



USAID | **Ukraine AgrolInvest**
ВІД АМЕРИКАНСЬКОГО НАРОДУ

Strategic Plan for Developing the Agriculture Produce Market Infrastructure

Component 3, Task B

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Abbreviations

| | |
|------|---------------------------------------------------------|
| FS | Feasibility study |
| GOU | Government of Ukraine |
| IFC | International Finance Corporation |
| IH | Individual homesteads |
| MAPF | Ministry of Agrarian Policy and Food |
| NGO | Non-government organizations |
| OSA | Oblast state administration |
| P3DP | USAID Public-Private Partnership Development Project |
| PO | Producers organizations |
| SMP | Small and medium-sized producers of agriculture produce |
| USA | United States of America |
| WMAP | Wholesale markets of agriculture produce |
| WTO | World Trade Organization |



Executive Summary

This Strategic Plan for Developing Agricultural Produce Market Infrastructure has been developed according to USAID AgroInvest Project Terms of References and major principles set forth by the Presidential Program for Economic Reforms, specifically, the Program for Ukrainian Rural Development until 2015. “Developing the agrarian market infrastructure and the network of wholesale markets of agriculture produce in particular is an essential component of this program”. The Ministry of Agrarian Policy and Food of Ukraine estimates that commissioning the network of such markets will help Ukraine mobilize over UAH 10 million investments in the agrarian market infrastructure, and export of Ukrainian agriculture produce will generate extra revenues of over UAH 200 million every year. The government strategy for developing wholesale markets of agricultural produce aims at improving marketing of domestically produced fresh fruit and vegetables that comply with international food quality and safety standards and increasing sales of such produce to Ukrainian consumers.

IFC/Ukraine specialists indicate that some five million tons of fresh fruit and vegetables are lost every year due to poor harvest, postharvest handling, and marketing practices. The monetary value of these losses exceed one billion US dollars and more importantly, require Ukraine to import fresh fruit and vegetable products for which it has the capacity to produce domestically. Moreover, IFC surveys show that as little as 4%, 10%, and 19% storage facilities for potato, other vegetable, and fruit, respectively, comply with modern requirements. Their analysis suggests that Ukraine needs new cold storage facilities for approximately four million tons of potato, one million tons of other vegetables, and 498,000 tons of fruit. The provision of modern cold storages located within logistics centers and at strategic producer and physical market sites is identified by these studies as a key constraint to transforming Ukraine into a net fresh produce exporter. Currently, Ukraine is a net fresh produce importer for many products for which it has a comparative advantage based on climate and soil conditions.

In addition to lack of modern storage infrastructure, informed estimates suggest that formal retail market outlets distribute from less than 10 percent to no more than 25 percent of basic agriculture produce (potato, onion, beet, carrot, cabbage etc.). Most of these vegetables are still sold at traditional urban and rural retail markets lacking in modern storage and distributional facilities. Market managers and other specialists indicate that total sales volume through these markets has been increasing since the economic downturn resulting from the 2008 global recession and this is confirmed by recent IFC studies. At the same time, while total sales of vegetables through supermarkets and other retail stores are relatively small, significant supermarket sales increases are being recorded in larger cities and urban centers. This trend is particularly



true for the growing number of young families who do not have an established loyalty to the traditional markets and is likely to gain momentum in the future.

As mentioned above, the new wholesale markets of agriculture produce are expected to increase sales of fresh fruit and vegetables that are produced domestically, and comply with international quality and safety standards. Achieving this goal will help Ukraine solve the current problem of low quality domestically produced fresh fruit and vegetables in supermarkets and other retail outlets and the AgroInvest Market Infrastructure sub-component is designed to support this MAPF policy goal.

