



ANNEX 2

of the Commission Implementing Decision on the financing of the Annual Action Programme, part 1, in favour of Ukraine for 2020 to be financed under the general budget of the Union

Action Document for EU support to agriculture and small farm development in Ukraine

ANNUAL PROGRAMME/MEASURE

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

1. Title/basic act/ CRIS number	EU support to agriculture and small farm development in Ukraine CRIS number: ENI/2020/042-345 financed under the European Neighbourhood Instrument	
2. Zone benefiting from the action/location	European Neighbourhood region, Ukraine The action shall be carried out at the following location: Ukraine.	
3. Programming document	Single Support Framework 2018-2020 for Ukraine	
4. Sustainable Development Goals (SDGs)	Main SDGs: SDG 2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture; SDG 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; Other significant SDGs: SDG 15 – Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity	
5. Sector of intervention/ thematic area	Economic development and market opportunities, including private sector development and improvement of the business climate	DEV. Assistance: YES
6. Amounts concerned	Total estimated cost: EUR 25 000 000 Total amount of European Union (EU) contribution EUR 25 000 000	

7. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management through: - Procurement Indirect management with the entrusted entities to be selected in accordance with the criteria set out in section 5.3.2. and 5.3.3.			
8 a) DAC code(s)	31110 – Agricultural policy and administrative management – 10% 31120 – Agricultural development – 80% 31210 – Forestry policy and administrative management – 5% 31310 – Fishery policy and administrative management – 5%			
b) Main Delivery Channel	Private sector institutions – 60000 Indirect management: to be determined at a further stage.			
9. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women’s and Girl’s Empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Global Public Goods and Challenges (GPGC) thematic flagships	Food and Nutrition Security and Sustainable Agriculture and Fisheries			

SUMMARY

Ukraine is a large agricultural economy with an area of arable land equivalent to over 25% of the arable land of the European Union (EU). Agriculture historically has been one of the main sectors of the Ukrainian economy with an estimated contribution of 10.1% to the GDP in 2017 and 2018. Agricultural and food products' exports have grown from 20% to 40% from 2012 to 2018 and the sector is a major source of foreign currency inflow. These conditions make Ukraine unique in terms of agri-potential.

At the same time, however, the present level of development in rural areas is extremely low. The relative poverty level amounts to 34%, whilst 23% of rural households receive an income below the subsistence minimum. Following the dissolution of the Soviet Union and Ukrainian independence, the sector has been largely neglected by successive governments and Ukraine has not spent any substantial budget on agriculture and rural development. Today, the sector is dominated by large farms and agro-holdings, with about 70 agricultural companies operating 25% of the arable land through relative monoculture (cereals and oilseeds). On the other side, it is estimated that 900,000 unregistered smaller or family farms that produce crops with higher added value for local markets and generate most job opportunities in rural areas, have their economic and social development constrained by several factors, notably absence of a functioning land market, poor governance of the agricultural sector and low investment capacity due to limited access to finance.

This programme is the second part of a comprehensive programme that aims at contributing to a more inclusive and competitive growth-oriented agricultural sector focused on the sustainable development of small and medium sized farms and SMEs, thereby contributing to fight against impoverishment and depopulation of Ukrainian rural areas. The programme is fully in line with the Association Agreement between Ukraine and the EU and has been organised around three key areas as follows:

- Further support to the land reform through an integration of the cadastre and registry of rights, reform of institutions and the land use planning and management system;
- Strengthening of target agricultural value chains and securing the access of small farms to financing through the establishment of grant schemes, notably in the perspective of the opening of the agricultural land market;
- Pursue institutional and sectoral reforms in agriculture and rural development, notably through the elaboration of state support policies and programmes that target small and medium size farms and the implementation of sectoral reforms aimed at the sustainable management of land, fisheries and forestry resources.

The first part of the programme, financed under the Annual Action Programme 2019 in favour of Ukraine, focuses on strengthening institutions, supporting the land reform and value chain development. This part will financially complement the programme in all considered areas, while it will also support the access of small farms to credit, notably within the frame of the land reform.

Apart from addressing challenges specific to small farms and rural SMEs, the programme will also help increase the visibility of EU assistance in rural areas, which has been perceived as being too Kyiv-centred, while it will also allow fostering the promotion of the first Ukrainian foodstuffs' Geographical Indications (e.g. bryndzyna cheese in Carpathian mountains).

1 CONTEXT ANALYSIS

1.1 Context Description

Ukraine is a middle-income country with an industrial heartland in the South East and a large agricultural economy with an area of arable land equivalent to over 25% of the arable land of the EU. Most of the land is highly fertile, generally flat and has a diverse climate. Agriculture historically has been one of the main sectors of the Ukrainian economy with an estimated contribution of 10.1% to the Ukrainian GDP in 2017 and 2018. Considered for centuries as the "bread basket of Europe" Ukraine has regained that position and agricultural and food products' exports have grown from 20% to 40% from 2012 to 2018.

These conditions allowed Ukraine reaching in 2018 the 7th rank amongst the world largest agro-food exporters. At the same time, however, the present level of development in rural areas is extremely low. The relative poverty level amounts to 34%, whilst 23% of rural households receive an income below the subsistence minimum. Following the dissolution of the Soviet Union and Ukrainian independence, the sector has been largely neglected by successive governments. Agricultural land, equipment and property of the former state and collective farms was divided among the workers of those farms, which resulted in a fragmentation of the land resource into small shares of between 1.5 to 6 ha. These land plots are privately owned but the difficulty of negotiating with multiple land owners and lack of access to financial resources meant that most of them lay fallow or under-utilised during the nineties. As of the beginning of years 2000 however, businessmen and entrepreneurs began to consolidate these fragmented plots into larger 'farms' of 1,000 to 3,000 ha each, which were then sold to investors and formed agro-holding companies that have grown over time by reaching out to foreign investments through private placements or Initial public offering (IPOs), mainly in Europe. Today, about 70 agro-holdings operate 25% of the arable land (i.e. 8 million ha). These vertically integrated farms use modern state-of-the-art machinery and storage facilities, have increased yields and productivity but mainly grow commodity crops – grains and oilseeds – for exports.

On the other side, it is estimated that of the approximately 4 million rural households in Ukraine around 900,000 have land plots they are actively using. Just over 7% of these are either registered farms or entrepreneurs and if individual unregistered farms are mostly intended for subsistence farming, they also produce for local markets and contribute to the local food security. These farms operate in the shadow economy – the share of Ukraine's shadow economy totalled 32% of the GDP in the first half of 2018 – and undertake most of their transactions in cash. They however produce crops with higher added value (98% and 86% of potatoes and fruits respectively and over 60% of milk) and generate most job opportunities, 17% of the working population being employed in agriculture. However, several factors largely constrain their economic and social development, amongst which:

- Poor land governance, land use planning and management, and absence of land market reform;
- Unconducive regulatory and institutional environment for agricultural MSME growth;
- Barriers to access to finance for both investment and working capital and low investment capacity;

- Limited access to advisory, extension and other services;
- Disrupted or poor access to markets, lack of processing capacity, weaknesses of quality and safety control systems.

Institutional and strategic planning capacity of the previous Ministry of Agrarian Policy and Food (MoAPF) has been extremely weak and the institution had only recently undertaken a major restructuring within the frame of the Public Administrative Reform (PAR). Following recent presidential and parliamentary elections, the new government established in September 2019 decided to liquidate the MoAPF and merge it with the Ministry of Economic Development and Trade (MoEDT) to create a Ministry of Economic Development, Trade and Agriculture (MoEDTA). A new structure is currently being discussed with most of the functions that were planned for the MoAPF being transferred into the to-be-established policy departments at MoEDTA.

In particular, State support programmes have been relatively inefficient, poorly targeted and have not been designed to complement agricultural and rural development strategies. Since they operate in the informal sector, small farms are unable to obtain state support. They largely remain suppliers of agricultural commodities, totally de-linked from value chains.

Sectoral executive agencies have unclear and conflicting functions since they contribute to developing most of the sectoral priorities, are responsible for their implementation and monitoring and undertake commercial activities as well. This particularly applies to the National Forestry State Agency, as well as to the State Agency of Fisheries of Ukraine, which both have been transferred from MoAPF to the newly established Ministry of Energy and Ecology (MoEE). As mentioned in the baseline measurement report on the principles of Public Administration, inconsistent accountability and governance framework subordinated to ministries remain major issues.

