricultural sector
- Banks and NBFIs will remain liquid and have resources to expand their lending operations
- SMPs will have the capacity to engage, both individually and collectively, with banks, NBFIs and value chain providers of credit
- The legal and regulatory environment will promote and facilitate increased access to finance for the agricultural sector (e.g. moratorium lifted so agricultural land can be used as collateral, legislation for pre-harvest financing introduced, warehouse receipts legislation improved, law on cooperatives revised to reduce tax bias)

Component 3: Facilitate Market Infrastructure for SMPs

SMPs need stronger organizations to increase their competitiveness and create greater bargaining power in the marketplace. Achieving the full economic potential of Ukrainian SMP agribusinesses requires improving their access to inputs and product markets; and by formalizing and making their POs more commercially-oriented. This will enable an expansion of SMP market presence to obtain quantity discounts when buying inputs and gain additional marketing power when selling products. In addition, many Ukrainian product markets are inefficient and exhibit varying degrees of non-transparency. In addition, they may not be located in production areas that serve SMPs or do not have the infrastructure required to meet the needs of SMP agribusinesses. Overcoming these constraints is the focus of actions taken under Component 3 of AgroInvest.

Task A: Producer Organization Development

Many SMP agribusinesses can compete with large conglomerate farms in terms of field-level production capacity. However, SMPs face much higher input and assembly costs associated with moving crops from the farm to the initial marketing centers, which weakens their inherent labor-related production efficiencies. Although the existing organizational infrastructure of SMPs is inadequate to reduce the need for input supply and lower product marketing costs, there exists an informal working foundation of more than 1,000 SMPs that form the basis for the emergence of more formal Producer Organizations (POs). These POs, including business and service cooperatives and associations, have great potential to provide quality services to members and increase overall SMP competitiveness.

General Approach to Component 3, Task A

AgroInvest will focus on the value chain, capacity building of POs and linking them with processors, other supply chain participants, and markets to improve SMPs and POs competitiveness.

AgroInvest will first conduct in-depth desk and field analyses to gain a comprehensive understanding of existing formal and informal POs to inform the selection of partner POs that possess the highest potential. Evaluation criteria will be

developed to ensure potential partner POs are evaluated objectively and transparently and competitively selected for Project capacity building training and grant programs. It is expected that selected POs will have both common as well as organization-specific capacity building needs. Capacity building programs to improve POs' business management skills will likely include trainings on the following topics: accounting and cash flow management, opportunity costs and risks, demand versus supply based perspectives, value chain concepts, long and short-term business planning, land issues and rights, member benefits, commercial relationships, legal and contractual aspects of borrowing (from financial institutions and other value chain providers of credit), and developing a business plan for accessing finance. In conjunction with Component 2 activities, AgroInvest will also facilitate dialogue between POs, SMPs, input suppliers, buyers, and processors to introduce innovative products and new financing arrangements for SMPs. Additional sector and commodity specific trainings will be provided on topics such as improved production practices, pre- and post-harvest handling and storage, and quality issues.

The Project will also provide capacity building grants for partner POs of up to \$25,000 to support the introduction of innovative technologies for grading, packaging, and cold storage facilities. As with the SMP and PO capacity building activities, the Project will select grantees according to a competitive process on the basis of objective evaluation criteria and a transparent evaluation and selection process. As a general rule, grants whose purpose is to link producers and POs directly with credit providers will require at least a 1:1 matching cost contribution by the grant recipient.

Task B: Develop Wholesale Markets and Other Market Infrastructure

Regional and wholesale markets provide more efficient market access for buyers and sellers than informal markets and can also lead to less volatility in product pricing. The GOU has recognized the need for enhancing regional wholesale market infrastructure; however, financial, legal, and administrative obstacles have hindered progress in this area. Since the solicitation release for competition, the GOU has provided seed money to initiate the construction of up to four new wholesale markets, two of which (Kyiv and Donetsk) have obtained private funding, and construction and staff training are already underway. The Kyiv market is scheduled to open for fruit and vegetable sales in July 2011 with buying and selling of dairy products, fish, meat, and flour to commence in October 2011. The construction of the Donetsk wholesale market is expected to follow a similar timeframe. This work plan has been developed to take into account this new reality.

