



The European Union's Neighbourhood Programme

*Assessment of the Agriculture and Rural  
Development Sectors in the Eastern  
Partnership countries*

**Ukraine**



Funded by the European Union



Implemented by FAO





## **FAO Regional Office for Europe and Central Asia (REU)**

Benczur utca 34.

H-1068 Budapest

Hungary

Tel: +36 1 4612000 Fax: +36 1 3517029

E-mail: [FAO-RO-Europe@fao.org](mailto:FAO-RO-Europe@fao.org)

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## Acronyms and abbreviations

AAIR	Agency for Animal Identification and Registration of Ukraine
ARD	Agricultural and Rural Development
CAE	Collective Agricultural Enterprise
CAP	Common Agricultural Policy
CBC	Cross Border Cooperation
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Agreement
EaP	Eastern Partnership
ENPARD	European Neighbourhood Programme Agriculture and Rural Development
ENPI	European Neighbourhood and Partnership Instrument
ENRD	European Network for Rural Development
FAO	Food and Agriculture Organization of the United Nations
FTA	Free Trade Agreement
GAFTA	Grain and Feed Trade Association
GCP	Government Cooperation Program
GDP	Gross Domestic Product
GNI	Gross National Income
GMO	Genetically Modified Organism
GOU	Government of Ukraine
GUAM	Organization for Democracy and Economic Development
HDI	Human Development Index
ILO	International Labour Organization
ISO	International Organization for Standardization
MAPF	Ministry of Agricultural Policy and Food of Ukraine
MDG	Millennium Development Goals
NAS	National Academy of Sciences of Ukraine
PCA	Partnership and Cooperation Agreement
PF	Partnership Framework
PPP	Purchasing Power Parity
SME	Small and medium enterprises
SPS	Sanitary and Phyto Sanitary
SVPSS	State Veterinary and Phytosanitary Service of Ukraine
SWOT	Strength, Weaknesses, Opportunities, Threats
SWAP RURAL	EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach)
SWG	Regional Rural Development Standing Working Group for SEE
UAA	Utilised Agriculture Area
UAH	Ukrainian Hrivna (Ukrainian currency)
UN	United Nations
USD	United States Dollar
USAID	United States Agency for International Development
USSR	Union of the Soviet Socialist Republics
WTO	World Trade Organization



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## **1. Introduction**

### **1.1. Context and objective of the sector analyses**

Most of the Eastern Partnership (EaP) countries have an agricultural sector that includes a large number of households reliant to some degree on small and fragmented land plot for subsistence with limited links to markets and limited resources and growth potential.

There are donors providing assistance (EU and FAO among them) in addition to the activities of the Governments, but the current global crisis with soaring food prices among other consequences, has demonstrated the vulnerability of the agricultural/rural communities and the need for EaP countries to further enhance the formulation of agriculture policies aimed to support small-scale farmers and farmers' organizations, to support private and public stakeholders in the agricultural sector, to restructure agriculture on sustainable basis, to modernize the agricultural production and to develop rural areas.

A general assessment of the agriculture sector and rural areas is crucial for the development of proper strategies and policies. The studies envisaged under this project will contribute to the assessment of the situation in the sector, will prioritize and target the sub-sectors, the areas of intervention and the beneficiaries, in consultation with the local public and private stakeholders.

The overall scope of the project is in line with the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), an approach to support agriculture and rural development sectors, built on the EU's best practice experience in developing agriculture and rural areas. Based on the results of this project, ENPARD programmes and activities will be identified, elaborated and implemented in the interested EaP countries.

### **1.2. Study Team**

- EC/FAO Management Committee
- Richard Eberlin, FAO Rural Development and Land Tenure Officer, REUDD
- Magali Herranz, FAO Associate Livestock Officer, REUDD
- Mark Le Seelleur, International consultant
- Dragan Angelovski, International consultant
- Adrian Neal, International consultant
- Seamus O' Grady, International consultant
- Oleksandr Radionov, National agricultural expert, Ukraine
- Maria Samarina, National agricultural expert, MAPF, Ukraine

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- Mr. Andriy Getya, Head of Livestock Department, MAPF
- Mr. Vladimir Ganganov, Head of Department for Scientific and Educational Support of Agrarian Production and Rural Development, MAPF
- Mr. Sergiy Petrenko, Deputy Head of the Department of Economic Development and Agrarian Market, MAPF
- Ms. Maria Vislobodska, Senior Specialist, Department for Foreign Economic Cooperation, MAPF
- Ms. Olena Borodina, Member of NAS of Ukraine, Professor, Dr of Economic Science, The Institute for Economics and Forecasting - Ukrainian National Academy of Sciences
- Mr. Serhiy Ruban, Member of the Ukrainian Academy of Agrarian Sciences, the Institute of Genetics and Selection of Agricultural Animals
- Ms. Svetlana Prokopenko, Director of the Institute for Rural development
- Dr. Andriy Rozstalnyy, FAO Animal Production and Health Officer
- Dr. Hans Schild, International livestock expert
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## 2. Background and key figures

### 2.1. General context and economic indicators

Among the republics of the former USSR, Ukraine was one of the leaders in agricultural production. But it also had highly developed heavy and light manufacturing industries, the latter including armaments and aerospace. These were supported by advanced scientific and research institutions and a highly educated workforce. The population was socially protected with a stable level of 50 million. After the collapse of the centralized planning economy and the destruction of traditional markets for Ukrainian products, the economy recorded a steep decline, with GDP in 1998 falling to 40 % of the 1990 level.



**Population:** 45.6 mill.  
**Fertility rate (2011):** 1.4  
**Rural population:** 31.9% (14.54m)  
**Population employed in agriculture** 23.1%  
*Commercial farms 0.7m*  
*Private farms 2.6m*  
**Total area:** 60.35 million ha  
*Agricultural lands 42.79m Ha (70.9%)*  
*Arable 32.5m Ha (53.8%)*  
*Perennial 0.9m Ha (1.5%)*  
*Pastures 7.85mHa (13%)*  
**Structure of agricultural production:**  
*Private farmers 52.7%*  
*Corporate and state farms 47.3%*

**GDP PPP (2011):** \$337.7billion  
**Agri-Food share GDP:** 25%  
**GINI (2008):** 26.44  
**GDP PPP (2011):** \$7,300 per capita  
**HDI:** 0.729 Rank (2011) 76<sup>th</sup>



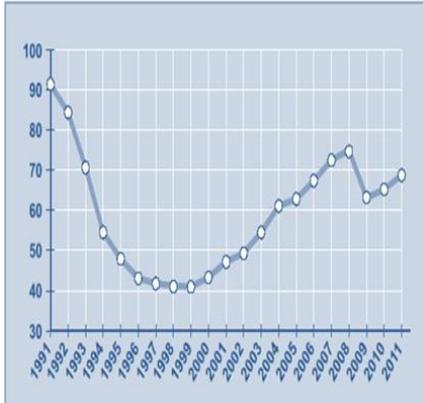
**Oblasts -** 24  
**Cities with special status -** 2  
**Cities of regional significance -** 178  
**Other cities (district significance) -** 279  
**Districts -** 490  
**Towns -** 885, **Villages -** 2,845  
**Councils -** 10,278

Source: Ministry of Agrarian Policy and Food of Ukraine web site [www.minagro.gov.ua](http://www.minagro.gov.ua)

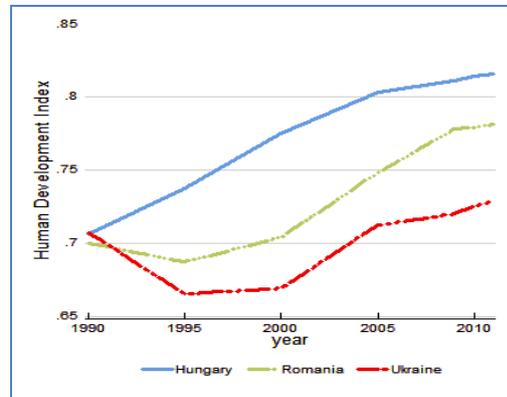
The heavy and processing industries closed down or started restructuring, the collective agricultural enterprises were divided and restructured, and the living standards in rural areas dropped dramatically. In these circumstances private rural households (holdings of 0,01 – 2 Ha, including kitchen gardens), resorted to subsistence agriculture and. Indeed, an estimated 70% of the rural population became involved in small-scale subsistence agriculture production. In 2011, small holders produced some 53% of total agricultural output (including 97% of potatoes, 84% of vegetables and fruits, 80% of milk and 43% of meat).

On the other hand the restructured large farms remained strong in the traditional export- oriented grain crops (78% of national production) and sunflower seeds (84% of national production). By 2011 GDP had reached 70% of 1990 GDP. (Diagram 2), about \$165 billion in current prices and exchange rates.<sup>1</sup> Slow economic reforms, especially in the agricultural sector was one of the main factors for the slow pace of the recovery.

**Diagram 1. Index of GDP (1990 = 100%)**



**Diagram 2. Trends in Ukraine's HDI (1990 – 2011)<sup>2</sup>**



Source: “Ukraine in figures in 2011”, State statistical service

Between 1998 and 2008 Ukraine enjoyed steady and relatively rapid economic growth, with an average annual increase of GDP of about 7 %. However, in 2009 due to world financial crisis the economy declined, seriously affecting the export oriented steel and chemical industries, though the agricultural sector mostly escaped.

Ukraine's economy returned to growth in 2010-2011, but the recovery remains fragile. After a 14.8 % GDP decline in 2009, the economy grew 4.2 % in 2010, and 5.2 % in 2011. Domestic demand played an increasing role in driving growth in these years. Industrial production also recovered but with fluctuating growth rates, highlighting the dependence on a few commodities such as steel. Ukraine's economic recovery continued with inflation (about 4.6% per annum) largely under control.

The privatization of key industries laid the foundation for a robust market economy. The Ukrainian people have strengthened their statehood by developing democratic institutions and undertaking a number of legal and institutional reforms. However the EU has expressed disappointment with a number of developments in these areas: specifically certain prosecutions and the conduct of the recent general election. On the other hand following WTO membership in 2008, Ukraine has completed a free trade agreement with EU.

In terms of HDI Ukraine started from the same point in 1990 as Hungary and Romania, but now lags behind.<sup>3</sup> It is now in 76<sup>th</sup> place compared with, for example, Russia in 66<sup>th</sup> place. At the same time, progress in achieving national Millennium Development Goals (MDGs) is uneven though since 2000 there has been a slow positive trend. Increases in the budget for health care and education were unaccompanied by reforms to improve the management of these services, with the result that there were limited improvements in the quality and accessibility of the services provided. Social transfers remain poorly targeted. The pension system encompasses a

<sup>1</sup> The exchange rate during the preparation of the study was 8, 0 UAH to 1USD.

<sup>2</sup> UNDP Human development report 2011

<sup>3</sup> UNDP Human development report 2011

variety of problems that threaten its fiscal sustainability, especially given the demographic trends of rural aging, low birth rate, and high emigration.

The overall demographic trend in the Ukraine is negative. Between 1991 and 2011 the Ukrainian population decreased by 11.8%, from 51.6 million to 45.5 million. Ukraine has reversed a long trend of being a destination for migrant workers, as the country recorded positive net emigration between 2005 and 2011. Forecasts suggest that Ukraine will experience the single largest absolute population loss among European countries between 2011 and 2020.

The national unemployment level in 2011 reached 8, 5%<sup>4</sup> is unevenly spread among the cities and regions and higher in rural areas. Hidden unemployment (for example people marginally employed on household land plots) is assessed at 1, 4 million or some 50% of the workforce in rural areas. Hidden unemployment also exists in big agricultural enterprises due to low productivity and in enterprises in the social sphere (medical and educational centres, etc. in rural areas) where, in the absence of funding, employment is mainly nominal.

According to assessments of the Ukrainian Institute of Agrarian Economy, salaries in the agricultural sector are 40% lower than the national average monthly income. 16, 8% of the rural households are living below poverty level and 48, 8% of the rural households survive on minimal income<sup>5</sup>. In 2011 average monthly income per rural household reached \$428 of which 85% was in monetary form and 15% payments in kind land lease payments in the form of sunflower oil, grain, etc.)