Lifting of the moratorium on sale of private and public agricultural land, which was initially introduced in 2001 as a "temporary measure", has been controversial among policy makers for almost two decades. Despite public awareness on the economic benefits from well-functioning land markets, the moratorium on the sale of agriculture land has been extended again by the Parliament in December 2018. Low level of state and communal land registration (totally estimated at 12 million ha) and conflict of interest in the way these assets are managed foster non-transparent processes that lead to inefficient land use resources and lost revenue by local governments. To address these challenges, the Government of Ukraine (GoUA) has launched a number of reforms, notably the introduction of a requirement to transfer public land to amalgamated communities and to auctioning it and the interoperability between cadastre and registry of rights, the latter having been integrated with the register of court decisions. In the course of October 2019, a comprehensive package of draft laws – including the draft law on land turnover, which adoption should trigger the lifting of the ban on agricultural land sales – has been registered at the Ukrainian Parliament for adoption. The opening of the land market is foreseen to take place in October 2020.

1.2 Policy Framework (Global, EU)

The proposed action is contributing to the second priority under the **Single Support Framework 2018-2020** aimed at economic development and market opportunities. By focusing on inclusive agriculture and small farm development, the action is addressing

the needs of a sector with a high economic potential and of a target group creating most of job opportunities in rural areas, notably for the youth. The strengthening of selected agricultural value chains, mainstreaming of small farms and fostering of the land reform will ease market and finance access. Eventually, the support to the institutional and regulatory environment will aim at securing a sustainable development of Micro, Small and Medium-sized Enterprises (MSMEs) in rural areas.

The action is fully in line with the provisions of the **Association Agreement (AA)** that foresees cooperation in the field of agriculture and rural development, in particular through gradual approximation of policies and legislation. It is also to be seen in the context of trade related forestry issue (Art. 294). The support to central and local institutions will notably allow enhancing administrative capacities for the planning, evaluation and implementation of policies while the assistance to the private sector will promote modern and sustainable agricultural production, respectful of the environment, including extension of the use of organic production methods and biotechnologies and the implementation of best agricultural practices. The value chain approach and financial assistance will improve conditions for investment and ensure the efficiency and transparency of the markets.

The programme will also directly contribute to the **achievement of the 20 deliverables for 2020 under the Eastern Partnership**. It will particularly foster a stronger economy in Ukraine, contributing to some of the milestones under deliverables 4 and 6 through the improvement of investment and business environment, especially for MSMEs, and the creation of new job opportunities at the local and regional levels, thereby diversifying the economic activity and reducing disparities.

The support to the **fisheries sector reforms** directly contributes to the implementation of related provisions in the AA since it aims at supporting GoUA to adopt good governance and best practices in fisheries' management with a view to ensuring conservation and management of fish stocks in a sustainable manner. By establishing a regular dialogue on maritime policy, the action can also contribute at promoting networks between maritime stakeholders, notably within the frame of the General Fisheries Commission for the Mediterranean (GFCM). Eventually, the component dedicated to the **reforms of the forestry sector** will directly contribute to the **trade and sustainable development cooperation agenda** between the EU and Ukraine under the AA, and notably in what concerns the sustainable forest management, the improvement of an electronic timber tracking system and the separation of monitoring, control and management functions.

1.3 Public Policy Analysis of the partner country/region

‘The **Agricultural and Rural Development Strategy 2020**’ (ARD Strategy 2020), which was approved by the National Reform Council at the end of 2015 is the main guiding document for agricultural and rural policy in Ukraine. It includes specific references to the development of value chains, particularly in dairy and fruit and vegetables sectors and confirms that MSMEs and farms should be the foundation of agricultural development along with rural households. Its rural development component focuses on the creation of non-agricultural jobs, particularly in the service sector (notably in relation to rural tourism and the development of cooperatives). It also supports the approximation of Ukrainian legislation in line with the AA and its DCFTA in relation to agriculture issues. The ARD Strategy 2020 has served as a basis for the

preparation of a draft law of Ukraine "on the Main Principles of Agricultural and Rural Development Policy in Ukraine". This document was under consideration for adoption by the Ukrainian Parliament and required MoAPF to present a costed action plan for the period 2020-2024. The new government in place since September 2019 and the VRU Committee for Agrarian and Land Policy have decided to postpone the adoption of this legislation in order to homogenise the government's approach to strategic planning. In the meantime, along with the main focus of the government on the land reform, five strategic mid-term priorities have been identified by the MoEDTA, including **integrated natural resources management** (land, water, forestry and fisheries' development) and **support to rural and small farm development**. A strategic document is being prepared and should be completed by a multi-annual comprehensive action plan entailing a number of priority issues, including in the food safety sector, land reform, state support, small / family farms and value chain development.

A **Fisheries strategy and draft action plan** was prepared and submitted to the Cabinet of Ministers of Ukraine (CoMU) for final endorsement. It includes actions to create a transparent and competitive environment for all stakeholders involved in commercial activities, enhancing co-operation between producer associations, trade unions and the GoUA (including the development of self-regulation) and increased scientific involvement in the monitoring of fish stocks. A **Forestry strategy** has been approved by the CoMU in May 2018. The strategy confirms the separation of functions for policy and regulation development, control over timber trade and economic activities and recognises the need to improve the regulatory framework for sustainable forest resources management, in line with European standards. This strategic document will however require further consultation with sector's stakeholders. The two executive agencies have been transferred to the MoEE in October 2019; however, the EU will continue to recommend their dismantling and the redistribution of functions, which means that the MoEDTA may recover some of its previous responsibilities, notably in terms of integrated natural resources management policy.

Ukraine is also undergoing significant reforms of the way by which public finances are managed. GoUA's **Public Finance Management (PFM) reform** measures are specified in the 'Public Finance Management System Reform Strategy 2017-2021' (approved on 8 February 2017) and aimed at introducing a Medium-Term Expenditure Framework (MTEF) in order to strengthen linkages between policy, planning and budgeting. **PAR** is approved by the CoMU resolution No. 1119 dated 25 November 2015 for the establishment of general directorates in target ministries and strengthening the role of the non-political civil administrative service.

In the land sector, the January 2018 CoMU resolution No. 60-p mandates the transfer of state land to communal ownership thus removing the conflict of interest arising from the fact that State Geocadaster regulates and manages state land that had been a major source of corruption and decreasing opposition to the land reform from local governments. Furthermore, the CoMU land governance monitoring resolution No. 639 adopted in August 2017 requires the authorities to collect, store, and publish the data and indicators, at the rayon, regional, and national level, on land transactions, tax, disputes, privatization and expropriation, by categories of landowners and land users. A comprehensive set of new legislations is being considered, allowing for the opening of the agricultural land market and the launching of a wider land reform, encompassing infrastructure development, institutions' re-structuring, and capacity strengthening.

1.4 Stakeholder analysis

Stakeholders:

- Central government ministries (together with their branches at regional level) such as the MoEDTA, the MoEE, the Ministry for Community and Territorial Development (MoCTD), the Ministry of Justice (MoJ) and to a certain extent the Ministry of Finance;
- Sectoral executive agencies such as the State Forest Resources Agency, the State Agency for Fisheries of Ukraine, the State Geocadaastre Agency and the State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP);
- Regional administrations of target oblasts, as well as local administrations at municipal, rayon and *hromada* levels, local communities and their community organisations;
- MSMEs and business intermediary organisations, such as Chambers of Commerce, at national and regional levels.
- Farmer' and other businesses organisations, inputs' suppliers and various service providers (machinery, extension, business development etc.).
- The National Bank of Ukraine, partner banks together with their branches at regional and local levels, leasing and possibly insurance companies.
- Institutions involved in the provision of professional education (VET institutions, State Employment Services, Regional Councils on VET).
- Bilateral development agencies and international organisations such as the Food and Agriculture Organisation (FAO), the World Bank, European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), USAID and other international organisations and civil society.

Beneficiaries:

- Direct beneficiaries at the **institutional level** will include MoEDTA, key sectoral Agencies for food safety, forestry, land and fisheries and their respective regional and local administrations, which will benefit from the provision of capacity development support, technical assistance in various fields (policy planning and development, state support, key general administration functions, technical and sectoral issues, ITC development etc.) thereby allowing them to continue improving the management of their sectors and the implementation of reforms in response to emerging needs, notably by rural MSMEs and small farms. Within the frame of strengthening anti-corruption measures or improving the efficiency of public services to end-users, these institutions may also benefit from some equipment to allow the use of e-tools and the adoption of innovative approaches and new technologies such as the digitisation of cadastral records based on block chain technology or the monitoring of the epidemiological situation throughout the country etc.
- In what concerns the **private sector**, partner banks, leasing companies and credit unions will benefit from technical assistance to develop credit products and related services tailor-made for small farms as well as specific measures to overcome related risks. These measures will be supported through the provision of grants and technical assistance. Rural MSMEs, small and medium size farms, producers' associations and agricultural cooperatives will benefit from secured and affordable loans as well as matching grants (under certain criteria). They will also benefit from improved

advisory services and technical assistance in the development of links between entities in targeted value chains (including in support to GI products) and clusters, as well as in relation to their access to banking services. Business and technical service providers will also benefit from technical assistance to improve the quality of their services, but also from specific financial products (including in support to machinery leasing e.g.). Farmer associations and representation are generally under-developed in Ukraine but have an important role in mainstreaming small farmers into value chains activity. In particular, they will be offered assistance to effectively communicate to their (potential) members, and also develop an efficient lobby.