General Approach to Component 3, Task B

AgroInvest will partner with a Ukrainian market research company through a subcontract to evaluate the current status of wholesale and regional/local markets to inform decisions and identify opportunities on the locations for new wholesale and regional markets as well as other market infrastructure needs, including cold storage. The assessment will map out existing wholesale and regional markets, measure progress toward the creation of new wholesale markets currently under construction, and provide cost information on both preexisting and new markets. The assessment will detail pertinent information about existing markets, including size of the market, products handled, facilities available (e.g. retail, assembly, cold storage, logistics,

processing). Finally, the assessment will include recommendations for appropriate capacity strengthening initiatives (e.g. feasibility studies, staff training, investor mobilization) for existing wholesale and regional markets, those currently under construction, or any other planned market sites or potentially viable sites.

The assessment will identify existing *regional markets* in all geographical areas and describe major characteristics of each, including ownership, location, commodities handled, required upgrading and/or further expansion capacity and associated cost estimates, and provide recommendations on opportunities where AgroInvest could potentially make the most significant developmental contributions.

Based on a careful analysis of the findings and recommendations from the market infrastructure assessment, and depending on Project geographic target areas and partner POs market infrastructure needs, the Project will select sites for wholesale market facilities and regional market facilities. AgroInvest will coordinate with USAID's PPP project to identify potential public and private sector partners for selected wholesale and regional markets and begin detailed pre-feasibility assessments.

Component 3 goes beyond wholesale and regional/local markets development and also will identify opportunities for general market infrastructure development such as cold storage and other market infrastructure facilities.

Assumptions

- The market assessment will present two possible scenarios: (1) There will be absorption capacity in Ukraine for wholesale markets in addition to the five GOU-accredited markets (Lviv, Kyiv, Donetsk, Kharkiv and Zaporizha); or (2) AgroInvest can play a significant role in the development of one or more of the currently GOU accredited sites
- Project opportunities may exist with the management and owners of Lviv's Shuvar who are leading the development of and mobilizing private sector investors for the two new wholesale markets in Kyiv and Donetsk
- POs are not commodity specific
- With other donor initiatives focusing on food safety, AgroInvest Year 1 work plan does not include food safety activities and will not engage the International Institute for Food Safety and Quality at this time (this may change depending on Project partners' needs)

D. Cross-Cutting Factors

Anti-Corruption

According to Transparency International's Corruption Perceptions Index for 2010, Ukraine ranks 134 out of 178 countries (scoring 2.4 out of a possible 10 points), indicating that corruption in Ukraine is perceived as pervasive. According to the World Bank Group's 2008 Enterprise Survey, more than 50 percent of Ukrainian firms cited corruption as a "major constraint" to doing business, compared to the Eastern Europe and Central Asia regional average of 33.53%. Global Financial Integrity estimates that the Ukrainian financial system loses \$10.75 billion a year as a

result of deliberate under-pricing of exports, over-pricing of imports, and the purchase of nonexistent services. The IMF's Resident Representative in Ukraine recently reported on the non-transparent allocation of quotas on grain exports. During work planning meetings with Project stakeholders, a leading agricultural expert estimated that at least 40 percent of the total value of all farm subsidies is lost to corruption, and another specialist reported that 80 percent of Ukrainian horticulture operates in the shadow economy.

At the Project level, AgroInvest will contribute to the fight against corruption by supporting the promotion of transparent and market-oriented policies that will provide a level playing field for partners and stakeholders. AgroInvest will improve the transparency of policy reform initiatives by facilitating public-private dialogue. The Project will also increase demand for more transparent practices among the rural population by empowering landowners to defend their land rights with improved information, knowledge, and access to legal services. The Project will also improve the business environment for SMPs through increased access to market information, which will also stabilize the pricing of agricultural commodities. The AgroInvest team will ensure the integrity of grants and procurement processes and utilize a robust system of monitoring and evaluation to accurately capture and analyze results.

Food Security

In line with the Feed the Future Initiative and the USG commitment to reduce hunger and increase global food security, AgroInvest will work with partners and stakeholders to advance action that addresses the needs of small scale farmers and agri-businesses, and harnesses the power of women to drive economic growth.

AgroInvest will conduct a food security assessment in April/May; the assessment will start with a quick food security literature review, and follow with a field survey, or more in-depth research with a local economics organization, such as AMDI, and be led by a well-regarded US economist, to illustrate the crucial role Ukraine can play in contributing to global food security.

Gender Integration

Gender equality and inclusiveness plays an important role in economic growth, poverty reduction, and development effectiveness. While there is evidence of gender discrimination at high levels of the Ukrainian government and in social spheres, Ukraine performs fairly well compared to peer countries in the East Europe and Central Asia region regarding female representation in the business sphere. According to the World Bank Group Enterprise Survey 2008, a woman served as a senior manager at 28 percent of Ukrainian firms compared with 19 percent for the region. In addition, approximately 47 percent of full-time workers at Ukrainian firms are women, compared to a regional average of 38 percent. Despite these promising statistics, more work remains to be done to improve gender equality and inclusiveness in Ukraine.

