



USAID | **AgroInvest Project**

FROM THE AMERICAN PEOPLE

QUARTERLY REPORT

JULY 01, 2011- SEPTEMBER 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

AMDI	Agrarian Markets Development Institute
CLIN	Contract Line Item Numbers
COP	Chief of Party
DCOP	Deputy Chief of Party
ENP	European Neighborhood Policy
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GI	Geographical Indicator
GOU	Government of Ukraine
LINC	Local Investment and National Competitiveness project
LOE	Level of Effort
MAPF	Ministry of Agrarian Policy and Food
MP	Member of Parliament
MOU	Memorandum of Understanding
PO	Producer Organizations
RFQ	Request for Quotations
RFRP	Rural Finance Reform Project Funded by German Federal Government
SMP	Small and Medium Producers
SOW	Scope of Work
WMAP	Wholesale Market of Agriculture Produce
WTO	World Trade Organization

INTRODUCTION

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 of July, August and September 2011, the project team continued technical implementation activities in the project focus areas and completed technical and administrative start-up activities that included project accreditation, recruitment of local staff, re-location to permanent project office space, procurement and installation of office equipment and furniture. Key activities and accomplishments during this period included:

- The *AgroInvest Strategic Policy Priority Needs Paper* was finalized and approved by USAID (Component 1, Task A)
- In a meeting with the Chairman of the Verkhovna Rada's Committee for Agrarian Policy and Land, AgroInvest provided concrete recommendations to improve the draft Law on Land Market.
- An innovative approach to "*Financing and Stabilizing Ukraine's Emerging Land Market*" was developed by AgroInvest to provide an alternative to bring stability and provide financing for the emerging land market in Ukraine.

- The *Strategy for the Land Rights Public Education and Outreach Campaign* was finalized and approved by USAID (Component 1, Task C).
- The *Program for Delivering Sustainable Legal Land Rights Services* was completed and approved by USAID (Component 1, Task C).
- The *Small and Medium-Sized Producer Access to Finance Strategy and Action Plan* was submitted for USAID approval (Component 2).
- To facilitate SMP financing through credit unions, and linkages between SMPs and markets, the project signed two Memoranda of Understanding (MoU) with leading national credit union associations: MoU with the National Association of Credit Unions (UNASCU) was signed on September 22, 2011 and MoU with the All-Ukrainian Association of Credit Unions (VAKS) and Deposit Guarantee Program (PZV) – on September 23, 2011.
- The *Strategy for Implementing Agriculture Producer Organizations' Capacity Building Program* was finalized and submitted to USAID (Component 3, Task A).
- The *Strategic Plan for Developing the Agriculture Produce Market Infrastructure* was finalized and submitted to USAID (Component 3, Task B).
- Based on project assessments, the Crimea, Vinnitsa and Dnipropetrovsk regions were selected as AgroInvest focus geographic areas.
- On July 11-15, 2011, the project conducted a team building and Year 2 work planning workshop. As a result, the project finalized and submitted for approval the Year 2 Work Plan and updated PMP.
- The Project completed all registration procedures with the government and received accreditation from the Ministry of Economic Development and Trade on July 26, 2011.
- AgroInvest project team moved to its permanent office facilities at 4, Volodymyrska Street on August 19, 2011.
- On September 26, 2011 the project opened an office in Simferopol, Autonomous Republic of Crimea.
- AgroInvest developed and launched the bilingual Project web-site: www.agroinvest.org.ua

SECTION I: ACCOMPLISHMENTS AND PROGRESS TO DATE

Technical Implementation

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

Task A: Accelerate Market-Oriented Reforms

Strategic Policy Priority Needs Paper

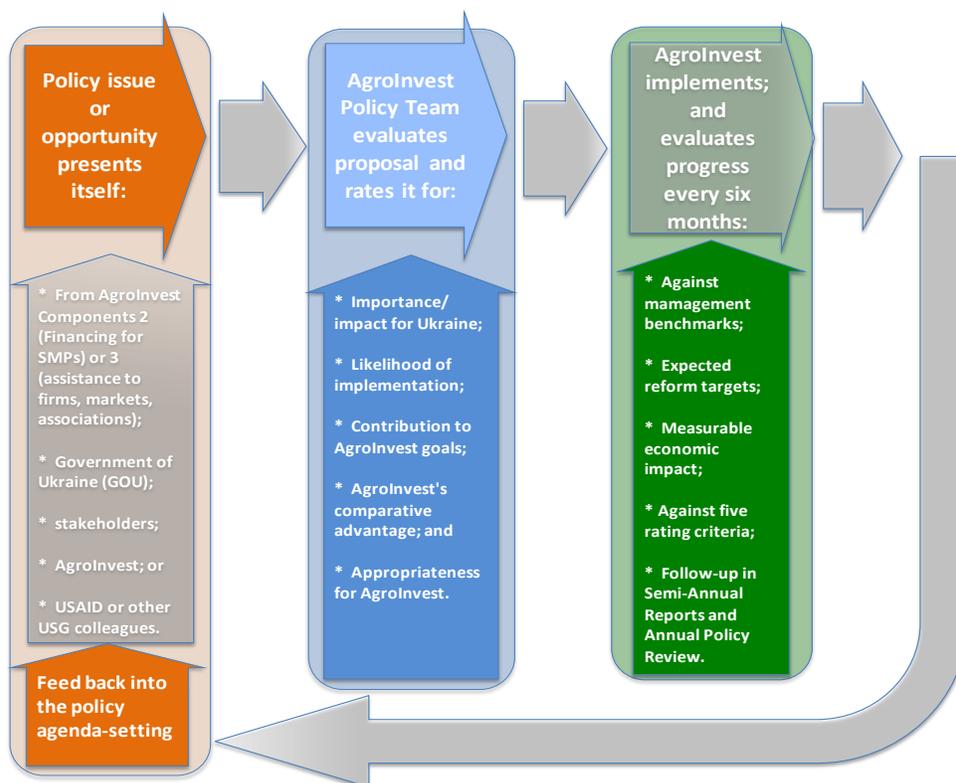
In July-August 2011 the Project finalized its Strategic Policy Priority Needs Paper to develop standard criteria to prioritize policy initiatives where AgroInvest can most effectively affect policy reforms in the agricultural sector. This paper established the criteria by which the AgroInvest Team reviewed policy analysis and reform proposals to select those on which to focus and developed a matrix of activities that would serve as the framework for AgroInvest's policy work during the project implementation period.

AgroInvest Criteria for Undertaking Policy Dialogue. The Strategic Policy Priority Needs Paper identified the following criteria to prioritize policy issues and determine which to address in the policy framework:

- Importance in Ukraine's agricultural sector (i.e., the potential to achieve measurable impact that can have a large-scale/strategically important beneficial impact on the development of the sector);
- Reasonable likelihood of implementation (there would be little reason to invest in addressing a question that is politically or otherwise beyond the GOU's political will or means to implement);
- Contribute to AgroInvest goals (a policy reform that has a negative impact or is of little benefit to the SMPs and other key AgroInvest clients or partners is unlikely to merit attention among other policy issues);
- Addresses AgroInvest's comparative advantage (i.e., a problem or opportunity that AgroInvest can address successfully with the available level of effort or budget); and
- Is appropriate for AgroInvest to address (e.g., a problem or challenge which is not already amply being addressed by another donor or project).

Figure 1 below provides illustrative description of the criteria and policy priority selection process established by the Strategic Policy Priority Needs Paper.

Figure 1: AgroInvest Project - Policy Agenda-Setting Criteria



Major Areas for Policy Analysis and Reform. Building upon the detailed policy environment assessment completed in May 2011 and consultations with project partners and stakeholders, AgroInvest determined five major areas for policy analysis and reform:

1. Trade policies;
2. Taxes and subsidies;
3. Financial market and credit policies;
4. Land market development; and
5. Market infrastructure investment.

These major policy reform areas, all of which meet the five criteria outlined above, were categorized in time as “short” and “medium” and “long” term priorities for the project. These time designations correspond to the following AgroInvest project years:

- Short-term: years 1 and 2 (February 2011– September 2012);
- Medium-term: years 3 and 4 (October 2012 – September 2014); and
- Long-term: years 4 and 5 (October 2014 – January 2016).

The section below provides a brief overview and discussion of the short-term (years 1 and 2 of project implementation) policy priority agenda. Details on the medium and long term policy priorities are presented in the Strategic Policy Priority Needs Paper.

Short-Term (2011-2012) Policy Priority Agenda. The following are the highlights for each of the five reform areas that the project has identified for its policy work:

1. Trade Policies. With removal of export quotas on agricultural commodities, the AgroInvest team will focus its attention on tariffs, non-tariff barriers to trade and price controls. Key issues to address in year 2 include:

- Analyze the costs of export tariffs that have replaced the quotas on small-medium producers (SMPs) and on the GOU's efforts to comply with WTO and EU trade policy commitments.
- Identify other formal and informal barriers to trade in key commodities, in particular in grain and quantifying the impact of these barriers on agriculture sector producers.
- Build the statistical and qualitative knowledge and networks with interest groups to allow AgroInvest to engage in well-informed dialogue and analysis of Ukraine's price and mark-up control regime governing a growing list of "strategic food commodities".