- **All key stakeholders in the land sector** – MoJ, MoCTD, MoEDTA, State Geocadastre and local governments – recognize the importance of better land governance and are committed to do their part but tend to operate in silos. MoJ, MoCTD and State Geocadastre in particular will benefit from technical assistance and capacity building activities as well as financial resources to pursue necessary changes and guarantee the implementation of a sustainable, transparent, fair and inclusive land reform, based on the rule of law. In particular, safeguards to the agricultural land market opening are essential to avoid the excessive concentration of land in the hands of a few operators, to allow a fair treatment of small land owners, and guarantee the rights of active small farmers.

The **final beneficiaries** are the whole of Ukraine's rural population in target oblasts that would benefit from increased job opportunities and improved livelihoods. This is particularly important in light of the large exodus of the working age population from rural areas to cities or work abroad.

1.5 Problem analysis/priority areas for support

The vast majority of small farms and rural households have not benefited from recent agricultural growth as they have faced very difficult access to profitable markets. Ukraine has seen an unprecedented increase in very large agro-holdings over the last 15 years, complex structures made of large number of related companies with an average size of 114,000 ha each and with several of them cultivating over 300,000 ha. They have emerged due to a confluence of specific constraints in the agricultural sector, which have effectively stopped the normal growth and development of small, mainly family farms. These factors are the fragmentation of land and the lack of a land market, very difficult access to finance and the lack of any effective state support system for agriculture. The agro-holdings and very large farms have solved these problems by affording lawyers to sign up thousands of individual lease agreements, while they have raised finance from equity investors, either privately or through international financial markets. They have used their investments from shareholders to further expand their land bank, buy new machinery and equipment, which have allowed them to develop export markets and establish in many regions a quasi-monopoly in the trade of few commodity crops such as cereals, oilseeds and sugar beets. Most of these agro-holdings and large farms have a limited profitability, except for vertically integrated businesses, and rarely contribute to the development of local communities or rural areas. However, their continuous expansion has meant that a quarter of Ukraine's highly fertile land is not available anymore to small and medium farms. The latter face increased competition and higher rent payments and are generally unable to get state support.

They also face an additional problem of labour migration to the EU and it became difficult to find labour, especially for seasonal work like fruit picking.

Nowadays Ukraine faces a serious challenge requiring to improve without delay the situation of small farms, which this action is proposing to contribute to, or prepare the ground for depopulated rural areas and very low employment opportunities, largely growing commodity low added value crops and much reduced biodiversity with its consequent impacts on population livelihoods, wildlife and pollination from bees.

A number of specific factors and how they constrain economic and social development of rural areas in Ukraine are outlined below:

Weak government capacity to coordinate and support development of rural areas in Ukraine. Since the country's independence, no agreed multi-annual integrated agricultural and rural development strategy had been adopted for efficient implementation by MoAPF and its sectoral agencies. Today, the ministry has been merged into the MoEDTA, with a risk of further weakening central institutions policy development and implementation capacity if no immediate support is provided to secure the establishment of independent departments and units. There has also been a lack of a transparent budget setting and timely implementation that could have targeted and benefitted small farms. Furthermore, the lack of strategic policy document in land governance deprives the government the ability to visualize, plan and consistently implement land reforms in Ukraine.

Sectoral executive agencies prone to severe conflicts of interest. The poor administration of agricultural and natural resources and the difficult regulatory environment has been an ongoing major constraint in Ukraine since independence. Sectoral executive agencies have systematically resisted change and for years have been *de facto* responsible for the development and implementation of policies in their respective sectors, while they also have in parallel ensured the supervision and administration of related resources. The management of resources in the forestry and fisheries sectors has not been implemented in a transparent and efficient manner, while the centralised administration and management of agricultural land by the State Geocadastre has created a favourable environment for discretion, discouraging registration of public lands, and opportunities for corruption at local level and inappropriate land use.

Furthermore, as mentioned in the Baseline measurement report on the principles of Public Administration, "the steering model for Central Executive Bodies (CEBs) subordinated to ministries is inconsistent, characterised by an unsustainable mix of excessive independence of CEBs from ministries and excessive ministerial control with regard to some of their internal management issues. This arrangement notably hampers the shift from process-oriented (bureaucratic) accountability to results-based accountability for bodies subordinated to the Government that should combine managerial autonomy with a strong accountability regime focused on outcomes"¹.

Access to agricultural extension and business advisory services. The range and quality of services to support business creation and growth is low. MoAPF has failed for years to design and support the establishment of sustainable agricultural extension schemes

¹ Baseline measurement report on the principles of Public Administration, June 2018, p.90.

and there are almost no active extension services in Ukrainian rural areas. This further exacerbates the situation of small farms, which have not been provided with effective advice on how to develop and integrate with value chains and also lack the necessary funds and knowledge to take advantage of such services when they exist. Furthermore, although Chambers of Commerce and business associations provide some training and advisory support, qualified legal, financial and marketing advice is largely unavailable or available only in the regional capitals, making it inaccessible for farms and SMEs in rural areas.

Small farms have a poor access to profitable markets. In most of Ukrainian rural areas, insufficient or overly distant support infrastructure and certification facilities combined with poor transport connections compound the difficulty of small farms and local businesses to access markets beyond the region or further afield. Very few successful co-operatives or producer groups have been set up and very few small farms could integrate the existing ones due to their technical and financial unpreparedness. Hence weak collective bargaining power leaves small farmers open to exploitation by larger operators and wholesalers, this decreasing the value of their crop or product at point of sale.

Barriers to access to finance for small farms. Small farms have had very difficult access to finance and investment and may be unable to buy agricultural land should the market open in the coming years. Since 2014, the number of banks in Ukraine has halved, with 31% of loans recognised as non-performing as of late 2016. Under these circumstances bank loans are expensive while banks are reluctant to take on risk, especially with unregistered small farms. Even if credit was available for a few small farmers the interest rates would be unaffordable at over 20% interest per annum. On top of that small businesses and farms generally have no bank account due to overly bureaucratic processes, are not bank literate and frequently lack the collaterals needed to secure a loan or expertise to provide viable business plan. There are also few alternatives to banks. As a result, most rural-based MSMEs and small farms either fund themselves internally or through informal means. This places serious constraints on business growth. The issue is further complicated by the fact that banks have limited access to the registry of land and property rights, which further undermines their ability to lend to small farmers.

Fragmentation of land administration system. The difficult, bureaucratic and long process of registration of land transfers or land leases has been especially difficult for small farmers who cannot afford hiring a lawyer to assist them. Market-based land valuation is also poorly developed while incomplete and erroneous cadastral data/records increase land transaction costs and undermine tenure security.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
The Government ceases to be committed to the Association Agreement with the EU and its DCFTA.	Low	Pursue the dialogue with the GoUA within the frame of AA/DCFTA Sub-committees and continue providing technical assistance where and when needed.
Slow pace of government	High	Support the empowerment of

Risks	Risk level (H/M/L)	Mitigating measures
implementation of reforms in the land and agricultural sector notably targeting small unregistered farms and resistance to change by sectoral executive agencies and lack of resources allocated to these reforms by the government.		MoEDTA/MoEE in sectoral policy development and increase capacities, especially at oblast level, to get decisions endorsed and their implementation strictly monitored on the ground. The National Budget process will be systematically monitored in order to ensure that financial resources are adequately and strategically foreseen by the government for reform purposes.
Small farmers are reluctant to engage in a formal economy for trade and thereby be formally registered.	Medium	Prioritise activities to promote farmers' registration and assist farmers to access banking services and obtain grant and other financial support from donors or state support schemes.
Lack of local agricultural extension and business service providers, notably willing to work with smaller farms.	Medium	Adopt a value chain approach based on identified geographical clusters and use good local networks to promote the role of service providers and opportunities to create sustainable advisory business.
Persistent abuses of the rule of law and corrupt schemes in the land sector	High	Continue providing support to free legal aid at rayon level and to the action of the anti-raider committees
The Government is not committed to the sale of State Land	Medium	In addition to the planned capacity building, ensure a phase in of the land reform by mobilising more 'progressive' <i>Hromadas</i> in pilot regions that would be specifically supported.
<p><u>Assumptions:</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> There is no significant increase or expansion of the conflict in the east of Ukraine and the political and macroeconomic situation of the country remains stable without significant restricted access to international markets. <input type="checkbox"/> An Agricultural and Rural Development Strategy and the Fisheries Strategy are both supported by costed and prioritized Action Plans and their funding is ensured in future annual budgets. <input type="checkbox"/> The Government is politically willing to reform the forestry sector and address illegal, unreported and unregulated tree felling, wood trade and exports. <input type="checkbox"/> The Government of Ukraine and MoEDTA are willing to place small farms at the core of their State support programmes and disengage from supporting larger farms or agro-holdings. 		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

Local ownership and legal adoption of strategic documents.