## 2.2. Agriculture and rural sector

Production by subsectors (%)	
<i>Crop</i>	63,7%
<i>Livestock</i>	36,3%

Production by farm type (%)	
<i>Corporate sector</i>	47,3%
<i>Private households</i>	52,7%

As noted above, agriculture has been an important sector in the economy of Ukraine. In soviet times, as elsewhere in the Soviet Union, it was heavily subsidised through the provision of inputs, credit, support services and direct financial transfers to collective agricultural enterprises. Thanks to these supports and industrial style massive agri production and fertile soils Ukraine was a “breadbasket” for the Soviet Union.

Agriculture comprises around 10 % of Ukraine’s GDP and employs 23.1 % of the total work force or 3.3 million Ukrainians. Food processing sector accounts roughly for 8% of GDP. If the industries related to agriculture (farm machinery, fertilisers, etc.) are added, the agri-food sector’s share in GDP approaches 25%<sup>6</sup>. In all 31, 2% of the Ukrainian population live in rural areas and 70% of households are involved in small scale agricultural production on small plots.

<sup>4</sup> Calculated by ILO methodology, as % of economically active population

<sup>5</sup> Draft strategy for the development of Ukrainian agriculture till 2020, National Academy of Agrarian Science, the Institute of Agrarian Economy.

<sup>6</sup> Agriculture, bio-energy and food policy in Ukraine –analysis, conclusions and recommendations .Editors: Strubenhoff, Movchan, Burakovsky, Kiev

Taxes generated by the agri-food sector contributed \$3, 1 billion in 2009 to the consolidated state budget, \$4, 3 billion in 2010, and \$5, 0 billion in 2011. Payments from agriculture alone amounted to \$625 million in 2011. According to data of the Ministry of Agrarian Policy and Food (MAPF) of Ukraine, total budget spending on agricultural sector support in 2011 comprised \$1,774 million (or 1.0% of GDP).<sup>7</sup> But agriculture’s steady pace of growth masks the sector’s underperformance. An example of agriculture’s lacklustre performance is its average 3% per annum growth since 2000, while the remainder of the economy grew on average of 6 % over the period.

Financing of major agricultural support programs in Ukraine in 2010 were provided from a special stabilization fund. This fund was partially underfinanced, so major agri-support programs were also underfinanced. In 2011, financing of agricultural support programs was done directly from general budget funds. Support of livestock production is a priority for sector support. For this purpose in 2011 a new budget programme “Support of livestock production” was developed with total budget allocation of \$253 million. Major components of this programme are for partial reimbursement of construction costs for new:

- Livestock farms and complexes: \$62,5 million Budget for livestock subsidies: \$12,5 million of which:
  - \$3,75 million for support for specialized meat farms, and
  - \$8, 75 million for support for purchases of heifers by farms.
- Support to cattle breeding and poultry: \$9,4 million

Agricultural exports in 2011 amounted to \$13,1 billion or 19% of total exports, and agricultural imports to \$ 6,7 billion summing up to a positive balance of \$6,4 billion. The leading export oriented crops are wheat, sunflower seeds and rape. In the 2009 Ukraine was the world’s fourth largest exporter of grain. In 2011 it was the top world exporter of sunflower oil (51% of the total or 3.2 million tonnes) while Ukraine produces 22,2% of global production of sunflower seeds, 6.0% of sugar beet, 5,8% of potato and 1,6% of grain.

In 2008 an FAO assessment indicated that Ukraine as a food producer will be a critical player over the next three to five years with the capacity to significantly ameliorate the global food crisis. Development of the sector can also help to further reduce imports and increase rural incomes. The agriculture and food industry has served as a pillar of stability, as one of the only economic sectors which continued to grow during the global economic crisis, overtaking the economic lead from the steel and chemicals industry in 2008. Agriculture is likely to continue to lead Ukraine's sustained economic recovery.

After the decline in 1990s the growth of the sector began in 2000 following significant agricultural land privatization, which dissolved collective and state farms and transferred control to private business. At this time the government replaced its physical supply of inputs with subsidies - cash transfers and subsidized interest rates for credits.

Division of agricultural enterprises by land in 2012 shows that:

<b>% Enterprises use</b>	<b>Land size (ha)</b>
24,2%	from 20 to 50
12, 5%	from 100 to 500
10, 1%	less than 5

At the same time 0, 3% enterprises (152) use more than 10,000 ha. These industrial scale agricultural holdings established by companies owned by domestic and international investors, concentrate on very profitable export oriented crops. Some of these holdings cultivate 100,000 – 200,000 hectares of land and export almost the entire harvest. It is a challenge for rural

<sup>7</sup> Agrarian reform in action, Ministry of Agrarian Policy and Food of Ukraine, 2011

development in Ukraine to combine commercial interests of these huge and powerful agri holdings with sustainable development of rural territories.

Land reform created a new structure of land ownership and employment in rural areas. As a result of the reform 72, 4% of the agricultural land was transferred to private ownership, including 80, 9% of tilled land for agricultural production<sup>8</sup>:

- 6, 9 million people acquired a land plot, out of which 6, 8 million (98, 6%) had received State Certificate for the land share title as of January 01, 2011.
- 6,6 million State Acts for the land plot title were drawn up and issued in exchange of certificates, this constitutes 97% .of State Certificate owners
- In 2011 the land plot owners concluded 4, 5 million land lease agreements for 17, 3 million hectares, constituting 64% of the owned land area.

Analysis of the structure of employment in rural areas shows that out of 3, 4 million employees in agriculture 0, 7 million (20, 6%) are working in commercial farms and 2, 6 million (79, 4%) are self-employed farming households. Data shows that in the last five years, the level of self-employed people stabilized at around 2, 3 – 2, 4 million people. Further, rural areas are predominately (over 75 %), populated by people over 60 and under 17 years of age, as the economically active migrate to urban centres or emigrate.

Ploughed land in Ukraine constitutes 78, 2% of total agricultural land (see Diagram 4). This is one of the highest levels in the world. At the same time the share of pastures (0, 7%) is insufficient to provide the national herd with cost effective grazing. Ukrainian scientists define a clear negative correlation between share of tilled land and consumption of protein by populations in the world and in different regions of Ukraine<sup>9</sup>. Consequently increasing crop production with stagnation in livestock sector has led to unbalanced daily rations for the Ukrainian population. Only 27% of needed daily ration is received from livestock products compared to a recommended norm of 55%. Only in three categories of crop products - bread, potato and sun flower seed oil – does consumption exceeds normative recommendations of the Ministry of Health<sup>10</sup>.

The former collective agricultural enterprises (CAE), known as “kholkozės” and “sovkhözės” despite low productivity and motivation of workforce had some positive practices such as an obligatory inclusion of pastures and meadows in land use and rotations. But low purchase prices from processing companies, high costs for energy and the withdrawal of subsidies led market-oriented agricultural enterprises to cut the number of cattle dramatically and switch to profitable tillage. Further concentration of agricultural lands by agri holdings after 2004 increased this trend leading to a monoculture of export oriented crops (see Box 1).

The Law of Ukraine, 2010, “On main principles (strategy) of state ecology policy on period till 2020”, outlined that the condition of land resources in Ukraine were very close to critical; problems in this sphere having increased during transformation period. On the whole territory there has been massive degradation of soils with 58% affected by soil erosion and 20% by contamination. The share of sunflower seeds in the cultivated area varies from 18% to 22% (where by sustainable agriculture criteria this part should not exceed 10% to15%)<sup>11</sup>. The adopted legal requirement for crop rotation and penalties for improper use of land were postponed due lobbying by the large agri enterprises.

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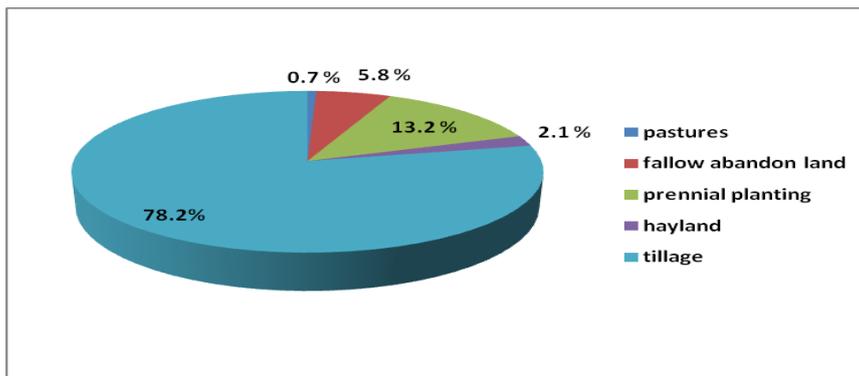
<sup>8</sup> Panorama of Ukraine agricultural sector 2011

<sup>9</sup> Semeryak Y. Land fund of Ukraine and its utilization, UDK332.72, Collection of papers, National lesotechnik University of Ukraine

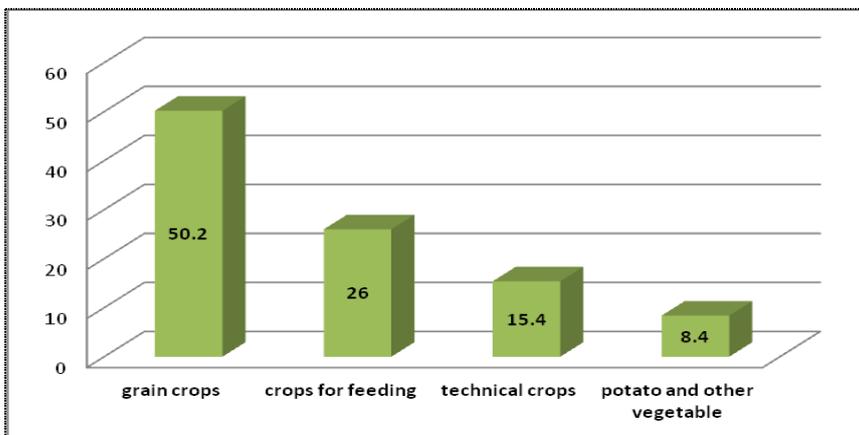
<sup>10</sup> Borodina O, Gaets V.,Gutorov A and others “Ukrainian model of agrarian development and its socioeconomic re-orientation , National Academy of Sciences of Ukraine, Institute of Economic and Forecasting., Kiev, 2012

<sup>11</sup> Borodina O, Gaets, V.,Gutorov A and others “Ukrainian model of agrarian development and its socioeconomic re-orientation , National Academy of Sciences of Ukraine, Institute of Economic and Forecasting., Kiev, 2012

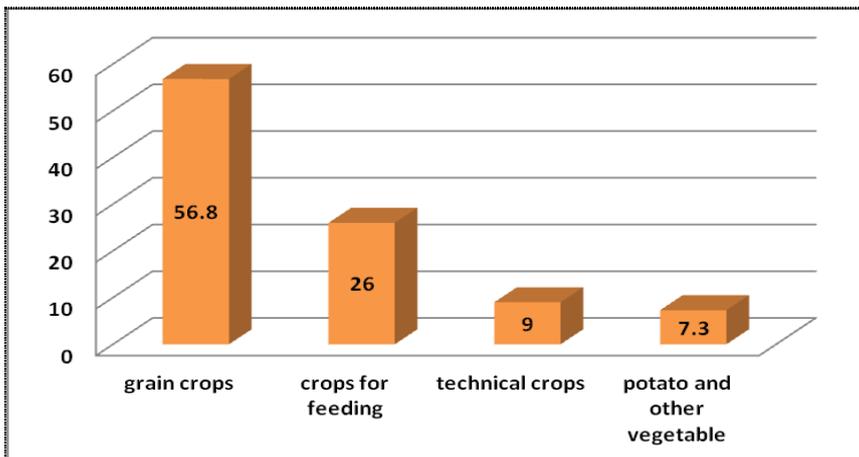
**Diagram 3. Structure of agricultural land in Ukraine, %<sup>12</sup>**



**Year 2000 (27.17m Ha)**



**Year 2011 (27.67M Ha)**



According to legislation from 1, 6 million to 3 million hectares should be withdrawn from intensive agricultural tillage.<sup>13</sup> The need to protect and increase land fertility together with intensification of production due to global market forces are increasingly underlining the need to manage land resources. The Law “On control over land use and protection” (2003) establishes the major principles of these efforts. They include:

- Guarantee of the rational land use and protection as a major national asset;

<sup>12</sup> Panorama of Ukraine agrarian sector 2011

<sup>13</sup> Panorama of Ukraine agrarian sector, 2011

- Priority requirements of environmental safety over economic interest in the land use;
- Combination of economic incentives and accountability in land use and protection;
- The major direction to secure stable territorial development within agricultural land use comprising grassland protection and its capability to increase by means of:
  - agri technical measures aimed at soil fertility improvement and recovery;
  - restoration of soil nutrients removed by cropping;
  - rational use of natural resources by business entities;
  - sustainable production.