2. Taxes and Subsidies. Taxes and subsidies comprise one of the largest and most complex policy reform area for Ukrainian agriculture. Two fundamental questions dominate this area:

(i) whether Ukraine should tax Ukrainian farmers and agribusinesses but at the same time deliver substantial incentives and subsidies or continue with the current regime of not delivering most promised subsidies, but also exempting them from taxation; and

(ii) whether the GOU would consider instituting income transfers for needy food consumers as a more efficient alternative to penalizing producers to suppress food prices for all consumers.

To address these questions in the short term, the AgroInvest team will undertake joint policy analysis and research with economists from the Ministry of Agricultural Policy and Food (MAPF) and experts from local think tanks and consulting firms to lay out the benefits and costs of these critical reforms. The team will also propose that the MAPF, in conjunction with other government branches, initiates a national dialogue and conference on food security and consumer protection.

In addition, the AgroInvest team will build support among interest groups and initiate development of alternative proposals to:

- Improve the targeting of agricultural subsidies,
- Reduce the discriminatory impact of recent changes in the way the GOU applies its value added tax (VAT) to various agricultural sector farms and firms, and
- Strengthen the tax-exempt status of agricultural service cooperatives and other producer organizations.

3. Financial Market and Credit Policies. There are several policy issues on AgroInvest's financial market and credit agenda in the short-term:

(i) pre-harvest financing. The main goal with pre-harvest financing is to create the legal and institutional conditions for a new financial services product not yet available in Ukraine. Initial steps will include assistance to the GoU in drafting new legislation, analyzing detailed features of models from other countries, notably Brazil, and establishing institutional and regulatory framework for the new credit product.

(ii) warehouse receipts. Warehouse receipts are an already-established credit tool in Ukraine. AgroInvest will identify key constraints to further strengthening the value of warehouse receipts as an agricultural finance instrument and together with partners and industry associations implement a program to address these constraints.

(iii) credit union strengthening. The Project will draft amendments to credit union legislation in cooperation with credit unions and their associations.

(iv) development of the futures and derivatives markets. While futures and derivatives markets development is an area that is more likely to be implemented in the medium to long term, AgroInvest is ready to play an increased role to support recent initiatives for establishing an agricultural futures market through provision of training and assistance to industry associations.

4. Land Market Development. AgroInvest plans to put significant attention to this policy priority area in the nearest future. Short-term timing is an important factor influencing the AgroInvest agenda in the critical area of land market development. With the decades-long moratorium on the sale of agricultural lands expected to terminate in January 2012, the AgroInvest Team is already actively engaged in coordinating among stakeholder groups to put measures in place to protect the interests and purchasing power of SMPs before the opening of agricultural land market.

Specifically, in the immediate future AgroInvest-funded specialists will propose various alternatives for a more predictable, transparent and equitable distribution of land, quantifying the likely gains and losses from lifting the moratorium. The team will also propose amendments to the pending land legislation to protect SMPs and propose such legislation in close cooperation with stakeholders and donors.

5. Market Infrastructure Investment. Policy work on market infrastructure development directly supports the operational and field activities being developed under Component 3 of the Project. The priority will be given to support selected elements of the GOU's State Program on Wholesale Markets Development. In the short-term, AgroInvest-sponsored regulatory and legislative experts will work closely with the MAPF to fine-tune regulations and legislation defining private sector participation in wholesale markets as a critical factor contributing to the success of this potentially valuable state program.

The Strategic Policy Priority Needs Paper was prepared by Christopher Brown, an international agricultural economist, in consultations with key project stakeholders, partners and the AgroInvest team. While preparing the document, the consultant reviewed and analyzed most important GoU documents which set up government policy

priorities in the agricultural sector, namely the “State Target Program on the Development of Rural Areas for the Period Through 2015” and other relevant documents. The consultant also utilized various assessments prepared by AgroInvest project in May-June 2011, in particular: i) Regulatory and Institutional Barriers to Increase Access to Finance for SMPs, ii) Rapid Assessment of Legal and Institutional Framework for Industry Associations, and iii) Regional and Wholesale Markets Assessment. The full Strategic Policy Priority Needs Paper is attached as Annex 1 to this report.

Land Reform and the Lifting of the Moratorium on Sales of Agricultural Land

AgroInvest continued close monitoring of policy and legislation discussions on new legislation to lift the moratorium on sales of agricultural land. The Project worked to coordinate its activities with key partners in this area, namely USAID Local Investments and National Competitiveness (LINC) project, Access to Justice and Legal Empowerment project, Ukraine National Initiatives to Enhance Reforms project (UNITER) as well as industry associations and think-tanks. AgroInvest continued to participate in regular meetings held by the USAID EG office to discuss developments with land legislation and coordinate activities among USAID partners on this important subject. In August 2011 the project translated the draft Law on Land Market which was submitted to parliament by the Cabinet of Ministers (registration No. 9001-1) and shared the translation with the American Chamber of Commerce and key partners who work on land issues in Ukraine.

In August 2011 AgroInvest engaged services of international economist Richard Beilock and local professor of economics Sergiy Demyanenko to quantify the likely distributional consequences related to draft Law on Land Market, as well as variations in the Law that could impact transparency, equality and fairness in the Ukrainian agricultural land market once the moratorium on the sale of agricultural land is lifted.

With assistance of Sergiy Demyanenko, Richard Beilock analyzed the draft legislation and identified the main problem areas of the draft Law On Land Market proposed by the Cabinet of Ministers to the Parliament.. These problem areas included:

- Proposed effectiveness of the Law on Land Market on January 1, 2012;
- Tax to encourage holding land for several years;
- Restrictions on financial institutions from holding land in the event of foreclosures;
- Pre-emptive purchase rights for the government;
- Preclusion of legal entities from agricultural land ownership;
- Ownership caps (restrictions on the area of agricultural land that may be owned by one person/farmer);
- Prohibition on foreign ownership of agricultural land.

Based on the analysis, Richard Beilock prepared a paper called “Financing and Stabilizing Ukraine’s Emerging Land Market” which proposed an alternative approach to bring stability and provide financing for the emerging land market in Ukraine. In late August and early September this approach was presented to USAID EG office and other USAID projects and received positive feedback. In addition, this approach was presented to the World Bank on September 14 and later on also shared with EBRD. It is expected that it will serve as an important part of AgroInvest’s further work on agricultural land market issues in Ukraine. A copy of Mr. Beilock’s paper is attached as Annex 2 to this report.

In addition, Richard Beilock developed a series of staff memos (short analysis papers) on individual aspect of the proposed land market legislation. These, in particular, included:

1. A note on caps and prohibitions for purchasing agricultural land by physical persons/farmers;
2. A note on prohibition of land purchases by Corporations (legal entities);
3. Comments on Consolidation and Strategic Buying;
4. Comments on the Ban on Foreign Ownership of Agricultural Land;
5. A note on Implications of Pre-emptive Purchase Rights for the Ukrainian Government, Landowners, and Farmers;
6. Comments on a Report by Institute of Economic Research on the Value of Farmland and Ukraine’s Nominal Valuation System;
7. Considerations about Landes’s report regarding the Draft Law on Land Market;
8. A note on Potential Arguments for Delaying the Enforcement Date of the Law on Land Markets;
9. A Note on Lease Rates: Implications for the Emerging Land Market in Ukraine.

These notes have been developed to support “Financing and Stabilizing Ukraine’s Emerging land Market” paper and also shared and discussed by Mr. Beilock with the AgroInvest team and USAID EG office.

As a part of his joint work with Mr. Beilock, professor S. Demyanenko has undertaken analysis of and developed proposals to improve the cabinet of Ministers’ draft Law "On the Land Market" (registration No. 9001-1 in parliament) which included additional comments to selected provisions of the draft legislation (Annex 3). In addition, Mr. Demyanenko has also prepared an analysis of a parallel draft Law on Land Market which was submitted to the parliament by MP Smityukh (registration No. 9001).

On September 19-20, 2011, AgroInvest staff participated in an open meeting of the Agrarian Policy and Land Committee of the Verkhovna Rada of Ukraine which discussed agricultural land market legislation proposed for approval by the Cabinet of Ministers and several members of the parliament. This meeting allowed AgroInvest to understand better

the dynamics and substance of on-going discussions and informed further work of the project team on land issues.

On September 20, AgroInvest project staff and consultants took part in a meeting of the American Chamber of Commerce to discuss the draft legislation on Land Market. The meeting was attended by the head of the Verkhovna Rada Agrarian Policy and Land Committee. During this meeting AgroInvest staff participated in the discussion and also shared their detailed written comments to the draft Law on Land Market with the head of the parliamentary Committee. The comments provided detailed explanations and addressed the following key issues in the proposed legislation:

1. Tax to encourage holding land for several years. It was proposed to reconfigure the tax along the lines of a capital gains tax.
2. Restrictions on Financial Institutions from holding land in the event of foreclosures. It was proposed to eliminate the 6 month limitation for banks to hold land.
3. Preclusion of Legal Entities from Agricultural Land Ownership. It was proposed to eliminate the ban.
4. Pre-emptive Purchase Rights. It was proposed to eliminate Pre-emptive Purchase Rights from the draft law.

In addition to preparing various analyses of the proposed legislation, AgroInvest project also promoted public discussion of the legislation in order to allow main stakeholders to voice their opinion on the proposed draft land law. In particular, the Project, in partnership with the Association of Farmers and Landowners and the Union of Agricultural Servicing Cooperatives, organized the All-Ukrainian Public Hearings on the Land Market Law. The hearings were held on August 16 in Kyiv. Participants of the hearings – representatives of the State Agency for Land Resources, Parliament Members, leaders and members of the Association of Farmers and Landowners of Ukraine and other national agricultural associations, farmers, landowners, scientists and lawyers – discussed draft laws of Ukraine "On Land Market" No. 9001 and No. 9001-1. As a result of the hearings, suggestions of farmers, researchers and practitioners were collected with the view of improving the draft laws, processing them and sending to the Verkhovna Rada of Ukraine, the Cabinet Ministers of Ukraine, the State Agency for Land Resources and other government agencies.