EU support to MoAPF since 2015 has been the cornerstone for the development of policies in agriculture and rural areas. Despite uninterrupted efforts and coordination of other donors operating in the sector, the ARD Strategy 2020, which was developed by over 100 mainly local experts did not gain ‘real ownership’ from the GoUA and faced strong resistance from some stakeholders and key agencies. Following recent elections and government institutions’ re-shuffle, Technical Assistance is envisaged at strengthening the newly shaped target institutions to ensure they gain the capacity to develop their policies in-house and make sure that these are legally adopted for effective implementation.

Slow pace of reforms in the ARD sector and institutional changes.

A slower pace of policy development and institutional reform in the ARD sector could be noted, notably due, in part, to resistance from some of the executive agencies involved, the absence of any leadership for over two years, lack of political will and the long procedure to go through the various levels of government prior to submission of legal documents to a sometimes unpredictable parliament. Despite unambiguous successes, these factors have seriously delayed reforms, notably for securing a regulatory and institutional environment prone to investments in rural areas, including for small farms. This is notably reflected by the fact that the Action Plan for PAR had to be amended in October 2017² in order to adjust the original deadlines since the latter were assessed having been overly optimistic.

Despite the strong foundations that could be built during the past three years, the recent transfer of agricultural policy responsibilities to the MoEDTA may jeopardise past achievements and further Technical Assistance is needed to sustain them in the years to come.

Need for an agrarian producers’ registry and a new payment agency.

Most of the recent state support funding has been ‘captured’ by larger farms, including some of the agro-holdings. This is due to the poor design of state support programmes’ targeting but also to the fact that small farms continue to operate in the informal economy as micro, fragmented producers, although they produce the large majority of horticultural and livestock products in Ukraine. Not recognised as formal businesses, they are therefore not recorded in the MoEDTA business register. The latter is ill-adapted to their situation and their registration may immediately require that they pay taxes, even though through a simplified scheme. The establishment of a national farm register in Ukraine would therefore allow MoEDTA to better know the stakeholders of which needs they have to address and substantially improve the quality of its state support policies. State support funding is currently delivered through an Agrarian Fund, which operates in a concealed and totally inefficient way. The sector does require the establishment of a reliable and transparent payment agency that would have to be developed independently from the existing Fund in order to mitigate the risk for corruption.

Value chain approach to secure the development and sustainability of producers’ groups.

² Baseline measurement report on the principles of Public Administration, June 2018, p.11.

Producer associations are weak and even though some progress has been made in Geographical Indication registration of cheeses, wines and fruit products, much remains to be done to strengthen their position. Co-operatives or joint marketing initiatives are rare and usually occurred due to the presence of a project to support and develop them. Value chains are generally not established and small farmers are usually forced to sell their products and crops at low prices at or soon after harvest.

The creation and strengthening of value chains has been one of the most successful innovations in development aid over the last decade, as it supports the development of viable, sustainable commercial business with identified markets. It also facilitates the aggregation of production from small farms, improves product quality and increases competitiveness. Value chain development projects across Ukraine have generally been rather successful, especially when focused on small farms in livestock, dairy and horticulture, where there is greater potential for added value from small areas of land. These projects have improved sustainability, notably of the established agricultural cooperatives by focusing on the needs of all value chain stakeholders and have developed commercial services to sustainably support producers. Eventually, prior to the establishment of commercial cooperatives, it is strongly suggested to legally allow for the establishment of producer groups to reinitiate cooperation in the agricultural production sectors.

Access to finance by small farms and MSMEs.

Access to finance is now recognised as perhaps the largest constraint to the development of agriculture in Ukraine and especially for small farms and MSMEs in rural areas. Commercial banks are extremely reluctant to extend loans to small farms, while IFIs have, so far, not developed any mechanisms which would oblige their local banking partners to support the opening of bank accounts by small farms, elaborate adapted products and provide them the necessary incentive to minor the perceived risks (high interest rates) related to economic instability and the fact that the majority of land is leased and cannot be used as collateral. Flexible approaches, including a combination of loans and grants along with the adoption of specific measures to overcome credit-related and local currency lending risks and alternative lending mechanisms, such as credit unions, have to be explored, along with crop insurances and future market allowing farmers to 'fix' the price of their future harvest or use such a contract as a pledge against credits.

Full land registration and local involvement in land management.

Having state and communal land fully registered is essential to empower local communities, provide a sustainable source of revenue for them, and set a reference price for agricultural land that will ease the lifting of the moratorium on land sales. Furthermore, to be sustainable, any effort at reform needs to involve not only MoEDTA and the State Geocadastre Agency, but also MoJ, MoCTD and local authorities (*hromadas*). In doing so will ensure the latter have the capacity to manage land that is transferred to them in an effective and transparent way, ideally drawing on infrastructure (e.g. service centres) made available by other programmes. Eventually, a redistribution of functions is to be envisaged, thereby embedding the opening of the agricultural land market into a wider land reform that would also tackle other areas such as land governance, communication on land issues, land use planning, management and monitoring, land consolidation etc.

3.2 Complementarity, synergy and donor co-ordination

EU Activities

Since 2014 the EU has been heavily involved in **supporting the development and implementation of reforms in the agricultural sectors**, including within the frame of the AA/DCFTA in what concerns sanitary and phytosanitary measures (about EUR 25 million over the period). These targeted small to medium-size interventions have allowed the development of the capacity of concerned institutions, notably MoAPF and the State Service of Food Safety and Consumer Protection (SSUFSCP). The EU has also been leading the dialogue between the GoUA and the international community under several sectoral reforms, including in the land, fisheries and forestry sectors. This programme is a continuation of these interventions and will be built upon past achievements.

The **EU PAR Project** (EU4PAR) directly contributes to the efforts of the GoUA in implementing a comprehensive public administration reform, piloted in 10 ministries and 2 executive agencies. MoAPF was part of the target administrations and the project will provide the required technical assistance to build the capacity of the newly created MoEDTA and support its institutional reforms under the guidance of EU4PAR and within the frame of the overall PARS' requirements.

Under the **EU Support Programme to the East of Ukraine** (EUR 50 million, 2019-2022) MSMEs and small farms are at the core of its economic development component. The programme will therefore not operate in eastern Oblasts and target other regions following a similar approach to value chain development.

The current action will work in close coordination with EU's interventions under **EU4Business** which improves business climate and access to credit for SMEs across Ukraine through different facilities. In the agricultural sector, the SME Finance Facility and small business support merely focus on cooperatives formed by medium size farms. The programme will assist smaller farms to close the technical gap and make the necessary investments to improve the quality of their products and thereby join established cooperatives.

EIB – The EIB Agri-food Value Chain Investment (credit line amounting EUR 400 million) and Technical Assistance Project (additional grant of EUR 5 million) for financial intermediaries and SMEs in three sectors – cereals, oilseeds and aquaculture – has been launched at the beginning of 2019 and is likely to provide the bulk of its credit to larger farms. This programme will directly complement the Agri-apex loan by addressing the needs of small farms and a focus on value chains such as dairy and fruit and vegetables.

Other donors' activities

Canadian support is implementing a dairy project in Lviv and Dnipro Oblasts (phase II, CAD 19.7 million, 2014-2021) that has successfully developed family farms, although very few are officially registered. The Canadian Horticultural Development Project (CAD 19.7 million, 2014-2020) is also working with thousands of small farms

and households in the southern oblasts. These projects facilitate their access to finance and state support and encourage them to operate in the regular economy.

