



USAID | AgrolInvest Project
FROM THE AMERICAN PEOPLE

QUARTERLY REPORT OCTOBER 1 - DECEMBER 31, 2011

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AGROINVEST

QUARTERLY REPORT

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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 Number
COP	Chief of Party
DCOP	Deputy Chief of Party
EC	European Commission
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 Organization
RFA	Request for Applications
RFP	Request for Proposals
RFRP	Rural Finance Reform Project Funded by German Federal Government
SMP	Small and Medium Producer
SOW	Scope of Work
WMAP	Wholesale Market of Agricultural 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 October, November and December 2011, the project team continued technical implementation activities in the project focus areas, having completed technical and administrative start-up activities for its offices in Kyiv and Simferopol. Key activities and accomplishments during this period included the following:

- The project put major effort into monitoring and responding to changes to the draft Law on Land Market. When the first reading in the Verkhovna Rada of the law took place on 17 November, AgroInvest succeeded in two of its key advocacy positions, i.e. delaying implementation of the agricultural land market to 1 January 2013 and removing the GOU preemptive right.
- The first round of the National Land Rights Media Campaign was conducted during this quarter, consisting of five media training sessions covering 15 oblasts of Ukraine and involving a total of 297 journalists. Eighty-eight pieces of press

coverage on the issue of the pending land market and its implications for rural landowners and farmers were registered reaching an estimated 3.8 million Ukrainians.

- The AgroInvest Land Governance Assessment Framework initiative was launched in December 2011. This work, following the World Bank model, is scheduled to be conducted during the first quarter of 2012 and will provide research and policy recommendations on legislative, regulatory and implementational obstacles to land administration in Ukraine that will feed into ongoing AgroInvest land market development work.
- AgroInvest supported a key agricultural futures market initiative led by the Ukrainian Futures Exchange and the U.S. CME Group. Two events were conducted to introduce the concept of price risk mitigation to over 50 leading private sector representatives in November. During December, additional events were held to engage GOU representatives and the press. A preliminary futures product was also developed for Ukraine, for finalization with stakeholders during early 2012.
- AgroInvest submitted a request to proceed with the agreed agricultural policy support and capacity building grant to the Agrarian Markets Development Institute to USAID in mid October 2011. By mid December AgroInvest was informed that the grant would be awarded directly by USAID and a bridge sub-contract was therefore developed by AgroInvest to run through the first quarter of 2012.
- A survey of banks involved in lending to SMPs was conducted during the quarter in order to identify AgroInvest partners in this sphere. As a result, three banks were selected for close cooperation (ProCredit bank, Kredobank and Metabank). Memoranda of Understanding and joint Annual Action Plans were developed with these partners. Credit Agricole also expressed strong interest in engaging with the project on specific pilots, prior to roll-out and further credit product development.
- The AgroInvest owner-financing concept for land sale-purchase was presented to a series of potentially interested banks. Of these, four expressed interest in cooperating with the project on concept implementation, including Raiffeisen Aval and Oschadbank, major Ukrainian private and public sector players respectively.
- Two AgroInvest SMP Lending Union Task Forces, comprised of the 60 most active credit unions from each of the two national associations of credit unions, were formed during the quarter to act as the primary channels for provision of technical assistance to increasing lending to agricultural SMPs through improved procedures and new credit products. Action plans were developed for 2012. Preliminary capacity building activities were initiated in Cherkassy, Lviv and Kherson oblasts and Crimea.

- Value chain actors were also surveyed in order to identify partners for agri-credit initiatives in cooperation with financial institutions and SMPs. Agrobonus, Kiev Atlantic Ukraine and Maisadour were selected as the leading national agri-input and feed suppliers and major dairy producer Milkiland has also been engaged as an interested and dynamic value chain partner for SMP credit product development. Memoranda and joint action plans were developed for 2012.
- The *Strategy for Implementing Agriculture Producer Organizations' Capacity Building Program* was approved by USAID and implementation initiated. Implementation involved the conduct of a second phase of three training events on investment and development business planning for producer organizations in the selected target regions of Crimea, Vynnytsya and Dnipropetrovsk. A total of 63 representatives from 28 producer organizations attended. Twenty-six business plan concepts were developed by these organizations and a supporting small grants program was simultaneously developed by project experts.
- The *Strategic Plan for Developing the Agriculture Produce Market Infrastructure* was approved by USAID and implementation initiated. At the local level this involved engagement of PPP partners in three Crimean villages and establishment of a preliminary agreement for the development of retail farmers markets. At the regional level, this involved supporting oblast market development initiatives in Rivne and Kherson and organizing SMP organization both as suppliers and future co-managers.
- During October, three project supported local cold chain developers from southern and western Ukraine in attending the USAID RCI and Chemonics FARMA project organized training in post-harvest handling in Sarajevo, Bosnia. Training was conducted by leading US university UC Davis. Trainees have returned to lead project-supported post-harvest and cold chain initiatives in target regions.
- Policy support to producer organizations focused on working with the Association of Agricultural Cooperatives and inter-ministerial working groups to develop legislative amendments to existing cooperatives and tax legislation in order to facilitate registration and operation of agricultural service cooperatives.

SECTION I: ACCOMPLISHMENTS AND PROGRESS TO DATE

Technical Implementation

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

Task A: Accelerate Market-Oriented Reforms

Advocacy on Draft Law on Land Market

AgroInvest continued to closely monitor policy 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 the USAID Local Investments and National Competitiveness (LINC) project, Access to Justice and Legal Empowerment project, Ukraine National Initiatives to Enhance Reforms project (UNITER), the World Bank, EBRD and IFC as well as industry associations and think-tanks, such as the Association of Farmers and Landowners, Association of Agricultural Cooperatives, Women Farmers Association, Agrarian Confederation, Ukrainian Agribusiness Club and American Chamber of Commerce.

Key relationships with GOU representative bodies, such as the Ministry of Agricultural Policy and Food, State Land Agency and Parliamentary Committee for Agriculture and Land were also a focus, with project coordinators being identified in each and coached in AgroInvest priority advocacy positions.

Intensive work with the aforementioned partners ensured regular updates to the changing text of the draft Law on Land Markets. Key breakthroughs for the project included success in delaying the implementation of the agricultural sale-purchase market (lifting of the moratorium) until 1 January 2013, allowing time for the new law to be synchronized with the Law on State Registration and Law on Cadastre, allowing implementing regulations to be developed, institutional capacity to be built, and for the all-important public awareness campaigns to be conducted.

A second key advocacy position of AgroInvest was the removal of the initially proposed preemptive right of the GOU to any land offered for sale. USAID projects and other stakeholders were almost unanimous in considering this one of the main obstacles to the transparent and efficient functioning of a nascent land market in Ukraine. After persistent lobbying both directly and through the US Embassy and international and Ukrainian institutional partners, the project succeeded in having this removed from the draft law.

Additional advocacy positions on which AgroInvest was still working at the end of December, but on which consensus has been reached with most key partners include the removal of the exclusive right of the proposed State Land Bank to offer mortgages on agricultural land, the six month limitation on commercial bank holding land which has been foreclosed on, and the adjustment of the punitive ‘anti-speculation tax’ to reflect

international capital gains tax practice. These positions, which were registered by parliamentary deputies and argued on behalf of the project at sessions of the Parliamentary Committee for Agriculture and Land, will be debated further during January 2012, prior to the second reading of the law by the Verkhovna Rada. AgroInvest's Land Reform Strategy and advocacy positions, as submitted to the Verkhovna Rada Parliamentary Committee during the quarter are attached as annexes 1-2 hereto.

Land Market Implementation Proposals

Two concepts were further refined during the quarter with support from AgroInvest short-term expertise. These comprise the Owner-finance Concept, which revolves around a landowner lessee 'financing' the purchase of his/her land by a tenant farmer. Under such a scenario the landowner would agree to receive an increase in rental payment over a fixed period of time from his lessor (farmer) and ownership would pass to the lessor at the end of that period. The concept was developed given the very hesitant position of commercial banks to engaging immediately in financing land purchases.

Initial presentations of the concept to the World Bank and EBRD elicited some interest, but particularly the latter was keen to see takeup by commercial banks in Ukraine prior to committing to engage in the initiative. As a result, a series of meetings were arranged with the Ukrainian Banking Association as well as with commercial banks and credit unions at which the concept was presented. From this, Raiffeisen Aval and Oschadbank as well as a number of credit unions expressed strong interest in partnering relationships that will be further developed in early 2012.

The second concept developed and refined during the quarter is that of Owner Associations. These were devised in response to the problem of the fragmentation of Ukrainian landowning caused by land reform to-date, allocating distinct parcels within existing fields to separate owners. The model envisions the creation of an association of landowners for each land mass farmed as a single unit and allowing the association to negotiate as a single party with lessors of the field.

This concept received a mixed response from project partners, but along with the Owner-finance Concept, will be presented to key donor and GOU partners at the Coordination Council for Agricultural Reform, scheduled for January 2012. It is anticipated that if consensus is reached, the concept will be developed further prior to piloting and/or passing of legislation for implementation on a wider scale. Outlines of these two concepts, as developed during the quarter, are attached as annexes 3-4, hereto.

Land Governance Assessment Framework (LGAF)

In December, AgroInvest, in collaboration with the World Bank (WB), began implementating the Land Governance Assessment Framework (LGAF) initiative. LGAF is a diagnostic tool designed by the WB to evaluate the legal framework, policies, and practices regarding land and land use. The assessment is based on a comprehensive

review of available conceptual and empirical material regarding experience in land governance. LGAF groups land topics into five core thematic areas, as follows:

1. Legal and Institutional Framework
2. Land Use Planning, Management and Taxation
3. Management of Public Land
4. Public Provision of Land Information
5. Dispute Resolution and Conflict Management.

In addition, the initiative plans to include an assessment of the following two modules:

- Large-Scale Acquisition of Land Rights
- Forestry

Within each theme area and module, a series of indicators have been developed with specific dimensions that define areas for investigation, quantitative measurement and/or qualitative assessment. Through the assessment of these indicators, LGAF will highlight areas for legal, policy or procedural reform to improve governance in land administration over time and can be used as a basis for global and intra-regional comparisons.

The timing of the implementation of LGAF in Ukraine is key, as it will occur once the key laws On State Registration, On Cadaster and On Land Markets have been finalized but prior to their simultaneous implementation. As such, it will provide invaluable policy recommendations generated by independent Ukrainian experts that can feed into realigning the legislative, regulatory and institutional frameworks prior to the lifting of the moratorium on agricultural land sale-purchase on 1 January 2012.

During December, AgroInvest selected five professional staff to cover and implement LGAF thematic areas and modules. Also, a short-term World Bank expert spent a week in Ukraine to conduct orientation meetings with appropriate personnel and to support start-up activities.

By the end of December, the project had developed a work plan and budget for the LGAF and completed translation of the entire package of LGAF materials into Ukrainian. Based on inputs already provided by selected land experts, a list of statistical data and other information needed for LGAF was formed and submitted for further review by WB experts.

Launch of Price Risk Management Initiative for Agriculture

On 26 May 2011, CME Group signed Memoranda of Understanding with the Government of Ukraine and the National Bank of Ukraine and with the Ukrainian Futures Exchange (UFE) in which it agreed with these partners to seek opportunities to further develop the financial and derivatives market in Ukraine for grain and non-agricultural products. In addition, it was agreed that the use of the electronic trading platform CME Globex would be explored. Thereafter it was agreed that AgroInvest

would support the initiative, given its potential to help agricultural producers and traders mitigate price risk on volatile global agricultural commodities markets.

During the reporting period a series of events were organized with AgroInvest support in order to kickstart the Ukrainian futures initiative. The first two, held on 22 and 29-30 November, were comprised of training sessions for over 50 potential users of the planned new futures product, i.e. representatives of agricultural traders, producers and other interested stakeholders such as service providers and the academic community. Two events were held on 8 December targeting GOU representatives with a policy and regulatory role to play in establishment and supervising the planned futures product and national media representatives.

Simultaneously, CME Group and the Ukrainian Futures Exchange developed a pilot agricultural futures product that was circulated to interested stakeholders from the private and public sectors and refined to ensure a workable model in the Ukrainian and international trading environments. This product will be finalized during the next reporting period and additional support activities will also be undertaken to support the scheduled launch of the new Black Sea Grain Futures product in June 2012.

Engagement of Agrarian Markets Development Institute (AMDI)

During the quarter, based on the Implementation Agreement between USAID, Chemonics and the Agrarian Markets Development Institute (AMDI), AgroInvest specialists finalized the pre-award determination for the issuance of a grant and finalized the grant agreement. A full package requesting approval to process with signing of the agreement and initiation of grant activities was submitted to USAID on 13 October.

The proposed scope of work for this grant included:

- 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.

By mid-December USAID decided not to issue the grant to AMDI through the AgroInvest project, but rather to enter into a direct cooperative agreement between USAID and the grantee. AgroInvest was therefore asked to execute a bridge subcontract with AMDI while USAID prepared its cooperative agreement.

Despite the failure to engage AMDI formally in implementing its planned scope of work, progress was made on a number of initiatives included therein. Examples of this include the finalization and registration with the Verkhovna Rada of the draft Law On Agrarian Receipts, based on the Brazilian pre-harvest financing model for which GOU training had earlier been supported by AgroInvest. In addition, direct administrative support was provided by AgroInvest to the Coordination Council Secretariat to coordinate the drafting of the scopes of work and structures for the Council, Secretariat and related sectoral working groups, according to the vision of GOU and international project stakeholders. Finally, progress was made by AgroInvest specialists, in coordination with GOU and relevant industry associations, in conducting legislative and regulatory reform to streamline the establishment and functioning of agricultural cooperatives, as detailed in the following section.

Coordination with the Ministry of Agrarian Policy and Food (MAPF) on Producer Organization Development Initiatives

Project specialists also participated in the following initiatives on the invitation of the Ministry of Agricultural Policy and Food:

- 3 October meeting devoted to major areas of Ukrainian agriculture development in 2012. The discussion focused on meat and dairy livestock production and development of proposals on best use of budget funds allocated for the agrarian sector development.
- 4 October, seminar "Harmonization of Ukrainian legislation and policy for developing agricultural service cooperatives to EU standards; bilateral sharing of information and experience". The seminar exposed participants to EU legislation and practical experience in organizing operations of producer groups.
- 5 October, round table "Enhancing conditions for slaughtering cattle in Ukraine" held by MAPF with support from the EC SWAP-rural project. Cattle slaughter problems in Ukraine and solutions to these problems and EU experience in organizing cattle slaughter were the focus of the discussion.
- 27 October, round table organized for representatives of international technical assistance projects supporting development of agricultural producer organizations. The roundtable was held on the initiative of MAPF and the Canadian Embassy. Participants compared the experience of international projects associated with development of service cooperation with Ukrainian initiatives.
- 28 October, seminar and discussion of the draft sectoral program "Concerning areas of development of agricultural servicing cooperation in Ukraine until 2020". The event was held as part of the PRISM Project's activities under support of the CIDA-funded project Building capacities of MAPF for development of agricultural service cooperatives in Ukraine. Seminar participants put forward a plan for the future sectoral program "Concerning areas of development of agricultural service cooperatives in Ukraine to 2020".
- 25 November, meeting of representatives of MAPF, State Tax Administration, international technical assistance projects, and non-government organizations

devoted to enhancing Ukrainian legislation to foster development of agricultural cooperatives, specifically through their tax status. A task force on enhancing the legislation was set up, including AgroInvest specialists.

- 13 December, meeting to discuss issues associated with enhancing legislation to support development of service cooperatives. The meeting was attended by representatives of MAPF, State Tax Administration, international technical assistance projects, and non-government organizations. AgroInvest experts presented their vision of required reforms, which resulted in agreement on proposals for responsible parliamentary committees.
- 20 December, round table "Farmer collective forms of organizing agriculture production: the French experience and prospects for adapting it to Ukrainian conditions" organized by the Institute for Economics and Forecasting, the National Academy of Science and MAPF. The major issue of the round table was mechanisms for setting up cooperative organizations specialized in servicing land plots owned by cooperative members.

As part of its efforts to enhance the regulatory framework for producer organization and wholesale market operations, project specialists were involved in drafting the following regulations:

- Updating Act of CabMin #1158 "On the State Program for Ukrainian Rural Development to 2015" (establishing mechanisms for agricultural service cooperative and wholesale market development and state support);
- Draft law "On Amending Certain Legislative Acts of Ukraine On Measures for Development of Cooperation", draft law registration #9498 25.11.2011 (improved legal framework for agricultural cooperative activity);
- Draft Law of Ukraine "On Agricultural Cooperation" (new version supporting an improved legal framework for agricultural cooperative activity);
- Draft Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine On Taxation of Private Farms and Agricultural Service Cooperatives" (improving the legal framework for agricultural cooperative and smallholder activities).

Coordination of efforts in enhancing policies of supporting the development of agricultural cooperation in Ukraine remains a promising area of cooperation with the following projects in particular:

- CIDA Policy Reform and Implementation Support Mechanism (PRISM) develops and implements policies for supporting development of agricultural cooperation. AgroInvest specialists take active part in formulating measures envisaged by the concept for development of agriculture servicing cooperatives until 2020 which is being drafted by PRISM;
- Dutch Government funded "Harmonization of the national system of legislation and development agricultural service co-operatives in Ukraine to EU standards". This project prepared materials describing existing experience in registration of producer organizations and agricultural producer groups according to EU

standards. These materials are used for the purpose of refining draft regulations on developing agricultural cooperatives and producer organizations;

- EC SWAP Rural project which helps its Ukrainian counterparts learn EU experiences in formulating strategic development programs and business plans for implementing local rural development projects including projects in developing market infrastructure as an important link in the value chain of a particular region.

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, the AgroInvest team continued working with key industry associations in its policy work, providing capacity building as needed. In particular, the Project team worked closely with the Ukrainian Grain Association, providing direct support to the Second National Grain Congress held on October 17-18. For this, the Project financed the visit of a keynote speaker from the Government of Brazil who provided first-hand knowledge of targeted social assistance programs and share practical experience on the implementation of pre-harvest financing systems.

In addition, as mentioned under Task A above, in its work on policy analysis and advocacy for the draft Law on Land Market, the project worked intensively with industry associations ranging from the Association of Farmers and Landowners to the Association of Agricultural Cooperatives, Womens Farmers Association, Agrarian Confederation, Ukrainian Agribusiness Club and others to coordinate positions and refine the draft law as it passed its first parliamentary reading. AgroInvest also worked with and provided support to the Association of Agricultural Cooperatives in policy reform and organization of its annual forum as described under Component 3, Task B, below.