The Strategic Plan is developed based on the following considerations:

- There is currently no clearly stated concept or comprehensive national approach to developing an integrated agricultural market infrastructure. However, initial program documentation refers to construction of 25 new regional markets using as a model the Lviv (Shuvar) market that has successfully evolved since the beginning of the new millennium. Recent program documents include the June 01, 2011 MAPF resolution authorizing first phase implementation of seven wholesale markets to be built in Kyiv, Kharkiv, Donetsk, Lviv, Odesa, Zaporizhya, and Kherson. In addition, Cabinet of Ministers Instruction # 761 dated July 27, 2011 authorized allocation of UAH 200 million from the state budget for the purpose of developing wholesale markets in Kyiv, Donetsk, Lviv, Kharkiv, and Chernihiv;
- The MAPF (<http://www.minagro.gov.ua/news/?pg=12221>), indicates that wholesale markets of agriculture produce (WMAPs) are set up and operated as public-private partnerships (PPPs). However, guidelines are not available defining this term and to date, the process for selecting private sector partners has been neither transparent nor competitive. Moreover, information on actual market owners/shareholders or the market capital structure is not available;
- The lack of an articulated conceptual strategy creates a logical disconnect between the new market structures and the existing village/urban retail markets and wholesale/retail markets that now inadequately serve the AgroInvest SMP target growers. However, as the new market being developed in Kyiv incorporates innovations introduced in the Lviv (Shuvar) market designed to address this constraint, the development direction of the new markets can be described as tentatively positive, but lacking a national strategy focus and design.

The lack of a national integrated agricultural market infrastructure strategy remains a major constraint to developing an efficient nationwide fresh agricultural produce market system that includes programs and physical infrastructure at local, sub-regional, and regional levels to facilitate SMP market access. AgroInvest will develop a strategy paper in order to provide MAPF and others with a transparent statement of the AgroInvest Market Infrastructure Development strategy with the idea that it can be adopted and



implemented in whole or in part by the MAPF. The strategy paper will address the following actions that constitute the Component 3.2 Implementation Strategy:

- Integrate the current system of local, sub-regional and regional market infrastructure with the emerging regional WMAPs;
- Implement market procurement strategies, grower and market site logistic centers (including packinghouse and cold storage facilities) and extension and outreach grower training capacity at selected WMAP market development areas to facilitate large scale SMP and PO product access;
- Use internationally recognized public-private partnership mechanisms in the processes of construction and operation of market infrastructure facilities to promote private sector selection transparency;
- Introduce democratic market management approaches.

The Strategic Plan does not envisage any direct AgroInvest Project financial support of WMAP development that is already under construction in Donetsk, Kyiv, and Lviv. However, should opportunities, such as introduction of market located SMP extension and outreach training, become viable at these particular sites, AgroInvest will evaluate them and respond accordingly.

Strategy Goal

The Component 3.2 market infrastructure strategy goal is to increase the number of local sub-regional and regional agricultural fresh produce markets and market infrastructure including vegetable storage and packing facilities, grower extension training opportunities, and SMP marketing programs and actions to facilitate small and medium scale grower market access in order to improve SMP competitiveness and the efficiency of agriculture produce distribution.

Strategy Objectives

Strategy objectives include:

- Mobilize required financial resources to secure construction of market infrastructure facilities;
- Formulate a public-private partnership approach to design and implementation of projects in developing agriculture produce market infrastructure;
- Formulate regional programs for comprehensive development and agrarian market infrastructure and efficient logistic channels;



- Formulate realistic business plans and funding strategies to effectively facilitate and integrate SMP and Producer Organization (PO) products into existing and newly created market infrastructure;
- Mobilize required financial and educational resources to provide comprehensive training and advisory resources to SMPs through their Producer Organizations.

Implementation Approach

The Strategic Plan for Market Infrastructure Development envisages providing technical support for designing and implementing physical and organizational market infrastructure programs targeting a range of spatial and functional market characteristics: that is, interventions will address regional, sub-regional and local markets that conduct wholesale, wholesale /retail or retail functions.

Activities will be developed to link SMPs to these markets based on their production potential and buyer demand in the respective market. Following the Lviv (Shuvar) innovations, AgroInvest will promote selected new WMAP linked storage facilities and simple packing sheds located in production areas. Using these facilities, market staff will for a fee, prepare for shipment, fresh produce from growers that are organized into Producer Organizations. This approach effectively addresses the current constraint faced by most cash strapped POs who lack such facilities. Alternatively, specialized distribution and logistics center facilities located at the new WMAPs can facilitate integrated supply management systems and generate operating cost savings by making use of existing waste management systems, transport, water, and other utility services. These facilities can also provide grading, calibration, packaging, cooling, and transportation services to small and medium-sized producers in areas not serviced by local logistics center facilities. By strategically installing logistic center facilities at producer and wholesale market sites, local and regional supply and demand balances for major agricultural products is facilitated consistent with producer capabilities and market buyer requirements.