USAID has recently launched a large initiative in Eastern Ukraine to support economic recovery and specific value chains across a number of sectors (USD 65 million), which will include a grant programme to small businesses (including farms). Similarly as for the EU Special Measure for Eastern Ukraine, this programme will coordinate its geographical coverage so as to avoid duplication, but will liaise with these interventions to support the registration of the smallest farms. The **USAID ‘Agriculture and Rural Development Support’** (ARDS – USD 30 million) Project is working on land policy and the development of value chains throughout several regions of Ukraine and should be prolonged by another intervention, which is currently under formulation and should be launched as of mid-2020.

The considered programme will complement these interventions through a similar approach to value chain development but with a different geographical coverage.

In May 2019, the **World Bank** launched a major "Accelerating private investment in Agriculture" programme (loan amounting USD 200 million over 5 years) to improve the enabling environment for private investment in agriculture and agribusiness sectors. The considered programme will directly complement the WB intervention by providing technical assistance and building capacity as well as the evidence base in a proactive way, allowing the adoption of a medium-term strategic planning approach, the establishment of a farm registry, fostering land rights protection and finalising the integration of the land cadastre and the registry of land rights.

Several German projects are actively working in the sector (support to sustainable development of trade, EUR 2.1 million, 2019-21, cooperation in organic agriculture, EUR 1.76 million, 2016-19), including within the frame of the German-Ukrainian Agricultural Policy Dialogue (EUR 2.6 million, 2019-21), a long running project that undertakes independent evidence-based analysis and provides advice on policies related to the agriculture sector, land administration and sustainable, multifunctional use of forests (e.g. support the National Forest inventory). This programme will complement these interventions through the improvements of the land cadastre (inclusion of forest plots and liaison with the forestry cadastre), the improvement of the wood e-tracking system and strengthening of newly established Departments at MoEDTA.

Donor coordination

The EU co-chairs the donor coordination group with the MoEDTA, which meets on a quarterly basis. Meetings allow sharing information on specific reforms and strategic priorities, raising difficulties faced by some actors and deciding upon common approach to joint issues. A core group gathering EU Member States' representatives has also been established and meets every two months. The group addresses specific issues related to the implementation of the AA/DCFTA and trade of agricultural and food products.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

Overall objective

To contribute to a more inclusive and competitive growth-orientated agricultural sector, respectful of the environment, and thereby fight against impoverishment and depopulation of Ukrainian rural areas.

Specific objective

Improved and transparent governance of agricultural resources, including land, which provides an appropriate environment for the sustainable development of rural areas focused on small farms and MSMEs, well integrated into consolidated value chains.

Expected results

COMPONENT 1 – INSTITUTIONAL AND SECTORAL REFORMS IN AGRICULTURE AND RURAL AREAS.

Result 1.1 A functioning and reformed MoEDTA with an appropriate institutional structure, is able to develop and implement an approved Agricultural and Rural Development strategic action plan and the AA/DCFTA.

Result 1.2 Sectoral executive agencies have devolved policy implementation functions, thereby ensuring better and more sustainable management of resources, notably in the fisheries and forestry sectors.

COMPONENT 2 – STRENGTHENING OF AGRICULTURAL VALUE CHAINS AND SUPPORT TO SMALL FARMS.

Result 2.1 Small farms are better integrated in agricultural value chains and benefit from targeted state support programmes that facilitate their participation to producer organisations (farmer groups) or co-operatives.

Result 2.2 Banks have developed viable products catering for small farms' financial needs to enable land acquisition and investment, while small farms are able to elaborate bankable business plans to attract investment.

Result 2.3 Access to financing for small farms is improved and more flexible to foster investments and production capacity and prioritise small farms for possible land purchase once the land market is operational.

Main indicative activities

COMPONENT 1 – INSTITUTIONAL AND SECTORAL REFORMS IN AGRICULTURE AND RURAL AREAS.

1.1 A functioning and reformed MoEDTA is able to develop and implement an approved Agricultural and Rural Development strategic action plan and the AA/DCFTA

1.1.1. Assistance is provided to MoEDTA to support the **review, implementation, monitoring, reporting and evaluation of an agriculture and rural**

development strategic action plan, including its part dedicated to the development of small farms and diversification of rural economy.

- 1.1.2. Information, training and advisory support delivered to MoEDTA **for the development of effective policies and operation**, also aimed at enabling better understanding and adoption of good agricultural practices.
- 1.1.3. Support MoEDTA in **finalising its Institutional Reform** within the frame of PARS overall requirements and guidance and further strengthen its envisaged Departments (food safety, rural development, and agricultural productions).
- 1.1.4. Support the **modernisation of MoEDTA and its executive agencies' ITC systems** following the CoMU approved comprehensive e-governance strategy, including through synchronisation of data bases and introduction of digital technologies.
- 1.1.5. Assist the Government of Ukraine in **establishing a structure** in charge of monitoring and coordinating policies on land use, land management and land consolidation;
- 1.1.6. Support the Government of Ukraine in the **implementation and monitoring of the safeguards** envisaged in the Law on Land Turnover and the establishment of a land dispute monitoring system and, on this basis, identify, introduce, and evaluate alternative dispute resolution mechanisms (including ombudsman and out of court foreclosure) for land related issues.

1.2 Sectoral executive agencies have devolved functions and are responsible for sector policies' implementation.

- 1.2.1. Support the design and adoption of a **forestry development strategy and action plan**, including a functional review of the State Forest Resources Agency.
- 1.2.2. Further develop and support the improvement of a **transparent e-tracking system for wood (products)** from at least felling to sawmills, and possibly processing and export.
- 1.2.3. Support the implementation of the **institutional reform in the forestry sector, notably the separation of functions** between institutions and the spin-off of commercial activities from the State Forest Resources Agency.
- 1.2.4. Support the **restructuring of fisheries management and administration** as per the sector reform strategy and action plan and the development of self-regulatory approaches by the fishery's industry.
- 1.2.5. **Develop the monitoring of fish stocks**, the modernisation and harmonisation of data of fish stocks and fleet inventory with EU data collection regulation and ensure timely information is published on the internet with free access.
- 1.2.6. Develop the **transparent certification of fishing vessels** by the State Agency for Fisheries of Ukraine as per EU norms and standards.

COMPONENT 2 – STRENGTHENING OF AGRICULTURAL VALUE CHAINS AND SUPPORT TO SMALL FARMS.

2.1 Small family farms are better integrated in agricultural value chains.

- 2.1.1. **Carry out a market sector analysis for the identification of priority value chains** (and geographical clusters where small farms are densely represented), of which stakeholders, bottlenecks and development perspectives would be closely assessed.
- 2.1.2. Support the **development of value chain policies** and strengthen selected value chains in geographical clusters through an integrated and inclusive approach, aimed notably at the integration of small farms, market linkages, promotion of modern agri-technologies and the adoption of good agriculture practices.
- 2.1.3. Support the **design and testing of agricultural extension systems**, with **trained and supported service providers working for MSMEs, farms and value chain stakeholders** able to provide practical advice and tailored training. Emphasis could be on legal and tax requirements, preparation of business plans, energy efficiency, innovation and good practices, and women in business.
- 2.1.4. In target value chains, support the co-operation between MSMEs, farmers and other stakeholders **through the establishment and strengthening of producer organisations**, co-operatives or other forms of farmer groups (especially focused on storage, grading and marketing of produce, incl. on women groups and women-owned businesses) and service contracting schemes (incl. for machinery services).
- 2.1.5. Support the **quality and marketing of locally produced products** through investments (manufacturing, storage and packing), technical assistance and innovations, branding and potentially registration of GIs and products with guaranteed traditional specificities.
- 2.1.6. Support the development of buyer/small farmer linkages and trade links between businesses of different regions of Ukraine through the **organisation of and participation in business and investment fairs**.

2.2 Banks have developed viable products catering for small farms' financial needs, notably to enable land acquisition.

- 2.2.1. **Document and disseminate information** on profitable smallholder business models and value chains in livestock and horticulture among small farmers and banks.
- 2.2.2. **Provide training on financial literacy to small farms and agriculture advisory services, coach and support accounting services** to small farms interested in acquiring farmland and investing, and provide support to business plan development in livestock or horticulture to access banking services notably aimed at farm expansion and diversification of economic activities.
- 2.2.3. **Provide training to banks** in evaluating new business lines, proposals from smallholder businesses and advise financial institutions on the risks of dealing with smallholders and develop criteria/procedures and leasing/lending mechanisms to effectively cater for demands by this customer segment.
- 2.2.4. **Support the accessibility of registry data** to the private sector (including banks) and local governments on: (i) land ownership and use; (ii) expected outputs and yields; (iii) potential demand for land purchase and investment credit from farm registry and remote sensing in real time.