Substantial areas of agricultural land demand deoxidization and gypsum application. Since 2000 agricultural enterprises have been gradually committing resources to these tasks as well as for fertilizers. To preserve soil fertility it is important to maintain the nutrient balance in line with agri ecological requirements, through gradual increase of organic and mineral fertilization. Enterprises, organizations and institutions of agriculture and forestry need to provide capital investments in protection and rational use of natural resources at the rural territories.

State design engineering and technological centres headed by the “State scientific and technological centre for soil fertility protection of the Ministry of Agrarian Policy and Food” are required to protect soil fertility. They monitor the quality of the soil (agrochemical certification) through physical, agrochemical, and eco toxicological indicators. Nearly five million hectares of land underwent agrochemical certification in 2011 and agricultural producers received 94,000 agrochemical certificates (passports) for their land.

### **Agri-corporations in the Ukrainian Agriculture Sector**

The Verkhovna Rada is likely to pass an act on land reform in 2012<sup>14</sup> and thus make it possible to trade in arable land for the first time since Ukraine regained independence. When the moratorium on land trade expires, which may happen from 1 January 2013, the ownership of land, which is now being used informally, will be codified.

Corporate interests in agriculture in the Ukraine are already substantial. Five alone hold agriculture land of one million hectares, equal to over 50% of the arable area of Moldova. They represent a significant interest driving most of the commercially based, commodity crop production for export and domestic markets. They are also involved in food processing and agricultural inputs. Among the largest are: Avangard and Ukrland (530,000Ha); HarvEast Holding (200,000Ha); TAS (30,000 Ha), Privat (150,000Ha), Ukrinvest (20,000Ha), Group DF (fertilisers); Ukrinvest (20,000Ha), Ukrpominvest (brewing, fruit and vegetables processing).

2008 marked the growing season, the first year since 1992, that large scale commercial farm production outperformed household plots in terms of output value. Out of Ukraine’s 42 million hectares of agricultural land, less than 3 million hectares are farmed using modern farm technology and over 7 million hectares are idle.

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<sup>14</sup> World Bank commentary: the draft Law imposes restrictions on the types of owners who can purchase land. For instance, the exclusion of legal entities and the ban on land purchases by non-nationals will reduce demand, thereby keeping land prices low and investment into agriculture, much needed to increase its productivity, away. The draft Law is unlikely to facilitate the flow on financing to agriculture. Banks cannot hold on to land taken as collateral, because as legal entities they need to sell it on within six months. Moreover, land re-sales within five years of purchase are to be heavily taxed, further discouraging the development of a land mortgage market. An asset that is highly restricted in who can own and who can purchase it, is worth little as collateral and unlikely to unlock much private financing.

## Irrigation

There are 2.2m Ha of irrigable land which are of great importance. One of the most important sources is the massive Dnieper Cascade, which comprises six reservoirs including the most southerly, the Kachovka Reservoir. The reservoirs are subject to regulatory controls covering water flows for hydropower generation, environmental and ecological protection and abstraction for the supply of urban populations and crop irrigation. The Kachovka Irrigation System (KIS) is an even more important system serving the Kherson and Zaporozhye Regions and the North Crimea. The region contains the largest amount of arable land in Ukraine and the KIS is the largest irrigation system in the country and in Europe and the 24th largest in the World. The region is the primary area for high value agriculture products, for fresh and processed sales.

Local water supply companies have no formal contractual relations for water supplied through the main canals. The main canal costs are financed by the state budget. Since the completion of the KIS in 1977 economic and social conditions have changed. In respect of irrigation water, the basis of organisation has moved from 'command-economy' to 'market-economy'. As a consequence a real economic price is payable for water, which has changed the basis of decision making, the demand for water and the mechanisms for collection of revenues to pay for the water utilities provided by the KIS.

## Organic Agriculture in Ukraine

By its natural endowment of climate and soil the Ukraine has become a leading producer of organic products. The area under organic production covers over 270,000 hectares, putting Ukraine into the top 20 leaders of organic production and in the first place among Eastern European countries. In 2010 nearly 120 agricultural enterprises operated upon the principles of organic farming. All enterprises were internationally certified.

The major forms of organic production are grains, legumes and oilseeds. Approximately 70% of organic products are sold for export but their share in the domestic market is growing (cereals, juices, honey and others). A federation of organic movement was formed in 2005, with over 100 members made up of businesses, rural small holders, public and state research organizations. In 2009 the national certification organisation "Organic Standard" received international accreditation.

The development of national legislation on organic production is on-going. The MAPF has prepared a draft law "On Organic Production", proposed to regulate organic agriculture, processing and trade including:

- minimum requirements for production and processing, compulsory for all types of products marked as "organic (ecological, biological)"
- compulsory inspection and certification for producers and importers placing organic products on the Ukrainian market
- legal protection of the "organic" mark and the national emblem to identify organic products

When implemented the law will regulate the organic sector, its production methods will get state recognition and standardisation. Organic products will become clearly identifiable to the consumer, and assure the quality of organic products in the market.

## Livestock sector

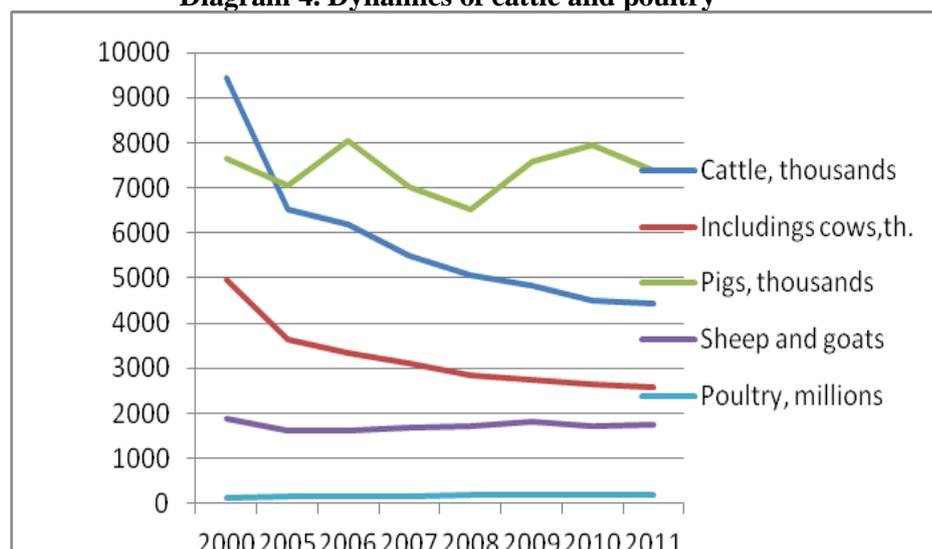
In contrast to rising crop production, *animal husbandry* is stagnant. There has been an ongoing decline in the number of livestock since 1991 (see Diagram 5). Ukraine is net exporter of milk and milk products and net importer of live animals, meat and meat products.

Dairy production is one of the most important livestock sectors. A significant part of milk production comes from large commercial farms using modern technology for a high-quality output. However a predominant part of the milk production comes from aging rural smallholders with limited skills and resources. Typically, such producers keep two to three, sometimes even up to ten cows. In most of the villages, the animals graze from spring to autumn on common village pastures. In mountainous regions such as the Carpathian and Crimea mountains, there is also seasonal summer grazing on mountain pastures. Cattle are overwintered in stables near and primarily fed with stored hay, maize silage or sugar beet pulp.

In the private sector milking is mostly done by hand. Due to calving seasonality (40% of young calves are born in the period March to May as pastures come available), there is frequent shortage of milk production during winter (pre-calving dry period), whereas on the other hand there is an excess supply during spring and summer. Many villages have a milk collection centre, often used by two to three dairy plants. A low milk price corresponds mostly with the poor milk quality, but with few incentives to improve the milk quality.

The national livestock statistics show a total of 4, 4 million heads of cattle, of which 2.6 million are dairy cows. Small scale farmers own 66,3% of all cattle, including 77,5% of dairy cows, 55,6% of pigs, 83,3% of small ruminants, and 47,2% of the poultry flock.

**Diagram 4. Dynamics of cattle and poultry**



### Food safety, Plant and Animal Health<sup>15</sup>

Ukraine pursued efforts towards gradual approximation with EU sanitary and phytosanitary standards (SPS). A law on the monitoring of residues of veterinary medicinal products and contaminants in live animals, products of animal origin and feed and food, was adopted. By the end of 2009, Ukraine was on the list of countries with approved residue monitoring plans for poultry, aquaculture, milk, honey and eggs<sup>16</sup>. The country is aiming to further expand this list. Listing is an important step towards the authorisation of exports to the EU. Currently, Ukraine is authorized to export various animal products to the EU for animal feeding and for technical purposes (for instance casein).

<sup>15</sup> Based on research: Costs and Benefits of FTA between Ukraine and the European Union, Institute for Economic research and policy consulting, Kyiv 2010

<sup>16</sup> By 2005, Ukraine had introduced over 8001 WTO compatible SPS norms to replace existing standards; of these, 340 were approximated with those of the EU. Since then many more standards have been developed for agricultural and food products including: margarine, butter, mayonnaise, sugar, beer, soft drinks, confectionary, alcohol beverages, spirits, animal feed and mixed fodder supplements and breeding systems for livestock.

According to the administrative reform started in 2011 the State Veterinary and Phytosanitary Service was created on the base of the former State Veterinary Committee, appointed as the government agency responsible for food chain control and supervision.

Major challenges towards the approximation of the Ukrainian SPS legislation with EU requirements exist in the livestock production sector. These include change to legislative exclusion of small plot holders from compulsory animal identification and registration, full introduction of traceability system for meat processing enterprises, and replication of pilot introduction of labelling and marking for animal products. Despite previous inputs from FAO and EC projects, these areas are still in need of international technical assistance.

As well as for consumer and health protection, veterinary and phytosanitary are extremely important for Ukraine as exporters of animal-related products suffer from restricted access to the EU market. The problem is that harmonization of standards might be too costly for Ukraine's producers as well as for consumers. There is a need to balance the interests of the various economic agents in the country.

Ukraine's accession to the WTO has prompted a spate of reforms to bring the mandatory health and safety standards of its food products in line with international conventions. Ukraine inherited its system of standards and monitoring (GOST) from the Soviet era, which defines criteria for each specific product and requires constant testing of each production batch or shipment. GOST has not been updated in 20 years and is widely considered to impose unnecessary costs on business without achieving public health and safety results. International standards have since shifted to more process-oriented risk-based monitoring procedures. A number of efforts are underway to reform and harmonize the control system, reflecting the scale and complexity of the required reform in standards. Moreover, a range of voluntary standards required by specific industries (such as GLOBALGAP and HACCP) are significant barriers to accessing the higher-value export markets by Ukrainian exporters

### 3. Government Policy for the agriculture and rural development sectors

The MAPF of Ukraine and the Ukrainian Academy of Agrarian Sciences recently provided for public discussion the draft of the Strategy for Development of Ukrainian Agriculture to 2020.<sup>17</sup> The strategy sets out the main problems, principles and approaches to government intervention in agriculture. These include positive trends in crop production and negative trends in: cattle breeding, usage of soils, rural development, low incomes and widespread poverty in rural areas. The major agricultural and rural development priorities identified in this draft Strategy are:

- 1) Increasing crop production**
  - increasing the economic potential of the agri-ecological systems;
  - providing an effective genetic fund of varieties and hybrids;
  - development and implementation of systems for the more efficient use of resources and use of eco-technologies.
- 2) Development of livestock production**
  - increasing milk production;
  - increasing requirements for the quality of raw milk;
  - increasing cattle meat production;
  - increasing pig production;
  - increasing intensive poultry production;
  - a renaissance of sheep production.
- 3) Completion of land reform**
  - improvement of land relations;
  - providing for the sustainable use of land;
  - maintaining, recovering and increasing land fertility;
  - transforming land relations according to the requirements of the market economy and sustainable land use.
- 4) Increasing of efficiency of agricultural production**
  - recovery of material and technical base (machinery, buildings, new technologies);
  - improvement of price regulation mechanism combining market principles and effective governmental regulation;
  - establishment of effective infrastructure of markets and providing direct access for farmers to markets
  - further development of agricultural cooperation.