To foster transparent pricing, automated daily price collection for key products will be promoted and posted at the market, on the market web site, and sent to producer organizations and rural logistics centers.

The WMAP program developed under the previous GOU administration included public funding for implementing extension training and education services in conjunction with wholesale market operations. However, this is not being implemented at this time although the European Union is implementing such a program using donor funding. AgroInvest will work to resuscitate this program within the Component 3.2 framework.

The key outcomes from the AgroInvest Market Structure activities, operating within the context of a WMAP program operating within an integrated national strategy include:



- Small and medium-sized producers will be provided with outlets at selected WMAP regional markets and at targeted sub-regional and local markets;
- SMPs will be able to store unsold fresh produce at cold storage facilities at night; they will be offered services of a broker to sell the remaining produce to distribution centers the next day if a farmer/seller is unable to come to the market;
- Grading, calibrating, and packaging facilities will be located at producer organizations' facilities in the countryside thereby facilitating handling of fresh agricultural produce immediately after harvesting. This will increase a flow of fresh produce to a corresponding market;
- Loyalty programs will be developed and implemented with employment of a number of schemes to encourage timely supply of high quality products and secure other components of successful cooperation;
- Information on prices on selected products will be made available to other markets and stakeholders on a daily basis;
- A national advisory service will be set up under umbrella of the WMAP program.

To this end, the Project will focus on establishing dialog and consolidating efforts of all agrarian market participants and applying partnership principles in the process of the integrated physical and programmatic infrastructure development. Major market players will include:

- Agriculture producers and their associations;
- Suppliers of material and technical resources;
- Financial institutions;
- Organized customers (retail markets, markets, traders, processors).

These results will be attained by applying the basic principles of organizing and creating transparent/democratic management bodies (market committee) – with engagement of:

- Producer organizations;
- Traders;
- Organized customers;
- Local executive authorities and local self-governments;
- Industry associations and NGOs;
- Other stakeholders.

Such management bodies will operate according to transparent and democratic market-oriented management principles.



Implementation Plan

Two broad geographical market infrastructure development areas are targeted:

1. WMAP program areas in Rivne, Ivano-Frankivsk, and Kherson oblasts;
2. WMAP program areas in Crimea and Dnipropetrovsk oblasts supporting new or regenerated local and sub-regional markets and other logistics facilities (selected as pilot/targeted regions for linking with Component 3.1 "Producer Organizations Development").

Target Area 1: Rivne, Ivano-Frankivsk, and Kherson Oblasts

Kherson oblast:

Development of a production type Kherson wholesale market is a major investment project with the first phase about to begin. Investments totaling \$150 million, including \$50 million this year and \$100 million in 2013. The project envisages construction of storage facilities with the capacity of 300,000 tons at the first phase and up to 1,000,000 tons at project completion.

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

Rivne oblast:

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

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

The conceptual design of the market was developed with technical assistance from the EU-funded project "Support of Sustainable Regional Development". The project



is realistic and supported by oblast government authorities and Rivne city authorities. The oblast state administration signed a Memorandum of Understanding with Shelen, a company that initiated this project. The memorandum specifies the scope and areas of public-private partnership to be set up.

Ivano-Frankivsk oblast:

Following a decision of the oblast state administration, a special task force was set up to prepare a regional WMAP development project and obtain all necessary approvals. In addition, a management company was set up (Stanislavsky Agrimarket LLC). Almost UAH 30 million will be spent at the first phase to develop a site totaling 8.7 ha. Additional 11.3 ha will be developed during the second phase. Investments totaling \$11.8 million will be mobilized for this phase.

This WMAP development project is considered as a component of the comprehensive approach to implementation of the agriculture servicing cooperatives development program, which was approved in March 2011. Under this program, financial support will be provided for development of over 450 agriculture service cooperatives over five years.

Implementation for this target area will begin in the fourth quarter of calendar year 2011 simultaneously in the three selected regions – Rivne, Ivano-Frankivsk, and Kherson oblast. Works will be carried out in the following areas:

1. Organize and hold three round tables on various aspects of WMAP development to publicly discuss and finalize proposed WMAP development projects; identify the degree of public-private partnership participants, major problems and other issues. Agroinvest will look to coordinate on PPP issues with the USAID P3DP activity. The composition of task forces on coordinating activities in WMAP development will be discussed and finalized.