On September 20, 2011, AgroInvest project took part in open debates on land reform legislation which were organized by Ukrainian Club of Agrarian Business and AgriEvent company. Project staff made a brief presentation during the discussion at the event.

Engagement with the Agrarian Markets Development Institute (AMDI)

Based on the Implementation Agreement between the USAID Mission to Ukraine, Belarus and Moldova, Chemonics International Inc. and Agrarian Markets Development Institute (AMDI), AgroInvest continued regular meetings with AMDI management in order to establish close partnership relations, agree work plans, and finalize tasks that AMDI can implement under a cost-reimbursable grant from AgroInvest project.

During the report period, the AgroInvest project finalized the pre-award determination and received a full grant proposal from AMDI. The proposed grant's scope of work includes:

- Assistance with development of legislation for improvements of credit/financing mechanisms in the agricultural sector (pre-harvest financing and further development of warehouse receipt system)
- Policy advice to the GOU on market-oriented and WTO-compliant agricultural policies, including policy analysis and legislative drafting
- Coordinating and supporting new GOU PPD Secretarial Support for the Coordination Council on Agricultural Reform
- Supporting existing GOU Consultative Working Groups
- Promoting regulatory reforms for agricultural service cooperatives and credit unions.

A full grant proposal from AMDI has been reviewed by the AgroInvest team and Chemonics Home office and a grant agreement has been drafted. The full package was being finalized for submission to USAID for approval in October 2011.

Other important initiatives and meetings

During the report period, the AgroInvest team continued 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 several most important of these interactions.

AgroInvest project continued its contacts with EU Sector Wide Agricultural Project (SWAP) to coordinate activities between the two projects, in particular on market infrastructure development and on support to the Coordination Council on Agricultural Reform under the Ministry of Agricultural Policy and Food. As a part of the support to the Coordination Council on Agricultural Reform, the EU project was providing secretarial support and AgroInvest has coordinated with them, also providing administrative support to the Council.

On September 6, 2011, AgroInvest met with the Chairman of the Coordination Council on Agrarian Reform established under the Minister of Agrarian Policy and Food of Ukraine, together with the EG Office Director and AgroInvest COTR. This meeting

allowed AgroInvest team to better assess the needs for support to the Coordination Council and finalize arrangements for such support from the project. As a part of this initiative, AgroInvest contracted an assistant to the Coordination Council who provided administrative and secretarial support to regular (monthly) meetings of the Council which consists of GOU officials, representatives of industry associations and donor organizations. It is expected that the project assistance in this format will be limited in time until implementation of the AMDI grant commences.

To follow up on recent initiatives by the CME Group and GOU to establish a futures exchange for grain and other agricultural commodities in Ukraine, AgroInvest team engaged in discussions with Ukrainian Agrarian Confederation and Ukrainian Futures Exchange to determine the best role that AgroInvest could play in supporting targeted training on basics of futures trade for farmers. It is expected that the trainings will commence in November 2011 and then will be continued in 2012.

As a part of its membership in the American Chamber of Commerce the Project team actively participated in meetings of the Agricultural Committee of the American Chamber of Commerce in Ukraine. In particular, on August 4 the Project team participated in a special meeting where land reform issues were discussed. During the meeting AgroInvest made a short presentation on the current status and main provisions of the draft Law On land Market. Following this meeting, the AgroInvest team shared an English translation of the draft law with members of the AmCham Agricultural Committee. AgroInvest team also participated in a meeting of AmCham Agricultural Committee on September 20. Details on participation in this meeting were described in section on land reform activities above.

On September 15, 2011, the project team met with representatives of the Canadian International Development Agency (CIDA) to discuss areas of potential collaboration. A new CIDA-funded project on agricultural cooperatives is expected to commence in 2012 and potential bidders are collecting information and establishing contacts. This meeting helped AgroInvest team to establish contacts with potential project implementation agencies/companies and identified areas for cooperation between the upcoming CIDA project and AgroInvest.

On September 6, 2011 the project team met with a team from NIRAS company who were finalizing their activities on agricultural market infrastructure development in western Ukraine under an EU-funded project. This meeting allowed AgroInvest project to identify coordinate its possible engagement on development of Rivne wholesale market with another donor organization active in this area. The project received most recent plans for market infrastructure development in Rivne and agreed on close collaboration with NIRAS team in October-December 2011.

Task B: Strengthen Industry Associations

Based on the Rapid Assessment of the Legal and Institutional Framework for Industry Associations in Ukraine completed in June 2011, AgroInvest team started identifying key associations for policy work and capacity building activities. In particular, the Project team intensified its cooperation with the Ukrainian Grain Association to discuss support to the Second National Grain Congress to be held in October 2011. It was agreed that the project will finance a visit of three keynote speakers for the congress who will make presentations on developments in international grain markets, provide first-hand knowledge of targeted social assistance programs and share practical experience with implementation of pre-harvest financing systems. The speakers were to include a senior representative of the USDA, an expert from the Foreign Agricultural Service of the USDA and a representative of the government of Brazil.

The project has also started developing approaches for implementing a grants program for industry associations to support policy analysis activities and capacity building initiatives. It is expected that a comprehensive Request for Agreement (RFA) will be open for proposals from industry associations during the next quarter.

Task C: Provide Public Education for Land Rights

In the reporting period, USAID AgroInvest finalized *Project Communications Plan and Strategies for the Land Rights Public Education and Outreach Campaign* (attached as Annex 4 to this report) and for the *Program for Delivering Sustainable Legal Land Rights Services* (attached as Annex 5). The documents contain detailed work plans, which list both pre-implementation tasks and activities towards implementation of the Component 1 Task C goals. Both documents were approved by USAID on August 8, 2011.

Both strategies have a common goal of providing public education for land rights and mechanisms that will help vulnerable land owners implement their land rights and are closely interlinked and support each other. For instance, the Public Education and Outreach Campaign will build upon materials and case studies developed as part of the Land Rights Services Program, while the latter will benefit from information disseminated through the Outreach Campaign and vice versa.

In order to be able to measure the impact of the *Land Rights Public Education and Outreach Campaign*, at the pre-implementation phase the project will conduct a baseline survey to identify the baseline level of awareness of land rights-related issues. Apart from collecting baseline data, this survey will also provide important inputs for the Land Rights Public Education and Outreach Campaign due to focus-group discussions of proposed messages of the campaign and fine-tuning information channels most suitable for particular target communicates.

It is planned that the completion of the survey will mark the beginning of the public education and outreach campaign. To this end, a series of roundtables will be organized, where campaign stakeholders as well as partners for the *Program for Delivering Sustainable Legal Land Rights Services* will have an opportunity to learn from the survey

findings and begin networking in order to be able to better coordinate their activities. This way the survey will become a bridge between the pre-implementation and implementation stages. In the reporting period, the Scope of Work for the survey was developed and Request for Proposals was issued and publicized. The closing date for the submission of proposals is October 17, 2011.

Since the Program for Delivering Sustainable Legal Land Rights Services calls for sustainability, it is designed in such a way as to be fully integrated in the activities of implementing partners. The partners will be selected on a competitive basis, one of the most important selection criteria being provision of legal land rights services to vulnerable population as an important part of the organizations' mandate. Another criterion is the organization's desire to build its capacity in this area and make it sustainable. USAID AgroInvest strongly believes that working with such partners through thoroughly designed grant programs is the only possible way to achieve sustainability of the delivery of legal land rights services to vulnerable landowners.

For this reason, USAID AgroInvest, after profound consultations with potential partners, stakeholders, and various other sources of information, designed a series of three grant programs which will comprise the Program for Delivering Sustainable Legal Land Rights Services.

Each of the grant programs focuses on a set of particular activities, specifically:

- Establishing the Resource Center with a web-portal attached to it:
 - Analyzing land-related issues, grouping them into broader categories;
 - Identifying typical issues which can be addressed through creating “roadmaps”; i.e. step-by-step algorithms, templates of documents, which a rural citizen/farmer can effectively use to resolve such “typical problems”;
 - Preparing such “roadmaps” in a plain language and user friendly format which is suitable for downloading from a web-portal;
 - Preparing methodological materials for providers of primary legal land rights services;
 - Preparing brochures, booklets, posters for the information campaign;
 - Ensuring continuous monitoring of legislation/regulations to update the roadmaps as appropriate;
 - Ensuring continuous monitoring of land-related problems in order to:
 - summarize them for decision-makers;
 - refer to providers of secondary legal land rights services for interventions;
 - Establishing and maintaining a web-portal to post the roadmaps and other relevant information accessible by both end-users and providers of primary and secondary legal land rights services;

- Providing expert support to the Education Campaign, in particular to:
 - Land Rights Hot Line;
 - TV and radio programs and talk shows;
 - interested mass media;
- Coordinating with providers of primary and secondary legal land rights services; provide training and coaching, as well as refreshment training and guidance as appropriate.
- Delivery of primary legal land rights services:
 - Providing legal information, consultations and clarification of legal issues;
 - Providing assistance in drafting applications, complaints and other legal documents (except documents of a procedural nature);
 - Assisting in ensuring the individual's access to secondary legal assistance and mediation.
- Delivery of secondary legal land rights services:
 - Providing mediation;
 - Providing protection from prosecution;
 - Representing interests of persons who are entitled to free secondary legal assistance in courts, other state bodies, local authorities, etc.;
 - Compiling documents of a procedural nature;
 - Coordinating with providers of primary legal land rights services and taking over from them cases which need specialized legal expertise.