2.3 Access to financing for small farms is improved and more flexible.

- 2.2.1. Identify and assess opportunities and **needs for further investments by small farms and MSMEs in rural areas** in target value chains and establish eligibility criteria for different categories of investment projects and beneficiaries.
- 2.2.2. Support the development and agree **on selection criteria to maximize impacts of awarding matching grants** to small farmers, notably for land acquisition.
- 2.2.3. **Communication, training, advice and support to small farms**, ATC and agriculture advisers on financial literacy and access to credit and grant support for farm expansion.
- 2.2.4. Establishment and support to the **effective operation of a matching grant scheme for small farm** development in selected value chains and geographical clusters, notably targeting smaller size investments – but not necessarily limited to – such as for seasonal trade finance (inputs), investments in machinery, equipment and infrastructure, based on pre-defined criteria.
- 2.2.5. Set up and operate an innovative matching grant scheme on a pilot basis **to facilitate the access of small farms to credit and leasing** through mechanisms allowing compensating high local currency refinancing or high perceived risk by banks and leasing companies, evaluate their impacts with identified selection criteria, and widely disseminate the results;
- 2.2.6. **Scale up results from pilot scheme**, notably in targeted public programmes to support rural diversification and maximize multiplier effects.

4.2 Intervention Logic

Small farms have been neglected during the reform process and face a difficult regulatory environment as well as poor access to finance. This has encouraged most of them to operate in the shadow economy and has hindered their social and economic development for many years. Since small farms and businesses are amongst major economic actors in rural areas throughout Ukraine, this has severely impacted on the development of local communities as well.

This Action is a comprehensive set of measures to improve access to finance for small farmers through a combination of grants and state support to encourage them to operate in the regular economy and become part of sustainable value chains, supported by professional (agricultural extension and business development) service providers and input and machinery suppliers. The Action will also improve the capacity of MoEDTA and sectoral executive agencies to adequately deliver state support to specific targeted groups within an agreed ARD strategy and action plan, along with much improved procedures for land registration, transparent administration, and land use planning and monitoring at a central and local level. This will provide improved governance of agricultural resources and contribute to a more inclusive, sustainable and competitive sector.

4.3 Mainstreaming

Gender: The Action, through gender mainstreaming and women's empowerment, will seek to ensure that the needs of women and men are adequately considered and addressed. Agro-holdings and larger farms employ few women (other than in administration or accounting) and so distort an already difficult labour market for

women. Small farms keep much more livestock and grow a diverse range of crops and have a much larger share of women involved both in labour and in management and ownership positions. The project will pay particular attention to ensuring that women's social and economic rights are fulfilled as per the EU Gender Action Plan 2016-2020, notably through their participation in proposed agricultural and business development activities, and access to financial resources for investment.

Nutrition and health: Agri-food value chain actions will enable increased food production from a larger variety of crops and livestock, thereby directly impacting on the health and nutritional status of the local population. Furthermore, agro-holdings bring large equipment for 1 or 2 days to a village to cultivate and plant crops before disappearing. They hardly provide any employment opportunity locally. The support and development of small farms is therefore important to preserve rural life in Ukraine and provide more employment. Improved rural livelihoods will also contribute to improved nutrition of the vulnerable rural population, and thereby improve their overall health.

Environmental sustainability: Farmers will be encouraged to diversify their cropping patterns (including through the plantation of orchards), which can contribute to a greater biodiversity of wildlife in arable areas. The development of small farms and transfer of land management scheme to the local level will also allow for controlling the expansion of agro-holding, preserve hedges and thereby increase rural areas' biodiversity potential. The promotion of good agricultural and environmental practices – including in relation to the use of fertilisers and agro-chemicals – amongst producers and value chain stakeholders will also contribute to environmental sustainability. Eventually, the reform of the fisheries sector and establishment of public-private partnerships will allow for the repopulation of main rivers with fish species.

Fight against corruption: the improvement of the efficiency and transparency of public services to end-users will contribute to strengthen anti-corruption measures, notably in the land sector. Reform of the State GeoCadastre Agency and the notary system, transfer of land management to local authorities will complement the development of e-tools and the adoption of innovative approaches and new technologies and thereby secure the rights of land owners and farmers, including the smallest ones.

4.4 Contribution to Sustainable Development Goals (SDGs)

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDGs 2 ("End hunger, achieve food security and improved nutrition and promote sustainable agriculture") and 8 ("Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"), while also contributing to SDG 15 ("Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity").

Target 2.3 aims at elements defined under SDG 2 by doubling agricultural productivity, primarily through innovative technologies. Small farms have much higher levels of output per ha and grow more intensive crops, especially fruit and vegetables, which can produce many times the level of cereals and oilseeds' output. Improved access to

finance for small farmers along with better access to markets can radically improve the production levels and labour productivity per worker. Good examples of this can be seen in neighbouring countries like Poland, which has supported the development of small and medium sized farms while it also has very few large farms. This intervention will also increase the availability of meat, milk and fruit. This should increase local consumption, which is a key indicator of target 2.1. Target 2.4 aims at ensuring the development of sustainable food production systems that help maintain ecosystems and gradually improve the quality of land and soil, primarily through innovative technologies. The rapid growth of very large agro-holdings, which largely use chemicals and fertilisers is a real threat to the quality of soils and to the biodiversity, specifically to bees. Bees are essential for the pollination of over 70% of global food production and the experience of the growth in intensive, commodity agriculture in other countries has demonstrated a rapid decline in biodiversity and bee populations. In line with SDG 8, this action also promotes increase in job opportunities notably for youth, and a safe and secure working environment, which is linked to the stimulation of added value and the increase in employment in rural MSMEs, as well as within good agricultural practice.

Finally the improved management and administration of forestry resources proposed in this action are fully in line with SDG 15.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the government of Ukraine.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is **84 months** from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures³.

³ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

5.3.1 Component 1 – Results 1.1 and 1.2 (partial)

5.3.1.1 Procurement (direct management)

Supply and service contracts will be concluded to support government authorities' capacity in the implementation of institutional and sectoral reforms in Agriculture and Rural Development areas and will contribute to the achievement of Component 1.

5.3.2 Component 1 – Result 1.2 (partial) and Component 2 – Result 2.1 and 2.3 (partial)

5.3.2.1 Indirect management with an entrusted entity

A part of this action may be implemented in indirect management with an entity which will be selected by the Commission's services using the following criteria:

- Over 5 years of cumulated operational presence in Ukraine;
- Having supported the implementation of sectoral and institutional reforms at a national level and in support to regional authorities;
- Having worked in areas related to this programme, notably in enhancing policies and technical capacities for value chain development, establishment of public-private dialogue, forestry and/or fisheries and aquaculture;
- Absence of conflict of interest in Ukraine, notably related to commercial activities in the sectors of agriculture production, forestry and fisheries.

The implementation by this entity entails the provision of specific technical assistance under component 1 – result 1.2 in the support of sectoral and institutional reforms in the area of forestry and fisheries (improvement of the wood e-tracking system, fish stock monitoring and fishing vessels control tools etc.).

It also entails the implementation of part of component 2, i.e. identification and strengthening of target value chains in geographical clusters, support small farmers to access finance through a matching grant scheme and improved business support and extension services, acquire new technology and good agricultural practices, and the establishment of functioning agricultural producer organisations / co-operatives or other farmer groups.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management through procurement in accordance with the implementation modality identified in sections 5.3.1.1. and 5.3.4.

5.3.3 Component 1 – Result 1.1 (partial) and Component 2 – Result 2.2 and 2.3 (partial)

5.3.3.1 Indirect management with an entrusted entity

A part of this action may be implemented in indirect management with an entity, which will be selected by the Commission's services using the following criteria:

- Over 5 years of cumulated operational presence in Ukraine;

- Having supported the implementation of sectoral and institutional reforms at a national level and in support to regional authorities;
- Having worked in areas related to this programme, notably in support to small farms and their access to finance;
- Absence of conflict of interest in Ukraine, notably related to the sector of agriculture production.

The implementation by this entity entails the provision of specific technical assistance under component 1 – result 1.1 in supporting the government of Ukraine in the implementation and monitoring of the safeguards envisaged under the land reform as well as the development and implementation of policies related to land use monitoring, land management and land consolidation.

It also entails the implementation of part of component 2, i.e. work with partner banks and small farms to develop viable financial products catering for small farms' financial needs and ensure that small farms are able to access banking services, notably for the acquisition of farmland. Furthermore, it also entails the set-up and operation of innovative matching grant schemes to facilitate the access of small farms to credit and leasing and the rolling out of their results, notably in targeted public programmes.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management through grants in accordance with the implementation modality identified in section 5.3.4.