Ukraine is also looking to absorb world best practices and experience as part of the development of a strategic document for ARD. According to the resolution of the Cabinet Ministers of Ukraine dated 30.11.2011 #1276, Ukraine enjoys membership of 21 international organizations on agriculture, forest and fishing. Ukraine's membership in these organizations allows it to take part in shaping agricultural policy in the international markets and to actively defend the interests of national producers.

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<sup>17</sup> This document is not adopted yet

Ukraine is also a member of the FAO since 2003. This allows Ukraine to exchange best practices through participation in FAO activities, to receive technical assistance, and to take part in the development and implementation of international standards for quality and safety of agricultural products.

#### **Ukraine-EU Dialog on Agrarian Issues.**

At the present moment measures are actively implemented under the Memorandum of Understanding between the MAPF of Ukraine and the European Commission's Directorate General for Agriculture and Rural Development. Ukraine – EU Dialogue meetings on agrarian issues are held twice a year. Working group meetings and meetings at the political level between the Minister of Agrarian Policy and Food of Ukraine and the European Commissioner for Agriculture and Rural Development are also held.

Bilateral negotiations between the EU and Ukraine on the establishment of Deep and Comprehensive Free Trade Area (DCFTA) were launched in February 2008, immediately after Ukraine concluded the WTO accession talks. The negotiated FTA will be the first of a new generation of deep and comprehensive free trade agreements, covering all trade-related areas including the dispute settlement mechanism. Deeper economic integration calls for higher degree of alignment with the EU's legislative framework. The FTA will tackle the so-called "beyond the border" obstacles through deep regulatory approximation with the trade-related EU *acquis*.

The framework documents, defining the trade regime between the EU and Ukraine, are part of the Partnership and Cooperation Agreement (PCA) which entered into force in 1998 and the provisions of Generalized System of Preferences (GSP). Recent economic developments and financial and economic crisis in particular did not affect the Ukraine-EU trade regime. According to the PCA parties apply to one another Most Favoured Nation (MFN) treatment and limit the possibility of imposing restrictions on imports and exports, while the GSP allows for lower duties than the MFN rates on over 6000 products. The existing scheme foresees large reductions in rates of duty for most industrial products, but relatively low proportionate reductions for agricultural products.

The Ukraine-EU trade regime was further liberalized when Ukraine joined the WTO in 2008. The quotas on rolled metal exports to EU were cancelled and currently there are no quantitative restrictions on this trade between Ukraine and the EU. Ukraine production became much more open for trade thanks to lower and bounded import tariffs, elimination of export restrictions, and commitment to conduct technical regulation reform.

To sum up: Ukraine and the EU have a rather favourable trade regime. However, further improvements are definitely necessary. A lot of other countries benefit from wider preferences, thus having better competitive positions as compared to Ukrainian producers on the EU market. The FTA+ negotiations started in 2008 aimed to mutually eliminate most import tariffs and to adjust the Ukrainian legislation to EU rules and norms, thereby generating substantial welfare gains for Ukraine.

The Reform Programme 2010–2014 of the Government fixed the establishment of the FTA with the EU and integration into the EU internal market as a strategic goal for Ukraine, to be ensured via relevant reforms and approximations of the legislative framework. The President's Law on the principles of internal and external policy provides for Ukraine's deep integration into the EU environment, with the attainment of membership as a principle of external policy. This clearly indicates political will for Ukraine's actions in the immediate future.

### 3.1. Description and assessment of the state of art in national regulations

#### Overview of Ukrainian strategic legislation for agricultural and rural development.

The Presidential Programme of Reforms for the period 2010 -2014, which is entitled “**Rich Society, Competitive Economy, and Efficient Government**”. Programme is implemented annually on the basis of annual National Action Plans (recently adopted by presidential decree No. 187 of March 12, 2012). This plan provided for simplification of licensing procedures, implementation of tax and budget reform, development and adoption of laws on the land market and a State Land Cadastre, as well as reform of the energy sector and the housing/utility industry.

**Law of Ukraine dated 24.06.2004 1877-IV “About governmental support of agriculture in Ukraine”**. Law defines the main principles of governmental policy in budget, credit, price, regulatory, and other spheres of governmental management for stimulation of agrarian production and development of agrarian market and providing food security.

**Law of Ukraine dated 18.10.2005 2982-IV “Major principles of state agrarian policy on the period till 2015”**. This Law covers goals, priorities, implementation approaches and some targets for state agrarian policy in Ukraine. Main principles of state agrarian policy according to this law are targeted for the sustainable development of agrarian sector of the national economy till 2015, systematic and complex approaches during implementation of concrete measures of agrarian policy by all central and regional authorities. State agrarian policy is based on the national priorities as well as on the need of integration of Ukraine to the EC and global economy

**Cabinet Ministries of Ukraine Decree 1158 dated 19.09.2007 “Programme of Ukrainian Rural Development to 2015”**. The major objective of this programme is “to ensure sustainability of the rural economy, its competitiveness in domestic and foreign markets, to guarantee food security of the country and to preserve the peasantry as the carrier of the Ukrainian identity, culture and spirituality”. The programme is based on the functionality of agriculture and sets out measures including:

- support programmes to develop food markets and competitiveness of agricultural productions in the framework of Ukraine’s WTO membership;
- development of SMEs and cooperation in agriculture to encourage job creation in rural areas;
- drafting a Law on Agriculture to set out standards in agriculture and food industry, the rational and ecologically friendly use of land and preservation of rural employment;
- regulating the development of ecological farming and its certification system;
- soil conservation, erosion prevention and the other environmental protective measures with state support;
- development of a national code of sustainable agrarian economy, setting out the rules of good agri-ecological practices.

#### **Law of Ukraine dated 06.11.2012 9610 “Law on Agricultural Receipts”**

The Law regulates relations arising in the process of the formulation, issuance, circulation and implementation of agricultural receipts; stipulates the order of registration and aims to create the legal, economic, and organizational conditions for the functioning of these documents. The Law determines that an agricultural receipt is a document that establishes an unconditional obligation of the debtor to supply agricultural production as specified in the document - quality, quantity,

place and date of delivery. Agricultural receipts will support the provision of working capital from banks, or input suppliers, before harvest by the pledging of future crops<sup>18</sup>.

### 3.2. Description and assessment of the current and planned Government interventions and strategies for agriculture and rural development

The above mentioned documents formulate the major principles, problems and visions for agrarian policy formulation and implementation. Agrarian policy in Ukraine has not always been reform oriented. A lack of strategic vision in previous years led to a slow pace of agrarian reform and to inconsistency in governmental decisions. According to comments from the World Bank, “Ukraine has tremendous agricultural potential with a critical role to play in contributing to global food security. However, this potential has not been fully exploited due to depressed farm incomes and an inadequate policy framework that has reduced private investment below levels required to modernize the sector. Examples of ill-advised policy measures include repeated grain export restrictions (most recently in 2010-2011, now replaced by export taxes); interventions in domestic food markets to control prices; weaknesses on contract enforcement that have discouraged commodity financing and risk insurance mechanisms; and an incomplete process of land reform”.

Based on the current situation in agriculture and rural development, and having analyzed internal and external conditions in the sector, the MAPF and the Ukrainian Academy of Agrarian Sciences developed priority areas and strategic measures for Ukrainian agricultural and rural development. The priorities to be achieved in the medium term, including key measures envisaged, are following<sup>19</sup>:

MAPF priority areas (Presidential Programme of Economic Reforms, 2010 -2014):

Priority area	Key measures envisaged
<p style="text-align: center;"><b>Area 1</b></p> <p style="text-align: center;">Reform of agricultural land market; increasing of land’s fertility; National Project “The grain of Ukraine”</p>	<p><b>Measure 1.</b> Creating transparent schemes of regulation of land relations namely:</p> <ul style="list-style-type: none"> <li>• Elaboration of draft law concerning the simplification of permissive procedures attached to elaboration, concordance and ratification of documents in the organization of land usage;</li> <li>• Decreasing of number of organizations providing permits for business;</li> <li>• Abolition of licenses for land usage and estimation activity. Introduction of certification of these procedures.</li> </ul>
	<p><b>Measure 2.</b> Elaboration of mechanism of economic stimulation of the productivity of agricultural land.</p>
	<p><b>Measure 3.</b> Realization of National Project “The Grain of Ukraine”, namely:</p> <ul style="list-style-type: none"> <li>• Development of seed-growing system of grain cultures;</li> <li>• Using of resource-saving technologies in the field of soil</li> </ul>

<sup>18</sup> The development of the law followed a study tour to Brazil in 2011 for high-level officials to see firsthand how the pledging system can function as pre-harvest financing instruments - assistance of FAO and EBRD.

<sup>19</sup> Action plan of the Ministry of Agrarian Policy and Food of Ukraine in 2012 to implement the programme of economic reforms for 2010-2014 "Prosperous Society, Competitive Economy, Effective State"

	<p>treatment;</p> <ul style="list-style-type: none"> <li>• Introduction of investing in innovation in production of agricultural equipment (modern combine harvesters, tractors);</li> <li>• Creation of additional capacities for saving and producing of grain</li> </ul>
<p><b>Area 2</b></p> <p>Food safety and Food security</p>	<p><b>Measure 4.</b> Harmonization of normative documents with EU requirements in the field of agriculture and food standardization.</p>
	<p><b>Measure 5.</b> Elaboration of draft law about food labelling and information for customers , harmonized to the European Parliament and Council Regulation 1169/2011.</p>
	<p><b>Measure 6.</b> Elaboration of draft law about novel food harmonized to EU Regulation 258/97.</p>
	<p><b>Measure 7.</b> Elaboration of draft law on hygiene of food including products of animal origin, harmonized to Regulations 852/2004 and 853/2004.</p>
	<p><b>Measure 8.</b> Elaboration of draft law on the about animal keeping concerning of the requirements for the protection of animals producing food and other products. These requirements are harmonized to European Council Directive 98/58/EC of 20 July 1998.</p>
	<p><b>Measure 9.</b> Elaboration of draft law about fodder for animals grown for production of food and other products. This draft law must be harmonized to Regulation 189/2005/EC.</p>
	<p><b>Measure 10.</b> Elaboration of draft law about food substances of animal origin and animal by-products. The law t must be harmonized to EU Regulations 1069/2009 and 142/2011.</p>
	<p><b>Measure 11.</b> Elaboration of draft law about corrective actions to some laws of Ukraine (harmonization of national and EU legislation in the field of licenses, conclusions, certificates, agreements and expertise which operators of food markets must have).</p>
	<p><b>Measure 12.</b> Elaboration of draft law concerning official control for checking the accordance with Ukrainian legislation in the field of food safety and food quality, fodder, animal health and husbandry. The law t will be harmonized with EU Regulations 854/2004, 882/2004, 69/2009 and Directive of Council EU №97/78/EC</p>
	<p><b>Measure 13.</b> Elaboration of legal documents in the field of identification of agricultural animals with the purpose of harmonization to international standards.</p>
<p><b>Area 3</b></p> <p>Economic growth and improved livelihoods in rural areas</p>	<p><b>Measure 14.</b> Introduction of new mechanisms of financial support for agricultural producers</p>
	<p><b>Measure 15.</b> Improvement of the system of price monitoring for the market for food products</p>
	<p><b>Measure 16.</b> Create a marketing information system to monitor wholesale markets for agricultural products. Application of logistic infrastructure for agricultural product markets; integration in world community</p>
	<p><b>Measure 17.</b> Elaboration of a state strategy for steady development of rural areas, namely:</p> <ul style="list-style-type: none"> <li>• On the national level, establishment of a fund for rural</li> </ul>

<b>Area 4</b>  Rural infrastructure development	development and a special payment agency; <ul style="list-style-type: none"> <li>• On the regional level, establish different models of agricultural management.</li> </ul>
	<b>Measure 18.</b> Create a system of advisory services for rural inhabitants and commercial entities in the agri-industrial complex, using: <ul style="list-style-type: none"> <li>• Monitoring of requirements for advisory services in different fields;</li> <li>• Definition of priorities for granting social services differentiated by natural and climatic zones</li> </ul>
<b>Area 5</b>  International technical assistance for development of livestock sector within ENPARD framework	<b>Measure 19.</b> Implement National Project “Improved cattle-breeding” on the basis of: <ul style="list-style-type: none"> <li>• Monitoring of the status and development of cattle-breeding;</li> <li>• Elaboration of projects for family and industrial farms;</li> <li>• Improvement of the system of effective reproduction in dairy farming;</li> <li>• Modernization of the programme for cattle selection;</li> <li>• Creation of informational-selection centre for monitoring, control and coordination of pedigrees in cattle breeding;</li> <li>• Support to investments in dairy farming.</li> </ul>
	<b>Measure 20.</b> Elaboration of the programme for preserving of local and disappearing breeds of agricultural animals in Ukraine in accordance to FAO requirements (to preserve genetic resources and biodiversity).