The project also further developed its concept of a grants program for industry associations to support policy analysis activities and capacity building initiatives. A two-fold approach has been developed including the issue of direct grants for industry associations to support their specific policy development, advocacy and capacity building needs, and also the provision through specialist association/policy development consultancies of support to those associations selected. The launch of a comprehensive Request for Applications (RFA) will be opened for proposals from industry associations during the next quarter.

Task C: Provide Public Education for Land Rights

In the reporting period, work on the provision of public education for land rights revolved around two major sets of activities: firstly conducting the first phase of the National Media Campaign on Land Reform; and secondly pre-implementation activities for the Land Rights Public Education and Outreach Campaign and for the Program for Delivering Sustainable Legal Land Rights Services.

National Media Campaign on Land Reform

During October-December 2011, AgroInvest conducted the first round of the National Media Campaign on Land Reform. The campaign was designed to introduce the project and particularly ongoing land reform initiatives to a wide circle of journalists with a special emphasis on rural areas of Ukraine.

The campaign consisted of a series of media-days to which journalists from 2-3 different oblasts were invited. Each media-day included the following modules:

- a presentation of the project and its components,
- a quiz for journalists on land legislation,
- a media training to help journalists identify specific topics under the broad theme of land reform in order to better organize their work and cover land issues from various angles in their future articles, and
- a press conference/roundtable entitled “Ukrainian Land Market Development after the Moratorium on Agricultural Land Sales” attended by representatives of the project, relevant regional officials and sector NGOs.

During the reporting period five events were organized, in Dnipropetrovsk, Vinnytsya, Simferopol, Donetsk, and Kyiv, and were attended by a total of 279 journalists from 15 regions, including: Vinnitsa, Dnepropetrovsk, Donetsk, Zhytomyr, Zaporizhia, Kyiv, Kirovograd, Lugansk, Mykolaiv, Odesa, Khmelnytsky, Cherkasy, Chernihiv Oblasts, the Autonomous Republic of Crimea and the city of Kyiv. A limited media monitoring revealed 88 media appearances in local press as a result of these events with a total readership of 3.8 million.

Of special importance was the media day in Kyiv on December 15, which was attended by 92 journalists. This event included a round table, where journalists had an opportunity to listen to and question top USAID and GOU decision-makers and representatives of industry associations to hear their thoughts about land reform and its impact on rural development and agri-business.

The highly topical discussion generated over 50 pieces of media coverage including detailed accounts of views voiced by the experts. The total readership of these publications is estimated at approximately five million.



At the round table “Ukrainian Land Market Development after the Moratorium on Agricultural Land Sales”

The overall results of this first phase of the media campaign are summarized as follows:

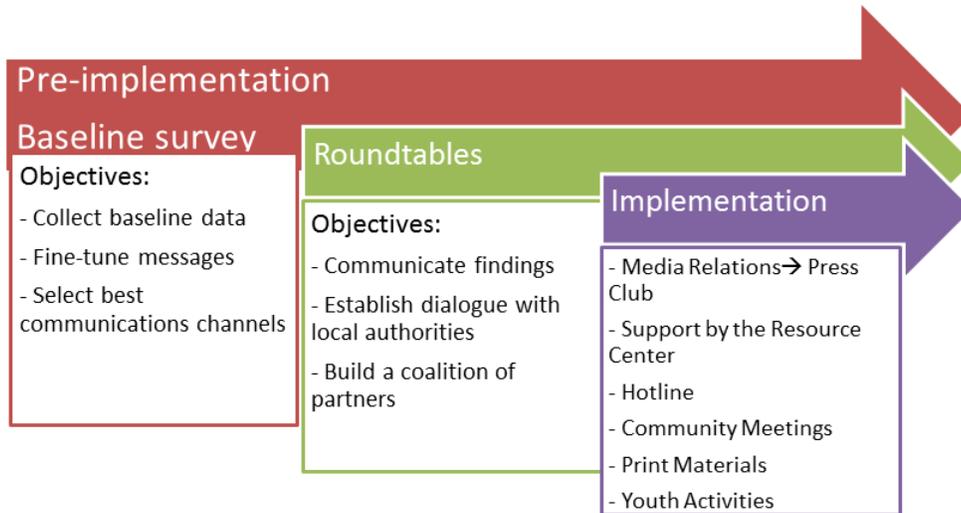
- 1) Local (oblast and raion level) media from 15 Ukrainian regions are informed of AgroInvest, its goals, components and tasks;
- 2) Journalists are interested in working with AgroInvest and take active part in the future Land Rights Education Campaign;
- 3) Journalists have received training on modern approaches to the organization of their work;
- 4) Journalists have developed a “segmentation” of the land reform issue and are ready to cover various aspects of land reform in their future articles;
- 5) Journalists had the opportunity to learn views of local and central government officials and experts on land related issues;
- 6) The Land Market Law was discussed in detail and USAID experts, government officials and civil sector leaders shared their views with journalists and, through them, with the wide public;
- 7) Approximately 8.5 million Ukrainians learned about AgroInvest and its activities aiming at the development of Ukraine’s agrarian sector and protection of land rights of vulnerable landowners;
- 8) AgroInvest formed a database of journalists, which will be used to contact journalists, invite them to our public events, provide information, press releases, help them access experts in order to prepare high-quality, unbiased publications on various topics in focus of AgroInvest.

AgroInvest plans to conduct the second phase of its National Media Campaign on Land Reform in January-March 2012, to cover those oblasts not reached during the first phase.

Pre-implementation Activities for Land Rights Public Education and Outreach Campaign and Program for Delivering Sustainable Legal Land Rights Services

This quarter, the project intensively prepared for the accelerated launch of the Land Rights Public Education and Outreach Campaign. In order to measure the campaign’s impact, a baseline survey was planned to gauge the level of awareness of rural communities in the first instance. 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 campaign messages and fine-tuning of those information channels most suitable for particular target communicates.

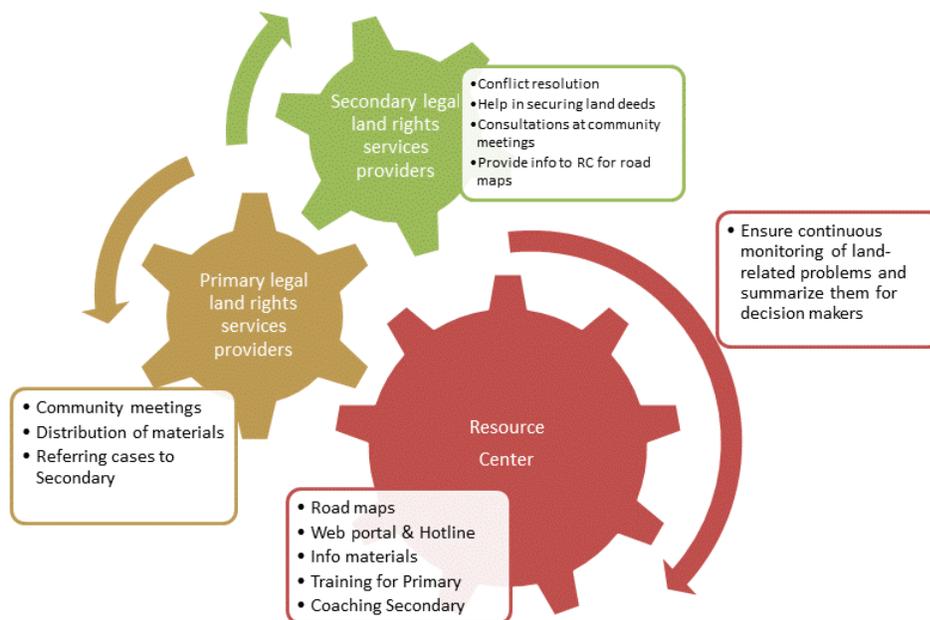
USAID Agroinvest's Information & Outreach Campaign



On completion of the survey, a series of roundtables will be organized where campaign stakeholders as well as partners for the project's Program for Delivering Sustainable Legal Land Rights Services will learn from the survey findings and begin networking in order to be able to better coordinate their activities. During the reporting period, proposals from four survey companies were collected and assessed. Award of a subcontract to conduct the survey is scheduled for January 2012.

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. Partners will therefore be selected on a competitive basis, with one of the most important criteria being existing provision of legal land rights services to vulnerable populations. Another criterion is the organization's desire to build its capacity in this area and make it sustainable. For this reason AgroInvest designed a series of three grant programs which will comprise the Program for Delivering Sustainable Legal Land Rights Services as illustrated in the graphic below.

USAID Agroinvest's Grant Programs Towards Sustainable Delivery of Legal Land Rights Services



Although three separate grant programs are planned, project 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 instructions to address 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 and submit various required documents. 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. All of these activities will be supported by the information campaign and a hotline which serves both as a means of collecting information about typical issues and as a source of information and advice to the public.

During the reporting period, the following pre-implementation activities were undertaken:

- 1) Conducting a tender for 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. The 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.

- 2) Developing a Request for Applications (RFA) 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. The RFA was published on December 8 and the deadline for submitting applications is January 17, 2012.
- 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. The Request for Applications for this grant program will be issued in the next reporting period.
- 4) Developing a Request for Applications (RFA) 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. The RFA was published on November 16 and the deadline for submitting applications was December 14. The project received and reviewed 18 applications. 3-4 awards are scheduled for January 2012.
- 5) Developing the Scope of Work for a subcontract for the *Land Rights Public Education and Outreach Campaign*. The Request for Proposals for this subcontract will be issued at the beginning of the next reporting period.

COMPONENT 2: Stimulate Access to Finance

During the reporting period the project team focused on: (i) identifying partner bank institutions interested in providing expanded agrilending to SMPs; (ii) selecting credit unions to working groups (task forces) to implement the strategic plan for Ukrainian credit unions as the only reliable finance providers available to the smallest agricultural producers; and (iii) establishing partnership arrangements with value chain actors for joint activities to increase SMP access to finance.

Identifying Partner Bank Institutions

After a survey of potential banks and meetings and consultations with shortlisted candidates the following three banks was identified for the partnership:

1. ProCredit Bank was selected as a partner because the bank has many years of experience in agrilending, and has branches in most of the regions of Ukraine. At the same time, the bank still has limited regional offices in central and western regions of Ukraine. ProCredit Bank's first priority for expanding agrilending to SMPs is to include agri-technological knowledge in its formal credit evaluation methodology for use by its credit analysts. The AgroInvest-ProCredit action plan for 2012 with ProCredit Bank was therefore developed to include sessions of trainings on agri-technologies focused on typical SMP client production systems.
2. Kredobank was selected as a good representative of the group of banks relatively new to agricultural SMP lending. The bank is Polish in ownership and has been working in Ukraine for over eight years. Recently the bank updated its strategy, introducing a regional focus on western Ukraine where agri-lending will be developed as a priority. A Memorandum of Understanding was developed in line with these new priorities and signed in December. The supporting Action Plan for 2012 involves market analysis, development of pilot SMP lending in a selected oblast, development of new products, adjustment of business processes and staff development activities.
3. Metabank was selected as a good example of a regional bank with relatively little experience in SMP lending. It consists of operational office and 54 branches in Zaporizhzhya (40), Dnipropetrovs'k, Mykolayiv and Kyiv oblasts. Branches in Crimea and Kherson are also planned. Its investment priorities are agriculture, trade operations, automobile industry, transport and processing industry. Similar actions to those planned with Kredobank will be implemented for Metabank during 2012.

Selection of these three banks as core AgroInvest partners allows for the following spectrum of project interventions:

- capacity building: ranging from a comparatively small and new bank (Metabank) to the well-developed and positioned ProCredit Bank with essential experience in agrilending;
- geographical coverage: between them covering the main agricultural regions of Ukraine characterized by active agricultural SMPs;

- variety of agrilending experience and procedures: allowing development of new agrilending methodologies for credit staff of Megabank and Kredobank and refining existing methodologies for ProCredit.

Additional instruments for stimulating and increasing access to bank finance for SMPs were also explored during the quarter, including the extension of a DCA loan guarantee. This was discussed in some detail with USAID representatives and concept development was ongoing at the end of the reporting period. Potential loan guarantees were also discussed with EBRD, as was its SME lending loan to Erste Bank. The latter is currently considering AgroInvest's offer of coordination in developing agri-SMP lending under this loan.

During the quarter EBRD also launched a US\$100 million lending facility for micro, small and medium-sized enterprises in Ukraine. The facility, which will be utilized by the end of 2013, will provide much-needed support for smaller businesses in the country and will concentrate on the development of new loan products, including rural and agricultural lending through local commercial banks. In response AgroInvest presented its strategic approach to cooperation with banks on stimulating access to finance for SMPs to EBRD management and a corresponding proposal for discussion of cooperation opportunities was submitted to contact persons designated by EBRD.

From the AgroInvest Crimea office, access to finance specialists were engaged with the Black Sea Bank for Reconstruction and Development (Crimea) and Kredobank (Kherson) to conduct analyses of their agri-lending practices. Activities with the Black Sea bank revolve around revising and updating its lending strategy in order to focus on more prospective customer sectors, including agri-SMPs and an action plan to this end is under development. Kredobank's Kherson branch is a key target for increasing SMP lending, given the dominance of SMP horticultural production in the region. A detailed action plan was developed for the bank, targeting its strategy to SMPs with high production potential, adapting its lending procedures and developing specialised loan products.

Formation of Credit Union Task Forces for Project Support

During the reporting period, AgroInvest supported identification by the two national associations of credit unions - the All-Ukrainian Association of Credit Unions (VAKS/PZV) and the National Association of Credit Unions of Ukraine (NAKSU) – of member credit unions specialized in extending loans to agricultural SMPs and uniting them into two task forces for coordination with AgroInvest in development of agrilending, as follows:

- To increase the volume of lending to SMPs in terms of both total value of loans and number of lending transactions;
- To develop credit unions' understanding of modern techniques for agrilending and managing agrilending-related risks;
- To develop a proper legislative framework and favorable information environment for development of credit unions and market infrastructure for small and medium-sized agriculture producers; and

- To implement efficient mechanisms and best practices in the operation of credit unions and their financial partners.

Members of each of the Tasks Forces were selected according to the following:

- AgroInvest, together with the credit union associations, developed the selection criteria and the Selection Regulation for each association. The regulation required that a standard application form/questionnaire be sent out to all member credit unions;
- During October and November, VAKS/PZV and NAKSU distributed the forms to member credit unions and collated their responses;
- Application questionnaires were evaluated by a selection committees comprising two AgroInvest staff members and two representatives from the relevant credit union association;
- As a result, 33 credit unions from 16 oblasts were selected as members of the VAKS/PZV Task Force, and 30 credit unions from 12 oblasts were selected as members of the NAKSU Task Force.

Initial meetings of the Task Forces were held on December 7 and 14, 2011, to present the program and resolve organizational issues. At these meetings the AgroInvest project and the concept of Task Force activities were presented, the Task Force's Rules of Procedure were approved, the current situation, problems and prospects for developing agrilending were discussed and the joint Action Plan for 2012 was approved.

Coordinators for each task force were also nominated and at the VAKS/PZV Task Force meeting an MOU on joint work and phased transfer of support activities was signed between the AgroInvest project and the GIZ-funded technical assistance project, "Reforming Financial Activities in Rural Areas", which has long experience of support to Ukrainian credit unions.

Action Plans for 2012 were based on a needs analysis conducted through analysis of the application questionnaires received as well as through consultations with PZV, VAKS, and NAKSU.

In December AgroInvest engaged short-term Ukrainian expertise to support in the development of an agrilending base-line survey to gather information on current agrilending practices and further prospects of development and ensure experience sharing between credit unions. The survey is scheduled for completion in February 2012.

During the reporting period, project specialists also participated in events in Lviv and Cherkassy oblasts and Crimea, at which credit unions disseminated information on funding availability to their SMP members in order to build member capacity in the proper use of lending and other financial services. The Crimean event, involving 10 credit unions, also resulted in the development of a plan to address business development, agrilending products, branding and cooperation issues during 2012 in southern oblasts with support from the AgroInvest Crimea office. Crimea office support also resulted in

the selection of and agreement to cooperate on credit products with local suppliers of equipment and machinery, namely Zemlerob-Profi (with the Crimean Credit Union) and AgroOptima and Pavlivskiy`s Nursery (with Hromada and Narodna Dovira credit unions).

In addition, a special credit union-focused financial mechanism was developed by project specialists to address challenges presented by the impact of the economic crisis. The instrument envisages the use of AgroInvest funding to offer a cost reduction scheme spurring lending by credit unions to the smallest agricultural SMPs. Conservative calculations of even the lowest likely impact of such an intervention show marked increases in lending due to the high increase in demand (due to reduced borrowing rates), met with adequate supply of credit. Moreover, the scenario assumes a steady reduction in external funding of the scheme to ensure sustainable financing provision after end of project. The mechanism was presented to USAID and remains under discussion for potential future implementation.

Establishment of Partnerships with Value Chain Actors

During the reporting period project specialists surveyed input suppliers, retail networks, and processors as potential partners for development of agri-lending products for SMPs. Key partners identified and interaction with them are outlined below.

Suppliers of agri-chemicals, seed and machinery were surveyed to identify a leading Ukrainian distributor for partnership with USAID AgroInvest. Agrobonus was nominated by suppliers such as BASF, Bayer, Syngenta and Monsanto as one of the most effective dealers in supply of agro chemicals and seed to SMPs. Agrobonus has its head office in Kyiv and regional branches in Poltava, Sumy, Chernigiv, Vinnitsa, Odessa, Zhytomyr, Cherkassy, Khmelnytsk and Ternopil. Its client base includes some 220 medium and 180 small producers for which it is prepared to offer trade credit of up to 50% on seed and 80% on chemicals. Agrobonus for its part is looking to AgroInvest to help mitigate its trade credit risk, improve its collection rate, train staff, engage clients in cooperative support activities and improve relations with partner banks.

To this end, A Memorandum of Understanding outlining the commitments of AgroInvest and Agrobonus was signed in December 2011. The supporting Action Plan for 2012 includes the following priority activities:

- Training on credit management basics to regional directors of Agrobonus;
- Establishment of contacts between Agrobonus and project partners Kredobank and Metabank;
- Conduct training for SMP customers of Agrobonus in credit management.

Kyiv-Atlantic Ukraine (KAU) was also selected as a project partner from among a number of retail networks surveyed. KAU is a leading animal feed producer with a network of farm stores/service centers offering feed, seed, pigs, chickens and small farm

machinery to SMPs across Ukraine. It is interested in offering credit in response to growing demand from its clients and would like to cooperate with designated credit unions for which it could re-sell equipment re-possessed by credit unions in cases of customer insolvency.