5.3.4 *Changes from indirect to direct management mode due to exceptional circumstances*

In case implementation of the action under indirect management as described in the paragraph 5.3.2 reveals to be unfeasible due to circumstances outside of the Commission's control, the alternative implementation modalities in direct management would be Procurement as mentioned under paragraph 5.3.1.1.

In case implementation of the action under indirect management as described in the paragraph 5.3.3 reveals to be unfeasible due to circumstances outside of the Commission's control, the alternative implementation modalities in direct management would be the following:

- Grants

(a) Purpose of the grant(s)

The grants will contribute to achieving result 2.3 and thereby allow beneficiaries to invest in machinery, equipment and infrastructure, acquire new technology and good agricultural practices, access to improved business support, extension and banking services, including for the acquisition of farmland.

(b) Type of applicants targeted

Potential applicants for funding would be as follows:

- Legal entities or natural persons or groupings without legal personality or economic operators such as SMEs, and

- Be established in Ukraine, and
- Be directly responsible for the preparation and management of the action, not acting as an intermediary.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution
Component 1: institutional and sectoral reforms in the ARD areas, composed of:	4 000 000.	
- Procurement (direct management) – total envelope under section 5.3.1	2 500 000	N.A.
- Indirect management with an entrusted entity – cf. section 5.3.2	1 000 000	0.00
- Indirect management with an entrusted entity – cf. section 5.3.3	500 000	0.00
Component 2: strengthening of agricultural value chains and support to small farmers, composed of:	20 600 000	
- Indirect management with an entrusted entity – cf. section 5.3.2	3 500 000	0.00
- Indirect management with an entrusted entity – cf. section 5.3.3	17 100 000	0.00
Evaluation (cf. section 5.8)	200 000	N.A.
Audit / Expenditure verification (cf. section 5.9)		
Communication and visibility (cf. section 5.10)	200 000	N.A.
Contingencies	0	N.A.
Total	25 000 000	0

5.6 Organisational set-up and responsibilities

Detailed terms of reference/description of action will be developed by or in close collaboration with the Commission for each individual action, including the experts' team, the management structure, the composition of the Steering Committee in charge of the supervision of the project, etc.

5.7 Performance and Results monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the Logframe matrix (for project modality).

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per Joint Programming document should be taken into account.

Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, a mid-term and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

Mid-term evaluation will be carried out for problem solving, learning purposes, in particular with respect to component 2 to assess progress and validity of the approach.

Final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that component 2 entails the support through matching grant schemes.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in

agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be contracted.

6 PRE-CONDITIONS

N/A

- Appendix 1: Glossary.
- Appendix 2: Indicative Logframe Matrix (for project modality).

APPENDIX 1 – GLOSSARY

ARD Strategy	Agricultural and Rural Development Strategy
ATC	Amalgamated Territorial Communities or <i>Hromadas</i>
CEBs	Central Executive Bodies
CoMU	Cabinet of Ministers of Ukraine
DGs	Directorates General
EU	European Union
EU DEL	European Union Delegation
FAO	Food and Agriculture Organisation
GAP	Good agricultural practices
GDP	Gross Domestic Product
GI	Geographical Indication
GoUA	Government of Ukraine
GFCM	General Fisheries Commission for the Mediterranean
IFI	International Financing Institution
MTSEF	Medium Term Sectoral Expenditure Framework
MoAPF	Ministry of Agrarian Policy and Food
MoCTD	Ministry for Community and Territorial Development
MoEDTA	Ministry of Economic Development, Trade and Agriculture
MoEE	Ministry of Energy and Ecology
MoF	Ministry of Finance
MoJ	Ministry of Justice
MSMEs	Micro, small and medium enterprises
NGO	Non-governmental Organisation
PFM	Public Finance Management
SSUFSCP	State Service of Ukraine for Food Safety and Consumer Protection
TSD	Trade and Sustainable Development
VC	Value Chain
VET	Vocational Education and Training
WB	World Bank

APPENDIX 2 - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

	Results chain: Main expected results	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources of data	Assumptions
Impact (Overall Objective)	To contribute to a more inclusive and competitive growth-orientated agricultural sector, respectful of the environment, and thereby fight against impoverishment and depopulation of Ukrainian rural areas.	Macro agricultural indicators – Production levels and exports of key agricultural products; Farming and rural population average revenues, disaggregated for size of farms Migration flows from rural areas. Improvement of Ukraine's 'Ease of doing business' ranking	Total agricultural production value: UAH 269,408 million [2018]; Agricultural products' exports: USD 18.6 billion [2018]; Number of migrant workers from rural areas: 639,800 [2015-17] Ukraine ranks 71 amongst 190 economies in the 'Ease of doing business' [2018]	Increase in total agricultural production value by 25% to 2025. Exports increased by 15% to 2025 in monetary terms. Number of migrant workers from rural areas decreased by 20% for the period 2021-25 [etc.] Ukraine's 'Ease of doing business' ranking improved by 20 ranks in 2025.	National statistics disaggregated for the project regions World Bank Doing Business report.	<i>Not applicable</i>
Outcome (Specific Objective)	Improved and transparent governance of agricultural resources, including land, which provides an appropriate environment for the sustainable development of rural areas focused on small farms and MSMEs, well integrated into consolidated value chains.	Status of the capacity of MoEDTA in developing policy and strategy in the agricultural sector, legal drafting, communications, programme and finance management, and monitoring; Proportion [%] of the Ukrainian Agriculture and food safety legislation further aligned with that of the European Union; Status of State agricultural land management [million ha]	DG for strategic planning and EU integration established at MoAPF and functioning [end 2018]; About 25% of the food safety, animal health and welfare and Geographical Indication Ukrainian legislation approximated to EU legislation [June 2019]. 1.5 million ha of State agricultural land transferred and managed by <i>hromadas</i>	Departments for SPS, rural development, agricultural production and strategic planning established at MoEDTA, able to develop and implement 5 policies / year [2023]. 100% of the food safety, animal health and welfare and Geographical Indication Ukrainian legislation approximated to EU legislation in 2025. 5 million ha of State agricultural land managed by <i>hromadas</i> in 2024.	National and regional authorities reports, plans and programmes Statistical data Operational conclusions of related Sub-committees under the AA/DCFTA, notably Cluster V, SPS and TSD. Sociological surveys Project reports Media report Perception Surveys	The Government of Ukraine and MoEDTA continue to be committed to the implementation of the Association agreement / DCFTA between the EU and Ukraine, and notably its SPS and agricultural part. Macro-economic stability No significant increase or expansion of the conflict in the east of Ukraine Ukraine continues to have free access to trade through all Black Sea ports and there is no significant illegal barriers to foreign trade

		Status of producer associations and number of functioning agricultural producer organisations / co-operatives or other farmer groups active in target value chains.	Agricultural producers' association are not formally recognised [2019]	Agricultural producer association formally recognised and 10 functioning agricultural producer organisations / co-operatives or other farmer groups active in target value chains.		
--	--	---	--	--	--	--

COMPONENT 1 – INSTITUTIONAL AND SECTORAL REFORMS IN AGRICULTURE AND RURAL AREAS

Output 1.1	A functioning and reformed MoEDTA with an appropriate institutional structure is able to develop and implement an approved Agricultural and Rural Development strategic action plan and the AA/DCFTA	1.1.1. Status of institutional structures within MoEDTA	1.1.1. 2 MoAPF Directorates General (DGs) staffed and functioning, 2 DGs approved and 2 DGs planned [2019]	1.1.1. At least 3 Departments at MoEDTA dedicated to ARD policies, are fully staffed and functioning with appropriate mandate from CoMU [2021];	MoEDTA organogramme, mandate and functions, staffing records and terms of reference.	The Agricultural and Rural Development Strategy 2025 is legally adopted with Costed and Prioritised Action Plan
		1.1.2. Implementation status of an ARD strategic action plan with a particular emphasis on small farm development and the adoption of GAP.	1.1.2. ARD strategic action plan not implemented [2019]	1.1.2. ARD strategic action plan effectively implemented and regularly monitored [as of 2021];	Monitoring reports, state statistics.	Strategic Action Plan contains well specified Objectives and Key Performance Indicators (KPIs)
		1.1.3 Number of Ukrainian agriculture and food safety legislation (laws and by-laws) approximated annually to EU legislation.	1.1.3. About 38 agriculture and food safety legislation (laws and by-laws) approximated to EU legislation [2018]	1.1.3. About 40 to 50 agriculture and food safety legislation (laws and by-laws) approximated annually to EU legislation [as of 2020]	Published laws and by-laws, CoMU and Parliament's records Operational conclusions of related Sub-committees under the AA/DCFTA, notably Cluster V, SPS and TSD.	Continuation (carry over) and institutionalisation of MoEDTA PFM Working Group
		1.1.4. Status of the implementation of the e-governance policy and strategy at MoEDTA and its executive agencies, notably the SSUFSCP for epidemio-surveillance purposes.	1.1.4. Epidemio-surveillance system established at SSUFSCP for veterinary but not fully in use and under development in phytosanitary [2019]	1.1.4. Epidemio-surveillance system established for both sanitary and phytosanitary purposes and fully in use in all Oblasts [2022].	ITC development strategic document, assessment of oblast / rayon veterinary services' use of developed surveillance and reporting e-systems.	
		1.1.5. Status of land dispute	1.1.5. Land dispute	1.1.5. A land dispute	Government documents	