To the extent possible, AgroInvest project components and activities will include gender considerations. For example, we will ensure strong participation of women in the policy dialogue (particularly on land issues), craft gender-specific messages in

public outreach campaigns, and promote gender inclusiveness in capacity building initiatives for partner organizations. The Project will disaggregate PMP data by gender as appropriate to indicate the number of women reached through project activities, advise USAID on any gender disparities, and highlight gender impact in Project success stories.

USAID advised that they will conduct a gender analysis in late May or early June 2011, after which new Mission guidance on gender will become available. AgroInvest gender equality and inclusiveness strategy and activities will be further defined by the Mission's new guidance on gender and through Year 1 Project assessments and will be included in the strategies for each Project component.

Geographic Focus

AgroInvest will be based in Kyiv but work in Crimea as well as in other regions. The Project will engage SMPs and Crimean government entities to engage in policy dialogue, improve competitiveness of agricultural production and markets, and increase access to finance for SMPs.

National-level AgroInvest policy initiatives and activities under Component 1 will not have a geographic focus. Expected results and impacts will benefit the entire population, irrespective of geographic region.

Target regions for Components 2 and 3 will be selected according to four simple criteria: strong market potential for important agricultural sectors: fertile soil and appropriate crops, i.e. grains, oilseeds, and horticulture (fruit and vegetables); available financial infrastructure; political will to support market development and SMPs; and the presence of vulnerable rural communities or the potential to reach AgroInvest targets.

Targeted geographic regions and types of assistance to be delivered in these regions shall be determined following Project market assessments and based on an approved strategy. The Project will review options for utilizing grants or sub-contracts for additional geographical representation.

Indigenous Capacity Building and Utilization

AgroInvest is dedicated to developing local capacity and ownership of Project results. Many Ukrainian technical professionals are well-educated and goal-oriented and possess valuable market-economy experience. These skills will be utilized to the fullest extent possible to deliverable sustainable services throughout the life of the Project and beyond. AgroInvest will work with local partners, NGOs, and institutions to the maximum extent possible. The Project partnership fund including grants and subcontracts, which will enable local institutions (e.g. AMDI) to take the lead in facilitating public-private policy dialogue and agricultural policy reforms, provide capacity building and training for industry associations, producer organizations, and financial institutions, and contribute to heightened public awareness of critical land rights issues. The AgroInvest team composition reflects our commitment to a Ukrainian-led approach, as the project COP is the only long-term expatriate field employee.

Knowledge Management

AgroInvest will disseminate and transfer knowledge gained during implementation through a robust communications and M&E strategy. Our approach to communications and performance measurement and sharing will not only achieve specific results under Component 1 but also ensure strong communication and knowledge sharing for all Project components so that lessons learned and the impact of USAID funding is multiplied beyond the life of AgroInvest. National-level policy and financial sector work will have country-wide impact through bank lending networks, a national communications campaign, and important reforms. Local capacity building initiatives will play an important role for replication and sustainability of Project activities. AgroInvest will cooperate, share, and obtain knowledge across other donor projects and development initiatives in Ukraine.

Public-Private Partnerships

AgroInvest will work with the USAID PPP project to identify potential opportunities for forging private sector alliances between government entities and private investors. Component 3 activities supporting the development of wholesale markets will require partnerships between municipalities and investment groups, and AgroInvest is prepared to serve as an honest broker in facilitating such arrangements.

ANNEX A

Detailed Implementation Plan

AgroInvest First Annual Work Plan

Work Plan Activities	2011 Y2Q2			2011 Y2Q3			2011 Y2Q4			Milestone	Responsible
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
COMPONENT 1. Support a stable, market-oriented policy environment											
TASK A: ACCELERATE MARKET-ORIENTED REFORMS											
LOP result 1: A clearer and more stable policy environment that has led to increased agricultural investment											
LOP result 2: Formal sustainable and transparent public private dialogue mechanisms established and engaged in promoting investment and the advancement of agricultural industry in line with WTO rules											
LOP result 3: Private-public dialogue is more effective and regular											
LOP result 4: Many of the laws, regulations and policies outlined in the agriculture policy strategy adopted and implemented											
1. Conduct work planning/strategy discussion with AMDI										AMDI-AgroInvest strategy discussed and agreed	DCOP and COP
2. Finalize AMDI co-implementer sub-award										Sub-award made	Grants/Subcontracts manager and Component 1 leader
3. Review current GOU programs and Conduct Strategic Policy Priority Assessment										Policy priorities assessed	Component 1 leader and AMDI
4. Complete Strategic Policy Priority Needs Paper										Policy priority needs and strategy developed	Component 1 leader and AMDI
5. Policy Priority Needs Paper/strategy approved by USAID COTR										Policy Priorities Plan approved	USAID COTR
6. Complete 3 Year AMDI Implementation Plan/begin implementation										Implementation of plan started	AMDI, DCOP and COP
7. Assess needs of Secretariat for PPD/Policy Councils and GOU ability/willingness to co-fund/support										GOU support for Secretariat	AMDI
8. Policy Secretariat established (with lessons learned from prior donor-supported PPDs)										Secretariat established	AMDI
9. Secure high-level GOU buy-in to Chair and actively participate in PPDs										GOU PPD buy-in	AMDI, COP, DCOP