Despite the fact that there will be three separate grant programs, all the partners working under each of them will coordinate their activities and support each other. As an example, lawyers from the Resource Center will develop road maps (i.e. step-by-step algorithms for addressing various issues which vulnerable landowners face most frequently) and disseminate them via a dedicated web-portal. Providers of primary legal land rights services will use these roadmaps and document templates downloaded from the web-portal to help vulnerable landowners prepare various documents they need to advise them where to apply, etc. They will also identify cases which cannot be resolved by primary legal land rights services and refer them to providers of secondary legal land rights services, who are lawyers specialized in land issues and are, therefore, better positioned to help resolve land conflicts, etc. All these activities will be supported by the information campaign and a hot line, which is part of the information campaign, serving both as a means of collecting information about typical issues and as a focus point to provide advice.

During the reporting period, USAID AgroInvest focused on the following pre-implementation activities:

1. Developing the Scope of Work of a subcontract for the Baseline Land Rights Survey. The survey will include both focus groups and interviewing of private plot holders and small farmers. The questionnaire will include questions to measure land awareness as well as to collect useful information for Components 2 and 3. A company selected to conduct the survey will also take part in round tables to share the findings of the survey and to provide platform for networking of the Information Campaign stakeholders with Land Rights Program partners. The SOW has been finalized and included in the RFP for this work.
2. Developing the Scope of Work for a grant program for the Resource Center and web-portal. It is intended that the Resource Center and web-portal will be hosted by one of the national land associations which will receive a capacity building grant to organize these operations and continue to support them after the completion of the project. This SOW has been drafted and expected to be finalized and competitively tendered in October 2011.
3. Developing the Scope of Work for a grant program for providers of primary legal land rights services. Possible providers of primary legal land rights services include extension agents, village mayors, land surveyors, and local farmer associations, who will use materials created by the Resource Center to disseminate information, help vulnerable landowners complete various forms of applications (e.g., to officially register their land title), etc. They will work with vulnerable landowners both individually and through community meetings. In case they encounter a more complicated case which needs a lawyer's advice, they will refer it to providers of secondary legal land rights services. The project team has initiated developing this SoW.
4. Developing the Scope of Work for a grant program for providers of secondary legal land rights services. This program is addressed to NGOs, law clinics, and other legal organizations that view servicing of vulnerable rural population as an important part of their mandate and would like to build their capacity in this area. They will work in close contact with both the Resource Center and providers of primary legal land rights services to help their clients prevent and resolve land conflicts. This SOW has been drafted and expected to be finalized and competitively tendered in November 2011.

COMPONENT 2: Stimulate Access to Finance

During the reporting period the project team focused its attention on (i) identifying regions where Component 2 would focus its activities to facilitate access to credit for small and medium-size SMPs in the agricultural sector; (ii) developing a Strategy and Action Plan for Small and Medium-Sized Producer Access to Finance; and (iii) establishing partnership arrangements with banks, non-banking financial institutions and value chain actors for joint activities to increase SMPs' access to finance.

Focus regions for Component 2 Activities. Based on a series of meetings and consultations with financial and non-financial institutions which could become project partners for increased access to finance, the following focus regions have been identified:

- Crimea as a region specified for the Project's activity by the contract;
- Neighboring oblasts (Kherson, Zaporizhzhya, Mykolayiv, Odessa) as the oblasts with developed fruit and vegetable production carried out by SMPs. In addition, many credit unions are located in these oblasts and they can easily be reached from the Crimean representative office of the Project;
- Oblasts where activity of the Component 3 will be focused: Dnepropetrovsk and Vinnitsa.
- Specific oblasts where partner banks and value chain actors plan to have or currently have intensive cooperation with SMPs in agriculture. These oblasts will be identified at a later stage once the project finalizes partnership arrangements with financial institutions and value chain actors.

In addition, Component 2 will also continue to assess other opportunities in regions not initially selected for providing increased access to finance for SMPs.

Strategy and action plan for Component 2 activities. During the reporting period the project team has developed a Strategy and Action Plan for Small and Medium-Sized Producer Access to Finance. The Strategy envisages intensive work with all project partners and best utilization of synergies that might be achieved with proper facilitation of cooperation between partners. The strategy identified main areas for cooperation with project partners and proposed specific activities which would be undertaken to implement the strategy. The main elements of the strategy and partnership arrangements include:

1. With banks:

- Developing innovative financial instruments which would facilitate and stimulate the access to finance for small and medium-sized agricultural producers;
- Increasing the banks' loan portfolio by attracting new creditworthy customers in the Ukrainian agriculture sector;
- Organizing and holding training sessions to educate banks credit staff in modern agrilending methodologies and practices;
- Organizing and holding training events to educate potential borrowers – SMPs – on technological, lending, and financial issues.

During the reporting period the project team also discussed partnership arrangements with ProCredit and Raiffeisen-Aval banks. Memoranda of understanding and cooperation with these banks have been drafted. In general, current financial and other market situation forces banks to limit their activity in the most risky and/or green-field areas. This is why, in particular, cooperation with Raiffeisen Bank Aval was chosen to start soon as a limited-size project of lending to small milk producers being supported by cooperation with milk processors/purchases. Discussions with other banks, in particular, with Megabank and Kredobank, have been also initiated.

2. With credit unions and their associations: The Strategy and Action Plan for SMP Access to Finance identified that the project would undertake the following joint activities with credit unions:

- Organize sharing of experience and knowledge through specialized forums, conferences, seminars, workshops, and secondments to foster implementation of modern agri-lending techniques by member credit unions;
- Ensure systemic interaction and policy dialog among professional associations of agriculture producers, agriculture cooperatives, and credit unions, in particular, at a regional level;
- Assess needs of financial service consumers – small and medium-sized agriculture producers – with regard to accessibility/affordability of financial services and availability of funding to credit unions;
- Test on pilot basis with partner structures (including under cooperation agreements / memoranda of understanding) financing techniques and loan products adapted to needs of small and medium-sized agriculture producers and implement such techniques and products in other credit unions;
- Study and disseminate the best practices of interaction of financial institutions with small and medium-sized agriculture producers and their associations;
- Conduct specialized training and provide advisory support to management and staff of credit unions which are specialized in providing financial services to small and medium-sized agriculture producers;
- Test and implement mechanisms for interaction between credit unions and financial institutions of the second level – united credit unions, banks, and financial companies – in the process of implementing joint lending programs where small and medium-sized agriculture producers are end borrowers;
- Facilitate mobilization of external funding for lending programs which could be administered by credit unions and/or other lenders and where small and medium-sized agriculture producers are end borrowers;
- Test and implement mechanisms for interaction and functional complementarity among credit unions, agricultural cooperatives, other organizations, and components of agricultural producer infrastructure;
- Test and implement tools and mechanisms for external monitoring of credit unions which are specialized in provision of financial services to small and medium-sized agricultural producers for the purpose of minimizing operational and financial risks in the process of delivering such services.

To kick off strategy implementation, memoranda of understanding with the two nationwide associations of credit unions and the Credit Union Association “Deposits Protection

Program” were developed and signed. In addition, detailed Action Plans for the next period of cooperation with these associations were developed.

In addition, the project has laid the foundation for cooperation with other donor and technical assistance projects, such as the Rural Finance Reform Project (RFRP) funded by German Federal Government. RFRP has made significant progress in organizing and tuning proper work with credit unions within frames of AUACU. In particular, a set of manuals supporting lending via credit unions was developed. The RFRP agrees to share its experience and achievements with the Project on the basis of a Memorandum that is expected to be signed shortly.

3. With value chain actors: The project has developed concepts of cooperation with two key value chain actors, namely nation-wide distributor Eridon and input supplier Kyiv-Atlantic Ukraine.

Eridon in particular plans to engage in increasing access to finance for milk producers as a fodder supplier and technological expert. The concept supposes participation of such parties as the banks (Aval or ProCreditBank), Eridon, milk purchasers/processors and the project. Such a scheme will apply innovative finance products to ensure SMP access to finance. The basic concept of one such product was developed jointly during the reporting period.

The project has also agreed on a concept of cooperation with Kyiv-Atlantic Ukraine (KAU). At present, KAU is interested in developing a credit program for a network of KAU retail shops. The credit program envisages increasing the customer base of KAU and simultaneously enlarging its portfolio of inputs. This scheme too will apply innovative finance products to ensure SMP access to finance and again the parties developed an overview of the product during the reporting period.

Memoranda of understanding and cooperation with Eridon and Kyiv-Atlantic Ukraine were also drafted.);

Ongoing interaction was continued through the reporting period between the project team and the following finance partner organizations:

Banks and other financial institutions:

- The bank Kyivs’ka Rus;
- The bank Megabank;
- European Bank of Reconstruction and Development;
- The bank ProCreditBank;
- The bank Credit Agricole;
- The bank UkrSibBank;
- The Raiffeisen Bank Aval;
- OIKO Credit Ukraine.