On the basis of an average annual purchase per customer of \$10,000, KAU could offer 40% credit as each of its outlets retains some 20-30 “good” customers. Preliminarily, its outlets in Crimea, Kyiv, Poltava and Kharkiv could be used for pilot credit product development, which could be introduced along with credit consulting for clients provided from such outlets. A Memorandum of Understanding was developed between AgroInvest and KAU during December and implementation is scheduled through 2012.

Maisadour, a French seed company with a recent but growing presence in Ukraine was selected for partnership as a seed supplier. Maisadour has constructed a new seed plant in Dnipropetrovsk Oblast and produces seed which it sells directly to farmers as well as to other suppliers, including Pioneer, Syngenta and Monsanto. This seed is produced on contract by small farmers in Dnipropetrovsk Oblast where approximately 25 producers farm 1,800 hectares of corn and 900 hectares of sunflower. Maisadour supplies parent seed, agrochemicals and equipment then purchases the seed .

The company is very interested in structuring cooperation with AgroInvest, especially for irrigation systems financing. Its main interest lies in risk sharing with local financial institutions and growing the capacities of its farmer-growers. The three-year joint plan, to be initiated in 2012 involves co-financing of irrigation systems for selected growers by Maisadour, by banks and by the growers themselves in order to increase yields and farm revenues and expand production suppliers. This structure would then serve as a model for other seed producers in Ukraine.

The Project’s Access to Finance Specialist in Crimea has also engaged the following value chain actors in developing SMP oriented credit initiatives:

- Green Team Horticultural Logistics Center, Kherson Oblast. Green Team has confirmed its readiness to provide supplier farmers with procurement guarantees to support their purchase of special production equipment.
- Milk Company Danone. Danone has expressed its willingness to promote loan products for dairy cow purchases by its suppliers in partnership with regional credit unions or banks by Danone’s guaranteeing purchases of milk.
- Discussions are also ongoing with local suppliers of horticultural producers in Crimea such as AgroOptima, AgroNovator, Zemlerob-Profi, the Pavlivskiy Nursery and Netafim.

COMPONENT 3: Facilitate Market Infrastructure for SMPs

Task A: Producer Organization Development

Activities under Task A "Producer Organization Development" in the reporting period were carried out in two priority areas, namely:

- Organizing and conducting trainings in preparing capacity development programs for SMPs and POs;
- Enhancing the legislative and regulatory frameworks for development of agriculture servicing cooperation.

During the quarter, project producer organization specialists worked to develop PO capacity to develop and manage investment projects and simultaneously to develop the USAID AgroInvest producer organizations' grants program to support the planned projects. By the end of December an RFA for the grants program had been developed for submission to USAID for approval.

At the same time, in relation to producer organizations' capacity to manage the grants program, project specialists conducted three training seminars entitled Developing Business Plans for the Operation of Agricultural Producer Organizations, taking the development of a business plan for an agricultural service cooperative as an example. Seminars were held in Crimea and in Vynnytsya and Dnipropetrovsk oblasts and constituted the second phase of training events for agriculture producer organizations, aimed at transferring practical skills to participants, such that participants were able to apply the new knowledge in practice in the process of completing the business plan forms and receiving advisory support from project trainers.

The seminars were attended by 63 people – primarily farmers and managers of agriculture service cooperatives. The breakdown of training participants was as follows:

- 24 representatives of 11 producer organizations from Crimea;
- 24 representatives of 11 producer organizations from Vynnytsya Oblast;
- 15 representatives from six producer organizations from Dnipropetrovsk Oblast.

During the training, 28 programs aimed at developing the capacity of SMP organizations in harvest and post-harvest handling of animal products and crops were prepared and presented. Project specialists provided methodological and advisory support in assessing producer organizations' proposals in order to help them prepare their concepts for the grant tenders planned for the next reporting period.

A training needs analysis was also conducted during the seminars in order to plan follow-on support under Project Component 3. Trainees expressed interest in such topics as Marketing Plans, Production and Storage Technologies, Financial Management and Reporting by Agricultural Service Cooperatives. These topics will be considered for support interventions during 2012. More detail on the conduct of these training initiatives is provided in Annex 5, hereto.

In addition, at the request of the Ministry of Agrarian Policy and Food, AgroInvest cooperative development specialists prepared and announced a tender to subcontract for the drafting of new model charters for agricultural service cooperatives, cooperative associations, and cooperative enterprises. Proposals in response to the RFP are to be submitted by December 30, 2011 and will be awarded in January 2012.

The development of new model charters for cooperative organizations will serve the following important functions in facilitating cooperative establishment and management:

- Identification and implementation of a unified approach to establishment of cooperative formations in the Ukrainian agri-industrial sector;
- Streamlining the process of setting up and organizing operations of producer organizations on cooperative principles for small and medium-sized producers in compliance with current legislation;
- Developing simplified system for monitoring existing agricultural service cooperatives with respect to compliance with internationally accepted cooperation principles and Ukrainian legislation.

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

Activities under this task during the reporting period focused mainly on conducting public events (round tables) to discuss and identify, jointly with SMPs/POs, strategies for developing regional wholesale and local wholesale/retail markets and other market infrastructure facilities in the Project target regions of Crimea and Kherson, Rivne and Ivano-Frankivsk oblasts.

Five regional round tables on development of wholesale markets and logistics facilities were organized and held. Participants discussed and identified major market infrastructure facilities for development in the target regions; drafted joint action plans for all those interested in development of the wholesale market, local markets, and logistic facilities; and involved traders and agricultural producers as co-operators of the planned markets.

The round tables were attended by farmers, managers of agricultural service cooperatives and oblast cooperative associations, owners of logistics facilities and representatives from oblast and raion administrations. The discussions resulted in a number of interesting proposals on developing market infrastructure at the local level which could be realized with the support of AgroInvest, as follows:

- Simferopol, October 21. This event was organized with active participation of the Crimean Ministry of Agrarian Policy and Food. Roundtable participants put forward a proposal that AgroInvest support in the first place development of local wholesale-and-retail markets and fruit and vegetable storage facilities, specifically, in areas of concentrated production and consumption of fresh agricultural products (the resorts of Yalta, Alushta, Saky, and potentially Sevastopol);

- Ivano-Frankivsk, October 11. This event was organized with assistance from Ivano-Frankivsk Oblast Administration and after discussion of its pros and cons, participants decided to abandon the previously selected market site and seek an alternative site for developing their regional wholesale market;
- Kherson, December 5. Participants including market developers, regional and local administrations and horticultural producers decided to support development of logistics facilities in areas of concentrated vegetable production (in Bilozersky, Gola Prystan, Skadovsk, Kahovska, and Zurupinsk raions) to act as collection and feeder units for the regional market;
- Rivne, December 21. Round table participants identified three major areas of cooperation in building SMP capacity for marketing fruit, vegetables, and animal products and areas of cooperation in developing the planned Rivne wholesale agricultural market.
- Torchyn, Volyn oblast, December 22. This event resulted in the establishment of a task force consisting of TorchynAgroCity NGO representatives for the purpose of preparing an investment project for development of a local logistical center that could also act as a collection/feeder facility for the Rivne wholesale market.

Technical assistance in development of the identified agrarian market infrastructure facilities will facilitate:

- Implementation of best public-private partnership practices in the processes of developing infrastructure facilities in the target regions;
- Consolidation of business finance and mobilization of investment resources for the purpose of developing markets and logistics facilities;
- Involvement of agricultural producers and their associations in implementation and management of market infrastructure development projects.

In addition, on November 29, AgroInvest experts, together with MAPF officials and EC market development specialists, organized the round table Livestock Markets in Ukraine: Problems and Prospects at Charodiy livestock market in Zhashkiv, Cherkasy Oblast. Round table participants discussed problems associated with the development of animal production, livestock marketing facilities, slaughterhouses, and animal product marketing cold chain. As follow up to this event AgroInvest was formally requested by MAPF to support further development of the Charodiy and similar markets in Ukraine.

Preparations were made for the hiring of short-term expertise to make preliminary studies intended to select optimal sites and prepare realistic projects for developing the local markets proposed in Crimea (Dobroye village, Simferopol raion, and Kukushkine village, Rozdolnoye raion). Similar preparations were made for the engagement of a subcontractor to conduct design, technical, and economic documentation for developing the wholesale agricultural market planned for Rivne Oblast.

Market Infrastructure and Value Chains Models under Development

Below are outlined the workings of the various market infrastructure and value chain initiatives supported by AgroInvest across Ukraine. More detail on the events conducted during the quarter in this sphere can be found in Annex 7, hereto.

Facilitation of regional market development:

- Developing Kherson wholesale agricultural market: The following three major areas of cooperation with AgroInvest in developing this market infrastructure have been identified:
 - (a) Technical support to producer organizations in implementation of joint projects with Yatran wholesale agricultural market in order to develop local logistics facilities for storage, post-harvest handling (packing, grading etc.) and primary processing of fruit and vegetables in five areas of concentrated production;
 - (b) Creating a national market information system in the sphere of fruit and vegetable products on the basis of Kherson wholesale agricultural market;
 - (c) Creating a national electronic trade site and fruit and vegetable exchange/auction on the basis of the Kherson wholesale agricultural market.
- Developing Rivne wholesale agriculture market, including support to national recognition of the market initiative, supply and involvement of SMPs in market development and management and development of feasibility studies for the market;
- Providing assistance in further development of Charodiy livestock market in Zhashkiv, Cherkasy Oblast by formulating a development strategy for the market and drafting laws and regulations on the establishment and organization of wholesale livestock markets.

Facilitation of local market development:

- Developing a wholesale-and-retail market in Yevpatoriya, Crimea, in cooperation with Simferopol wholesale-and-retail market "Krimskiy Privoz". Supporting development of market research and a feasibility study are under consideration. In the future, AgroInvest may provide support in implementation of the concept for developing a regional network of wholesale-retail markets in Crimea in conjunction with Krimskiy Privoz;
- Developing three small wholesale markets in the villages of Kukushkine, Rozdolnoye Raion, Dobre, Simferopol Raion and Zuya, Belogorsk raion, Crimea;
- Developing a logistics center and local wholesale-retail market on the basis of the agricultural service cooperative "Sil'ska Hromada" (rural community) in Zelenivka, Dniprovky Raion, Kherson Oblast. This project aims to set up local facilities for collection, pre-sale handling, cooling, temporary storage, and sale of

fruit and vegetables produced by members of cooperative "Silaska Hromada" and Credit Union "Hromada".

Facilitation of local marketing project development:

- Developing fruit and vegetable post-harvest facilities on the basis of an association of small and medium producers in the village of Radensk, Zurupinsk Raion, Kherson Oblast, in coordination with the USAID LINC project, Navigator-Agro Company (an exporter of fruit and vegetables), Hromada credit union, and Kherson agricultural extension service. This project aims to provide access for Radensk-based small and medium producers to stable distribution channels based on integration with a local exporter with the financial support of the regional credit union;
- Assisting with preparation of the Tavriya Zolote Runo project in developing mutton cold chain supply and establishing livestock markets/auctions which will be specialized in trading small animals (sheep, goats etc.) in Crimea and Kherson Oblast. To this end, AgroInvest began providing technical support in development of the regional program for reviving sheep farming;
- Assisting with development of a logistics center using the Agro-Park model (TorchynAgroPark innovative incubator) in the town of Torchyn, Volyn oblast. This involves providing assistance in testing of various forms of participation of SMP and SMP associations. Implementation of the TorchynAgroPark project together with the development of the wholesale agriculture market in Rivne Oblast will become a component of a subregional project in developing the agrologistics system of Western Ukraine.

Participation in Public Events Devoted to Development SMPs and POs

During the reporting period, producer organizations and market infrastructure specialists were actively involved in the organization of events supporting development of SMPs, POs and markets at the national, regional and local levels, as follows:

- On November 2, specialists took part in the round table "Supply chains for cooled and frozen produce in the fruit and vegetable sector: critical issues and best practices". This event was part of the exhibition "Freezing and cooling fruit and vegetables", held at the KyivExpoPlaza. AgroInvest presented on the subject of "Problems associated with developing the cold chain for supplying products of small and medium-sized agriculture producers and potential solutions".
- On November 4, project specialists took part in the roundtable "Farmers markets and farmers' access to markets" which was sponsored by the EC SWAP-rural project and AgroLviv project. AgroInvest presented on the subject of "Improving an access to market infrastructure for small and medium-sized producers".
- On November 25, AgroInvest specialists attended the event "Government support of milk producers in Ukraine" which was held as part of the fourth All-Ukrainian Conference "Dairy Business 2011". Participants discussed problems of developing the dairy sector and prospects for government support of farm businesses involved in milk production and dairy pedigree farming.

- On December 1, AgroInvest was invited for the Rivne International AgroLogistic Forum where it made presentations on "Development of the Ukrainian Agroindustrial Sector and its Impact on International Markets" and "Development of Transport and AgroLogistic Infrastructure" at two plenary sessions. In addition, it took part in the public debate "European Prospects for the Ukrainian Agro-industrial Sector: Pros and Cons".
- On December 15, AgroInvest participated in organization of the Second All-Ukrainian Public Hearing "Formation and Development of Agricultural Service Cooperation in Ukraine". The event identified problems faced by agricultural service cooperatives and prepared public recommendations on further development. It was attended by over 400 representatives of cooperatives, UkoopSpilka, the National Association of Credit Unions, government authorities and institutions, universities, NGOs, professional organizations, think tanks, international organization, international technical assistance projects and mass media.
- On December 23, AgroInvest conducted training on "Methods for handling and preliminary cooling of vegetables" in Kherson. The training seminar was organized by the USAID LINC project, in conjunction with Gromada Credit Union, and cold storage producers, Astra Group. Participants – small farmers and individual farmstead owners – received information on the requirements and performance of cooled produce quality management systems, marketing events and the specifics of interaction with lenders.

Administrative Implementation

Staff mobilization. On October 3, two new long-term staff members joined the AgroInvest Kyiv team: Producer Organization Specialist Vladislav Karpenko and Agriculture Finance Specialist Natalia Ilna. On October 17, Daniel Themen, formerly Regional Competitiveness Director of the USAID LINC project, replaced Craig Bell as Chief of Party. The new Agricultural Policy Coordinator, Oleksandr Muliar, joined the team on December 13. A Program Assistant/Events Coordinator has been identified and will begin work on January 11, 2012.

Crimea Project Office. Since September 2011 the Agriculture Finance Specialist in Crimea has been operating across Crimea and southern Ukraine from the Simferopol office of the USAID LINC project. During the quarter, the project team identified suitable office space for a permanent 3-person AgroInvest Crimea team at 12/4 Sergeeva-Tsenskiego St, Simferopol. The office is currently occupied by the USAID Municipal Heating Reform Project which will soon be vacating the office when the project ends. The AgroInvest team began lease negotiations and plan to move to the new premises in February-March 2012.

Strategic Activities Fund (Grants/Subcontracts)

During the reporting period a full grant proposal from AMDI was received and reviewed by the AgroInvest team and Chemonics Home office, a grant agreement and negotiation

memorandum was also drafted. The full package was finalized for submission to USAID and sent for approval on October 13.

On December 13, at the request of USAID, AgroInvest issued a simplified RFP # AGRO-SC11-1AB-006 to solicit a bridge subcontract for AMDI for the provision of interim support on time-sensitive Ukrainian agricultural policy issues. The due date of this RFP was December 21, 2011. After initial screening of the submitted in time proposal, AgroInvest requested AMDI to send additional documents and comments to the budget. The improved proposal AMDI was submitted on December 23.

In addition, on December 13, AgroInvest issued RFP # AGRO-SC11-1A-002 on development of sample charters for agricultural service cooperatives, cooperative unions and cooperative enterprises. In response to this RFP on December 30 AgroInvest received three proposals.

For its public education and legal land rights initiatives, on October 17 AgroInvest received four proposals in response to RFP # AGRO-SC11-1C-01 on Baseline Survey on Land Rights Awareness, Small and Medium scale Agricultural Producers Access to Finance, and Agricultural Market Infrastructure. On November 9, the Evaluation Committee determined that the geographic regions proposed in the proposals did not adequately respond to AgroInvest needs and proposed that tenderers be requested to resubmit with a closer focus on those regions targeted for legal land rights service provision.

On December 20, the Grants Evaluation Committee convened for the 1st Round review of full grant applications according to the RFA # AGRO-GA11-1C-02 on Secondary Legal Land Rights Services to Rural Citizens and Farmers that was issued on November 16. On December 14, AgroInvest received eighteen applications in the response to RFA and conducted its initial evaluation.

In addition, an RFA was announced on implementation of the Capacity Building Grant Program for Land Rights Resource Center and Web-Portal on December 8. The due date of this RFA # AGRO-GA11-1C-03 is January 16, 2012.

In support of its Access to Finance activities AgroInvest specialists developed an RFP on “Carrying out series of training sessions on agrilending and micro-financing basics applied to credit unions lending officers enabling them to increase agrilending offer to small and medium-size producers” during December. This RFP will be launched during January 2012.

In support of its Producer Organizations Activities, during the reporting period project specialists drafted RFA № AGRO-GA11-3B-04 on Development of Agricultural Producer Organization Capacities (1st Round). This RFA is also scheduled for a January 2012 launch.

Monitoring and Evaluation

During the quarter, the AgroInvest team prepared a Data Quality Assessment for selected indicators, as requested for USAID annual reporting, as follows:

1.1.1 Number of policies/regulations/administrative procedures analyzed as a result of USG assistance

1.1.5 Number of public-private dialogue mechanisms utilized as a result of USG assistance

1.2.2 Number of institutions/organizations undertaking capacity/competency strengthening as a result of USG assistance

3.1.5 Number of producer organizations, water users organizations, trade and business associations, and community-based organizations receiving USG assistance

3.1.6 Number of participants in USG supported trade and investment capacity building trainings

3.2.4 Number of micro enterprises linked to larger-scale firms as a result of USG assistance to the value chain

Gender issues

Throughout the reporting period, AgroInvest made progress on reaching gender targets described in the Project Performance Monitoring Plan (PMP). Significant progress has been achieved in increasing the number of female participants in capacity building trainings provided by AgroInvest. Although the average share of female participants is 23 percent, the project team will coordinate closely with women's farmer groups to raise this level during the next reporting period.

Project Communications

Events and Presentations

In the reporting period, the AgroInvest team used every opportunity to spread information about the project, its goals and activities being to develop partnerships and coalitions. Given the number of events conducted during the quarter, they are summarized as Annex 7 to this report.

Project Web-site

During the reporting period, AgroInvest continued to develop and maintain its bilingual web-site:

www.agroinvest.org.ua to share the latest Project news, reference materials and grant opportunities.