Work Plan Activities	2011 Y2Q2			2011 Y2Q3			2011 Y2Q4			Milestone	Responsible
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
10. Re-establish public-private advisory councils										PPD councils/forums established	AMDI
11. Monitor AMDI implementation of policy agenda										AMDI compliance with agreed policy agenda	Component 1 leader and COP
12. Conduct regular meetings with AMDI leadership										Coordination and mutual understanding of policy directions and sub-award expectations	DCOP and COP
13. Provide continuous Secretariat leadership										Secretariat leadership maintained	AMDI
14. Facilitate coordination between policy councils and AgroInvest Associations										Engagement of associations in policy dialogue	Component 1 leader
15. Subcontract additional policy reform support (e.g. food security, land markets, pre-harvest finance, agri-insurance; as needed)										Policy reform work conducted/developed	Component 1 leader
TASK B: STRENGTHEN INDUSTRY ASSOCIATIONS											
LOP result 1: A clearer and more stable policy environment that has led to increased agricultural investment											
LOP result 2: Private-public dialogue is more effective and regular											
LOP result 3: Partner industry organizations are well established and engaged in promoting investment, trade, and other priorities under the aforementioned agriculture policy strategy											
LOP result 4: Partner industry organizations demonstrating enhanced sustainability and effectiveness											
LOP result 5: Capacities of industry associations are built, leading to sustainable improvements in policy											
1. Identify and evaluate Ag Industry associations										Industry associations identified	Component 1 leader
2. Conduct rapid assessment of legal and institutional framework for industry associations										Legal and institutional assessment completed	Component 1 leader

Work Plan Activities	2011 Y2Q2			2011 Y2Q3			2011 Y2Q4			Milestone	Responsible
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
3. Select Ag industry associations for capacity building programs										Associations selected	Component 1 leader
4. Design capacity building and policy development programs for Ag industry associations										Programs designed	Component 1 leader
5. Solicit and award capacity building and policy development grants										Grants awarded	Component 1 leader and Grants Manager
6. Implement capacity building and policy development programs for Ag industry associations										Implementation of programs started	Component 1 leader
7. Facilitate associations participation in at least 2 policy dialogue discussions										Policy dialogue started	AMD1 and Component 1 leader
TASK C: PROVIDE PUBLIC EDUCATION FOR LAND RIGHTS											
LOP result 1: Greater understanding for individual land rights among rural land owners in targeted areas LOP result 2: Property rights protection improved for rural land owners LOP result 3: Rural population in targeted regions is more supportive of an open, and better functioning land market LOP result 4: State land market administrators held more accountable for efficient issuance of state acts (deeds) LOP result 5: Legal aid services are delivered sustainably for rural land owners											
1. Prepare land rights media/outreach/awareness implementation plan on land rights										Plan developed	Component 1 leader, Comm. Pub Ed Manager
2. Prepare land rights media/outreach plan/strategy on delivery of sustainable of legal land services										Plan prepared	Comm. Pub Ed Manager
3. Land rights media/outreach/awareness and sustainable delivery of legal services plans approved by USAID COTR										Plans approved	USAID COTR
4. Selected targeted communities for implementation of outreach and legal rights strategies										Outreach strategy developed	Component 1 leader, Comm. Pub Ed Manager
5. Implement outreach/communication delivery of legal services strategy										Implementation of outreach strategy	Comm. Pub Ed Manager