Credit Unions and associations:

- the National Association of Ukrainian Credit Unions;
- All-Ukrainian Association of Credit Unions;
- Credit Union Association “Deposits Protection Program”;
- Credit Union Anisia (Lviv), credit unions in Crimea, Kherson and Zaporizhzhya oblasts;
- 4 credit unions in Crimea and Zaporizhzhya.

Value chain actors:

- LLC Pioneer Nasinnya Ukraine;
- The all-Ukrainian distributor Eridon;
- BASF;
- BAYER.
- AgroCapital Management (Crimea).

Donors and international organizations:

- Agrolviv donor project;
- The Rural Finance Reform Project Funded by German Federal Government;
- International Financial Corporation.

Agri-finance consulting companies:

- TA Consult;
- IPC consulting company.

Public associations:

- Association of Farmers.

Component Staffing/Office in Crimea. In order to launch the project activity in Crimea and southern oblasts, the staff engaged in two key activities:

- The representative office was established in Crimea, and Agricultural Finance Specialist Oleg Stoyanov relocated to Simferopol as resident Component 2 specialist;
- Selection of partners in Crimea and surrounding oblasts (Kherson and Zaporizhzhya) was conducted, and 4 Memoranda of understanding and cooperation were signed with 2 credit unions in those oblasts;
- Agricultural Finance Specialist for Kyiv office (Natalia Ilina) was hired as replacement of Oleg Stoyanov.

COMPONENT 3: Facilitate Market Infrastructure for SMPs

Task A: Producer Organization Development

Producer Organization Development major activities in the reporting period focused on two priorities:

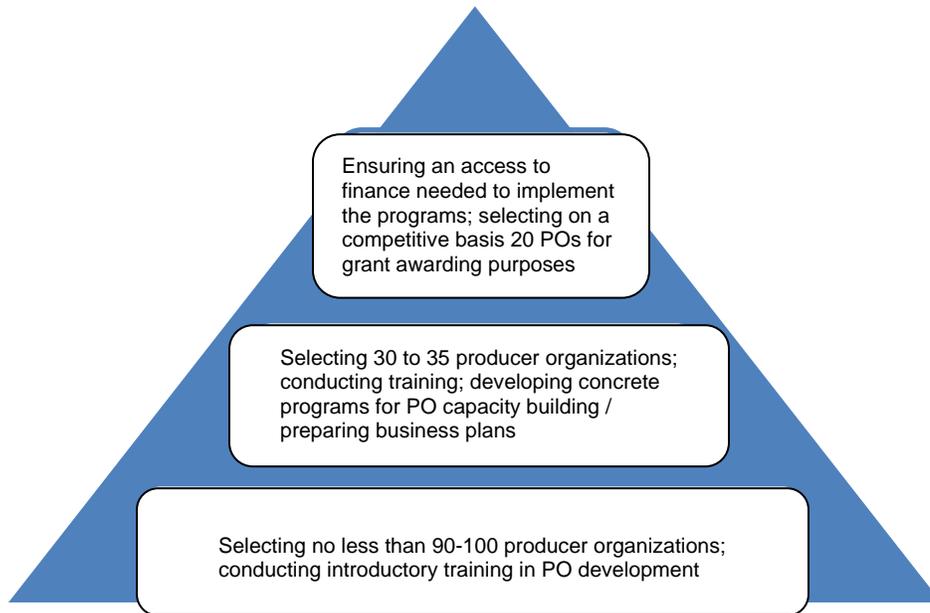
- Selecting target regions;
- Organizing and conducting training in designing capacity development programs for small and medium-sized producers (SMPs) and producer organizations (POs).

As part of the region selection process, the Project team analyzed statistical indicators showing regions' potential of milk, meat, potato, fruit, vegetable and soft fruit production; concentration of the rural population, individual homesteads and farms and their associations and held over 60 meetings with representatives of government authorities and local governments, farmers, leader of farmer organizations, cooperative organizations and their associations, representatives of market infrastructure facilities (regional markets, commercial companies, exchanges), leaders of NGOs and rural extension services, representatives of technical assistance projects operating in pre-selected regions.

In addition, the Project team also took into account previous work and knowledge accumulated by the USAID "Local Investments and National Competitiveness" project in the area of market infrastructure development in Odesa and Rivne oblasts.

Following the selection process, Vinnitsa and Dnipropetrovsk oblasts were identified as those having the greatest potential for PO development. In addition to these two regions, the Project will also operate in the Crimea which was identified as a Project target region according to the initial Scope of Work for the Project. For the purpose of disseminating best practices and models, the Project may extend its activities to adjacent regions, such as Kherson, Zhytomyr and Mykolaiv oblasts.

A strategy for implementing agriculture producer organizations' capacity building programs was prepared based on materials and data of surveys conducted as part of the above selection process. The strategy envisages that certain organizational measures will be taken on a phased basis according to the chart below:



Phase 1: At the first phase, the Project will review no less than 90 to 100 producer organizations and formal and informal marketing organizations/groups willing to expand the scope of their commercial operations. Leaders of the selected organizations will be trained in generation of added value, design of programs of increasing capacities for accessing agriculture markets, business planning basics.

In the process of training, between 30 and 35 of the most promising POs will be selected and offered to sign agreements of cooperation in development and implementation of capacity building programs. Essential provision of such agreements will include: the subject matter of joint activities, the level of financial, organizational and technical involvement, parties' commitments and responsibilities, organization and control of the implementation process.

Phase 2: At the second phase, the Project will form target groups consisting of representatives from five to six POs for whom training and technical assistance will be provided in the following areas:

- Making surveys of agriculture product markets and service markets;
- Conducting training in production efficiency improvement, post-harvest handling, and marketing of selected agriculture products;
- Developing long-term capacity building programs;
- Developing local projects (program components) in building capacity of each partner PO so that the partner POs expand the scope of their services, have an access to markets, and improve productivity of their members' commercial operations;
- Designing business plans for PO development as a whole and implementation of selected business projects.

Phase 3: At the third phase, the Project will take a number of measures to improve POs' access to finance needed to implementing capacity building programs. In particular, the Project will:

- Compile a catalog (register) of PO capacity building programs;
- Hold events (investment forums, round tables) at which PO capacity building programs / investment projects and conditions for cooperation with investment companies and other financial institutions will be presented;
- Organize and conduct meetings with potential investors/lenders;
- Award grants on a competitive selection basis.

The full draft Strategy for Implementing Agriculture Producer Organizations' Capacity Building Program is attached as Annex 9 to this report.

As part of implementation of the first phase of the Strategy in September 2011, the Project organized and conducted three trainings (in the Crimea, Vinnitsa and Dnipropetrovsk oblasts) titled "Preparing programs for building capacities of cooperative organizations of farmers and individual homesteads". These training events were attended by 105 persons including farmers, leaders of agriculture servicing cooperatives, members of the Agriculture Servicing Cooperation Union, representatives from other agrarian organizations and associations in the said regions. The trainees drafted and presented 43 capacity building programs for producer organizations including:

- 22 POs from the Crimea;
- 13 POs from Vinnitsa oblast;
- 8 POs from Dnipropetrovsk oblast.

The concepts drafted for building PO capacities envisage that SMPs' and POs' will intensify their activities in the following areas:

- Improving animal production: 3 proposals (6%);
- Developing a system for collection and primary processing of animal products: 8 proposals (18%);
- Enhancing production in horticulture: 12 proposals (30%);
- Developing a system for collection and primary processing of plant products: 17 proposals (40%);
- Developing assembly markets: 3 proposals (6%).

The report on the above training events is included as Annex 10 to this report.

During the reporting period Component 3 team began activities in designing business plans to develop producer organizations; in particular, the team has started providing methodological and advisory support on these issues to POs.

Participation in Public Events Devoted to Development SMPs and POs

On September 28, 2011, at the invitation of the Minister of Agrarian Policy and Food, Component 3 team leader participated in the seminar "Activities of agriculture servicing

cooperatives and small producer associations" where he made the presentation titled "Servicing Cooperation as an important socio-economic component of sustainable rural development". Other seminar participants included officials from the ministry and other central government authorities.

Component 3 team attended the meeting of the interdepartmental task force which was held at the Ministry of Agrarian Policy and Food on September 13, 2011. The major issue on the meeting agenda was "Building capacity of the Ministry of Agrarian Policy and Food for designing and implementation of the policy to support development of agriculture servicing cooperation in Ukraine". The meeting made a decision to set up an Interdepartmental Cooperative Council of Ukraine with engagement of experts in servicing cooperation development from technical assistance projects operating in the SMP and PO areas.

On September 15-16, 2011, Component 3 team took part in the national conference "Comprehensive approaches to rural development; cooperation and partnership", which was conducted by the UNDP Crimea Integration and Development Program and Ministry of Agrarian Policy and Food to summarize outcomes of UNDP CIDP implementation in the areas of rural development, SMP consolidation and PO development. Component 3 team leader made a presentation on major activities of the AgroInvest Project.

On September 21, 2011 Component 3 team leader attended the round table "Problems and prospects for attracting investments for the purpose of business development in the agriculture service cooperation", which was conducted by the Crimean Association of Service Cooperation Participants under LINC Project support. The major issue on the round table agenda was attracting investments for SMP development, existing problems and potential solutions.