Source: Ministry of Agrarian Policy and Food of Ukraine

### Budgetary support for agricultural and rural development

After the collapse of the centralized planning and distribution system in the former USSR, the government continued to support the agricultural sector with inputs, using barter and other non-monetary schemes. However, in recent years these schemes were abandoned and now the government uses mainly monetary transfers. MAPF finances the state budget programmes and related measures for the development of agriculture, such as tax exemption and preferences, and partial compensation of interest rates for commercial credits. The main principles of direct monetary support are described in the above mentioned legislation, (in particular in Law of Ukraine dated 24.06.2004 #1877-IV).

Annual volumes and more detailed directions for budgetary support are defined in the annual budget laws. In general the budgeting process is the following: MAPF annually, on the basis of proposals from regional departments of agrarian policy, prepares a budget proposal and send it to the Ministry of Finance. After a long iteration process and discussions with Ministry of Finance and Ministry of Economic Development and Trade, MAPF provides a budget proposal to the Ukrainian Government – the Cabinet of Ministers of Ukraine. Finally the Cabinet of Ministers on the basis of proposals from all Ministers prepares the draft Budget Law and provides it to Parliament. During discussion in Parliament and some further iterations, Parliament finally issues the Law about state budget which is an obligatory legal document.

In total the agriculture budget support for 2012 is 8, 21 billion UAH or \$1,026 million. This is 22% less than in 2011. 33% of the total MAPF budget will be committed to direct support of agriculture which is the lowest level in recent years. In Table 2 the detailed distribution of budget support according to budgetary classification is presented <sup>20</sup>

<sup>20</sup> According to the Law “About State Budget of Ukraine for 2012”:

Support of Agricultural Production in 2012 (000'sUAH, at 8.0 UAH: 1USD):

Budget lines according to ministerial and program classifications budget spending and crediting	General Fund	Special Fund	Total
<b>Finance</b>			
Preventive measures against diseases of agricultural crops, preventive measures for livestock against infections	34000	-	34000
State support for development of hop growing and instalment of young gardens for fruit and grape production	50000	1075000	1075000
Partial compensation of electricity costs for irrigation	50000	-	50000
Financial support for agricultural wholesale markets	200000	-	200000
Financial support of animal husbandry	-	732000	732000
<b>Credit support</b>			
Providing credits for private farms	-	27800	27800
Financial support on leasing basis	25000	5024	30024

Source : Annexes № 3 and № 4 to State Budget of Ukraine for 2012

Budget allocations for agricultural and rural development will be in place in the following years. Budget support for livestock production, fruit production, and support for small farms, and rural territories will correlate with budget income and the macroeconomic situation. The MAPF and the Ukrainian government are expected to be interested to obtain support within an ENPARD framework for the priority areas listed in the national strategy for the development of agriculture and rural development. This is even more important given reforms of the EU CAP. Ukrainian agricultural producers are generally not aware about the planning of these changes.

### 3.3. How correspondent Government programs fit into the ENPARD approach

ENPARD represents a real opportunity for the further modernization of agriculture and the rural environment in Ukraine. Besides financing arrangements, an ENPARD would enable a transfer of models and practices working in states that have recently acceded to the European Union. Furthermore, ENPARD will support agricultural stakeholders in order to benefit from improved access to the European market, especially once the DCFTA is completed.

Ukrainian Government programmes in the agriculture and rural development sector could accommodate an ENPARD approach, not least due to the approximation process that has been formulated, with EU integration as a primary goal. Areas of ENPARD intervention consistent with MAPF priority areas (Presidential Programme of Economic Reforms, 2010 -2014):

**Area 1: Economic growth and improved livelihoods in rural areas.** Forecasting of production, processing and consumption of livestock products; development of breeding base for livestock.

**Area 2: Food safety and food security.** Regulatory policy for the sustainable and stable development of animal husbandry, further harmonization of legislation and quality standards with EU standards.

**Area 3: Rural infrastructure development.** Development of farmer cooperation, farmer associations, non-traditional farming and non-farming incomes, development of rural territories, forms and methods of organization of animal husbandry according to experiences in EU neighbours.

**Area 4: Public administration and civil society capacity development.** Capacity development of governmental and non-governmental partners, support to extension services, public-private partnership development)

### 3.4. Policy and Strategy critique

Whilst there is a new emphasis on agriculture, as signified by the Strategy of Agriculture Development, there is not enough execution of policy. There is a need to prioritise the priorities

- Rural Development is a priority under the National Indicative Programme 2011-2013 (The Native Village Programme). However no budget funds have been allocated for funding any element of the programme. At the same time provisions of more than \$1 billion have been made for the agriculture sector. A mechanism for supporting rural development should be developed, including some means to leverage funds through co-funding and cost sharing. While advocacy for the inclusion of rural development is generally donor driven, the final decision-making rests with the executive authorities in the allocation of budget resources.
- There are two broad groups in the agriculture and rural space, the agri-corporations (152 alone each with more than 10,000Ha), and 'households', which account for about 50% of the value of production. State sector targeting for budget support funds is biased toward the large agri-enterprises. Opinion is divided on the appropriate allocation of resources as between these groups. On the one hand, support for the lower income categories yields smaller taxes and exports than support for the larger enterprises, but this is at the cost of poverty and hardship for the lower categories.
- There are 15 million living in rural areas, of these 0.7 million are employed and the majority are classed as self-employed. The MAPF target is that 70% of rural household producers form into some kind of co-operative arrangement. The means and mechanisms for such a process are unclear.
- Statistics are limited in availability, as up to date information on production volumes and availability may compromise the negotiation and contracting process for commodity crops.
- The direct production support payment system includes no cross-compliance requirement measures, even in the face of wide spread evidence of ecological damage due to inappropriate practices.
- There is no definition, or defined competence in rural development. Statistics and performance indicators in this sector are also limited.
- Lack of a rural development capacity at central and local levels, with some indications of moves to incorporate a rural development function within MAPF structures.
- A deficiency in a livestock policy to develop the dairy sector. Livestock, especially dairy, is very much in the household domain, based upon free access to communal and state pasturelands.
- The existing setup for disbursement of state funds seems credible and effective, especially taking into consideration the amount of funds disbursed. However transparency is an issue as there is little information on the disbursement process. Any movement to load the system further with a rural development support scheme would probably need capacity building; given the size of the country. There is no separate payment agency in agriculture for disbursement of state subsidies, distribution being carried out through treasury arrangements, mainly targeting large agri-enterprises.

## 4. Assessment of institutional capacity

### 4.1. Assessment of Government Institutions for Managing, Implementing and Monitoring an ENPARD approach

The leading institutions responsible for formulation and implementation of agrarian policy in Ukraine are presented in Annex 1.

**The Ministry of Agrarian Policy and Food of Ukraine**<sup>21</sup>. According to Presidential Decree № 500/2011 dated 23.04.2011 the Ministry of Agrarian Policy and Food of Ukraine is the central executive body responsible for development of agrarian policy and food security of the country. The Ministry is also responsible for the development of agrarian policy in:

- aquaculture and fish processing industry;
- protection, utilization and renovation of water resources;
- regulation of fishing;
- veterinary medicine, veterinary and phytosanitary policy (SPS);
- protection of rights on seed varieties;
- land relations;
- forestry and hunting, and
- control and supervision in the agri industrial complex.

The Ministry actively cooperates with other stakeholders. It has initiated discussion of agricultural and rural development issues via round tables, including academic institutions, international donor's projects, farmer associations and NGOs. For instance, in the Ministry there are three joint commissions involving all relevant stakeholders constantly working on the land market, agri-market development and rural development.

The organizational structure of the MAPF is provided in Annex 1. The Ministry is also in contact with regional (25) and local agrarian departments, other Ministries and other central executive bodies. The MAPF would have the capacity to implement and monitor measures according to an ENPARD if there were a sufficient budget provision and additional capacity for training (for instance related with expected CAP reform). MAPF staff have good experience of similar training during the implementation of EU funded SWAP-RURAL Project.

The main other institutions involved in the agriculture and rural development area include:

- Veterinary and Phytosanitary Service of Ukraine which is responsible for food safety from 'field to fork'
- State Agency for Land Resources which is responsible for land reform and land cadastre development
- National Academy of Agrarian Sciences provides scientific support for the development of the agri industrial complex. It comprises a number of scientific centres, laboratories, research stations and other facilities.
- National Academy of Science: Institute of Economics and Forecasting
- Agricultural Advisory (extension) Service which has 70 regional advisory offices and provides advice to farm enterprises of all sizes. The Law of Ukraine "On Agricultural Advisory Activity" (2004) defines the legal framework to implement agricultural extension and regulates relations in this area. The law guarantees state support for agricultural extension for socially-oriented services and also provides for fee based

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<sup>21</sup> [www.minagro.gov.ua](http://www.minagro.gov.ua)

advisory services to the customers. However in 2011 there were no state budget funds provided for extension services, requiring the service providers to source funding from alternative sources.

#### **4.2. Assessment of agriculture and rural economy stakeholders for managing, implementing and monitoring an ENPARD approach**

**Association of farmers and private land owners of Ukraine.** This has 100,000 members and is financed by contributions from members starting at 2 UAH per Ha of land per year. It represents the interest of farmers and landowners. Compared with the number of private landowners (more than 6 million) the association represents the interests of “old” farmers (farmers who received land in the initial stages of collective farm restructuring and some private households). The Association is still very weak in participating in policy formulation and seriously influencing the government. However, the MAPF is very interested to encourage these partners to represent a consolidated vision of the producers. Consequently participation of this organization is important to represent farmers and landowners.

All-Ukrainian NGO “**Agricultural Service Cooperatives Union of Ukraine** established in 2010 is working mainly in the area of drafting legal regulations for cooperatives. The NGO cooperates with the USAID Agroinvest project.

NGO “**Institute of Rural Development**”, Kiev, has intensive experience in supporting the Ministry, in cooperation with international technical assistance programs and projects.

**Local authorities in cooperation with rural communities** are able to implement projects for local rural development if sufficiently financed and if rural community leaders are prepared and trained. Some legislative changes relating to the formation of budget (decentralized model) are needed. Related experience is already accumulated in EU- supported local development projects in Ukraine.

**Ukrainian Agribusiness Club** is a research member-based institution oriented on corporate customers, national and international, concerning agribusiness in Ukraine.

#### **4.3. Assessment of the need for training of the agriculture and rural economy stakeholders**

All the mentioned above institutions bodies require support for capacity development. Farmer associations would benefit from the EU experience in capacity building, as they are in an initial stage of development. Preparation for an ENPARD Program should include the following activities:

- Assigning competences and functions between institutions and staff training;
- Formation of a Steering Committee for an ENPARD;
- Consultation and elaborating of a programme reflecting Ukrainian priorities for ARD and submitting to the EU for approval (EU expertise needed);
- Preparatory project – lessons learned from New Member States on successful measures and implementing structures leading to pilot projects;
- Implementing pilot projects.