Work Plan Activities	2011 Y2Q2			2011 Y2Q3			2011 Y2Q4			Milestone	Responsible	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep			
COMPONENT 2. Stimulate Access to Finance												
LOP result 1: By year five, 10,000 new agricultural loans issued through USAID partner organizations												
LOP result 2: Portfolio at risk for average agriculture lending is no more than 10% at 90 days for partner financial institutions												
LOP result 3: A well functioning, warehouse receipts system that is more widely used												
LOP result 4: New financial products operating in the market providing greater access to credit for SMPs												
1. Conduct a comprehensive assessment of regulatory and institutional barriers to, as well as opportunities for, increasing access to finance for SMPs 2. Evaluate and identify partnerships with banks, non-banks and value chain actors for increasing access to finance for SMPs 3. Develop Action Plan for increased access to finance for SMPs 4. Action Plan/Strategy approved by USAID/COTR 5. Select partner financial institutions and providers of credit for assistance and cooperation 6. Sign MOUs with at least 4 providers of credit 7. Develop and begin implementation of capacity building programs for partner financial institutions to provide finance for SMPs 8. Facilitate development of innovative products and strategies for agricultural lending 9. Develop and facilitate capacity building programs for SMP borrowers 10. Facilitate engagement between lenders and borrowers										Assessment tool to develop component strategy completed	Component 2 leader	
											Initial field of credit partners identified	Component 2 leader
											Strategy to increase SMP finance developed	Component 2 leader
											Strategy approved	USAID/COTR
											Partners selected	Component 2 leader
											SMP credit providers selected, MOUs signed	Component 2 leader
											Capacity building programs developed	Component 2 leader
											New financial products developed	Component 2 leader
											Capacity building programs developed	Component 2 leader
											New dialogue between value chain actors	Component 2 leader

Work Plan Activities	2011 Y2Q2			2011 Y2Q3			2011 Y2Q4			Milestone	Responsible
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
11. Develop at least two innovative products for SMP lending										2 innovative financial products developed	Component 2 leader
12. Facilitate at least 3 financial policy reform discussions/forums to support innovative lending practices										3 financial policy reform discussions held	Component 2 leader and Component 1 leader
13. Develop baseline data for partner financial institutions and value chain lenders										Baseline data developed	M&E expert and Component 2 leader
COMPONENT 3. Facilitate Market Infrastructure for SMPs											
TASK A: PRODUCER ORGANIZATION DEVELOPMENT											
LOP result 1: Local projects implemented that increase member services, market access, and productivity LOP result 2: Investment facilitated through producer group projects LOP result 3: Strengthened capacity of farmer organizations to provide better services to their members LOP result 4: Increased productivity of farms in targeted producer organizations LOP result 5: An average of a 100% increase in sales at targeted producer organizations LOP result 6: Increased profitability of farming in targeted producer organizations											
1. Develop selection criteria and conduct PO assessment										Assessment conducted	Component 3 leader
2. Select geographic region(s) with highest potential										Regions selected	Component 3 leader
3. Conduct Survey of POs and develop Implementation Strategy										Strategy developed	Component 3 leader
4. Survey of POs and Implementation Strategy approved by USAID COTR										Strategy approved	USAID COTR
5. Identify and evaluate high potential SMPs and POs										Short-listed POs and SMPs	Component 3 leader
6. Select 10-15 high potential Producer Organizations										Partner POs selected	Component 3 leader
7. Design capacity building programs for partner POs										Programs developed	Component 3 leader and Capacity Building subcontractor

Work Plan Activities	2011 Y2Q2			2011 Y2Q3			2011 Y2Q4			Milestone	Responsible
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
8. Implement capacity building programs for partner POs										Program implementation started	Component 3 leader and Capacity Building subcontractor
9. Conduct competition for capital improvement support for SMPs and POs										Tender announced and proposals received	Grants Manager and Component 3 leader
10. Collect baseline data for partner POs or SMPs										Baseline data developed	M&E expert
TASK B: DEVELOP WHOLESALE MARKETS											
LOP result 1: At least two wholesale and five local/regional markets are established which provide greater access to markets for SMPs											
LOP result 2: SMPs have better access to services such as cold storage, grading and storage, and other market infrastructure that enhances their ability to market their produce											
LOP result 3: Private sector financing leveraged for the establishment of wholesale markets											
1. Conduct wholesale market infrastructure assessment and develop selection criteria										Assessment completed, selection criteria developed	Component 3 leader
2. Develop wholesale market infrastructure strategy/plan										Strategy developed	Component 3 leader
3. Market strategy/plan approved by USAID COTR										Strategy approved	USAID
4. Select market development site(s)										Markets sites under consideration	Component 3 leader
5. Identify potential private and public sector participants										Potential participants short-listed	Component 3 leader
6. MOUs signed with up to 7 private sector and public sector investors										MOUs being negotiated	Component 3 leader
7. Begin pre-feasibility studies on up to three potential market infrastructure sites										Feasibility studies started on selected sites	Component 3 leader and feasibility study subcontractor