On September 25, 2011, Component 3 team leader attended the seminar "Prospects for using geographical indications for food products in Ukraine and their impact on rural development". The major conclusion from FAO surveys, presentations, and discussions is that Ukrainian SMPs have a great potential in marketing food products with geographical indications and generating high added value of original products produced in their geographic areas. This conclusion is confirmed by the fact that the existing EU register of Geographical Indicators (GIs) contain 1,900 GIs of wine, 325 GIs alcoholic beverages, and 970 GIs of food products whereas the Ukrainian register contains as little as ten GIs (eight GIs of mineral water and two GIs of wine). FAO representatives expressed their willingness to consider proposals on supporting programs in registering geographical indications of traditional and regional products. It would be feasible for AgroInvest Component 3 to support regional programs in GIs of agriculture products as a means to improve an access to traditional products markets, increase the value of such products, and enhance SMP performance.

On September 2, 2011, at the invitation of the Ministry of Agrarian Policy and Food, AgroInvest experts participated in the seminar of development of agriculture producer organizations which was conducted as part of the project "Harmonization of the legislation and policies for developing agriculture servicing cooperatives in Ukraine

according to EU standards". The seminar focused on existing problems and approaches to enhancement of the legal and regulatory frameworks for development of agriculture servicing cooperation in Ukraine.

Cooperation with Technical Assistance Projects which are funded by other International Donors

AgroInvest started cooperation with other international technical assistance projects operating in Ukraine in the spheres of national policy formulation and development of agriculture producers' cooperative organizations at the national and regional levels. In particular:

- The project team presented AgroInvest activities at the national conference "Comprehensive approaches to rural development; cooperation and partnership", which was conducted by the UNDP Crimea Integration and Development Program and Ministry of Agrarian Policy and Food on September 15-16, 2011 and took part in the discussion of such issues as areas of rural development, SMP consolidation and PO development.
- On September 21, 2011 AgroInvest and LINC experts took part in the round table "Problems and prospects for attracting investments for the purpose of business development in the agriculture service cooperation" to discuss potential solutions to problems associated with mobilizing funding for SMP development purposes.

In the area of enhancing policies to support development of agriculture cooperation in Ukraine, AgroInvest initiated contacts with:

- Policy Reform and Implementation Support Mechanism (PRISM) Project which is funded by the Canadian International Development Agency (CIDA), and managed by the Canadian Bureau for International Education (CBIE). The project made a preliminary study of the Ukrainian legislation on agriculture servicing cooperatives and prospects for enhancing it with allowance for international (in particular, European) experience. A policy report prepared based on this study data was presented to the Ministry of Agrarian Policy and Food and. Once refined it will be circulated among stakeholders.
- "Harmonization of the national system of legislation and development Agricultural servicing co-operatives in Ukraine according to EU standards", a project which is funded by the Dutch Government. The project prepared materials describing existing experience in registration of producer organizations and agriculture producer groups according to EU standards. The project is planning to disseminate these materials in October.

Component 3, Task B: Developing Effective Market Infrastructure for Small and Medium-Sized Producers

During the reporting period, AgroInvest project team reviewed potential sites for developing market infrastructure facilities and studied national and regional policies for

market infrastructure development. Based on these reviews, the project defined two areas of market infrastructure development in our strategy:

- Supporting implementation of local projects in developing regional Wholesale Markets of Agriculture Produce (WMAFs);
- Support projects in developing regional WMAFs, local markets and logistics facilities in regions selected as targeted regions for the purpose of Component 3, Task A "Producer Organizations Development".

As far as implementation of local projects in developing WMAFs is concerned, survey conducted by the project shows that most promising and best prepared are sites/projects for market development in Rivne, Ivano-Frankivsk, and Kherson oblasts, namely:

Rivne oblast: Construction of a wholesale market of agriculture produce is one of strategic goals set by the Strategic Plan for Economic Development and Increase of Competitiveness of the Central Volyn subregion which was prepared in collaboration with and under technical support of the USAID/Chemonics LINC Project. Specifically, the Strategic Plan envisages combining efforts of Rivne and Volyn oblasts to develop a joint specialized wholesale market of agriculture produce, prepare a feasibility study for the market, and find investors.

A 10 ha land plot is allocated for the WMAF market development purpose. It can be expanded up to 14-15 ha. The land plot is located in Rivne raion 50 m to 100 m from the administrative border of the city of Rivne close to major access roads connecting Rivne with Lviv, Lutsk, Kyiv, and Khmelnytsky. The owners of the market company are considering a public-private partnership as a feasible option for market development and operation.

The conceptual design of the market was developed with technical assistance from the EU-funded project "Support of Sustainable Regional Development". The project is realistic and supported by oblast government authorities and Rivne city authorities. The oblast state administration signed a Memorandum of Understanding with Shelen, a company which initiated this project. The memorandum specifies the scope and areas of the public-private partnership to be set up.

Ivano-Frankivsk oblast: Following a decision of the oblast state administration, a special task force was set up to prepare a regional WMAF development project and obtain all necessary approvals. In addition, a management company was set up (Stanislavsky Agrimarket LLC). Almost UAH 30 million will be spent at the first phase to develop a site totaling 8.7 ha. Additional 11.3 ha will be developed at the second phase. It is planned to mobilize \$11.8 million investments for this market development project.

This WMAF development project is considered as a component of the GOU's comprehensive approach to implementation of the agriculture servicing cooperatives development program, which was approved in March 2011. Under this program, financial support will be provided for development of over 450 agriculture servicing cooperatives over five years. To this end, UAH 157.7 million will be mobilized.

Kherson oblast: Development of production type Kherson wholesale market is a major investment project in the agrarian sector in Kherson oblast. The first phase of the project is about to begin. It is planned to mobilize \$150 million investments including \$50 million this year and \$100 million in the next year. The project envisages construction of storage facilities with the capacity of 300,000 tons at the first phase and up to 1,000,000 tons at the project completion.

The project documentation was submitted to the Ministry of Agrarian Policy and Food in order to obtain the official status of the "Wholesale Market of Agriculture Produce" on a competitive selection basis. The tender committee meeting was held on July 05, 2011. The results of the tender are not available yet.

Project's activities in supporting development of regional WMSPs, local markets, and logistic facilities are concentrated in target regions of Component 3 Task A "Producer Organizations Development" which are the Autonomous Republic of Crimea, Vinnitsa and Dnipropetrovsk oblasts. Specifically:

- In the Crimea, the Project has initiated discussions and assisted with formulating a concept of market infrastructure development with engagement of the wholesale-and-retail market "Crimean Privoz". According to this concept, six or seven local/regional markets will be developed in areas with high consumption of fresh agriculture produce. Each market will be up to 5 ha, cost three to four million US dollars, and employ a scheme of public-private partnership with local government authorities. At the second phase (and/or in parallel), the existing food market near Simferopol will be developed into a wholesale market which will total up to 20-25 ha and cost \$30 million. Its yearly turnover will range from 400,000 to 500,000 tons of produce.
- In Dnipropetrovsk oblast, the Project initiate cooperation with Dnipropetrovsk regional investment agency with regard to preparation and official presentation of an investment proposal on the wholesale agriculture market development. Besides, the Project works with farmers and farmer associations which are interested in development of regional farmers market and local logistic centers with the capacity of 1,000 to 10,000 tons.

Based on outcomes of the analysis of potential sites for developing market infrastructure facilities, the Project prepared the Strategic Plan for Developing the Agriculture Produce Market Infrastructure (Annex 8 to this report). It is intended to support regional projects envisaging:

- Comprehensive approach to development of WMAPs, local logistic centers with simultaneous support of PO and SMP development;
- Use of public-private partnership schemes in the processes of construction and operation of market infrastructure facilities;
- Engagement of a large number of POs and SMPs in implementation of market infrastructure development projects;

- Democratic approach to market management.

As preparation of projects in developing WMAPs and other agrarian market infrastructure facilities is a time consuming exercise (a lot of time is needed to select project sites, obtain all approvals etc.), one may expect to get results from AgroInvest Project's technical assistance in development of such infrastructure facilities no earlier than in two, three or even more years. That is why the Project has started collaborating with as many development projects in selected regions as possible at an early stage.

In the reporting period, the Project began accomplishing tasks related to development of market infrastructure in target regions. Specifically, the project team has drafted a plan and conducted a round table on WMAP development in Rivne oblast. The round table participants discussed the proposed WMAP development projects, identified the degree of public-private partnership, participants, major problems and other issues. As a result the project has been able to confirm the importance of this WMAP development and the support provided to it by local authorities and identified possible time-line for construction of this market. Similar round tables will be held in the Crimea, Ivano-Frankivsk and Kherson oblasts in October. Following these round tables, we will prepare a plan of AgroInvest involvement in each development project.

Administrative Implementation

Project Office. AgroInvest project team moved to the new office facilities at 4 Volodymyrska Street on August 19, 2011. Following the move, AgroInvest procured and installed server, laptops, monitors and other computer equipment. Also AgroInvest procured office equipment and furniture necessary for the operating activities.

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

Staff mobilization. AgroInvest project continued with staff mobilization for remaining positions in the project. The project Translator began working on August 22; On the Grants and Subcontracts Accountant started on September 27; and, the Agricultural Finance Specialist in the Kyiv office and Market Infrastructure Specialist have been identified and will begin work first work day in the next quarter. Chief of Party resigned from his AgroInvest office on September 30. Search of COP' replacement has been initiated.

Strategic Activities Fund (Grants/Subcontracts). During the reported period the main focus of Grants Team was done on the cooperation with Agrarian Markets Development Institute (AMDI) by guiding and consulting on submission of full grant application.