Anticipated results:

- (a) Identify potential participants in the WMAP development project from both public and private sectors;
 - (b) Set up task forces by relevant instructions of the leaders of oblast administrations;
 - (c) Prepare and approve work plans and timelines that specify people responsible for addressing crucial issues identified during the discussions.
2. Determine major areas and scope of technical assistance needed by each WMAP development project. To this end, AgroInvest Project experts will consult with local government authorities and implementers of WMAP development projects. The work plans and timelines are approved and formalized in agreements on collaboration in



implementing WMAP development projects. These agreements must also contain reasons for possible suspension or termination of the Project's technical assistance.

The technical assistance may include:

- Conducting market surveys and preparing preliminary feasibility studies;
- Advising on developing the master plan for development of the land plot allocated for WMAP (with engagement of local and international experts);
- Designing preliminary proposals on WMAP development projects;
- Preparing a business plan for development and operation of WMAP;
- Preparing investment proposals;
- Preparing a package of WMAP internal regulations/rules/standards;
- Training management company staff (targeted training, study tours, experience sharing);
- Organizing and holding events intended to attract investments (such as investment forums, round tables, contacts with investment companies and financial institutions);
- Providing co-funding for feasibility study purposes;
- Providing technical support in developing of the market information management system streamlining an access of SMP/PO access to information on market prices.

The above list is not exhaustive and may be supplemented based on needs of individual WMAPs.

Anticipated results:

- (a) Prepare list and scope of required and/or possible Project technical assistance to each WMAP;
 - (b) Draft and sign Cooperation Agreements on technical assistance in implementation of WMAP development projects;
 - (c) Prepare and approve the work plan and timeline.
3. Beginning the first quarter of calendar year 2012, implementation will take place according to agreed plans and agreements on cooperation with each selected WMAP (Rivne, Ivano-Frankivsk, and Kherson oblasts).

At the same time and in the same regions, the AgroInvest Project staff will conduct public education events (trainings, seminars, round tables) devoted to engagement of SMPs/POs in WMAP development and operations, marketing and distribution on agriculture products, development of cooperative logistics facilities, implementation of post-harvest technologies etc.



In the Kherson oblast, activities in WMAP development will be combined with support of POs with regard to developing local logistics centers jointly with WMAPs on a corporate basis and coordinate activities in implementing Global GAP standards at no less than two existing associations of vegetable producers with respect to:

- Production and marketing of fresh produce;
- Implementation of an efficient program to provide insurance to protect producers from crops losses due to natural calamities (drought, flood, etc.);
- Facilitation of access to credit by means of ensuring transparency of financial accounts and payments for inputs and goods by wire transfers which are essential to ensure transparent and auditable cash flows.

Target Area 2: Crimea, Dnipropetrovsk and Vinnitsa Oblasts

The Project selected Crimea, Dnipropetrovsk and Vinnitsa oblasts as pilot/target regions to support development of regional WMAPs, local markets and logistics facilities as part of complimenting Component 3.1 "Development of Producer Organizations".

Autonomous Republic of Crimea (ARC):

The Project will support implementation of a Crimea market infrastructure development program including six or seven local/regional markets with associated logistic center facilities. These facilities will be located at either production or market sites in areas with high consumption of fresh agriculture produce. Sites will be identified in coordination with the MAPF and ARC authorities. Each local/sub-regional market will be up to five ha, cost three to four million US dollars, and employ a scheme of public-private partnership with local government authorities. During the second phase (and/or in parallel), the existing wholesale/retail market near Simferopol will be developed into a wholesale market which will total up to 20-25 ha and cost \$30 million. Its yearly turnover will range from 400,000 to 500,000 tons of produce.

Dnipropetrovsk oblast:

An investment proposal on the wholesale agriculture market development has been prepared and presented. The WMAP development in Dnipropetrovsk oblast was designed with technical assistance from the EU-funded project "Support of Sustainable Regional Development". Additionally, some farmers and farmer associations also have plans for developing local logistics centers with the capacities ranging from 1,000 to 10,000 tons. The regional investment agency is in the process of preparing materials for an investment forum scheduled for October 7-8, 2011. One of the sessions will be devoted to presentation of investment projects of small and medium-sized businesses including those in the area of logistics facilities development.