		monitoring system and alternative dispute resolution mechanisms aimed at the protection of land owners and land rights.	monitoring system not operational and mechanisms in place are at pilot stage and have yet not proven full efficiency [2019]	monitoring system has been established and mechanisms for alternative land dispute settlement were identified and are available (incl. free legal aid, ombudsman, mechanisms for out of court foreclosure, etc.) [2022].	and regulations, public and local plans; Results from legal aid customer satisfaction survey, court records.	
Output 1.2	Sectoral executive agencies have devolved policy implementation functions, thereby ensuring better and more sustainable management of resources, notably in the fisheries and forestry sectors.	<p>1.2.1 Status of the forestry sector reform strategy and action plan;</p> <p>1.2.2 Status of the electronic tracking system of wood (and forest products) for all users;</p> <p>1.2.3. Distribution of functions between institutions in the fisheries sector.</p> <p>1.2.4 Fisheries commercial operations and related activities are privatised.</p>	<p>1.2.1. The forestry sector reform strategy is not legally binding [2019]</p> <p>1.2.2. An e-tracking system is in place monitoring wood from felling site [2019]</p> <p>1.2.3. The State Agency of Fisheries of Ukraine concentrates most of the functions [2019]</p> <p>1.2.4. The State Agency of Fisheries of Ukraine implements commercial operations [2019]</p>	<p>1.2.1. The forestry sector reform strategy and action plan are formally adopted and implementation is launched [2021];</p> <p>1.2.2. An advanced e-tracking system is set up for all users from felling to sawmills, and possibly export [2022]</p> <p>1.2.3. The State Agency of Fisheries of Ukraine is responsible for control of the fleet of vessels, monitoring of fish-stocks is devolved to an appropriate Scientific Institute and policy functions remain with MoEE [2021];</p> <p>1.2.4. The State Agency of Fisheries of Ukraine undertakes certification of vessels and the catch and the transparent distribution of fishing quotas on the basis of partnerships with the private sector [as of 2022].</p>	<p>Project Monitoring reports. Data and annual activity reports from Forestry and Fisheries agencies CoMU publication records TA reports from projects and data from Forestry Agency annual reports</p>	<p>The Government of Ukraine is politically willing to reform the Forestry sector and address illegal, unreported and unregulated tree felling and wood trade and exports.</p> <p>The Medium term Fishery Strategy and Action Plan are formally adopted.</p>
COMPONENT 2 – STRENGTHENING OF AGRICULTURAL VALUE CHAINS AND SUPPORT TO SMALL FARMS						

Output 2.1	<p>Small farms are better integrated in agricultural value chains and benefit from targeted state support programmes that facilitate their participation to producer organisations (farmer groups) or co-operatives.</p>	<p>2.1.1. Number of business support and extension services’ providers that strengthened their capacities in target value chains and improved their services to small farmers and MSMEs in rural areas, especially using new technology, ‘ smart farming’ and good agricultural practices;</p> <p>2.1.2 Numbers of farmer / buyer linkages and trade contracts in geographically clustered value chains supported by the project;</p> <p>2.1.3. Number of small farms and MSMEs (incl. proportion [%] of women-owned businesses) which scaled-up their businesses in target value chains.</p> <p>2.1.4. Number of farmers who are members of producer organisations or cooperatives in target value chains and proportion [%] of [registered] smaller farm members (incl. proportion [%] of women-led farms).</p> <p>2.1.5. Number of jobs created in target value chains with gender disaggregated data.</p>	<p>2.1.1. 0 business support services in target value chains [2019]</p> <p>2.1.2. 0 value chain supported and farmer / buyer linkages and trade contracts [2019]</p> <p>2.1.3. 0 Small farms and MSMEs in target value chains [2019]</p> <p>2.1.4. 20 farmers members of producer organisations in target value chains, 100% of small farms’ members [2019]</p> <p>2.1.5. 0 jobs created in target value chains [2019]</p>	<p>2.1.1. 50 [2024]</p> <p>2.1.2. 5 value chains supported and 100 farmer / buyer linkages and trade contracts established [2024]</p> <p>2.1.3. 500+ Small farms and MSMEs in target value chains [2024]</p> <p>2.1.4. 100+ farmers members of producer organisations in target value chains, 50% of small farms’ members [2024]</p> <p>2.1.5. 200 jobs created in target value chains [2024]</p>	<p>Monitoring and activity reports.</p> <p>Farm surveys through individual project in support to VCs.</p> <p>Investment fairs and commercial contracts. Agricultural statistics.</p>	<p>Promotion of new technology in small farms by service providers and adoption of ‘smart farming’ by progressive small farmers</p> <p>The possibility for gathering in producers’ association is ensured</p>
Output 2.2	<p>Banks have developed viable products catering for small farms’ financial needs to enable land acquisition and investment while small</p>	<p>2.2.1. Number of farmers (incl. proportion [%] of women-owned farms) having benefited from coaching and accounting services;</p>	<p>2.2.1. 0 farmers having benefited from coaching and accounting services [2019];</p>	<p>2.2.1. 1,000+ farmers having benefited from coaching and accounting services;</p>	<p>Banks’ reporting to NBU and balance sheets; Data requests to farmer registry & linked data sources;</p>	<p>Banks acquire a sufficient incentive to lend to small producers.</p>

	farms are able to elaborate bankable business plans to attract investment.	2.2.2 Number of banks and their staff trained to work on smallholders and new business lines; 2.2.3. Status of the access to cadastral and registry data from farmers by Banks, private sector players and local governments.	2.2.2 0 banks and 0 staff trained to work on smallholders and new business lines because banks do usually not lend to farmers below 1,000 ha; 2.2.3. No official data on small farms exists, making it impossible to project potential gains from reaching this segment or assessing risks [2019]	2.2.2 10 banks and 50 staff trained to work on smallholders and new business lines; 2.2.3. Banks, private sector players and local governments can access official cadastral and registry data from 2 million farmers at village/ATC/individual level in real time [2025]	Land governance monitoring, state statistics.	
Output 2.3	Access to financing for small farms is improved and more flexible to foster investments and production capacity and prioritise small farms for possible land purchase once the land market is operational.	2.3.1. Status of the matching grant schemes aimed at providing financial support for small farms and rural MSME development; 2.3.2. Number of small farms and MSMEs that have received financial support through the grant schemes in target value chains and nationwide (incl. proportion [%] of women-led farms); 2.3.3. Volume of grants [EUR] provided to small farms and rural MSMEs (incl. proportion [%] of women-led businesses). 2.3.4. Total amount [EUR] of	2.3.1. No grant scheme available to small farms and rural MSMEs [2019]; 2.3.2. 0 small farms and EUR 0 [2019]. 2.3.3. EUR 0 [2019] 2.3.4. EUR 0 [2019]	2.3.1. One grant scheme addressing needs of selected value chains in geographical clusters established and another grant scheme in place and functioning for larger investments and agricultural land purchase [2021] 2.3.2. At least 2,000 small farms. 2.3.3. EUR 22 million [2024] 2.3.4. EUR 60 million	Survey of financial instruments provided to different categories of farms by individual project in support to VCs. Project monitoring and activity reports. Report on disbursement of grants. Banking sector reports. MSME Surveys. Media reports. Administrative data household surveys, impact studies.	The economy of Ukraine continues to grow. Banks accept immovable assets and future crops as collateral and accept to extent loans to small farmers. Law on land turnover is adopted and the land market is in place The government of Ukraine continues to consider the possibility of developing state support programmes to foster investments by small farms.

		investments made thanks to these grants, incl. the proportion [%] dedicated to buy agricultural land.		[2024]		
--	--	---	--	--------	--	--