On July 15th, 2011 a financial audit site visit was conducted by AgroInvest Finance and Administration Director, Tatyana Pavlenko. The objective of the visit was to meet with

AMDI's Chief Accountant, Irina Demyanenko, to discuss accounting issues of AMDI and its ability to manage a USAID grant of this size and complexity.

Following all discussions and preparatory work, on July 26th, 2011 AMDI submitted their full grant application. The application was initially reviewed by AgroInvest and Project Management Unit (PMU) in Chemonics home office and comments and questions were sent to AMDI. The institute submitted a revised application and answers to questions on September 8th, 2011.

On September 30th, 2011, the internal AgroInvest Grant Evaluation Committee (GEC) was convened to evaluate the AMDI application in line with the AgroInvest Grants Manual. The Committee was comprised of voting members Craig Bell, Chief of Party, Aleksandr Kaliberda, Deputy Chief of Party, Tatyana Pavlenko, Finance and Administrative Director and non-voting member Vladimir Nakonechnyi, Grants and Subcontracts Manager. The decision of the Committee was to issue a standard grant with special award conditions to AMDI where costs would be paid on a reimbursement basis only.

The list of the special award conditions for AMDI are as follows:

- AMDI will receive an initial audit, within the first three months of the grant start. Pending the results of this audit, further obligations may be withheld.
- AMDI must obtain prior written approval from AgroInvest's Grants and Subcontracts Manager in advance of procuring items per clause 22 of the grant agreement.
- All AMDI staff must participate in trainings focusing on administrative responsibilities such as procurement procedures and requirements, payment documentation procedures, timesheet requirements, USAID rules and regulations , and data collection and reporting.
- AMDI must submit to AgroInvest for prior written approval, Scopes of Work, CVs and biodatas for all replacement, new, and all TBD staff/consultants .
- AMDI monthly reimbursement requests must be submitted in the format agreed to by AgroInvest with relevant back-up documentation.
- AMDI must actively seek additional funding sources for organizational activities throughout the duration of this agreement. On a quarterly basis, AMDI must submit a brief report outlining the funding sources/opportunities it has identified and the steps taken to secure said funding (submitted a proposal, discussed the opportunity with funder, etc.).

On August 29, 2011 AgroInvest Public Outreach & Communications Manager, Maryna Zarytska developed Scope of Work for the Baseline Survey on Land Rights Awareness, Small- and Medium-scale Agricultural Producers Access to Finance, and Agricultural Market Infrastructure. In collaboration with Ms. Zarytska AgroInvest Grants Team worked on drafting and issuing Request for Proposals (RFP) # AGRO-SC11-1C-01 on

Baseline Survey on Land Rights Awareness. On September 16, 2011 RFP # AGRO-SC11-1C-01 was published on Ukrainian public website www.ua-tenders.com.

The RFP # AGRO-SC11-1C-01 was also sent directly to nine most prominent Ukrainian sociological organizations (Kiev International Institute of Sociology, Institute of Sociology NAS of Ukraine, Razumkov Centre, Institute for Rural Development, Gorshenin Institute, GfK Ukraine, Ukrainian Marketing Group, Center of social expertise was established at the Institute of Sociology of the National Academy of Science and Charitable Foundation "Intellectual Perspective").

It is expected that a Ukrainian non-governmental organization will be awarded subcontract within this solicitation to carry out surveys in three regions of Ukraine. The survey is designed to be completed within 3 month. The due date for submitting proposals under RFP # AGRO-SC11-1C-01 is October 17, 2011.

On September 09, 2011 Ms. Zarytska submitted Scope of Work for Grants Program on Secondary Legal Land Rights Services to Rural Citizens and Farmers. Grants Team drafted Request for Applications (RFA) # AGRO-GA11-1C-02. The RFA is still under revision of AgroInvest Technical Staff.

Under this Grant Program AgroInvest anticipates selecting competitively up to three (3) Ukrainian non-governmental organizations. Each NGO is planed will be awarded in the amount of up to US\$ 150,000. The expected project duration is up to 2 years, commencing on or about November 30, 2011 and completing on November 30, 2013.

Monitoring and Evaluation

Throughout the reporting period, AgroInvest team have been working on progress in the Performance Monitoring Plan (PMP). In Component 1, Project Objective 1.1 section have been made progress on indicator 1.1.2 (Number of policy reforms/regulations/administrative procedures drafted and presented for public/stakeholder consultation as a result of USG assistance) – AgroInvest submitted “Comments and proposals to a draft Law of Ukraine “On Land Market” (# 9001 and # 9001-1) to the Committee of Verkhovna Rada of Ukraine on Agriculture Policy and Land Relations.

In Component 3, Project Objective 3.1 section have been made progress on indicator 3.1.6 (Number of participants in USG supported trade and investment capacity building trainings) – more than 200 persons participated in trainings.

Gender issues

Throughout the reporting period AgroInvest make progress on reaching gender targets in Project Performance Monitoring Plan (PMP). Significant progress have been achieved in number of female participants in capacity building trainings provided by AgroInvest – average share of female participants 28%.

Project Communications

Events and Presentations

In the reporting period, USAID AgroInvest team used every opportunity to spread information about the project, its goals and activities and develop partnerships and coalitions. To this end, the following public events were organized by USAID AgroInvest and/or joined/supported:

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

- On August 16, 2011, the Project in partnership with the Association of Farmers and Landowners of Ukraine and the Union of Agricultural Service Cooperatives organized All-Ukrainian Public Hearings on the Land Market Law. The objective of the event was to provide for public discussion of draft legislation to help the GoU develop a law which will establish a more effective land market that will foster development of the agrarian sector. The event was highly visible in media (18 publications). More details on this event is provided in description for Task A above.
- On September 30, 2011, USAID AgroInvest took part in a round table at the Scientific/Methodological Center of Agrarian Education at the Ministry of Agrarian Policy and Food to discuss the establishment of the Center for Dissemination of Knowledge on Agriculture, Environment, and Water Resources in Ukraine as part of the Ukrainian-Dutch Initiative. The project supports the idea of the Center which can be instrumental in disseminating knowledge, among others, as part of the USAID AgroInvest's Public Education and Outreach Campaign on land rights.

Component 2: Access to Finance

- USAID AgroInvest participated in the Access to Finance Working Group at the Ministry of Agrarian Policy and Food on July 18, where pre-harvest financing issues were discussed. The members of the Working Group discussed the draft law on Commodities Receipts. A number of improvements were put forward by the experts. It was decided to submit the draft law to the Parliament for registration for the next session's agenda.
- On September 22 and 23, USAID AgroInvest signed the Memoranda of Understanding with the two major national associations of credit unions – the National Association of Credit Unions (UNASCU) and the All-Ukrainian Association of Credit Unions (VAKS) and Deposit Guarantee Program (PZV) to facilitate SMP financing through credit unions, and linkages between SMPs and markets. These events were widely covered in press generating 40 publications.

- On September 28, 2011, USAID AgroInvest made a presentation at a meeting of credit unions – participants of the Deposit Guarantee Program (PZV) as part of the Memorandum signed with PZV. The best credit unions from all over Ukraine had an opportunity to learn more about cooperation between PZV and USAID AgroInvest to improve access to finance for small and medium producers.



At the ceremony of signing the MoU with the All-Ukrainian Association of Credit Unions and Deposit Guarantee Program September 23, 2011

Component 3: Support a Stable, Market-Oriented Policy Environment

- USAID AgroInvest held a meeting at the Ministry of Agrarian Policy and Food of Ukraine with the Director of the Agrarian Markets Department of the Ministry of Agrarian Policy, Mr. Rozgon, the Director of the Scientific/Education Department Ms Sinyavska, and the Head of the Rural Entrepreneurship Division Ms Vedmid to discuss the cooperation with the above mentioned departments. The Ministry requested support in the development of the system for monitoring and formation of the market infrastructure and in the development of amendments to the Law of Ukraine “On Wholesale Markets”. The Ministry recommended cooperating with the regional Associations of Village Radas in capacity building of agricultural producers and producer organizations.
- On 22 August 2011, a working meeting was held with the director and specialists of the Department of Livestock Markets of the Ministry of Agrarian Policy and Food. At the meeting, the main areas of potential cooperation with USAID AgroInvest were identified.
- On September 27, 2011, USAID AgroInvest took part in a workshop organized by the Ministry of Agrarian Policy and Food on “Operation of Agricultural Service Cooperatives and Organizations of Small-Scale Producers. USAID AgroInvest made a presentation “Servicing Cooperation as an Important Socio-Economic Factor for Sustainable Development of Rural Territories”.
- On September 27, 2011, USAID AgroInvest, in cooperation with the local government of the Rivne oblast, conducted a roundtable on “Establishment of the Wholesale Agricultural Market in the Rivne Oblast”. Among participants of the roundtable, there were farmers, representatives of the local government, and NGOs of the Rivne Oblast. The discussion was focused on the issue of integration of agricultural producers, traders, and other potential operators of the agrarian market. Also discussed was awareness building of the stakeholders and taking into account their proposals while establishing and organizing the operation of the wholesale agricultural market in the Rivne Oblast.

Project Web-site

During the reporting period, USAID AgroInvest developed and launched the bilingual Project web-site: www.agroinvest.org.ua to facilitate project communications, share the latest Project news, reference material, and grant opportunities, etc. The web-site has an easy to maintain content management system.



The USAID AgroInvest's web site complies with USAID's web site guidance. It features the project's logo and disclaimer on the bottom of the home page "The information provided on this Web site is not official U.S. Government information and does not represent the views or positions of the U.S. Agency for International Development or the U.S. Government."