Implementation of this set of target activities will be initiated in November for the Crimea area. Activities in the Dnipropetrovsk and Vinnitsa oblasts may begin in the second half of calendar year 2012 in coordination with Component 3.1 Producer Organization Development Strategy.

1. Project surveys show that two competing market infrastructure strategies are under consideration in the Crimea. MAPF officials believe that development of local wholesale-and-retail markets (five to ten hectares) in close vicinity to resource cities and logistics centers close to areas with highly concentrated production of fruit and vegetables is a feasible strategy for the Crimea. In order to justify this concept, the Ministry recently set up a special task force, to flesh out this idea.

The Crimean Ministry of Economic Development and Trade has designed an alternative concept for market infrastructure development. This concept envisages development of a large (120 ha) and expensive (\$145 million) market near Simferopol. On July 22, 2011, this concept was presented to the Crimean Cabinet of Ministers. MAPF representatives attending the meeting did not support the alternative concept.

Moreover, there are at least three international technical assistance projects dealing with development of agricultural market infrastructure in the Crimea that conduct surveys, develop proposals on regional and local markets development. To date no common market development program has emerged from this work.

Given that the current lack of agreement between the MAPF and the ARC authorities that prevent development of firm implementation plans for the Crimea region the Project will provide technical assistance to the special Task Force to facilitate development of a common development approach.

2. Develop Dnipropetrovsk implementation strategies.
3. Develop Vinnitsa implementation activities as relates to producer organizations development (Component 3.1) and potential links to markets and market infrastructure.

Risks Associated with Strategy Implementation

Implementation of any strategic plan may face certain constraints. The awareness of such constraints can provide the basis for efficiently addressing and resolving them should they occur.

Implementation constraints may be caused by:

- Inconsistent and unpredictable government actions;
- Reduction and/or termination of government programs for supporting agriculture market infrastructure development;



- Managerial, organizational or economic weaknesses of major stakeholders engaged in implementation of the Strategic Plan;
- Lack of financial resources needed to take actions envisaged by the strategy.

To mitigate these risks, available technical and financial support will be marshaled as appropriate to resolve issues, or redirect resources to other uses as needed. In addition, Project staff will, in consultation with USAID, pursue new opportunities consistent with the Strategy goals and objectives as they arise.

Organizing and Monitoring the Implementation Process

This Strategic Plan is based on a comprehensive approach to organization of market infrastructure development efforts. To ensure accomplishment of Project tasks, the proposed organizational and methodological principles should be tested in the pilot regions.

Activities envisaged by the Strategic Plan and outcomes will be subject to:

- (a) Operational control, which will cover all activities/measures at all sites. Agreements of joint activities and approved work plans will serve a basis for such control;
- (b) Yearly basic monitoring will focus on the following qualitative indicators and criteria:
 - A. Interim targets:
 - Investor groups are set up for wholesale market development purposes;
 - Partner local governments have been advised on land allocation and development planning issues with regard to wholesale market development;
 - Feasibility studies for wholesale market development are prepared.
 - B. Major achievements:
 - At least two wholesale and five local/regional markets are created which offer better access to markets for small and medium-sized producers;
 - SMPs have a better access to such services as (cold) storage, grading of agriculture produce and other market infrastructure facilities; this increases their capacity to sell their produce;
 - Private sector funds are mobilized for wholesale market development purposes.
 - C. Indicators:
 - Two wholesale and regional markets of agriculture produce are developed;
 - Support is provided in development of 14 local/regional markets and/or market infrastructure facilities (for example, (cold) storage facilities, packing/processing/grading facilities);



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- At least \$21.25 million is mobilized for market infrastructure development purposes;
- 5,000 small and medium-sized producers enjoy improved access to markets due to new market infrastructure facilities (wholesale and/or regional markets, (cool) storage facilities, packing/processing/grading facilities) developed with the Project technical support;
- 1,000 micro enterprises have partnered with large companies.

A number of sources of information will be used to monitor and assess the processes of the Strategic Plan implementation, such as:

- Regional statistics;
- Information provided by Project partners (markets, SMPs, POs, industrial and other associations);
- Information provided by financial institutions and investment companies;
- Information provided by central and local government authorities;
- Informational and analytical materials provided by independent institutions.