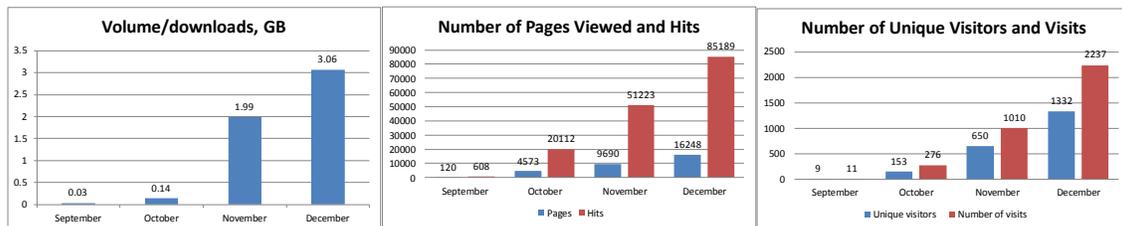
The web-site contains project news, information about project components, partners, outreach activities, and grants



and subcontracts opportunities. In the reporting period, project communications specialists added such features as a Calendar of Events and an automatically updated Agricultural Sector News Column (in Ukrainian).

As the AgroInvest team develops various useful information such as issue briefs, best practices, and methodological materials, these will be added to the web-site. In addition, it will contain materials about the Land Rights Public Education and Outreach Campaign as well as all relevant legislation and regulations.

The charts below demonstrate statistics of the usage of the AgroInvest web-site between September 2011, when the site was launched, and December 31, 2011.



Also during the reporting period, AgroInvest launched its [Facebook Page](#). It contains information about the project, links to publications about the project, and numerous pictures from events organized by the project.

The AgroInvest page proved to be instrumental in spreading word about the project. For instance, the project has recently been contacted via Facebook by Mr. Komov, deputy head of the newly established Agrarian Committee of the Crimean Chamber of Commerce. Also, journalists, who attend training events, in the regions tend to use the projects' Facebook Page to share their views about events and download pictures for their publications.



Publications

During the reporting period, AgroInvest prepared two component-specific one-pagers and two Issue Briefs for publication. The one-pagers were as follows:

- 1) *Who will Help Small and Medium Producers get Access to Financial Resources?*
- 2) *Joining Small Producers in Agricultural Service Cooperatives as a Way to Establishing Successful Marketing Groups.*

SECTION II: DELIVERABLES

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

Deliverables	Date Submitted	Approved
Strategic Plan for Developing Agricultural Product Market Infrastructure	September 26	November 2
Strategy for Implementing Agriculture Producer Organizations' Capacity Building Program	September 29	November 17
Small and Medium-Sized Producer Access to Finance Strategy and Action Plan	September 30	November 18
Revised AgroInvest Year 2 Workplan	October 11	October 31
Revised AgroInvest Performance Monitoring Plan	October 12	November 1
Approval Request to Execute a Non-competed Grant with the Agrarian Markets Development Institute	October 13	Requirement to execute grant changed in December
Draft RFA for Secondary Land Right Services	October 19	N/A
Draft RFA for Land Rights Resource Center and Web-Portal	November 22	N/A
Memorandum of Understanding between Chemonics International Inc. and the German Cooperative and Raiffeisen Confederation	December 9	N/A
Memorandum of Understanding between Chemonics International Inc. and Agrobonus	December 13	N/A
Memorandum of Understanding between Chemonics International and Kredobank	December 13	N/A

SECTION III: SCHEDULES

During the reporting period, AgroInvest agreed in principle to move its Crimea presence from the USAID/LINC Simferopol premises (shared) to the premises that USAID/MHR will be vacating at end February 2012. An agreement was also reached on transfer of the MHR Crimea office equipment and furnishings. Barring one technical position in Crimea and two support positions, the project is now fully staffed.

The revised Year 2 Project Workplan and Performance Monitoring Plan submitted to USAID in early October were approved by 1 November, and barring delays to Component 1 deliverables caused by failure to award the planned grant to AMDI, 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 remains the lack of clarity as to the wording of some key articles in the new Law On Land Market, which passed its first reading on November 17. Although perhaps the two most important AgroInvest proposed amendments were accepted by the Verkhovna Rada at that reading (namely the delay to implementation of the law and the removal of preemptive rights for GOU), concerning new articles were added creating a State Land Bank and State Land Fund, the latter with the exclusive right to provide mortgages on agricultural land.
- AgroInvest continues to work both directly with the Parliamentary Committee for Agriculture and Land and State Land Agency as well as indirectly through partner associations and international community representations in Ukraine to coordinate a response aimed at removing or improving the most market distorting articles in the law.
- An additional area for concern is Ukraine's fragile recovery from economic crisis, and potential devaluation of the Ukrainian Hryvnia. To overcome at least some negative impacts of this state of affairs on AgroInvest agricultural SMP finance activities, project specialists are focusing on increased risk management methodologies and practice in its training provided to partner financial institutions and SMPs as well as more intensive involvement of agro-insurance mechanisms in lending products.
- Also of concern to AgroInvest management is the ongoing uncertainty, that came to light during December 2011, relating to the project's Strategic Activities Fund, comprising its ability to engage in planned support activities through the issue of grants and subcontracts to project partners and service providers. The first change to project plans in relation to the Strategic Activities Fund came with the removal of the AMDI policy support and capacity building grant from the fund.
- AgroInvest management is strongly of the opinion that further changes to planned Fund allocation could seriously undermine the project's ability to deliver on contract obligations. The AgroInvest and Chemonics teams will therefore work closely with USAID representatives in the coming quarter to clarify outstanding issues and agree to a contract modification removing the AMDI grant, while ensuring that AgroInvest contract deliverables can reasonably be delivered and project impact maximized across Ukraine.

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

- Continue providing recommendations to the GOU on improvements to the draft Law on Land Market
- Initiate implementation and monitoring of policy work covered by Agrarian Markets Development Institute sub-contract
- Establish mechanism for support to policy development and PPD dialogue through Coordination Council for Agricultural Reform and Community Council under MAPF
- Conduct Land Governance Assessment Framework, including attendant expert panels and technical and governmental review fora
- Conduct second phase of media awareness events on land market reforms in four regions across Ukraine
- Engagement partners for provision of secondary legal land rights services and begin implementation of grant program
- Conduct baseline awareness building and land rights literacy survey and focus groups for land market outreach campaign
- Issue grant for development of Resource Center for sustainable legal land rights services
- Issue an RFA for AgroInvest support to capacity building of advocacy capability in agricultural industry associations
- Design capacity building and policy development grants for competitively selected industry associations
- 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

Component 2, Stimulate Access to Finance

- Continue developing and implementing capacity building programs for partner financial institutions and for SMP borrowers of Pro-Credit Bank, Kredobank, Metabank
- Develop and formalize owner-financing land concept with interested commercial banks (including Raifeisen-Aval and Oschadbank)
- Continue implementation of capacity building programs for credit unions through established Task Forces, including:

- finalization of baseline survey of current agrilending practices of credit unions and development of methodological recommendations for training and new products
- conduct of agrilending methodology and practices training for credit unions
- conduct training on Farm Credit System for credit unions
- conduct of training on International Best Practice in credit union agri-lending development
- Conduct training on credit practices for credit departments of agricultural distributors (Agrobonus, Kiev-Atlantic Ukraine)
- Establish special lending approach with seed company Maisadour and its supplier growers
- Establish group of agro-technologists for provision of special training on agro-technologies for credit analysts of financial institutions
- Facilitate financial policy reform discussions/forums to support innovative lending practices and products
- Establish regular activities to update information on regulatory and legal obstacles for access to lending
- Implement action plans with partner financial institutions in Crimea and southern oblasts, including:
 - development of new loan product for mid/long-term financing of vineyards
 - organize series of on-site meetings of credit unions with SMPs and authorities to promote lending to agricultural SMPs
 - initiate provision of agri-technological support to SMP customers of partner financial institutions

Component 3 Producer Organization and Wholesale Market Development

- Provide assistance in preparing SMP and PO proposals for the RFA for Development of Agricultural Producer Organization Capacities
- Conduct tender for RFA and initiate grant program for POs
- Conduct training for SMPs and POs in order to building capacity, expanding services provided to members, increase access to markets and member productivity
- Organize and conduct specialized trainings on technological specifics of production, processing, promotion and marketing of agricultural products
- Conduct competitive selection of partner organizations in target regions to support project activities in SMP and PO development
- Draft model charters for agricultural service cooperatives and their associations and enterprises
- Organize public discussion of draft charters and agree the model charters with stakeholders
- Develop action plans for AgroInvest engagement in development of market infrastructure facilities in the Crimea, Rivne and Kherson oblasts

- Conduct competitive selection of subcontractors to prepare the design and feasibility studies for development of the wholesale market in Rivne Oblast
- Conduct preliminary studies for developing local markets in the villages of Kukushkine and Dobroye in Crimea
- Agree to terms of cooperation with key partners in development of agricultural market infrastructure facilities in Crimea and Rivne and Kherson oblasts
- Prepare programs and support development of logistic centers in Bilozirsky, Gola Prystan, Skadovsk, Kahovka, and Zurupinsk raions to intergrate them into the Kherson Agricultural Market supply chain
- Provide technical support in preparing the feasibility study for development of TorchynAgroPark innovative incubator in Volyn oblast
- Prepare and present investment projects in developing local wholesale markets
- Support development of regional program for revising sheep farming in Crimea and Kherson Oblast
- Engage in MAPF and partner initiatives in support of producer organization and market infrastructure development

Project Communications

- Prepare mission *Weekly Highlights* and submit to USAID
- Organize regular AgroInvest media events
- Support AgroInvest land market public education and legal support initiatives
- Prepare articles for industry press and internet media on best practices, interviews with beneficiaries, etc.
- Maintain and monitor the project's web site and Facebook page
- Promote the web-site among project stakeholders
- Prepare media clips and Issue Briefs in response to ongoing requirements

Strategic Activities Fund

- Conduct second round of evaluation of AMDI subcontract proposal and award a Fixed Price Subcontract
- Review of proposals for subcontract to develop sample charters of agricultural service cooperatives, cooperative unions and cooperative enterprises and proceed to subcontract award
- Request updated proposals and conduct second round evaluation of proposals for conduct of Baseline Survey on Land Rights Awareness, Agricultural SMP Access to Finance and Agricultural Market Infrastructure and award a subcontract

- Conduct second round of evaluation and award grants for RFA # AGRO-GA11-1C-02 applications for conduct of Secondary Legal Land Rights Services to Rural Citizens and Farmers
- Process grant to the organization selected to implement the Capacity Building Grant Program for Land Rights Resource Center and Web-Portal
- Issue RFAs on Strengthening Capacity of Industry Associations in the policy sphere, on establishment of Press Club, TV and Radio Campaign as well as on provision of Primary Legal Land Rights Services
- In support of project Access to Finance initiatives, process the RFP to conduct a series of training sessions on agrilending and micro-financing basics applied to credit union lending officers
- In support of project Producer Organization and Market Infrastructure initiatives, conduct first round of Grant Program for SMPs and POs with five grant awards anticipated, as well as releasing RFP for the conduct of feasibility studies for wholesale markets in Rivne Oblast and for project regional coordination partners

Project Administration

- Hire additional Kyiv-based Project support staff (driver)
- Manage transfer to and set up standalone AgroInvest project office in Simferopol, Crimea
- Initiate office set up activities outside of Kyiv for project implementation (Vinnitsa and Dnipropetrovsk anticipated)

SECTION VI: LEVEL OF EFFORT REPORT

LOE Matrix as of December 31, 2011

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	221	1,049
LT Technical Assistance (Expatriate)	111	16	45	65
LT Technical Assistance (CCN)	14,405	256	1,508	12,897
ST Technical Assistance (Expatriate)	755	0	144	611
ST Technical Assistance (CCN)	420	26	203	217
HO Support	199	0	144	55
Total	17,160	320	2,266	14,894

STRATEGY FOR LAND REFORM

DRAFT – 24 November 2011

This document outlines the engagement of USAID/AgroInvest resources envisioned in response to ongoing discussion of the passing of the draft Land Market Law and subsequent lifting of the moratorium on sale-purchase of agricultural land in Ukraine. Given the fluid nature of land policy, tasks, actions and timeframes are subject to change.

1. Input into Draft Land Market Law

This task builds on ongoing AgroInvest analysis of the draft law, as submitted to Verkhovna Rada by the Cabinet of Ministers and posted on the MAPF website for public discussion.

USAID AgroInvest has developed positions on the following priority issues, as outlined in the letter presented to the Head of the Parliamentary Committee for Agriculture on 21 September 2011:

- Preparation period between passing of law and lifting of moratorium
- Tax to encourage holding land for several years
- Restrictions on Financial Institutions from holding land in the event of foreclosures
- Preclusion of Legal Entities from Agricultural Land Ownership
- Pre-emptive Purchase Rights

While there are other market distorting provisions in the current text, including exclusion of foreigners from owning land, an absence of adequate provisions supporting buy-out of land parcels by current tenants and complicated proposals for land plot consolidation, it is considered that the issues listed above are of priority concern and should remain the focus of advocacy work with GoU. Textual recommendations to the current draft have been made for each of these priority issues, and provided to relevant GoU representatives, along with supporting argumentation.

The following are considered the most effective channels for presenting such proposals for change:

a) *Advocacy Prior to Repeat of 1st Reading in Verkhovna Rada (target audiences: State Land Agency, Parliamentary Committee for Agriculture, Ministry of Agriculture, Presidential advisors)*

This activity targets decision makers and technical coordinators involved in revising the draft law prior to its repeat first reading in early December. The textual recommendations were be presented to senior SLA representatives on 24 November and buy-in sought for their inclusion in the anticipated revisions. AgroInvest is also working with USAID regarding a possible meeting on the Land Law, at the U.S. Embassy, with the Minister of Agriculture, his advisors and advisors to the President.

b) *Advocacy between Readings in Verkhovna Rada (target audience: Agricultural Committee members, MAPF representatives)*

Relationships with key members of the Parliamentary Committee for Agriculture will be developed in the build-up to the 1st reading by the Verkhovna Rada and one or a series (depending on the timing of the readings) of focused meetings will be held between readings in order to address and argue the proposed textual changes.

c) *Ongoing work with non-governmental and international policy partners (target audience: all GOU representatives influencing amendment of the current draft)*

Ongoing engagement of central level policy Industry Associations, academic institutions, independent experts and the press, as well as with representatives of the international community (embassies, World Bank, EBRD, AmCham, EBA) will continue to build consensus on the key amendments. Having a broad-based consensus in the donor community can raise the weight assigned by GOU decision makers to the arguments put forth. In addition, the consensus would increase attention given to donor positions in any public hearings that are held, as variously declared, between parliamentary hearings of the draft law.

2. Public Discussion & Awareness Building

This task builds on ongoing engagement with national, regional and local media in order to increase journalist capacity to structure and present land market-related information and to maximize coverage of key issues in order to generate discussion and awareness of the draft land law and its implications for landowners, tenant farmers and the Ukrainian population generally.

Mutually supportive activities that will be continued through the anticipated passing of the law into its pre-implementation and implementation phases can be categorized as follows:

a) *Central & National Level Discussion & Awareness (target audience: policy makers, Ukrainian citizens)*

The following ongoing and planned activities will be coordinated to increase public discussion and awareness:

- Media representatives have been identified and engaged through initial press conferences with Kyiv-based and national level press agencies and associations. Media will be engaged through additional events in and around Kyiv through 2011 to cover the ongoing policy debate and its implications for the future land market.
- Simultaneously the nationwide information campaign (print materials, TV and radio), planned for first quarter 2012 will be brought forward, through development of messages and media channels and priority grant and subcontract engagement, to ensure a roll-out of relevant information, should the law be passed in 2011 and the moratorium lifted soon thereafter.
- This will also require expediting the tender planned for the nationwide Awareness Campaign Service Center (providing website, hotline and consultation services), which will support rapid development of an existing land administration oriented national level NGO to generate and disseminate key messages through national and regional partner organizations and press.

b) *Regional & Local Level Discussion & Awareness (target audience: landowners, farmers, rural population, oblast/raion officials and partners)*

Ongoing training of regional and local journalists and media representatives through established links with press clubs will continue, finalizing the series of events already conducted in Dnipropetrovsk and Vynnytsya, Simferopol and Donetsk, with additional events as a minimum in Kyiv and western Ukraine. Each event involves journalists (15-20 per oblast) from two to three oblasts surrounding the host city. Such training not only generates considerable immediate

coverage, but also prepares journalists to receive, analyze and generate coverage moving forward.

3. Testing of Implementation Proposals (Financial Sector & Field Associations)

This task involves refining preliminary proposals by USAID/AgroInvest STTA for mechanisms to improve financing of land transactions and management of fragmented land ownership. It will involve the following activities, already initiated through project partners, in order to ensure they are workable in the Ukrainian rural environment on the lifting of the moratorium:

a) *Legal Review*

Concept papers have been submitted to USAID/LINC land legislation experts to review their fit to applicable Ukrainian legislation. This will provide not only feedback on whether there will require any amendment to current laws or regulations in order to implement them, but may provide existing legal bases to secure acceptance and implementation.

b) *Input from Financing Partners*

While the concept papers, particularly that covering financial sector have already elicited some interest from international financial institutions such as the World Bank and EBRD, the response particularly of the latter that engagement would require in the first instance concrete interest from Ukrainian partner banks. A two stage approach to this activity is therefore envisioned, as follows:

- A series of meetings with leading banks and bank associations has therefore been initiated, eliciting both support on a number of the advocated amendments to the draft land market law and potential interest in the Financial Sector implementation concept.
- On identification of a number of interested local banks, USAID/AgroInvest may revert to EBRD and the World Bank in order to develop the envisioned loan guarantee to those Ukrainian banks prepared to engage in land market service provision and ultimately financing.

c) *Implementation Partner Input*

This activity will test the operational feasibility of establishing the land purchase financing and joint management relationships envisioned in the two concepts, through focused discussion with the following stakeholder and partner groupings:

- Rural stakeholders will be engaged by project specialists at or around gatherings of farmers and landowners already scheduled by the project. The concepts will be presented and responses invited. Conclusions will be worked back into the concepts.
- Kyiv-based stakeholder representative organizations have already been engaged as a group to discuss the concepts. It is planned that individual meetings with organizations with extensive experience in establishing cooperation between rural people in Ukraine will be conducted to receive concrete proposals of if, how, where and with which partners the proposals are likely best to be piloted.