For visitors to be able to disseminate interesting articles to their social sites, the Project site has the ability to link viewers to their preferred social media sites or send the link via the emails, thereby increasing the distribution of site contents to a wider audience.

The web-site contains project news, information about project components, partners, outreach activities, and grants and subcontracts opportunities. As USAID AgroInvest team develops various useful information, such as issue briefs, best practices, methodological materials, these will be added to the web-site. Also, it will contain materials about the Land Rights Public Education and Outreach Campaign, as well as all relevant legislation and regulations.

SECTION II: DELIVERABLES

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

Deliverables	Date Submitted	Approved
AgroInvest Strategic Policy Priority Needs Paper	September 3	October 6
Strategy for the Land Rights Public Education and Outreach Campaign	July 11	August 8
Program for Delivering Sustainable Legal Land Rights Services	August 4	August 8
Small and Medium-Sized Producer Access to Finance Strategy and Action Plan	September 30	Expected in October
Strategy for Implementing Agriculture Producer Organizations' Capacity Building Program	September 29	Expected in October
Strategic Plan for Developing the Agriculture Produce Market Infrastructure	September 26	Expected in October

SECTION III: SCHEDULES

During the reporting period, AgroInvest moved into its new offices and established a long-term representation in Crimea, agreeing with USAID/LINC to use existing office premises there. The Project is now also registered and almost fully staffed. A Year 2 Project Workplan was submitted to USAID during September and no schedule issues are foreseen for the Project's second year.

SECTION IV: CHALLENGES AND PLANS TO OVERCOME THEM

- The key challenge facing the agricultural sector in Ukraine for the coming quarter is the planned passing of the new Law On Land Market. The prevailing draft submitted to parliament by the Cabinet of Ministers has been analyzed by lawyers and economists and raised serious concerns, in particular relating to the preemptive right of the state to any sale-purchase of land and also relating to taxes discouraging speculation, time limits on bank holding of foreclosed land and preclusion of legal entities and foreign interests from owning land.
- AgroInvest specialists have engaged with the Parliamentary Committee for Agriculture as well as other state and non-state actors on these issues. Further, the Project has established a position and proposals for amendment of the draft law. Input has also been provided to a position for the US Embassy and other members of the international community, including the World Bank, EBRD, EBA and AmCham have been engaged in order to establish a common front not only calling for amendment of the draft, but also for adequate time to be allowed between the passing of the new law and its coming into force, in order to allow a comprehensive public education campaign to be conducted and to allow implementing regulations to be put in place (tying the law into the framework of other recent and related legislation) as well as establishment of institutional capacity to ensure its proper functioning. This work will remain at the fore of AgroInvest policy work for the coming quarter.
- An additional area for concern is the fragile Ukrainian recovery from the economic crisis, which the World Bank in June anticipated to result in 4.5% growth for 2011. This inter alia will exacerbate SMP difficulties in accessing finance as banks continue to limit their lending exposure, particularly in the agricultural sector. In order to mitigate the risk that this poses to AgroInvest activities under Component 2, the Project will continue to seek out strong partner banks, credit unions and other financial institutions and build capacity on both the supply and demand sides for agricultural SMP lending. AgroInvest capacity building with partners will focus on fine tuning and training of financial institutions' lending procedures and teams; as well as better preparing agricultural SMPs themselves to approach banks and other providers of credit for financing

SECTION V: PLANNED ACTIVITIES FOR NEXT QUARTER

The following presents USAID/AgroInvest's major events and activities for the coming quarter:

Component 1, Support to a Stable, Market Oriented Policy Environment

- Initiate implementation and monitoring of policy work covered by Agrarian Markets Development Institute grant contract
- Issue an RFA for AgroInvest support to capacity building of advocacy capability in agricultural industry associations and identify partner organizations
- Design capacity building and policy development grants for competitively selected industry associations
- Continue providing recommendations to the GOU on improvements to the draft Law on Land Market
- Conduct series of media awareness events on land market reforms in five regions across Ukraine
- Conduct baseline awareness building and land rights literacy survey and focus groups for land market outreach campaign
- Design and tender grant for development of Resource Center for sustainable legal land rights services
- Determine establishment of an "Ag&Land Press Club"
- Develop a series of TV and/or radio programs on a national and/or oblast level
- Identify and tender for engagement of partners for primary legal services among extension services, land surveyors, and village administrations
- Identify and tender for engagement of partners for secondary legal services (in collaboration with AJLEP)

Component 2, Stimulate Access to Finance

- Continue developing and implementing capacity building programs for partner financial institutions to provide increased finance to SMPs Develop and facilitate capacity building programs for SMP borrowers
- Develop and facilitate capacity building programs for credit unions
- Facilitate financial policy reform discussions/forums to support innovative lending practices and products
- Initiate regular activities to update information on regulatory and legal obstacles for access to lending
- Discuss special lending approach with seed companies-growers

- Develop Agrilending Working Groups for partner associations of credit unions including membership concept, draft of the statute, groups management concept development;
- Conduct a baseline survey concerning current agrilending practices of credit unions;
- Develop new products scheme for CUs lending based on data of the baseline survey;
- Draft a training strategy for CUs concerning agrilending capacity development based on data of the baseline survey

Component 3, Task A: Producer Organizations Development

- Continue trainings in target regions for SMPs and POs – potential Project partners – in designing a capacity building program for each POs with the intention to expand services, secure an access to markets and increase productivity of members
- Develop and approve terms and conditions for participation in the tender through which grants will be provided to SMPs and POs
- Develop a SOW for partner organizations / staff in the selected regions which/who will represent Project interests at the regional level (regional representative offices)
- Organize and conduct a competitive selection of partner organizations / staff in selected regions which/who will represent Project interests at the regional level (regional representative offices)
- Announcing the tender for SMPs and POs
- Assist SMPs and POs in preparing applications for grants
- Carry out preliminary evaluation of SMPs' and POs' capacity for implementation of the proposed projects and feasibility of these projects (with help of engaged experts)
- Select best proposals (projects) received from SMPs and POs applying for grants
- Prepare documentation needed to award grants
- Prepare for and conduct the next round of trainings intended to engage POs in development and implementation of projects in accessing agriculture produce distribution channels

Component 3, Task B: Wholesale Market Development

- Organize and hold three round tables on WMAP development in the Crimea, Ivano-Frankivsk and Kherson oblasts
- Prepare plans for AgroInvest involvement in development of market infrastructure in the target regions
- Draft and sign Agreements of Cooperation with key participants in the processes of developing WMAP and other market infrastructure facilities
- Prepare SOW and materials for competitive selection of subcontractor who will prepare feasibility studies for selected market infrastructure sites
- Begin preparation of the feasibility study for WMAP in Rivne oblast

Project Communications

- Prepare mission *Weekly Highlights* and submit to the USAID on a weekly basis.
- Prepare one-pagers for each component.
- Organize Project media events.
- Organize and conduct a series of media training events (for media) to raise interest in USAID AgroInvest and its role as a catalyst for an inclusive and competitive Ukrainian agricultural sector and provide information on current land legislation.
- Prepare articles for industry press and Internet media on best practices, interviews with beneficiaries, etc.
- Prepare media clips.
- Maintain and monitor web site.
- Promote the web-site among stakeholders .
- Prepare issue “briefs”.

Strategic Activities Fund (Grants/Subcontracts)

- During the next quarter AgroInvest Grants Team is planning to seek USAID approval to award AMDI and as a result sign two year Grants Agreement with special award conditions with them.
- Grants Team with the help of AgroInvest Component I Technical Leader, Aleksandr Kaliberda, Public Outreach & Communications Manager, Maryna Zarytska, Monitoring & Evaluation Specialist, Oleksandra Borodina will conduct Implementation Training for AMDI.
- On November 09, 2011 AgroInvest will announce the winner under RFP # AGRO-SC11-1C-01 and as a result will sign the Subcontract to conduct Baseline Survey on Land Rights Awareness.
- Within the coming reporting period AgroInvest is planning to award three NGO for Grants Program on Secondary Legal Land Rights Services to Rural Citizens and Farmers.
- AgroInvest anticipates issuing RFA under Component 1. Task B. Strengthen Industry Association for industry associations. Under Component 1. Task C. Land Rights Outreach and Public Education Campaign to publish RFA for press club, RFA for resource center (website, hotline and trainings) and RFA for primary legal land rights services.
- Under Component II. Stimulate Access to Finance it is planned to solicit Subcontracts for credit unions audits, and for training credit unions.

- During the next quarter we plan under Component III. Facilitate Market Infrastructure for SMPs to conduct 1st round of Grant Program for SMPs and POs resulting in 5 grant agreements signing and to release RFP for feasibility studies for wholesale markets.

Administrative Activities

- Hire additional Kyiv-based Project staff for: Component 1 specialist, Program Assistant and driver.
- Continue with project office set up in Crimea
- Initiate office set up activities outside of Kyiv for Project implementation (Vinnitsa and Dnipropetrovsk)

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)
LT Technical Assistance (Key Personnel)	1,270	22.00	166	1,104
LT Technical Assistance (Expatriate)	111	0.00	0	111
LT Technical Assistance (CCN)	14,405	176.00	779	13,626
ST Technical Assistance (Expatriate)	755	18.00	144	611
ST Technical Assistance (CCN)	420	37.00	124	296
HO Support	199	0.03	115	84
Total	17,160	253	1,328	15,832

**LOE as of September 2011.