## 5. Review of existing ongoing programmes

### 5.1. Collection and comparison of results from different data sources

According to the information from the MAPF, twelve international technical assistance projects have been active in the agriculture sector in 2012. The Canadian International Development Agency (CIDA) implements five projects, the Swiss Government (SDC) two projects, the European Union, FAO, USAID, Denmark and the Netherlands, one project each.<sup>22</sup>

- CIDA supports entrepreneurship development in the dairy cattle breeding and horticulture sectors, infrastructure development and quality improvement in the grain sector, rural cooperation expansion, and introduces a gender equality component.
- The Swiss Government funds projects for development of markets for organic production by improving national legislation, expanding services on organic certification and improving producers' access to the market.
- The European Union supports efforts to improve the quality and safety of food and agricultural products to improve the institutional capacity to implement agricultural policies and to help approximation to EU legislation in the context of integration into the common EU administrative space.
- The USAID funds improvement of structural and legal reforms in agrarian sector and the development of land relations and market infrastructure.
- The Government of Denmark funds the development of the dairy and fruit and vegetable sector by supporting small farmer enterprises and improving supply channels.
- The Government of the Netherlands provides support in the development of legislative and regulatory acts on consolidation of land, water and forest resources.
- FAO provides advice in building up an effective agrarian policy.

**The Database for international technical assistance projects** contains information about 120 projects, which have been implemented in Ukrainian agricultural and rural development sector in the last 10 years. The Database was developed for the Ministry of Agrarian Policy and Food of Ukraine by the EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach)". The purpose of the Database is to provide the Ministry with a 'corporate memory' of technical assistance interventions and models of good practice, and assist the Ministry in the effective management of the sector. At the same time, it will help donors in the design of future agricultural and rural development support programmes, and improve implementation and co-ordination of projects.

The Database contains a variety of information about projects in the sector, their activities and their outcomes including descriptions of donor programmes in the sector, individual project reports, research papers, materials from key events, sector and sub-sector analyses, media coverage, relevant legislation and regulation links, etc. The Database is administered by the MAPF, and information is updated regularly by the Ministry, donors, IFI's and projects themselves. At present access to the Database is provided by the MAPF on request. More detailed information about relating to agriculture ongoing projects presented below.

**The EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach) SWAP-RURAL"**<sup>23</sup> is intended to facilitate fulfilling Ukraine's commitments regarding changes in the agrarian sector, which Ukraine assumed when joining WTO.

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<sup>22</sup> Panorama of Ukraine agricultural sector 2011

<sup>23</sup> <http://swap-rural.org.ua/>

The Project objective is to promote close collaboration between Ukraine and EU and harmonization of Ukrainian standards with WTO requirements to the Ukrainian agrarian sector to enable wider access to external markets and be assisted in creating proper conditions for free and civilized trade on the domestic market.

The MAPF is the Project beneficiary. A sector-wide approach is employed in implementation of the Project, which consists of three technical components aiming at improvements in food safety, market infrastructure and rural development and a general administrative component under to support the MAPF increase its managerial/administrative capacities and coordinate application of the sector-wide approach through activities under the said three components.

Each component includes a number of specific activities, namely:

- **Institutional development** envisages improving coordination of donors' efforts in the agrarian sector, promoting EU-Ukraine political dialogue, and strengthening MAPF institutional capacities Under this component capacity development for MAPF is provided, so key Ministry staff are in line with the EU-Ukraine integration agenda;
- Under the **food safety** component, technical assistance is provided on improving the Ukrainian food safety system and harmonization of Ukrainian food standards with international ones;
- Under **market infrastructure development** component, assistance is provided in the implementation of the National Program of Wholesale Agriculture Markets, draft regulations and develop design solutions needed to develop the wholesale market network, and support development of a wholesale market in a pilot region;
- Under **rural development** component, the Project will be involved in development and public discussion of the national rural development strategy, to ensure sharing of information to NGOs and other stakeholders through web site and Internet portal development, and set up a task force to coordinate other similar projects that are funded by EU.

**USAID. AgroInvest** is a five-year project (2011-2016). The purpose of the project is to provide technical assistance to accelerate and broaden economic recovery in Ukraine through support to the agriculture sector and increase the country's contribution to global food security. USAID AgroInvest will accelerate broad-based economic recovery and growth through a more inclusive and competitive agricultural industry. Project consists of three components:

1. Support a Stable, Market-oriented Policy Environment
2. Stimulate Access to Finance
3. Facilitate Market Infrastructure for Small and Medium Producers

One of the principal objectives of the AgroInvest project is to promote agricultural policies that are more predictable and market-oriented, leading to increased investments and sustainable growth of the sector. To this end, AgroInvest takes part in the development of implementation of a market-oriented, WTO-compliant policy reform strategy and assists the Government of Ukraine (GOU) and civil society in the strategy's implementation.

**CIDA. Canada-Ukraine Grain Quality and Safety Project (2011 -2014).**<sup>24</sup> The project aims to enable Ukraine's Central Grain Testing Laboratory to test grain quality and ensure food safety by providing the Central Laboratory and Regional State Bread Inspection labs with technical assistance and laboratory equipment. It is designed to help Ukraine's government grain inspection system meet the accreditation requirements of the International Organization for

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<sup>24</sup> <http://www.acdi-cida.gc.ca/cidaweb%5Ccipo.nsf/projEn/Z020985001>

Standardization (ISO) and the Grain and Feed Trade Association (GAFTA). The project also promotes career development opportunities for women in the agriculture industry. It builds on the achievements of the Grain Quality and Rural Agricultural Credit Phase II project.

**UN:** The present engagement of the UN in Ukraine is to a great extent oriented towards capacity development and the formulation of legislation, regulation and policy. Beyond this role the UN is well placed to advocate for and conduct constructive dialogue in the listed priority areas and to work towards tangible goals within the themes of accountable and transparent governance, sustainable development and social inclusion, and regional stability and cooperation.<sup>25</sup>

**FAO: GCP/RER/026/AUS project “Increasing resilience of small scale farmers to the impacts of soaring food prices by the use of animal identification and registration in Ukraine”.**

Major outcomes are:

- Awareness among key stakeholders on animal identification
- Institutional framework for electronic animal identification and traceability system
- Infrastructure for livestock data collection, analysis, transmission and scanning equipment for number reading
- Capacity building of operators of electronic animal identification and traceability system
- A pilot traceability system is tested and recommended for national adoption<sup>26</sup>

**UN FAO: Emergency Prevention System for Trans-boundary Animal diseases and Plant Pests and Diseases (EMPRES) - Animal Health Component**

FAO provides country specific and regional Technical Cooperation Programme projects to help curb animal disease outbreaks, addressing several issues, among them the improvement of surveillance, laboratory diagnostics and the development of contingency plans. A regional approach has been chosen while international support is also considered necessary to take the regional and international dimensions of the crisis into consideration.

**The World Bank: The Rural Land Titling and Cadastre Development Project for Ukraine** will establish a national cadastre and title registry system, allocate land parcels to individuals in rural areas on an equitable basis, establish their property rights by issuing state deeds for land, and encourage the restructuring of farms into more efficient units. The project is progressing towards meeting the development objective within the time frame of the project and is expected to meet targets before the end of the project period. The progress with completing large mapping contracts that are required in order to produce cadastral index maps is behind schedule. The State Land Cadastre is central to the further development of land reform and land market<sup>27</sup>.

## 5.2. Presentation of benchmarks

Cooperation between the EU and its Eastern Neighbourhood partners - the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, Georgia, the Republic of Moldova and Ukraine – is an integral part of the EU's external relations. In the field of agriculture and rural development, sector dialogues are taking place in the relevant sub-committees under the Partnership and Cooperation Agreements. To strengthen the cooperation in the field of agriculture with partner countries, the Commission has started work on a general approach to support this sector through a **European Neighbourhood Programme for Agriculture and Rural Development - (ENPARD)**. It is expected that ENPARD will help

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<sup>25</sup> Ukraine – United Nations Partnership Framework 2012 -2016

<sup>26</sup> FAO Project document for GCP/RER/026/AUS

<sup>27</sup> The World bank Country Background Information Sheet: Ukraine (*working paper*)

partner countries to operate more effectively in foreign markets, to benefit fully from the future DCFTAs, to stimulate farming domestically and to promote long-term agricultural and rural development strategies.<sup>28</sup>

Despite the multifunctional role of agriculture and importance of rural development the situation in rural areas is far from ideal: unemployment, lack of infrastructure, lack of non-farming business, development of cooperation, etc. The budgeting process is far from developed and needs revising with the active participation of rural communities. Development budgets targeted for rural development are needed as well as new approaches in the budgeting process, to involve the involvement of rural dwellers, leaders in rural communities, public private partnerships, and active involvement of big business (agro-holdings).

Benchmarking a rural development process will have to be structured to a specific programme framework, perhaps structured as:

- Empower the rural communities by strengthening the capacity of the local administration and facilitating the participation of the local communities in rural development activities.
- Support the identification and implementation of demand-driven agricultural production and post-harvest projects by producer organizations: adding value to village level production and diversifying rural activities and employment opportunities and market access.
- Increasing levels of understanding of opportunities to respond to climate change and reduce the level of risk associated with extreme weather conditions by the development of specific regional and community programmes that focus upon appropriate and good practices.

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<sup>28</sup> Eastern Partnership: A Roadmap to the autumn 2013 Summit  
[http://ec.europa.eu/world/enp/docs/2012\\_enp\\_pack/e\\_pship\\_roadmap\\_en.pdf](http://ec.europa.eu/world/enp/docs/2012_enp_pack/e_pship_roadmap_en.pdf)

## 6. Sector summary SWOT and future possible priorities

### 6.1. Sector specific SWOT analysis

The agricultural production sector is vulnerable to a series of risks and tendencies of both natural and anthropogenic character with potential for a strong, negative impact on agriculture. Sustainability of rural economy, its competitiveness in domestic and foreign markets, the guarantee of food security for the country and preservation of the peasantry as the carrier of Ukrainian identity, culture and spirituality are the major goals of the current rural development strategy of Ukraine. The development of this strategy utilised a SWOT.

#### **Strengths:**

- Comparative advantage in agriculture and food, with huge areas of fertile arable land;
- Strong natural capacity for export of primary agricultural commodities: wheat, sunflower, and other crops;
- As compared to EU countries, a lower cost labour force;
- Agri-holdings capable of organising effective production and export;
- Access to large CIS markets and WTO membership;
- An agriculture development policy with an emphasis on enterprise development.

#### **Weakness:**

- Vulnerability to a number of risks including soil erosion, drought, flood and heavy rain and frosts;
- Uncompetitive products and insufficient development of the higher value products demanded by external markets;
- Productivity is low in comparison with EU countries;
- State funded support programmes have limited transparency, favouring agri-enterprises which accentuates inappropriate policies and non sustainable agricultural practices;
- A semi-subsistence type of agriculture is practiced on the many millions of small and fragmented land plots;
- Undeveloped market infrastructure including handling, storage, packing, processing, cooling and distribution;
- Insufficient market based research and development;
- Incomplete land reform decreases investment opportunities for farmers;
- No rural development policies or funded programmes;
- Poorly developed rural infrastructure.

#### **Opportunities:**

- New cost effective and environment friendly technologies have major potential;
- The modernization of the quality management system encourage access to new international markets for higher value products;
- The EU Association Agreement and DCFTA will open new markets;
- Increasing demand for agricultural products;

- The improvement of the investment and business climate will allow for an increase of investments in the sector from both local and foreign sources;
- Completion of land reform and formation of efficient land market will create new opportunities in the agricultural sector;
- Improvement of the rural infrastructure by developing the roads and social structures will support business development in the rural space and consequently employment and incomes;
- Ukraine has the opportunity to become the largest organic producer in Europe;
- Potential demand for bio-fuel in EU (oilseed rape production)

**Threats:**

- Soil erosion and decreasing fertility due to intensive cultivation;
- Reliance of livestock producers on communal pasturelands with no incentives to commercialise;
- Possible failure to improve business and investment climate thereby preventing further development and competitiveness;
- Slow progress in adoption of international standards into national regulations;
- Weak linkages in the supply chains and lack of access to markets by the small primary producers;
- No pure national livestock breeding base, dependence on imported breeds and crosses;
- Intention to implement integration simultaneously in various directions (DCFTA with EU, Customs Union with CIS countries, etc.);
- Political problems capable of slowing development of export markets;
- Market protection measures from the Customs Union (Russia, Belarus, Kazakhstan);
- A declining population, especially in the rural areas.