4. Land Market Implementation

This task will be timed to coincide with the passing of the law and continue through the anticipated preparation phase prior to the lifting of the moratorium and into the period once the land market has begun, as follows:

a) *Development of Implementation Capacity (target audience: GOU, with input from private sector and NGO representatives)*

This activity will provide the legislative refinements and implementing regulations as well as maximizing the institutional capacity required for the effective implementation of the new Land Market Law through the following three core initiatives:

- Synchronization with relevant applicable legislation will require a thorough review of existing legislation, particularly the new laws On Cadaster and On State Registration to eliminate any contradictions and ensure clarity of procedure and responsibility between state actors. There is the potential that legislation and sub-legislation will require amendment during this process.
- Development of implementing regulations will focus on central level MAPF and SLA stakeholders, while ensuring input from private sector and NGO stakeholders and the regions. A set of regulations will be supported, as required.
- Support to development of institutional capacity within state implementation organizations will likely focus on SLA and SLCC agents involved in supervising and registering transactions, although it is likely to include at least review of capacity among notaries, MoJ registration bodies and related organizations. Once a needs assessment has been conducted, USAID/AgroInvest will consider institutional support to such organizations.

b) *Awareness & Outreach Campaign*

Although this activity is considered a continuation of Building on work already conducted under Activity 2a), above, it is dealt with separately both because of its post-moratorium timing and given its change of focus and methods. Again it can be broken down according to its level of focus, as follows:

- At the national level the Service Center will be fully operational and providing both content for the national level awareness campaign and input to the television and radio campaigns, the focus of which will shift from preparatory education on rights and opportunities to providing concrete examples of experiences in the land market. In addition the Service Center will be operating its website and hotline and supervising the provision of legal consultations to regional and local partner organization engaged in the provision of primary and secondary legal land rights services.
- At the regional and local levels, the baseline survey, establishing levels of understanding and identifying areas requiring focus in both awareness and outreach will both inform the national level campaign and allow benchmarking and refinement of progress in the provision of primary and secondary legal land rights services by regional and local partners (private and NGO) in target oblasts across Ukraine.

STRATEGY IMPLEMENTATION MATRIX

Task / Activity	Responsible Agents	Target Group	Partners	Nov 2011	Dec 2011	LML Passed	+1 month..	Moratorium Lifted	+1 month..
1. Input into Draft LML									
a) Advocacy prior to 1 st reading	DT/AK/RB/OB	SLA							
b) Advocacy between readings	AK/OB/MZ	VR-AC	Ind Assocs / Press						
c) Ongoing consensus building	MM/AK/RB	GOU	Ind Assocs / Intl Com						
2. Public Discussion/Awareness									
a) Central & national levels		Policy Makers / Pop	Press Clubs						
- media engaged	AK/MZ		"						
- info campaign developed	DT/MZ		"						
- service center tendered	AK/MZ		"						
b) Regional & local levels		Rural Pop / Officials	Press clubs						
- journalist training	AK/MZ		"						
3. Implement. Proposal Test									
a) Legal review	DT/VN	GOU	LINC						
b) Finance partner input									
- local bank meetings	AK/RB/OB	Local Banks	Bank Assocs						
- engagement of EBRD	DT/AK/RB	EBRD							
c) Implementation review									
- rural stakeholders	RB/OB	Rural Pop							
- central partners	RB/OB	Local Partners	Ind Assocs						
4. Land Market Implementation									
a) Implementation capacity									
- legal compatibility	DT/PK?	GOU	LINC/GOU						
- regulatory basis	AK/PK?	MAPF/SLA	GOU/LINC						
- institutional capacity	DT/AK	SLA/SLCC/MOJ	SLA/SLCC/MOJ						
b) Awareness & outreach									
- national level	AK/MZ	Population	Resource Cent/Press						
- regional/local levels	AK/MZ	Rural pop / officials	Grantee NGOs						

Legal Entities – Suggest Changes

<u>Current Wording</u>	<u>Suggested Change</u>	<u>Discussion</u>
<p>Article 10. Limitations on Acquisition of Ownership Rights to Agricultural Land</p> <p>1. Agricultural land may only be acquired for commercial farming under civil law contracts by:</p> <p style="padding-left: 40px;">Ukrainian citizens;</p> <p style="padding-left: 40px;">farmer homesteads established in accordance with the law;</p> <p style="padding-left: 40px;">the state, represented by the State committee of Ukraine for Land Resources or territorial communities represented by appropriate local authorities.</p>	<p>Article 10. Limitations on Acquisition of Ownership Rights to Agricultural Land</p> <p>1. Agricultural land may only be acquired for commercial farming under civil law contracts by:</p> <p style="padding-left: 40px;">Ukrainian citizens;</p> <p style="padding-left: 40px;">farmer homesteads established in accordance with the law;</p> <p style="padding-left: 40px;">Legal Entities which are owned solely by natural persons who are Ukrainian citizen. Such Legal Entities will be hereafter referred to as All-Ukrainian Citizen Legal Entities.</p> <p style="padding-left: 40px;">the state, represented by the State committee of Ukraine for Land Resources or territorial communities represented by appropriate local authorities.</p>	<p>The preclusion of legal entities from agricultural land ownership is intended to avoid ownership by foreigners or acquisition of large amounts of agricultural land by any single party. These are appropriate objectives. However, the total preclusion of legal entities would make it difficult for Ukrainian citizens to cooperate in an agricultural enterprise.</p> <p>The Suggested Change would allow ownership of agricultural land by legal entities which are wholly owned by Ukrainian citizens. Ownership by foreigners or by other legal entities would not be allowed.</p> <p>The All-Ukrainian Citizen Legal Entity would be able to own land up to the limit dictated by caps for a natural person.</p> <p>The cap for each of the owners of an All-Ukrainian Citizen Legal Entity would be based on the amount of land he/she owns directly plus the share of his/her ownership in All-Ukrainian Citizen Legal Entities times the amounts of land owned by those entities. For example, if an individual directly owned</p>

Legal Entities – Suggest Changes

Discussion

300 hectares of agricultural land and had a 20 percent share in an All-Ukrainian Citizen Legal Entity which owned 120 hectares and a 10 percent share in another which owned 250 hectares, the amount of land that person would be assumed to own would equal:

300 directly owned

24 .2*120 (1st Legal Entity)

25 .1*250 (2nd Legal Entity)

349

In this way, no individual could use All-Ukrainian Citizen Legal Entities to acquire more land than allowed under the caps.

Ownership changes which change an All-Ukrainian Citizen Legal Entity into a regular legal entity, i.e., full or partial ownership by other legal entities or foreigners, would require sale of all agricultural land within one year. For the purpose of calculating taxes associated with the sale, the acquisition date would be considered to be the date the legal entity ceased to be an All-Ukrainian Citizen Legal Entity and the acquisition price

Legal Entities – Suggest Changes

Discussion

would be assumed to be zero. This would, effectively, eliminate incentives to take over an All-Ukrainian Legal Entity for the purpose of acquiring its agricultural land.

Legal Entities – Suggest ChangesCurrent Wording

Under Article 10

4. Legal entities, which own agricultural land plots and have obtained status of a foreign person hereunder as a result of the increase in the interest of foreign persons in their authorized (combined) capital, must dispose of agricultural land plots owned by them within one year of the date of the acquisition of the interest in the authorized (combined) capital by a foreign person resulting in the excess of ten percent of the authorized (combined) capital by the interest owned by foreign persons.

Suggested Change

Under Article 10

4. Legal entities, which own agricultural land plots and, either have obtained the status of foreign persons hereunder as a result of the increase in the interest of foreign persons in their authorized (combined) capital or lost their status as All-Ukrainian Citizen Legal Entities due to ownership by foreigners or other legal entities, must dispose of agricultural land plots owned by them within one year of the date of the their change in status.

For the purpose of calculating taxes associated with alienation of their land, the date of acquisition will be assumed to be the date of the change in status and the acquisition price will be assumed to be zero.

Legal Entities – Suggest Changes

Current Wording

Article 15. Restrictions on the Size of Agricultural Land for Agricultural Commodity Production

1. Agricultural land of state or municipal property for agricultural commodity production can be sold to citizens of Ukraine to the extent that does not exceed the ultimate maximum total area of land privately owned by one person, with due regard for the related persons and the persons connected with such person by control relations, for agricultural commodity production in the relevant natural/agricultural area.

2. The total area of land plots for the commercial farming being within the private ownership of a single person, with due regard for the related persons and the persons connected with such person by control relations, shall include the area of land plots owned by the said person in the form of the joint partial or joint common ownership.

3. The ultimate maximum area of land plots for commercial agriculture in private ownership of a single person in case of their location in different natural-agricultural (mountain) areas shall not exceed in total 2100 hectares.

Within natural-agricultural (mountain) zone, the ultimate maximum total

Suggested Change

Article 15. Restrictions on the Size of Agricultural Land for Agricultural Commodity Production

1. Agricultural land of state or municipal property for agricultural commodity production can be sold to citizens of Ukraine and All-Ukraine Citizens Legal Entities to the extent that does not exceed the ultimate maximum total area of land privately owned by one person or one All-Ukraine Citizens Legal Entity, with due regard for the related persons and the persons connected with such person by control relations, for agricultural commodity production in the relevant natural/agricultural area.

2. The total area of land plots for the commercial farming being within the private ownership of a single person or single All-Ukraine Citizens Legal Entity, with due regard for the related persons and the persons connected with such person by control relations, shall include the area of land plots owned by the said person or said All-Ukraine Citizens Legal Entity in the form of the joint partial or joint common ownership.

For the purpose of calculating caps for a single individual, his/her total area of land owned is the sum of land he/she owns

directly and shares of land owned by any All-Ukraine Citizens Legal Entities in which

Legal Entities – Suggest Changes

area of land plots in private ownership of a single person for personal farming shall not exceed (hectares):

Polissia (forested area) — 1,500;

Forest/steppe area — 1,750;

Steppe, arid steppe, dry steppe — 2,100;

the Carpathian mountain area — 900;

the Crimean mountain area — 1,100.

4. Total area of agricultural land ownership for agricultural commodity production may exceed the maximum ultimate area of land privately owned by one person for agricultural commodity production in the prescribed area in case of inheritance of land by law.

he/she is a shareholder. The share of land assigned to the individual will be equal to his/her percentage ownership in the All-Ukrainian Citizens Legal Entities.

3. The ultimate maximum area of land plots for commercial agriculture in private ownership of a single person or All-Ukrainian Citizens Legal Entity in case of their location in different natural-agricultural (mountain) areas shall not exceed in total 2100 hectares.

Within natural-agricultural (mountain) zone, the ultimate maximum total area of land plots in private ownership of a single person or All-Ukrainian Citizens Legal Entity for farming shall not exceed (hectares):

Polissia (forested area) — 1,500;

Forest/steppe area — 1,750;

Steppe, arid steppe, dry steppe — 2,100;

the Carpathian mountain area — 900;

the Crimean mountain area — 1,100.

4. Total area of agricultural land ownership for agricultural commodity production may exceed the maximum ultimate area of land privately owned by one

person for agricultural commodity production in the prescribed area in case of inheritance of land by law.

Legal Entities – Suggest ChangesCurrent Wording

Article 130 shall be amended as follows:

“1. The following entities may be the buyers of land plots of agricultural purposes for commercial farming:

- a) citizens of Ukraine;
- b) farmer homesteads established in accordance with the law;
- c) the state represented by the State Committee of Ukraine for Land Resources or territorial communities, represented by the relevant local authorities.

Suggested Change

Article 130 shall be amended as follows:

“1. The following entities may be the buyers of land plots of agricultural purposes for commercial farming:

- a) citizens of Ukraine;
- b) farmer homesteads established in accordance with the law;
- c) All-Ukrainian Citizen Legal Entities
- d) the state represented by the State Committee of Ukraine for Land Resources or territorial communities, represented by the relevant local authorities.

Preemptive Rights – Suggested Changes

<u>Current Wording</u>	<u>Suggested Change</u>	<u>Discussion</u>
<p style="text-align: center;">Article 19. Preemptive Right to Buy Land Plot for Commercial Agriculture and Personal Farming or Rights to It Owned by Natural persons and Legal Entities</p> <p>1. Preemptive right to acquire a privately owned agricultural land plot for commercial or personal farming at the price offered for sale shall be enjoyed by:</p> <p style="padding-left: 40px;">the state, represented by the State Committee of Ukraine for Land Resources and its territorial departments – pertaining to the land plots located outside the limits of populated areas;</p> <p style="padding-left: 40px;">local self-government authorities – pertaining to the land plots located within the limits of populated areas;</p> <p style="padding-left: 40px;">leaseholder or the user of another person's agricultural land plot;</p> <p style="padding-left: 40px;">owners of adjacent agricultural land plots.</p> <p>2. Preemptive right to acquisition of a land plot for commercial and personal</p>	<p><i>Remove.</i></p> <p><i>Develop other legislation to address, more directly, Government concerns regarding environmentally sensitive lands, exhausted lands, and providing land for young farmers.</i></p>	<p>The primary rationale for granting preemptive rights to neighboring landowners and lessees is to avoid unexpected sales of lands they would have liked to purchase. However, this will occur very rarely because sellers have incentives to inform all potential buyers of an offer to sell. Neighboring landowners and lessees are the two most obvious and easily accessible potential buyers.</p> <p>Preemptive rights on lands which happen to be for sale is an inefficient, costly method for the Government to address legitimate issues, such as protection of environmentally sensitive lands, rehabilitation of exhausted lands, and the provision of farmsteads to young farmers. The Government would be forced to investigate thousands of sale intention announcements to determine which, if any, would be suitable for acquisition. The cost of such investigations could be tens of millions Hryvnas annually. Moreover, the most appropriate areas, such as the most environmentally sensitive plots, may not be for sale and, as such, not available to the</p>

Government through the preemptive rights mechanism.

farming, which is in common joint and common partial ownership, shall belong to its co-owners.

3. The person, wishing to alienate agricultural land plot for commercial and personal farming, shall inform about it the holders of preemptive right to purchase the land plot through publication of the announcement in printed media with local sphere of dissemination at the place of location of such land plot, with indication of the price and other conditions of sale.

Preemptive right to acquisition of a land plot for commercial and personal farming shall not cover the cases of sale of such land plots to members of family of the person who is the land plot owner.

4. Holders of preemptive right to purchase a land plot have the right, within one month from the date of publishing the announcement, mentioned in Part three of this Article, to inform in writing about their intention to acquire the land plot at the declared price and to include the cost of land plot in the notary's deposit.

5. Provided, within one month from publication of the announcement about

For these reasons, separate legislation should be developed to address these issues.

intention to sell a land plot in local media at the place of location of such land plot, the authorities and persons holding the preemptive right to buy a land plot will not inform the land plot owner about their decision and will not include the land plot cost in the notary's deposit, it is believed that such authorities and persons have refused to realize their right.

In such case, the seller has the right to alienate the land plot in favor of another person as stated in the announcement.

6. Provided several persons intend to realize the preemptive right to purchase the land plot for commercial and personal farming at the declared price, the priority for realization of preemptive right shall belong to the state represented by the State Committee of Ukraine for Land Resources – pertaining to the land plots located outside the limits of populated areas, and local self-government authorities – pertaining to the land plots located within the limits of populated areas.

7. Provided the owner of land plot reduces the selling price, declared in the announcement, such owner shall inform about this the persons having the preemptive

right to acquire the land plot, as prescribed by this Law.

8. In the event of land plot sale at land tenders, the person with preemptive purchase right may realize this right through giving his consent to the price agreed by other bidders.

9. A contract of sale of an agricultural land plot for commercial and personal farming sold with the violation of requirements of this Article in respect of the pre-emptive right shall be invalid (null and void).

Six Month Bank Ownership Limit – Suggested Changes

<u>Current Wording</u>	<u>Suggested Change</u>	<u>Discussion</u>
<p align="center">Article 17. Alienation of Agricultural Land by Banks and Other Lending Institutions</p>	<p align="center">Article 17. Alienation of Agricultural Land by Banks and Other Lending Institutions</p>	<p>The intent of Article 17 is to prevent a legal entity from avoiding other limitations on legal entities owning agricultural land by acquiring agricultural land under the guise of a bank or other lending institution. This goal is entirely appropriate.</p>
<p>Alienation of agricultural land by the banks and other lending institutions including ownership rights which passed to them as repayment of debt under contract obligations is carried out within six months after acquiring land through the sale procedure to public or local authorities or through the auction.</p>	<p>Alienation of agricultural land by the banks and other lending institutions including ownership rights which passed to them as repayment of debt under contract obligations is carried out within five years after acquiring land through the sale procedure to public or local authorities or through the auction.</p>	<p>However, the 6 month limit is too short. Virtually no financial institution would accept agricultural land as collateral if they had to sell foreclosed land within 6 month. The Suggested Change to 5 years gives sufficient time for a financial institution to realize an advantageous sale, but is too short to make it advantageous for intentional land acquisitions for the purpose of avoiding other prohibitions against business entities.</p>
	<p>For the purpose of calculating taxes due for the alienation of land acquired by a banks and other lending institution, the acquisition price will be the sum of: 1. outstanding debts forgiven for acquiring the land, and 2. any payments made by the bank or other lending institution to the landowner who surrendered the property to the bank or other lending institution.</p>	<p>The second paragraph of the Suggested Change simply equates the financial institution's purchase price with the sum of what that institution paid for the land in terms of debt forgiveness and direct payments.</p>

State Land Bank: Suggested ChangesCurrent Wording

State land bank is a specialized mortgage bank, established by decision of the Cabinet of Ministers of Ukraine and that has exclusive right on the agricultural lands market pursuant to this Law, the Law of Ukraine “On Banks and Banking”, other laws of Ukraine and regulatory documents of the National Bank of Ukraine;

Suggested Change

State land bank is a specialized mortgage bank, established by decision of the Cabinet of Ministers of Ukraine with rights on the agricultural lands market pursuant to this Law, the Law of Ukraine “On Banks and Banking”, other laws of Ukraine and regulatory documents of the National Bank of Ukraine. The State land bank can hold mortgages on agricultural land to facilitate the sale of that land, but not for other financing purposes;

Discussion

The changes would allow other financial institutions to hold mortgages on agricultural land. In addition, the role is clarified of the State land bank as a highly specialized mortgage bank to facilitate the purchase of agricultural lands, rather than a more general financial institution which may also use agricultural land as collateral in loans to purchase other goods or services (such as cattle or equipment).

Current Wording

Article 4. Authorities selling state-owned or municipally-owned land plots and related lease rights

The state or municipally-owned land plots or related lease rights shall be sold by the state agencies, the Council of Ministers of the Autonomous Republic of the Crimea, local self-government authorities pursuant to their powers defined in the Land Code of Ukraine, or by the State land bank.