## 6.2. List of the most relevant priority areas

The weaknesses mentioned above have constrained the emergence of a more sustainable model of development, where economic growth would benefit the wider society, while remaining environmentally-neutral, if not friendly. Time frames tend to be short term and actions speculative.

In general there is a need to promote the multifunctional role of agriculture as a more sustainable model of rural development including an agriculture system that is better connected to the markets and offers families and farmers a more rewarding lifestyle and level of income. These needs should be addressed by a comprehensive Rural Development Programme, which will ensure that services and support is available to small farmers while at the same time investments are undertaken in rural infrastructure as a means of creating a living environment providing at least a minimum comfort level, so that the rural youth see a future and remain in rural villages.

At the same time the Rural Development has to be positioned within an Agricultural Policy which includes improvement in the functioning of the land market, opens up international markets through trade agreements, improves certification and quality control standards at all

levels, and promotes environmentally sound agricultural practices. Specific proposals include the following:

- development of the National Code of sustainable agriculture to regulate good agricultural practices;
- support programmes to develop food markets and competitiveness of agricultural production;
- promoting the development of SMEs and cooperation in agriculture as a means to encourage job creation in rural areas;
- regulating the development of organic farming and its certification system;
- Drafting a Law on Agriculture giving legal effect to the foregoing proposals.

## 7. Recommendations on actions that could be implemented in a bilateral context

The central executive body responsible for European integration is the Ministry of Economic Development and Trade of Ukraine.

Major bilateral Ukraine –EU institutions/platforms are:

- Ukraine-EU Summit, EU-Ukraine Cooperation Council
- Ukraine – EU Cooperation Committee
- Subcommittees under the Ukraine- EU Cooperation Committee

The EU and its Member States are the largest donors to Ukraine. Since 1991, assistance provided by the EU alone has amounted to over€ 2.5 billion. EU financial assistance to Ukraine is on the rise: annual bilateral funding (National Action Plan) has increased from€ 47 million in 2002 to€ 116 million in 2009.<sup>29</sup>

The National Indicative Programme for 2011-2013 (3 years: € 470 million) sees a 27% increase in budget, with a focus on the entry into force of the EU-Ukraine Association Agreement (including the establishment of a DCFTA) and issues such as border management, energy and climate change. EU technical and financial cooperation supports Ukrainian ambitions to get closer to the EU. The EU, its Member States and other donors support Ukraine's European choice and wish to co-operate with Ukraine in helping the country to develop and implement its strategic plans and to help Ukraine offer European solutions to its problems.

As a privileged partner for the EU, and as part of the European Neighbourhood Policy, Ukraine benefits from the European Neighbourhood and Partnership Instrument (ENPI). Under this instrument the EU partnership with Ukraine has graduated from mere technical assistance to more substantial and focused support to reforms and the EU integration process. The co-operation framework behind EU financial and technical co-operation with Ukraine is the EU-Ukraine Association Agenda adopted by the Co-operation Council in November 2009. This prepares for and facilitates the entry into force of the Association Agreement. The Association Agenda identifies priorities which require urgent action in anticipation of the entry into force of the Agreement. It is the joint responsibility of the EU and Ukrainian sides. For 2010, a list of priorities for action was jointly agreed by Ukraine and the EU.

The current EU programme of financial and technical cooperation supports Ukraine's ambitious reform agenda. More than 250 projects are currently being carried out across a wide-range of sectors, regions and cities in Ukraine. EU assistance focuses in particular on support for democratic development and good governance, regulatory reform and administrative capacity building, infrastructure development and nuclear safety. EU funding for projects in Ukraine is provided in the form of grants, contracts and increasingly in the form of budget support<sup>30</sup>. The EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach) SWAP-RURAL", is currently the only project operating in the agriculture and rural sector.

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<sup>29</sup> [http://eeas.europa.eu/delegations/ukraine/eu\\_ukraine/tech\\_financial\\_cooperation/index\\_en.htm](http://eeas.europa.eu/delegations/ukraine/eu_ukraine/tech_financial_cooperation/index_en.htm)

<sup>30</sup> [http://eeas.europa.eu/delegations/ukraine/projects/overview/index\\_en.htm](http://eeas.europa.eu/delegations/ukraine/projects/overview/index_en.htm)

## Priority areas of EU assistance

Under the National Indicative Programme, 2011-2013, the Ukraine benefits from total indicative ENPI allocations of € 470.05 million from the ENPI. This includes € 43.37 million earmarked for the Comprehensive Institution Building Programme (CIB), and € 30.79 million for the Cohesion Policy Programmes.

The priority areas under the 2011-2013 NIP are:

- Area 1:** Good Governance and the Rule of Law.
- Area 2:** Facilitation of the Entry into Force of the EU-Ukraine Association Agreement (including DCFTA).
- Area 3:** Sustainable Development

The **Country Strategy Paper for Ukraine (2007 – 2013)** is coming to an end. The new Country Strategy Paper for 2014-2020 will define three priority areas. This will represent the opportunity for the Ukraine to select Agriculture and Rural Development as one of the priority areas. In the List of the EU-Ukraine Association Agenda priorities for 2011-12, section Agriculture and Rural Development, it mentions that “The Parties cooperate to support Ukraine in, and to prepare for, implementation of EU *acquis* mentioned in relevant annexes of the Association Agreement, in particular through enhanced activities of the established agricultural dialogue, in particular by improving the competitiveness of agricultural production, including by cooperation on the implementation of quality schemes”<sup>31</sup>.

### **Ukraine-United Nations Partnership Framework (PF) for the period of 2012-2016 and its correlation with ENPARD.**

Having held a series of consultations throughout 2010, the United Nations agencies and the Government of Ukraine have agreed to sign the Ukraine-United Nations Partnership Framework (PF) for the period of 2012-2016. Through a process of alignment with the Programme for Economic Reforms for 2010-2014 of the Government of Ukraine, the national Millennium Development Goals (MDGs) and other national policies and strategies, the UN agencies, identified a range of priorities which have been translated into a common operational framework for the UN partnership with the Government of Ukraine. There are four interrelated thematic areas within which the UN system and the Government of Ukraine have agreed to cooperate: (i.) sustained economic growth and poverty reduction, (ii.) social development, (iii.) governance, (iv.) environment and climate change.

As noted in the Presidential Programme of Economic Reforms, Ukraine’s resources and ‘agrarian potential’ is among the highest in the world. However, such potential is “utilized extremely inefficiently”. “Poor competitiveness of products and non-compliance with international quality and safety standards”, “low economic effectiveness of agricultural production and use of out of date technologies”, as well as a low level of investment, do not enable decent job creation and income generation in rural areas.

Ukraine will benefit from the introduction of a Farm Accountancy Data Network (FADN) which is a unified system the UN will help the Government of Ukraine to integrate for collecting, processing and using information on agricultural producers.

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<sup>31</sup> List of the EU-Ukraine Association Agenda priorities for 2011-12

Currently financing of bilateral support from the EU to Ukrainian agricultural and rural sector is provided via regional development. This means that resources are distributed among different recipients and it is difficult to monitor how much money was really spent for ARD.

### **ENPARD Agenda for Ukraine**

An ENPARD for Ukraine should be consistent with and support the MAPF priority areas particularly as outlined in the Presidential Programme of Economic Reforms. Not all of the components of the Programme can be addressed by ENPARD but the following are of strategic significance to Ukraine, are compatible with other statements of national objectives (e.g. the UN-Ukraine PF cited above), and have regional impacts:

- Measures to conserve and improve the fertility of land by combating erosion, contamination and promotion of sustainable cultivating techniques;
- Promotion of harmonisation of Ukraine food protection legislation (from ‘farm to fork’) with EU standards in order to protect domestic consumers and open up export opportunities for Ukrainian producers;
- Assistance with the design and implementation of schemes of financial aid for farmers to enable raise standards of livestock and tillage cultivation;
- Funding for the implementation of a national strategy for development of rural areas, especially with regard to rural infrastructure;
- Support for the development of a national network of rural advisory services ;
- Promotion of livestock sector through support for the Rising Cattle Breeding project with particular emphasis on measures to improve the genetic quality of the national herd.

However, the major difficulty in Ukraine, which holds back effective action is the lack of an agreed vision or policy with respect to agriculture and rural development. Therefore, the first priority in an ENPARD agenda for the Ukraine is to lift ARD to a higher level, as a dedicated priority or at least sub-priority area in the 2014-2020 programming period. This process should be initiated by MAPF. Proposed areas of intervention for ENPARD are presented above in section 3.3

Proposed institutional arrangements for implementing ARD programmes:

- **The EU Delegation to Ukraine** – coordination on political level
- **The Ministry of Agriculture Policy and Food of Ukraine** – defines policy, priorities and multi-annual programme and negotiates terms and conditions for an ENPARD
- **The Ministry of Economic Development and Trade of Ukraine** – Coordination of ENPARD from the viewpoint of general cooperation of EU-Ukraine (as central executive body responsible for the European integration)
- **Ministry of Infrastructure of Ukraine** – coordination of plans for development based infrastructure (transport, water, etc) with development of rural territories
- **The UN/FAO** – play a role of knowledge transfer, independent broker and assessor of government policy

## 8. Identification of regional gaps and priorities and recommendations for future actions

Cooperation between the EU and its Eastern European partners - the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, Georgia, the Republic of Moldova and Ukraine – is a crucial part of the Union's external relations. The EaP countries form two discrete geographic blocks: the South Caucasian countries of Georgia, Armenia and Azerbaijan, and the Central European countries of Moldova, Ukraine and Belarus.

### Eastern Partnership

#### Eastern Europe (EE) Belarus, Moldova and Ukraine

*Eurasian steppe lands and black soils of Moldova and Ukraine, the marshes, forests and loamy soils of Belarus*



#### South Caucasus (SC) Armenia, Azerbaijan and Georgia

*Trans-Caucasus, the borderlands of Eastern Europe and South-West Asia, defined by the Kura-Aras River Basin, between the Black and Caspian Seas*



Platforms are the main tool of the Eastern Partnership (EaP) multilateral track. They reflect the four main areas of cooperation between the Eastern Partner countries and the EU, namely:

- Democracy, good governance and stability (platform 1);
- Economic integration and convergence with EU policies (platform 2);
- Energy security (platform 3) and
- Contacts between people (platform 4).

In accordance with the General Guidelines and Rules of Procedure of the Eastern Partnership Multilateral Platforms (5 June 2009), an Eastern Partnership Panel on Agriculture and Rural Development has been established. The Directorate General for Agriculture and Rural Development chairs the Agriculture and Rural Development Panel and the Directorate General for Development and Cooperation assures consistency of the Panel's proposals with the EU development policies and guidelines.

The Panel objectives shall be the following, as confirmed by the participants of a regional technical workshop on Agriculture and Rural Development in the Eastern Partnership Countries held in Brussels on 19 November 2012:

- facilitate the exchange of experiences and best practices on sustainable development of agriculture and rural areas in the EU and in the Partner Countries, including on sector-specific strategies, policies and institutional capacities,
- serve to support further development and implementation of the European Neighbourhood Programme for Agriculture and Rural Development– by identifying

sector challenges common to the Partner Countries and supporting the Partners in designing common solutions to be applied at national and regional level,

- improve consistency and avoid duplication of measures taken by Partner Countries at national and regional level.

Activities of the Panel shall include:

- Sharing of information and best practices between the Participants (in the form of presentations and exchange of views), including on policy approaches, procedural requirements (including stakeholder involvement), administrative and organisational requirements, etc.,
- Identification of areas of intervention that could be considered while identifying programmes to be co-financed by the EU and/or the international financial institutions (IFIs).

### **8.1 Assessment of regional variations and disparities in agriculture production and rural development, including the livestock sector**

In general there are distinct differences between the South Caucasian and Eastern European countries that make up the Eastern Partnership. In the South Caucasian countries the 'self employed' smallholders make up 97.33% of all holdings and account for practically all production of plant and animal products. The self-employed have, in common with the same categories in the Eastern European countries, no fiscal or statistical identity and pay no taxes other than levies or land taxes at local level. Statistics are very broadly based, practically anecdotal, with no data available on market participation, economic size or actual working units.