Suggested Change

No changes

Discussion

<u>Current Wording</u>	<u>Suggested Change</u>	<u>Discussion</u>
Chapter 3. Agricultural Land Turnover	Chapter 3. Agricultural Land Turnover	
Article 10. Limitations on acquisition of ownership rights to agricultural land	Article 10. Limitations on acquisition of ownership rights to agricultural land	
1. Agricultural land suitable for commercial farming may only be acquired under civil law contracts by:	1. Agricultural land suitable for commercial farming may only be acquired under civil law contracts by:	The change clarifies that financial institutions are limited to acquiring agricultural land as payment for a debt. This precludes them from initiating purchases of agricultural land.
Ukrainian citizens;	Ukrainian citizens;	
the state, represented by the State land bank, relevant state institutions, the Council of Ministers of the Autonomous Republic of the Crimea;	Financial institutions in Ukraine, but only when the land is acquired as payment on a debt to these institutions;	
territorial community of village, settlement, city represented by the village, settlement, city councils.	the state, represented by the State land bank, relevant state institutions, the Council of Ministers of the Autonomous Republic of the Crimea;	
	territorial community of village, settlement, city represented by the village, settlement, city councils.	

Current Wording

Article 16. Alienation of agricultural land plots by banks and other lending institutions

1. Alienation of agricultural land by the banks and other lending institutions including ownership rights which passed to them as repayment of debt under contract obligations is carried out within six months after acquiring the land plot at the auction. This norm does not apply to the State land bank.

Suggested Change

Article 16. Alienation of agricultural land plots by banks and other lending institutions

1. Alienation of agricultural land by the banks and other lending institutions including ownership rights which passed to them as repayment of debt under contract obligations is carried out within two years after acquiring the land plot at the auction. This norm does not apply to the State land bank.

Discussion

The intent of Article 16 is to prevent a legal entity from avoiding other limitations on legal entities owning agricultural land by acquiring agricultural land under the guise of a bank or other lending institution. This goal is entirely appropriate.

However, the 6 month limit is too short. Virtually no financial institution would accept agricultural land as collateral if they had to sell foreclosed land within 6 month. The Suggested Change to 2 years gives sufficient time for a financial institution to realize an advantageous sale, but is too short to make it advantageous for intentional land acquisitions for the purpose of avoiding other prohibitions against business entities.

Adoption Date – Suggested Changes

Current Wording

Section V. FINAL PROVISIONS

I. This Law shall come into force after its publication, except for Item 4, Subsection II, Section V of Final Provisions, which takes effect from January 1st, 2012.

Suggested Change

Section V. FINAL PROVISIONS

I. This Law shall come into force after its publication, except for Item 4, Subsection II, Section V of Final Provisions, which takes effect from January 1st, 2013.

Discussion

The cadaster and registration systems will not be fully functional and have all data entered until the latter part of 2012. In addition, time will be required to develop implementing regulations, institutional capacity and public information campaigns to ensure maximal understanding by Ukrainian citizens prior to the law's coming into effect. Therefore, it is expedient to delay enforcement of the law until the beginning of 2013.

Anti-Speculation Tax SAME SCHEDULE version – Suggested Changes

Current Wording

Paragraph 6 of Article 3 to be supplemented with point “x” as follows:

“x) for the alienation of agricultural land (farmland) within 5 years from the date of contract for which this area became the alienator’s property:

Alienation in the first year – 100 percent of standard pecuniary valuation of land;

Alienation in the second year – 90 percent of the standard pecuniary valuation of land;

Alienation in the third year – 80 percent of the standard pecuniary valuation of land;

Alienation in the fourth year – 70 percent of the standard pecuniary valuation of land;

Alienation in the fifth year – 60 percent of the standard pecuniary valuation of land;”

Suggested Change

Paragraph 6 of Article 3 to be supplemented with point “x” as follows:

“x) for the alienation of agricultural land (farmland) for specific periods from the date of contract for which this area became the alienator’s property:

Alienation in the first year --100 percent of the difference between the price received by the Alienator and the price that had been paid when the Alienator acquired the land.

Alienation in the second year -- 90 percent of the difference between the price received by the Alienator and the price that had been paid when the Alienator acquired the land.

Alienation in the third year -- 80 percent of the difference between the price received by the Alienator and the price that had been paid when the Alienator acquired the land.

Discussion

The intent of the tax is to discourage rapid, speculative buying and selling of land. This is an appropriate goal. However, the tax, as formulated in the Draft Law, has the following drawbacks, which would be avoided by the Suggested Change:

1. Because the tax is based on a fixed amount (the standard pecuniary valuation), it would not greatly discourage speculators able to sell land for prices greatly exceeding the standard pecuniary valuation.
2. The tax would be extremely onerous for farmers who have realized financial reverses and need to sell their assets.
3. For same reason as in the preceding point the tax would greatly discourage land purchases by farmers, particularly small and medium size farmers.

Alienation in the fourth year -- 70
percent of the difference between the price
received by the Alienator and the price that

Alienation in the fifth year -- 60
percent of the difference between the price
received by the Alienator and the price that
had been paid when the Alienator acquired
the land.

November 1, 2011

EV1 w lc

Financing and Stabilizing Ukraine's Emerging Land Market

Financing and Stabilizing Ukraine's Emerging Land Market

The Government of Ukraine (GoU) intends to lift the moratorium on agricultural land sales in 2012. In the long run this will greatly contribute to the development of Ukraine's agriculture. The near and medium term prospects, however, are grim.

Without intervention, the emerging market will be characterized by land sales at prices below their inherent values due to thin markets and the weak market positions of sellers, relative to buyers. In addition to the landowners having weak market positions in the traditional sense, many are poor and elderly, hence vulnerable to deceptive, fraudulent, and/or coercive practices on the part of buyers. Farmers will face uncertainties regarding the land they will be able to control, which will have negative effects on agricultural production and investment.

Some of these concerns would hold when establishing a market for any new tradable. The establishment of the agricultural land market in Ukraine is particularly problematic because:

- Scarce capital, with few, if any, financial institutions willing to extend credit on agricultural land.
- Small landholdings, averaging 4.2 hectares, and not configured in manners conducive to be economically viable production units. There are approximately 6.8 million such units.
- The majority of the owners are elderly and many are poor. Approximately a third of the landowners live in cities distant from their land.
- The most likely buyers are farmers, few of whom would be able to purchase, outright, more than a small fraction of the land they currently lease.

Plainly speaking, without some form of intervention, due to the overall market conditions or guile, hundreds of thousands, if not millions of the current landowners will be effectively cheated out of their holdings. Farmers will face uncertainties about the land they are able to cultivate. In many cases, this will result in financial losses for those farmers and production inefficiencies, including land being taken out of production. Agricultural production could be negatively affected for several years.

The worst of these problems could be avoided. An approach to bring stability and provide financing for the emerging land market is described in this proposal. The approach involves the use of market information and owner-financing to stabilize and provide financing to the emerging land market. Ukrainian financial institutions are enlisted to arrange and monitor the owner-financing and, importantly, to introduce them to the characteristics and potentials of financing agricultural land. As these financial institutions demonstrate their capacity for arranging and managing owner-financed agricultural land sales, they will be encouraged also to offer bank financing of agricultural land. In addition to earnings potentials from holding mortgages on land purchased by farmers, there is the potential for serving urban customers who may purchase agricultural land as long term investments. Other financial entities, such as insurance companies and pension funds, will also be encouraged to consider adding agricultural land to their portfolios.

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Owner-Financing: the Only Initial Alternative

At least initially, it is likely that Ukrainian financial institutions will refrain from extending loans on agricultural land.¹ In the absence of financing, the land market will be characterized by a low level of sales. Prices paid for landholdings will frequently be below their inherent values due to weak market positions of sellers, relative to buyers. In addition to the landowners having weak market positions, in the traditional sense, many are poor and elderly, hence vulnerable to deceptive, fraudulent, and/or coercive practices on the part of buyers.

Ironically, the only meaningful source of financing is from the poorest group, the landowners. Land could be purchased over time, on Contract, using owner-financing. The landowners are accustomed to receiving annual rent payments. These rental payments could be replaced with annual installment payments for the land. Of course, the amounts of the annual installment payments would differ from the former rental payments.

Because of unfamiliarity with Contract sales and the aforementioned vulnerability of the seller, it would be necessary to provide general market information and mechanisms for structuring and monitoring the performance of Purchase Contracts.

Market and Related Information

It is difficult to convey the extent of need for information about the land market. This is true for both potential buyers and sellers, though particularly for the latter. In the absence of information about what land is selling for, isolated sellers will surrender their land for fractions of their inherent values. Without information about how to structure Contract Purchases, thousands of potential sales will either not occur or be structured in ways which disadvantage the buyers or sellers or both.

The types of information which should to be published would include:

- Average sales prices per hectare, regularly updated
- Annual payment levels for a sample of Contract terms and interest rates
- Banks and other institutions providing services for structuring and monitoring Contract purchases

Initially, before there were any realized sales, Normative Prices would be published. The two main reasons for using Normative Prices are:

1. They are readily available and endorsed by GoU.
2. The primary concern about the initial sales is that they will be for exceedingly low prices. Normative Prices are, generally, believed to be biased upward. To the extent buyers and

¹ In the current draft Land Law there is a provision requiring banks to sell any land have foreclosed upon within 6 months. If that provision remains in the law, it is doubtful if banks will extend loans on agricultural land.

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sellers give credence to the Normative Prices, it would counteract the tendency for low priced sales.

Donor support would be required to set up and, at least initially, operated the market information system.

Services to Structure and Monitor Contract Sales

Banks have expertise structuring and monitoring loans. Such services could be of value to assist sellers and buyers of agricultural land. The buyer and seller would determine the price and the Bank would set up the payment system, helping the buyer and seller to select the appropriate interest rate, if the rate should be fixed or variable, and the Contract term.

The Bank would monitor the performance of the loan. For the sake of cost and ease of verification, funds would have to be deposited into the seller's bank account.

An important part of the service would be a method for holding the deed in a secure, escrow-like manner. The deed would be returned to the Seller automatically and without recourse to legal action, if payments were delayed beyond a predetermined period. The system would also protect the Buyer from the Seller attempting to cancel the agreement even though payments are being made. To effect such a system, instead of a sale, per se, the transaction may be a lease-to-purchase agreement, with the purchase not realized until the moment the last payment is made.

Initiation of Bank Lending on Agricultural Land

After banks have become familiar with the characteristics of the agricultural land market through services involving owner-financing, they will be encouraged also to begin offering their own loans on agricultural land.

The donor community could help facilitate this progression by offering credit lines or guarantees. These should be sufficiently large to interest a bank in initiating such lending, to get their "feet wet," but would not be intended to provide long term support of these activities. A precondition for extending a credit line and/or loan guarantees should be satisfactory performance of services related to owner-financed agricultural land sales.

There may also be some scope for donors to help develop demand on the part of urban dwellers to make long term investments in agricultural land.

The potential for the types of support described in this subsection would be a strong inducement for banks to engage in services to assist owner-financed land sales.

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Pension Funds and Insurance Companies

Donors may also work to interest pension funds and insurance companies to consider holding agricultural land in their portfolios. These firms may also participate in secondary markets for agricultural land mortgages.

Field Associations

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Field Associations

Consolidation

There is considerable concern about creating mechanisms to facilitate transfer of land held by many owners to the ownership of one producer. This is most often discussed in terms of single fields, which may have as many as 100 owners. The entire field would be best utilized as a single production unit. However, having multiple owners makes it difficult to ensure that one producer will be able to exercise control.

The primary rationale, given by GoU, for Pre-emptive Purchase Rights for neighboring land owners and lessees is to facilitate Consolidation. This is also put forth, somewhat strangely, as one of the rationales for the Government having such rights.

In the draft law are provisions to force sales by all land owners in a contiguous area if at least 75 percent are willing to sell.

Inconsistencies

Provisions limiting the ability to purchase land: Simultaneous with efforts to fashion mechanisms promoting consolidation of ownership, have been the inclusion of provisions into the draft land law which will reduce the amount of land which can be purchased. These include:

- Caps on the amount of land any individual can own.
- Prohibitions against legal entities or foreigners owning land.
- A 6 month limit on the amount of time banks can hold land on which they have foreclosed. This, effectively, precludes bank financing of agricultural land.

Unless token prices are paid, it seems unlikely that many farmers will be able to purchase entire fields. Moreover, many are legally prohibited from owning all the land they cultivate due to the ownership caps.

Trends in lease lengths: Between 2001 and 2011, the incidence of longer term leases increased sharply. Of all non-State land under lease, in 2001 less than 15 percent had lease terms longer than 5 years. By comparison, in 2011, 45 percent of leased land had terms exceeding 5 years, including 11 percent over 10 years, see Figure 1. Of all private agricultural land, 37 percent had leases over 5 years, including 6 percent over 10 years, see Figure 2.

Some have interpreted the trend to longer leases as farmers and agro-holdings positioning themselves to purchase and resell land. As stated earlier, there are impediments to this in the draft Land Law. In addition, the trend to longer leases could also be due to farmers attempting to assure continued control over the areas they cultivate in the event the land changes owners. In other

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words, longer leases may be for the sake of continued leasing, rather than, necessarily, a prelude to purchasing.

Figure 1: Distribution of Leases for Privately

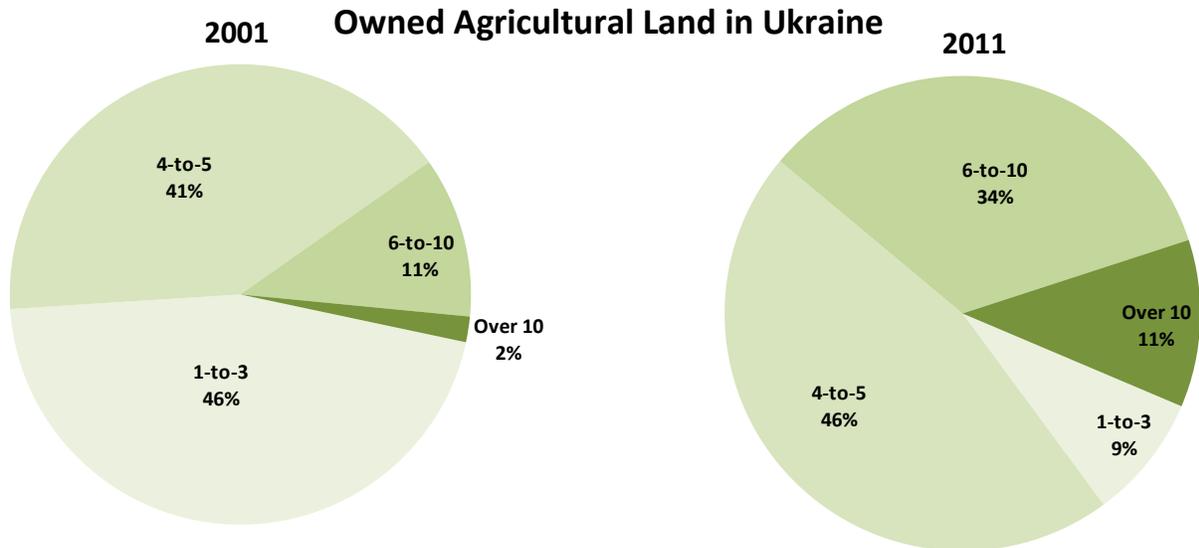
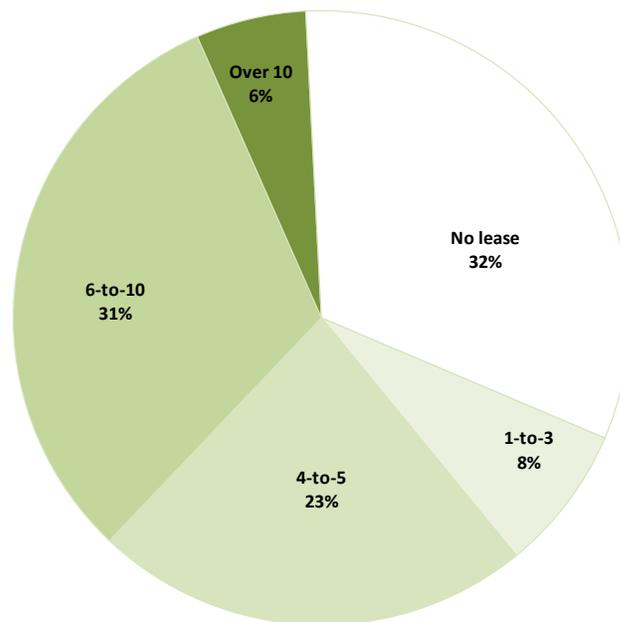


Figure 2: Distribution of all privately owned agricultural land by existence of a lease and lease term: Ukraine, 2011

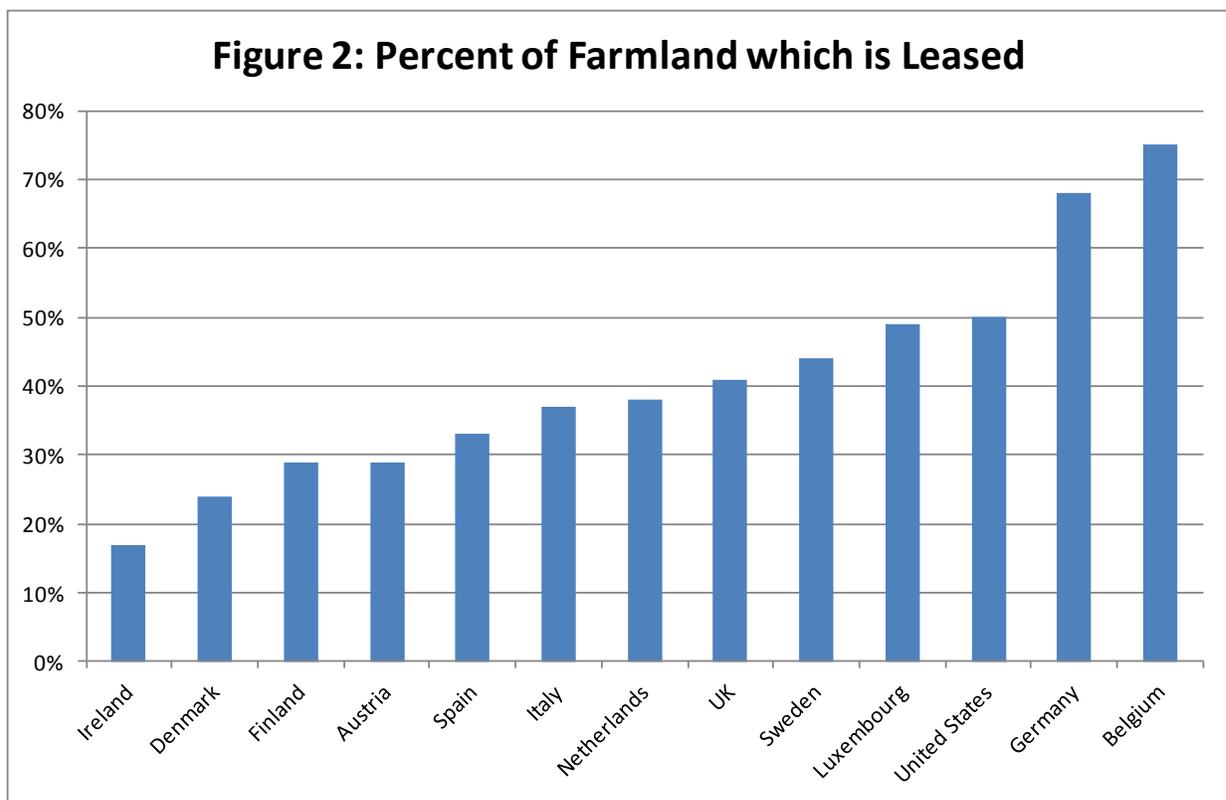


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Importance of leasing worldwide

In virtually all agricultures, including highly developed economies, leasing is an important part of agriculture. For example, about 50 percent of cultivated land in the United States is leased and reliance on leasing is even greater in some other countries, such as Germany, see Figure 2. There is no reason to believe that that would be different in Ukraine. Indeed, even with fully operational land markets, including readily available credit, it seems likely that the majority of agricultural land will be leased land for several decades to come, perhaps always. Farmers will tend to purchase those areas where they want to make fixed, long-lived investments, such as buildings, tiling, irrigation channels, and orchards. While they will purchase some other areas, leasing will always be attractive to preserve their capital and increase their ability to change production in response to market conditions. In other words, even with the legal and financial capability to consolidate ownership over a field, in many instances, a farmer will prefer to lease, rather than own, portions of the field.

Given this, provisions to facilitate Consolidation of ownership to create logical production units will have limited effect. Furthermore, they are largely unnecessary.



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Field Associations

Field Associations is an alternative approach to forced ownership changes for addressing production issues. Instead of seeking unified ownership over a field, a Field Association would manage the property, in behalf of its owners, to achieve the most favorable production pattern.

A Field Association would be a mandatory organization of lessors in a field. Much like a condominium or neighborhood association for residential property owners (or a Marketing Order in agriculture), those owning land in a field would be required to belong to the Field Association unless they were also the lessee(s). Another way of conceiving of a Field Association is that lessees would be required to deal directly with the Field Association, rather than individual landowners.

The goals of a Field Association would include:

- Reduced transactions costs negotiating leases. Field Associations may also be able to realize economies regarding the distribution and tracking of lease payments.

Particularly for lessors with limited capacities and/or located distant from the land, the managerial services inherent in Field Associations could be of considerable value. This is important as many current owners are elderly and about 30 percent of the lessors live distant from their land. In addition, many of the new owners, both descendents and urbanites purchasing the land for investment will tend to be distant from the land.

Field Associations would free lessees from having to deal with scores, sometimes even 100 individual landowners.

- Improved market power for lessors.
- **Effective separation of ownership and functionality.** Regardless of the mix or turnover of owners, lessees would deal with the same organization.

Issues & Challenges

NOTE: The reader should bear in mind, with regard to all of the following, that the lessee always could purchase areas they want to control directly.

Landholdings with different characteristics

Landholdings in the same field may differ with regard to fertility, capital (e.g., buildings and irrigation channels), and natural water resources. The Field Association will have to be able to negotiate differential lease payments for such land. Alternatively, a Field Association could negotiate a single payment for the entire field and allocate payments to its members based upon their land's characteristics. This would be much like a Dairy Cooperative paying a differential to its members based on the fat content of their milk.

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Alternative uses

New lessee: Another potential lessee may want to engage in alternative activities on part of the field. Functionally, this would split the field. Field Associations would need to have procedures to allow for this. If a split is approved, the Field Association might keep the same overall configuration and negotiate with the two lessees on their parts of the field. Alternatively, it could split into two, entirely separate Field Associations. This decision would depend upon a number of factors, including the quality of management of the existing organization and if the area splitting off would become functionally part of an area which extends beyond the original field, in other words if the areas of the fields should be redefined.

The decision whether to allow a split or not would depend upon the extent to which the split would impair the value of the remaining part of the field. **Normally, Field Associations would allow splits only if they raised the total value of leases to the owners.** While not a strict rule, Field Associations would strive to ensure that changes did not negatively affect any landowner.

Landowners wanting to engage in alternative activities: Potentially, a much thornier problem would be if one or more landowners indicated that they wanted not to renew a lease and to work the land themselves.

Potential problems include:

1. A landowner, perhaps located in the middle of a field, invoking this right to create problems for the lessee and neighboring landowners due to costs related to providing an actual easement road (these exist on paper, but not in reality). In so doing, the landowner could force a purchase of his/her land for a high price.
2. A landowner legitimately wanting to work his/her land could have the same effect on others in the field. In other words, one might claim the right to work their own land intentionally to impose costs on others. Or, that could be an unintended negative externality.
3. Another lessee circumventing the Field Association by disguising his/her relationship with the landowners as that of business partner, rather than lessee. Doing this could make sense if it avoids the above-described procedures about approving a split in the use of a field.

For these reasons, individual landowners would need to go through Field Association procedures to determine if a split were allowable. The burdens on the Field Association for refusing a split should be greater when it is a landowner wanting to work his/her land and it is clear that it is not a lessee attempting to circumvent the system. If a split were granted, the decision could not be revoked and the land would no longer be part of the Field Association. Of course, the landowner could reapply to join if, for example, the alternative use proved unprofitable.

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Lease terms

Securing agreement across the membership regarding the terms or lengths of leases may be as or more problematic than the year-to-year level of lease payments. This would be particularly true if owners in a segment of a field anticipated opportunities for a future alternative use. Such circumstances may be dealt with by having lower terms across the entire field or differential lengths for different portions of a field. The latter, of course, would not be preferable.

As a general rule, a new Field Association should strive to synchronize the expiration dates of leases across the field, at least to the degree possible.

Management

Normally, the managerial burdens for Field Associations will be light. The primary function of Field Associations would be to negotiate leases. There will be lengthy periods over which there will be no leases to negotiate. This will be particularly true as the ending dates for the leases become synchronized. Moreover, if there is a good relationship with the lessee(s), the negotiations need not be overly time consuming. Having standardized lease agreements could further lower negotiation costs. Field Associations may monitor payments, but that, too, could be essentially automatic if payments are via transfers between bank accounts. Indeed, the Field Association membership fee structure should encourage this. Or, transfers via bank accounts should be mandatory.

Field Association Management Companies: With the exception of overseeing assessments to allow fields to be split, the managerial workload for even a large Field Association may normally be as little as one-to-three hours per week.

A Field Management Company would be a firm which offers managerial services to Field Associations. Several factors suggest the potential for the emergence of Field Association Management Companies, including:

- Normal workload for a single Field Association too low to interest a qualified individual.
- Need for sufficient computer and communications skills and equipment to track lease payments. Indeed, it might prove most efficient, in some cases, for the lessee to pay a lump sum to the Field Association to be allotted among its members.
- Advantages of having standardized leases.
- Need to be prepared to handle procedures related to field splitting assessments. These would occur very infrequently, if ever, at any single Field Association. As such, it would be exceedingly difficult for a manager of a single Field Association to initiate such proceedings.

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Moreover, with little or no experience in these proceedings, the potential for decisions contrary to usual practice would be high.

A single Field Management Company might provide services for several hundred Field Associations. Much like management firms for apartment buildings, the firms might also assist landowners wishing to sell their property.

Use of a Field Management Company would not be required. A Field Association might decide to manage all of its functions internally, to outsource some services to a Field Management Company, or to hire a Field Management Company to provide a full range of management services, subject, of course, to periodic contract renewals and cancellation with cause. The terms and ranges of services the members of a Field Association select from a Field Management Company would depend upon:

1. The desire and capacity of the owners to maintain day-to-day control of their properties.

This will depend upon such factors as the number of owners in the Field Association; their health, other time commitments and technical training; and the proportion living in close proximity to their land.

2. The relative costs of providing services by the owners, themselves, versus a Field Management Company.

Some services, such as tracking lease payments may be exceedingly low cost through Field Management Companies with adequate IT equipment and expertise. In other cases, for example, responding to owner grievances against lessees, it could be more cost-effective to have an on-site sub-committee of owners.

Field Management Companies might be of particular value to assist Field Associations in renegotiating leases and to assess requests to split fields. As these events will occur infrequently for any single Field Association, it would be difficult for the owners to maintain the relevant information and expertise. Field Management Companies may be able to provide such expertise.

Producer Organization Training Report

“Development of business plans of economic activity of unions of agricultural goods producers (using the example of the business plan of an agricultural servicing cooperative)”

Training date: October 21, 2011.

Training location: City of Simferopol.

Purpose of training: To provide training in the development of business plans of agricultural servicing cooperatives for the purpose of preparing draft proposals for submission to the AgroInvest grant contest; as well as for planning and implementation of their own business activities. In addition, participants were instructed in developing business plans for the organization of agricultural producers. The training addressed development of cost of services, marketing plans, and profit distribution.

24 participants took part in the training, including 10 women.

This training constitutes the second stage of training for organizations of agricultural producers. As the result of the training, representatives of producer organizations (primarily represented by agricultural servicing cooperatives) gained knowledge in the fundamentals of development of business plans for an agricultural servicing cooperative. The focus of the training was to deliver practical knowledge while also providing theoretical information. Participants had the opportunity to apply this training by filling in sections of the business plan as well as receive additional consultation from instructors.

This training will assist participants in completing project proposals for participation in the AgroInvest grant contest aimed developing agricultural producer organizations' value chains.

In an effort to inform future work of Component 3, participants were polled on the need for additional training. Their responses indicated the following priorities for future training: “Marketing plan elaboration”, “Technology of output production and storage” and “Financial management and reporting of an agricultural servicing cooperative”. Further analysis in this area should be conducted to identify future training needs and develop a plan to further improve the capacities of producer organizations.

Producer Organization Training Report

“Elaboration of business plans of economic activity of unions of agricultural goods producers (at the example of the business plan of an agricultural servicing cooperative)”

Training date: October 26, 2011.

Training location: City of Dnipropetrovsk.

Purpose of training: To provide training in the development of business plans of agricultural servicing cooperatives to prepare draft proposals for submission to the AgroInvest grant competition, as well as plan and implement their own business activities. In addition, participants were instructed on how to develop business plans for agricultural production organizations. The training addressed development of cost of services, marketing plans, and profit distribution.

15 participants took part in the training, including seven women.

This training constitutes the second stage of training for organizations of agricultural producers. As the result of the training, representatives of producer organizations (primarily represented by agricultural servicing cooperatives) gained knowledge in the fundamentals of development of business plans for an agricultural servicing cooperative. The focus of the training was to deliver practical knowledge while also providing theoretical information. Participants had the opportunity to apply this training by filling in sections of the business plan as well as receive additional consultation from instructors.

This training will assist participants in completing project proposals for participation in the AgroInvest grant competition aimed at developing value chains for agricultural production organizations.

In an effort to inform future work of Component 3 of the AgroInvest project, participants were polled on the need for additional training. Their responses indicated that the priorities for future training should be: “Marketing plan elaboration”, “Technology of output production and storage” and “Financial management and reporting of an agricultural servicing cooperative”.

The majority of respondents pointed out lack of experience and knowledge in conducting independent market research, as well as the need for additional knowledge and skills in delivering new types of services of producer organizations.

Further analysis in this area should be conducted to identify future training needs and develop a plan to further improve the capacities of producer organizations.

After trainings were conducted in the two regions, it seemed most expedient to involve additional expert consultants in the following areas:

- Development of the technological model of refrigeration and storage of fruits and vegetables (vegetable store cellars, freezer compartments),
- Marketing of agricultural produce (vegetables and fruits) sale,

- Product certification and development of brands and logos of producers of goat cheese, cow hard pressed cheese, vegetables and fruits, etc.

Producer Organization Training Report

“Elaboration of business plans of economic activity of unions of agricultural goods producers (at the example of the business plan of an agricultural servicing cooperative)”

Training date: November 11, 2011.

Training location: the city of Vinnytsya.

Purpose of training: To provide training in the development of business plans of agricultural servicing cooperatives for the purpose of preparing draft proposals for submission to the grant contest of the AgroInvest project; as well as for planning and implementation of their own business activities. In addition, participants were instructed in developing business plans for the organization of agricultural producers. The training addressed development of cost of services, marketing plans, and profit distribution.

24 participants took part in the training, including five women.

This training constitutes the second stage of training for organizations of agricultural producers. As the result of the training, representatives of producer organizations (primarily represented by agricultural servicing cooperatives) gained knowledge in the fundamentals of development of business plans for an agricultural servicing cooperative. The focus of the training was to deliver practical knowledge while also providing theoretical information. Participants had the opportunity to apply this training by filling in sections of the business plan as well as receive additional consultation from instructors.

This training will assist participants in completing project proposals for participation in the AgroInvest grant competition aimed at development of value chains of agricultural producer organizations.

In an effort to inform future work of Component 3 of AgroInvest, participants were polled on the need for additional training. Their responses indicated that the priorities for future training should be: “Marketing plan elaboration”, “Technology of output production and storage” and “Financial management and reporting of an agricultural servicing cooperative”.

The majority of respondents pointed out lack of experience and knowledge in conducting independent market research, as well as the need for additional knowledge and skills in delivering new types of services of producer organizations.

Further analysis in this area should be conducted to identify future training needs and develop a plan to further improve the capacities of producer organizations.

Report
on the round-table discussion
“Elaboration of Agrarian Market Infrastructure in the Kherson Region:
Problems and Ways of Solving Them”

Date	December 05, 2011
Place	The city of Kherson, 20 Perekopska St., Business House “Bordo”.
Aim	Discussion and elaboration of the draft program of joint actions of all stakeholders in the creation of a wholesale market of agricultural produce.
Participants	The 58 participants of the roundtable included: Deputy Head of Kherson Regional State Administration; representatives of the local authorities; farmers; and leaders of the unions of Bilozersk, Hola Prystan, Skadovsk, Kakhovka and Tsyurupynsk districts.
Issues of discussion	<p>The round-table participants considered and held discussions on the following issues:</p> <ul style="list-style-type: none"> • World experience in the creation and organization of agricultural produce wholesale markets • Market requirements pertaining to the supply of fruits, vegetables and other produce • Production and sale of agricultural produce • Creation of the physical market in terms of infrastructure (raw materials) • Fundamentals of the integration of agricultural produce wholesale markets with producers of agricultural produce and their unions
Result:	<p>As a result of the discussions, three main directions of development of the agrarian market infrastructure in the Kherson region have been determined in terms of cooperation with AgroInvestt:</p> <ul style="list-style-type: none"> • Technical support of producer organizations in the implementation of projects jointly with the wholesale market of agricultural produce “Yantar” in the creation of local logistic capacities for storage, pre-sale preparation (packaging, sorting, etc.) and primary processing of fruit and vegetable produce in five areas of its concentrated production; • Creation of a national market information system in the sphere of fruit and vegetable produce on the basis of Kherson wholesale market of agricultural produce “Yantar”. • Creation of a national electronic trade platform and fruit and vegetable exchange/auction on the basis of the Kherson agricultural produce wholesale market of “Yantar”.

Report
on the training

“Improvement of Access of Small and Medium Agricultural Producers to Output Sale Markets”

Date of holding: December 21, 2011.

Place: The city of Rivne, 1 Prosvita Maydan, Hall of Rivne Regional State Administration

Trainer: Mykola Hrytsenko, Market Infrastructure Component Leader, USAID AgroInvest Project.

Aim of training: To improve the level of knowledge of farmers and leaders of producer organizations regarding marketing fundamentals and to elaborate programs of capacity building in the sphere of formation of logistic channels of agricultural produce movement and improvement of access to its sale markets.

20 people participated in the training, including 7 women.

The training was conducted for farmers of the Rivne region, and during the session, three main directions for the development of capacity improvement programs were identified. These areas of focus include: small and medium producers in the sphere of sale of fruits and vegetables; animal products; and cooperation in the sphere of the creation of a Rivne agricultural produce wholesale market.

During the training the main approaches and plans for the elaboration of producer organizations' capacity improvement programs in terms of services provision of their members was also determined and substantiated.

The participants of the training received the task of preparing input (financial and technical) for the elaboration of specific business plans during the second stage of the training, which is scheduled to take place in January 2012.

Issues relating to the strategy of integrating the economic activity of producer organizations with the economic activity of the agricultural produce wholesale market, which is planned to be constructed in 2012, was also discussed during this training.

Report
on the round-table discussion
“Development of Innovation Incubator Torchyn Agropark and Integration of its Activity with the Producer Organizations”

Date: December 22, 2011

Place: Village of Torchyn, Torchyn Village Council, 103 Nezalezhnist St Lutsk District, Volyn Region

Facilitator: Oleksandr Koltunovych, Advisor/Consultant to the Head of Lutsk District Council.

Aim: To improve of the awareness of farmers and leaders of producer organizations of the main trends and prospects regarding the development of agrarian market infrastructure aimed at the formation of added value for agricultural produce for its producers, elaboration of the programs of increasing the capacity of small and medium producers in the sphere of formation of logistic channels of movement of the grown agricultural produce and improvement of access to its sale markets.

Participants: Agricultural producers, businessmen, representatives of Volyn Regional Council, Volyn Regional State Administration, Lutsk District Council, Torchyn Village Council, Volyn Regional Centre of Investment and Development, Public Organization “TorchynAgropark”.

Issues of discussion:

- General review of the agricultural produce market infrastructure in Volyn region and Lutsk district including prospects for its development;
- Key problems in the sphere of storage and sale of agricultural produce;
- Trends in the development of markets of agricultural produce and formation of added value for the produce;
- Main principles of integrating small and medium agricultural producers, entrepreneurs and other subjects of agricultural markets in the sphere of forming efficient channels of agricultural produce sales;
- Prospects of implementation of the “AgroCity” construction project in the urban village of Torchyn as an important element of the market infrastructure of the region as well as integration of its activity with that of the producer organizations.

Result: With the participation of economic producers of the Lutsk district, village heads, representatives of Volyn Regional and the Lutsk District State Administrations, discussions were held pertaining to the issue of creating a logistics center (AgroPark) in or near the village of Torchyn. On the basis of the results of discussions a task force was created to further work on the elaboration of the investment and ultimate construction of AgroPark. Possible opportunities for cooperation with the AgroInvest Project for the development of the AgroPark were also discussed

Events and Presentations

In the reporting period, USAID AgroInvest team used every opportunity to spread a word about the project, its goals and activities.

As mentioned above, the first round of the All-Ukrainian Media Campaign was conducted in October-December 2011, and an important element of this campaign was presenting USAID AgroInvest to local and central media. At each of the five events organized as part of this campaign, the project was presented in its entirety. COP/DCOP presented the overall goal of the project and component leaders/experts presented each component in-detail. Also, journalists had opportunity to ask additional questions on USAID



At a press conference in Vinnytsia
November 10, 2011

AgroInvest's activities/plans at the press conferences which were an essential part of the events. As a result, **279 journalists** from **15 regions** received a comprehensive picture of all aspects of USAID AgroInvest's activities, and this information was passed to a wide public through publications in printed media, TV and radio programs (a total of 135 media appearances, with an estimated readership of 5.5 mln).

In addition to this, the following public events were organized by USAID AgroInvest and/or joined/supported in the reporting period.

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

- On October 17-18, the USAID AgroInvest Project sponsored the 2nd Ukrainian Grain Congress organized by the Ukrainian Grain Association and a leading news agency APK-Inform. Leading experts in the grain market of Ukraine made presentations at the Congress. About 200 guests came from the USA, EU, and Brazil. Representatives of the Parliamentary Committee of the Verkhovna Rada Committee on Agrarian Policy and Land Relations, the Presidential Administration of Ukraine, Ministry of Agricultural Policy and Food, Ministry of Economic Development



At the 2nd Ukrainian Grain Congress
October 17, 2011

and Trade of Ukraine, USDA, GAFTA, International Grains Council (IGC), European Bank for Reconstruction and Development (EBRD), Ukrainian Agrarian Confederation and other well-known Ukrainian and international organizations took part in the Congress.

- On October 21, 2011, USAID AgroInvest organized a roundtable on the Land Market Law. Representatives of the Ukrainian Agrarian Confederation, Union of Agricultural Service Cooperatives, Union of Participants in Agrarian Servicing Cooperatives, All-Ukrainian League for Facilitation of Land Market Development, All-Ukrainian NGO “Women Farmer Council of Ukraine”, “My Land” Resource Center, lawyers, and scientists took part in the roundtable.



- On November 7, 2011, USAID AgroInvest supported the roundtable entitled *Which Land Reform Does Ukraine Need? Philosophy and Contradictions of the Second Phase* organized by the National Academy of Sciences. Leading Ukrainian academics and a number of independent experts discussed the current phase of land market development, the pros and cons of lifting of moratorium on agricultural land sales and the regulations that need to be put in place for the land market to be efficient and transparent.

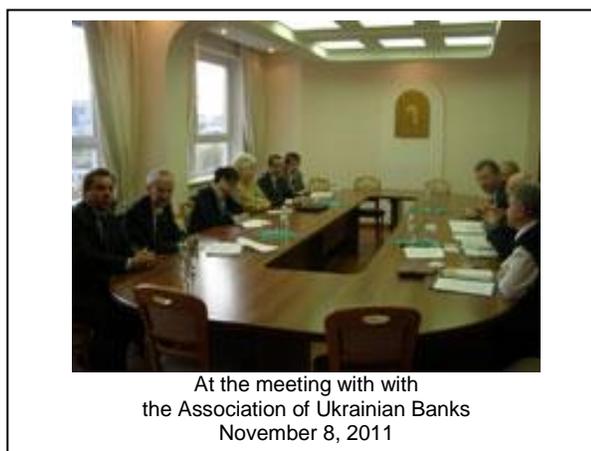


- On December 1, 2011, USAID AgroInvest took part in a roundtable in Kyiv organized by “Expert” weekly to discuss the draft law “On Land Market”, the law “On State Land Cadastre,” and risks for agricultural producers dealing with the lifting of the moratorium on sale of agricultural land. Project management stated the USAID AgroInvest positions on the draft Agricultural Land Law and engaged in discussion of these and other potential revisions. This event was one of a series of meetings held with representatives of the Parliamentary Committee for Agriculture, Ministry of Agrarian Policy and Food and State Land Agency, at which project-supported revisions to the draft law “On Land Market” were presented and discussed.
- On December 15, 2011, USAID AgroInvest organized a roundtable discussion entitled *Ukrainian Land Market Development after the Land Sales Moratorium is Lifted*. At the round table, about 70 journalists from Cherkasy, Chernihiv, Kyiv, and Zhytomyr oblasts and the city of Kyiv had an opportunity to meet with top

- decision-makers and representatives of civil society to hear their thoughts about land reform and its impact on rural development and agri-business.
- On December 15, 2011, USAID AgroInvest, in partnership with the Ukrainian Futures Exchange and CME Group, held a follow-up workshop for mass media on “Commodity Derivatives: Terminology, Concepts, Mechanisms and Platforms”, to help journalists better understand modern approaches to manage pricing risks and instruments used to hedge risks, in particular with respect to agricultural commodities.

Component 2: Access to Finance

- On October 14, 2011, USAID AgroInvest experts made a presentation at a seminar *Risk Management of Crops and their Insurance* organized by ART Grain. The seminar was attended by banks and agricultural producers.



- On November 8, 2011, USAID AgroInvest management met with the Association of Ukrainian Banks (AUB). The meeting was attended by Alexander Sugonyako, President of the Association, Volodymyr Bondar, his Vice President and a number of advisors. The purpose of the meeting was to discuss prospects of cooperation with the Association of Ukrainian Banks in the sphere of access to finance and land market reform. Constructive discussion took place regarding possible cooperation of Ukrainian banks and AgroInvest to finance agricultural producers and develop of agri-finance instruments. The parties agreed that facilitation of access to finance for agricultural producers is an important component of economic development of Ukraine and agreed that AUB would approach its member banks to establish which were interested in further cooperation with AgroInvest in the sphere of agricultural SMP financing.



- On November 9, 2011, USAID AgroInvest made a presentation at the conference of the Zaporizhyya Credit Union Association to present the project to association members and discuss the Action Plan for credit union development in Zaporizhyya

Oblast. Representatives of 11 credit unions from Zaporizhyya and Dnipropetrovsk oblasts took part in the discussion. Separate working meetings were held with five of the more active and interested credit unions in Zaporizhyya Oblast.

- On December 7, 2011, USAID AgroInvest and the Ukraine National Association of Credit Unions (UNASCU) conducted a round table on agri-lending. The roundtable was attended by leadership of 29 credit unions from 12 oblasts – participants of the Agri-Lending Task Force established by UNASCU to include member credit unions most active in providing credits to small agricultural producers in the AgroInvest support program. At the roundtable, credit unions shared their experience in agri-lending and discussed ways to expand the amount of lending and number of borrowers in the agri-SMP segment. As a result of discussion, a joint AgroInvest UNASCU work plan for 2012 was approved.



- On December 9, USAID AgroInvest access to finance specialists engaged in a round table on access to finance for small and medium producers in Brody Raion, Lviv Oblast. The roundtable was initiated by credit union "Samopomich" (Brody) supported by the local government of the raion. "Farmers in our region need this information very much," stressed Dana Andriyishyn, Chairperson of the credit union.

- On December 14, 2011, USAID AgroInvest, All-Ukrainian Association of Credit Unions (VAKS), and union of credit unions "Deposit Guarantee Program"

- conducted a round table on agri-lending. The roundtable was attended by leaders of 33 credit unions – participants of a standing Agri-Lending Task Force established by VAKS/PZV credit unions active in providing credits to small agricultural producers from 14 oblasts of Ukraine. At the roundtable, credit unions shared their experience in agri-lending and discussed ways to expand the amount of lending and the number of borrowers. As a result of the discussion, a work plan for 2012 was approved.



- On December 17, USAID AgroInvest access to finance specialists engaged in a round table on access to finance for small and medium producers in Kamyanka Raion, Cherkasy Oblast. The roundtable was initiated by credit union "Credit-Soyuz" (Cherkasy) and attended by 40 farmers from the Kamyanka Raion. The

round table focused on such topics as access to finance, risk management, use of land as collateral, and ways to make financial resources cheaper.

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

- On October 4, 2011, USAID AgroInvest took part in a workshop organized by the SWAP Project Harmonization of Legislation and Policy of Agricultural Servicing Cooperatives Development in Ukraine in line with EU Standards; Bilateral Exchange of Information and Experience. The workshop focused on sharing information on EU legislation and practical approaches to the establishment and operation of “producer groups,” “producer organizations,” and “producer associations.”
- On October 5, 2011, USAID AgroInvest took part in roundtable *Improvement of Slaughter Conditions in Ukraine* organized by the Ministry of Agrarian Policy and Food and SWAP Project. The round table focused on problems of cattle slaughtering and approaches to resolve these problems in Ukraine and in EU member states.
- On October 11, 2011, USAID AgroInvest conducted a round table discussion in Ivano-Frankivsk entitled *Establishment and Organization of the Wholesale Market of Agricultural Products in the Ivano-Frankivsk Region*. The round table was attended by farmers, managers of agricultural service cooperatives and their regional associations, owners of logistics facilities, oblast and rayon state administrations. In total, 34 people attended. The discussions identified a number of interesting projects related to market infrastructure at the local level, which can be implemented with the technical support of USAID AgroInvest.
- On October 13, 2011, USAID AgroInvest took part in the International Scientific Conference *Innovation Processes in Extension Services: Problems and Prospects*. Representatives from Russia, Italy, Turkey, Finland, Portugal and a number of regions took part in the meeting. The main emphasis of the discussion was made on the issues of information and consultancy support to farmers and increasing their knowledge in the areas of marketing and sales of agricultural products.
- On October 19, 2011, USAID AgroInvest took part in a round table on the development of agricultural service cooperatives in Ukraine. The roundtable was organized on initiative of international technical assistance projects with financial support from CIDA. At the roundtable, technical assistance projects discussed practical issues and approaches to the development of agricultural services cooperatives in Ukraine and joint efforts of the projects aiming at support to producer organizations. Proposals developed based on this fruitful discussion will be provided to the Ministry of Agrarian Policy and Food of Ukraine and discusses on October 28, 2011.
- On October 21, 2011, USAID AgroInvest conducted a round table discussion in Simferopol entitled *Establishment and Organization of the Wholesale Market of Agricultural Products in the Crimea*. The round table was attended by the Ministry of Agrarian Policy and Food of Crimea, deputy heads of rayon administrations of all 13 raions, farmers, managers of agricultural service cooperatives, businesses – potential investors in market infrastructure projects. In total, 40 people attended, including 10 women.

The goal of the round table was to identify main areas of work to develop market infrastructure in Crimea, develop a program for joint activities by all stakeholders to establish the wholesale and local markets, as well as logistics objects. Other goals were to attract producers, traders and other potential agrarian market operators to take part in the implementation of the aforementioned program and to increase awareness level of the participants and to take into account their suggestions dealing with the establishment and operation of market infrastructure facilities.

One interesting idea put forward at the round table was to support establishment of the Market Information System (MIS) and a specialized cattle market with a slaughtering center.

- On October 27, 2011, USAID AgroInvest took part in the round table organized by the Ministry of Agrarian Policy and Food and Canadian Embassy for representatives of international technical assistance projects that focus on support of the development of producer organizations, including agricultural service cooperatives. The meeting was helpful as a forum for sharing knowledge and expertise among technical assistance projects and discussion of problems faced by Ukrainian cooperatives and approaches to resolve those problems.
- On October 28, 2011, USAID AgroInvest took part in a workshop and discussion on the development of the outline of the sector program *On Areas of Development of Agricultural Service Cooperatives in Ukraine for the Period till 2020*. The event was organized by the Policy Reform and Implementation Support Mechanism (PRISM) Project supported by CIDA, which took place in the Ministry of Agrarian Policy and Food. As a result of discussion of international experience of agricultural cooperation, areas of development, and mechanisms of state support to agricultural service cooperatives in Ukraine, an outline of the future Sector Program “On Areas of Development of Agricultural Service Cooperatives in Ukraine for the Period till 2020” was proposed by the participants.
- On November 1, 2011, USAID AgroInvest took part in a Train-the-Trainer session entitled *Rural Development – Leader Program, Local Business Planning, SWOT and Strategic Development* organized in conjunction with the EC SWAP Rural Project. Importantly, the training presented EU practices dealing with the development of Strategic Development Programs and Business Plans for Local Rural Development Projects, including market infrastructure as an element for the formation of value added for a locality.
- On November 2, 2011, USAID AgroInvest took part in a roundtable *Supply Chain of Refrigerated and Frozen Produce in the Fruit and Vegetable Sector: Current Issues and Best Practices* which was organized as part of the exhibition entitled *Freezing and Refrigeration of Fruits and Vegetables* and made a presentation *Challenges and Solutions for the Formation of Cold Supply Chain for Small and Medium Agricultural Producers*. The project also presented its approaches to the formation of cold chains of fruits and vegetables based on small and medium producers (SMPs) organized in agriculture service cooperatives and marketing groups. Roundtable participants concluded that SMP capacity has to be built with a view to establishing an efficient cold chain for storage and marketing of fruits and vegetables as both hyper/super markets and producers are interested in this.

To this end, USAID AgroInvest will try to develop pilot models of cooperation between producer organizations and Metro Cash and Carry.

- On November 4, 2011, USAID AgroInvest took part in a roundtable *Markets and Farmers' Access to Markets* in Lviv organized in conjunction with the EC SWAP Rural Project and the AgroLviv Project. USAID AgroInvest made a presentation on *Improving the Access of Small and Medium Producers to Market Infrastructure* with a view to familiarize project supported farmers from the Ivano-Frankivsk, Vinnytsia and Rivne regions with the experience of cooperation of the Shuvar market with producer organizations in order to facilitate access to market.
- On November 29, 2011, USAID AgroInvest took part in the organization of the roundtable entitled *Livestock Markets in Ukraine: Problems and Prospects*, held at the livestock market *Charodij* (Zhashkiv, Cherkasy Oblast). The round table discussed problems of meat cattle, formation of infrastructure for the sale of live cattle, development of slaughter and service points, and formation of "cold" chain of wholesale distribution for meat products. As a result of the discussions, two key areas for follow-up were identified, as follows:
 - prepare a strategy for the development of the wholesale livestock market *Charodij*;
 - develop laws and regulations on the establishment and organization of wholesale livestock markets.
- On December 1, 2011, USAID AgroInvest took part in the international forum on Agri-logistics in Rivne, organized by the Rivne Oblast Administration with support from the Ministry of Agrarian Policy and Food, to discuss the outlook for the development of the agricultural sector, improvement of the competitiveness of agri-business and issues in the sphere of transport and agri-logistics infrastructure. As part of the forum, the Project made presentations during two plenary sessions: "Development of the agricultural complex of Ukraine. Impact on the international market" and "Development of transport and agri-logistics infrastructure". Project management and specialists also took part in working groups developing a strategy for engagement of SMPs in agri-logistics infrastructure development in Rivne Oblast, where the project will be supporting SMP engagement in the planned agricultural wholesale market.



At the Charodij Livestock Market
November 29, 2011, Zhashkiv

- On December 5, 2011, USAID AgroInvest organized and conducted a round table in Kherson entitled *Creating Infrastructure for the Agrarian Market in Kherson Oblast. Problems and Approaches*. The Deputy Head of Kherson Oblast State Administration,



At the Agrologistics Forum
December 1, 2011, Rivne

representatives of local governments, management of the newly formalized Kherson Oblast Wholesale Market (“Yantar”) and farmers and leaders of producer organizations of Bilozerskiy, Golapristanskiy, Skadovskiy, Kakhovskiy and Tsyurupinskiy raions took part in the roundtable.

As a result of the discussion, three main joint initiatives in the sphere of agricultural market infrastructure development in Kherson Oblast in cooperation with USAID AgroInvest were identified, namely:

- 1) Technical support to producer organizations on the implementation of joint projects with wholesale market "Yantar", dealing with the establishment of local logistics facilities for storage, packing, sorting and processing of fruit and vegetable in the five raions where most fruits and vegetables are produced;
- 2) Creating, on the basis of the Kherson wholesale market "Yantar", a national market information system (MIS) on fruits and vegetables;
- 3) Creating, on the basis of the Kherson wholesale market "Yantar", a national electronic trading platform and a fruits and vegetables stock exchange / auction.

- On December 15, 2011, USAID AgroInvest co-organized the Second All-Ukrainian Public Hearings entitled "Rise and Development of Agricultural Service Cooperatives of Ukraine." The objective of this event was to identify problems which hinder development of agricultural service cooperatives and prepare recommendations for the further growth of agricultural service cooperatives.



At the Public Hearings
December 15, 2011, Kyiv

The event was co-organized by the Union of Agricultural Service Cooperatives of Ukraine, Kyiv Regional Union of Consumer Cooperatives, International Charity Organization "Welfare of Communities," MEDA's Ukraine Horticulture Development Project, and Association of Farmers and Private Landowners of Ukraine.

The Second Public Hearings were attended by over 400 representatives of agricultural service cooperatives, Ukoopspilka, Ukraine National Association of Credit Unions, government officials, representatives of science and education

institutions, civic and professional organizations, think tanks, international organizations, international technical assistance projects, and media.

As a result of the Public Hearings, an appeal to the government of Ukraine was approved regarding the status of agricultural service cooperatives, and how to improve the legal framework and enhance institutional support agricultural service cooperatives to develop more efficiently.

- On December 20, 2011, USAID AgroInvest took part in a round table entitled *Farmers' collective forms of agricultural business: experience of France and how it can be adopted for Ukraine* organized by the Institute of Economics and Forecasting of the National Academy of Sciences of Ukraine. The round table focused on the mechanisms of establishment of cooperative organizations for operating land plots owned by the members of cooperatives. This issue is very important nowadays as an approach to increasing the profitability of agri-business.
- On December 22, 2011, USAID AgroInvest conducted a round table in the village of Torchyn, Volyn Oblast, entitled *Development of the Innovation Incubator TorchynAgropark and Integration of Producer Organizations in its Operation*. The round table, attended by agricultural producers of the Lutsk Raion, village mayors, and officials from the Volyn Oblast and Lutsk Raion State Administrations, discussed the establishment of a logistics center in the form of an AgroPark and possible ways of participation for SMPs, producer organizations, and USAID AgroInvest. As a result of the discussion, a Task Force was established on the development of an investment project with the view of constructing the logistics center.
- On December 23, 2011, USAID AgroInvest took part in a workshop *Methods of Pre-processing and Cooling of Vegetables*. The workshop was organized by USAID LINC project with support of Gromada Credit Union and Astra Group. The training was attended by small and subsidiary farmers, who obtained information on the requirements to economic substantiation of the efficiency of quality systems for cooled produce, basics of marketing, access to finance, etc. This training was essential for establishing partner relations between small producers of the Kherson Oblast and logistics enterprises.



At the round table on innovation incubator, December 22, 2011, Torchyn