The small land holdings held by the rural population following land distribution (except in Belarus) are subdivided into separate land plots, by type, including kitchen gardens. This, combined with little association or cooperation, results in a peasant-based agriculture. There is a lack of any packing, storage, handling and distribution infrastructure or market networks. This limits the possibility of adding value through quality and longer season availability and reduced wastage.

## Land use and land tenure in the EaP and EU 27 (millions)

<b>A. Land Use: the EaP6 (SC3 &amp; EE3) compared to the EU27<sup>32</sup></b>				
	<b>SC3</b>	<b>EE3</b>	<b>EU27</b>	<b>TOTAL</b>
<b>Land area Total</b>	18.63m Ha	84.51m Ha	400.42m Ha	<b>503.56M Ha</b>
Agriculture area Ha	9.91m Ha	53.92M Ha	170m Ha	<b>233.8m Ha</b>
Agriculture Area %	53.2%	63.8%	42.5%	<b>46%</b>
Arable	3.25m Ha	42.62m Ha	97.3m Ha	<b>143.2m Ha</b>
Permanent	0.57m Ha	1.33m Ha	10.9m Ha	<b>12.8m Ha</b>
Other	5.60m Ha	9.97m Ha	61.8m Ha	<b>77.37m Ha</b>
<b>B. Land Tenure: the EaP6 (SC3 &amp; EE3) compared to the EU27</b>				
	<b>SC3</b>	<b>EE3</b>	<b>EU27</b>	<b>TOTAL</b>
<b>Population Total</b>	16.7m	58.82m	502.5m	<b>578.02m</b>
Rural %	45%	31.55%	23%	<b>24.5%</b>
<b>Rural total</b>	7.51m	18.56m	115.57m	<b>141.64m</b>
In agriculture %	44.3%	9.2%	5.2%	<b>6.7%</b>
In agriculture	7.4m	5.35m	26m	<b>38.75m</b>
Number holdings	<b>2.7m</b>	<b>7.8m</b>	14m	<b>24.5m</b>
Average size HH	1.48Ha	1.4Ha	14Ha	
Private / HH	<b>97.33%</b>	<b>45.9%</b>	47% <sup>33)</sup>	<b>63.41%</b>
Agri-Enterprises	<b>2.67%</b>	<b>54.1%</b>	53%	

A common feature of the South Caucasian countries, especially following the 2007 drought and restrictions on imports from traditional suppliers of grains, is a push to develop a reliable supply of foodstuffs, especially of wheat. This objective is being supported by area payments and input subsidies provided through treasury arrangements.

This push for grain production is itself forcing initiatives for land block consolidation, both formal and through legislative arrangements for producer and agriculture cooperatives, combined with fiscal arrangements to lift barriers, including turnover and VAT thresholds. There are also significant problems in these countries regarding a requirement for irrigation and the consequent problems with salinity due to inappropriate practices. In turn this is causing loss of land to production as well as significant areas of unused land - simply left idle by the owners.

<sup>32</sup> EU27 statistics drawn from EUROSTAT, EaP6 as available, and not on the same basis

<sup>33</sup> Defined as less than 1 ESU = € 1200

In contrast are the very large enterprises in Eastern Europe, in particular Belarus and the Ukraine. However, in the Ukraine and Moldova, there are also very large numbers of title holders of small agriculture land plots, including kitchen gardens, demonstrating the same problems and constraints to development as in the South Caucasian countries, just with better soils and climatic conditions.

The South Caucasian countries contain very large areas of state owned and communal pasturelands, which are used as the only source of grazing of animals, owned on an individual basis. The herding of animals on a large scale on these pasturelands and on summer pastures on the highlands that also form borderlands, results in problems of grassland management and animal disease control, both in-country and trans-boundary. The list of zoonoses present and endemic in the area is extensive. In the Ukraine and Moldova livestock tend to be held by small-holders and grazed on nearby communal lands, thus constraining production and putting great pressure on (unmanaged) pastures and on ground waters as the animals are housed on household yards.

## 8.2. Recommendations on actions that could/should be implemented in a regional context

Ukraine is actively participating in different regional platforms and EU initiatives such as Eastern Partnership, the Central European Initiative, the GUAM, and:

- **Regional cooperation** addressing, in particular, issues related to closer inter-state cooperation on transport and energy and sustainable management of natural resources focusing mainly on water. Ukraine has played an active part in the work of the High Level Group on the extension of the major trans-European transport corridors to neighbouring countries and regions and also in the EU-Black Sea-Caspian Basin Ministerial Conferences on Transport and Energy and in the follow-up working groups.
- **Cross-border cooperation (CBC)** focused on economic and social development of border areas, efficient border management and people-to-people contacts, which were fostered through the CBC Small Project Facility and its successor **Neighbourhood Programmes (NPs)**. Ukraine is eligible under four NPs, namely Poland-Belarus-Ukraine, Slovakia-Hungary-Ukraine, Romania-Ukraine and CADSES (Central European Adriatic Daubing South-Eastern European Space). Several Calls for Proposals have already been published, projects selected and contracted within the Slovakia-Hungary-Ukraine and Poland-Belarus-Ukraine programmes.

Ukraine is in geographic block with the Moldova and Belarus which are important trading partners with communications and links essential for transport and energy transmission networks. Ukraine is the biggest producer of grain, sunflower seeds and oil and rape in this block. At the same time, Ukraine is a traditional importer of Belarus livestock products and of Moldovan fruits and vines. So agriculture in this block is partially complementary, but all countries are interested in higher quality standards to access third countries markets.

## Topics of common interest include to:

- ✓ *Establish multi-level governance (involving local, regional, national levels in the decision-making and implementation process), cross-border cooperation, regional innovation systems, classification of regions and the role of smaller towns as poles of balanced development.*
- ✓ *Further elaborate cross-border cooperation in future ENP and EaP programmes and to increase the share of the financial resources allocated to cross-border and territorial cooperation in the next financing period;*
- ✓ *Initiate and promote joint meetings of governmental institutions involved in agriculture and rural development;*
- ✓ *Ensure the equal position of regional development between partner countries, in both management and decision making;*
- ✓ *Create and support joint activities in the area of agriculture and rural development, including transfer of knowledge,*
- ✓ *Create and use a common database of the genetic material, both livestock and field crops*
- ✓ *Foster harmonization of legislation;*
- ✓ *Organise forums and conferences;*
- ✓ *Develop and use a common marketing information system;*
- ✓ *Identify regional products and share the need/specific demand;*
- ✓ *Organise common training of stakeholders of the agriculture and rural development,*
- ✓ *Support the creation of associations of local and regional authorities;*
- ✓ *Balanced regional development through specific regional approaches in the area of agriculture and rural development.*

## Framework for multilateral cooperation

The main regional similarities that feature to a greater or lesser degree in each of the EaP countries ARD sectors can be clustered in two distinct groups, namely (a) Agri-food supply chain constraints and inefficiencies and (b) Institutional and policy constraints and inefficiencies:

### Agri-food supply chain constraints and inefficiencies

1. *Fragmented land holdings and lack of producer cooperation and integration*
2. *Low level of professionalism and training in rural communities*
3. *Gaps in standards, regulations, legislation and comparative information*
4. *Lack of food security in strategic cereal and animal origin products*
5. *Outdated technology and lack of appropriate infrastructure in rural areas*
6. *No codex or incentives for good agriculture practices*

## **Institutional and policy constraints and inefficiencies**

- 1. Under-developed food safety system: sanitary-veterinary*
- 2. No rural development policy, assigned competence or budget resources*
- 3. A concentration on production subsidies with no cross compliance mechanism*
- 4. A need to prioritise the many priorities & include within budget frameworks*

All of the above challenges can be differentiated by scale in each country, approaches to sector support, policy priorities and objectives, and the extent of involvement in trade but the commonality of the challenges and some of the ways in which these might be overcome provide a platform for further consideration of regional activities that could provide support and benefits for all countries of the region. These support areas/ needs can be considered to fall within three broad thematic areas, as follows:

### ***1. Agriculture and Rural Development policy, institutional and regulatory framework development:***

The rural populations in all EaP countries have long been taken for granted and often ignored in the policy and programming process. One of the consequences of this policy vacuum has been the gradual depopulation of rural areas as the economically active migrate to cities or abroad. These negative demographic trends, combined with a need for a vibrant working population to support agri-industry requires a more robust policy and institutional commitment to be developed in response.

#### **1.1 Rural development policy, competence and budget resources**

- 1.1.1 Need for clear rural development policies, assigned competence and strategic priorities, supported by a defined budget framework
- 1.1.2 Need for policies and programmes to promote food security in strategic cereal and animal origin products and realignment of production subsidies and support payments to ensure cross compliance / improvement in farming practices and standards

#### **1.2 Standards and regulations**

- 1.2.1 Need to fill gaps in agri-food product standards, regulations, legislation and comparative information on production (gross margins)
- 1.2.2 Need to develop systems to ensure food safety and animal health standards

### ***2. Agriculture and livestock sector competitiveness and sustainable productivity enhancement***

#### **2.1 Land management and improving the environment**

- 2.1.1 Need to develop policies and programmes to address fragmented land holdings and lack of producer cooperation and integration
- 2.1.2 Need to develop programmes to increase professionalism and vocational training of both farming and non-farming rural stakeholders
- 2.1.3 Need to promote improvements in the access and use of appropriate technology and appropriate infrastructure in rural areas
- 2.1.4 Need to develop sensible and manageable codex for good agriculture practices

**3. *Community-led rural development***

**3.1 Improve the quality of life and encourage diversification of economic activities**

- 3.1.1 Need to promote more community driven rural development responses to improve conditions in rural areas
- 3.1.2 Need to promote support systems and measures to encourage (sustainable) diversification of rural economic, social and cultural activities.

## 9. Conclusions and lessons learnt

Ukraine is one of the biggest world exporters of grain, sunflower seeds and oil, and rape. At the same time restructuring and privatization in agrarian sector since 1990s has led to serious disproportions in agrarian production<sup>34</sup>. Examples of these disproportions are:

- increased monoculture export oriented production : wheat, sunflower, rape;
- intensification of production accompanied by ignorance of crop rotation and scientific limitations for definite crops (sun flower) has led to critical soil condition and heavy demands on ecosystems (Ukraine has one the highest in Europe share of tilled land)
- stagnation and decreasing in livestock sector (sector still not recovered from levels attained in the 1990s)
- dual structure of agri production: super big agri holdings on one side and millions of small plot holders on the other side. The share of family based farms is very small.
- rural unemployment, decay of social infrastructure in rural areas, depopulation, etc.

ARD strategy needs to account of these weaknesses and propose effective measures to counteract them.

1. **Over concentration** of agrarian production by “agri holdings” led not only to increasing export potential of agri sector, but also to various negative effects including: export of capital from real sector to offshore, formation of strong lobby against introduction of principles of sustainable agriculture based on proper crop rotation and increasing of soil fertility, using organic fertilizers. This lobby uses the market power of big players to guarantee preferences in government support and marketing channels (infrastructure and export facilities). Agrarian policy needs to be oriented to the whole sector and to provide small plot holders a chance to modernize and dispose of production in agricultural markets with, at the same time, access to inputs, finance, , and governmental support with obligatory fulfilment of requirements for sustainable agriculture.

Strategy need to propose effective measures gains over concentration of production and lands

2. An understanding of the **multifunctional (socioeconomic) role of agrarian sector** needs to be not only declared but adopted in national legislation and regulation. So revision and update of strategic documents emphasising the multifunctional and socioeconomic role of agriculture are needed. The draft Ukraine strategy 2020 is still too much production oriented.
3. **Sustainable agriculture:** Codex of sustainable agricultural practice should be not only prepared but should be obligatory for all producers. Fulfilment of its requirements should be connected with providing governmental support. In this direction we need to use international experience of using environmentally friendly technologies (rotation, land conservation, special measures, organic production, etc.). Moreover, taking into account increasing international interest in organic food production, the country needs to learn from his experience to use natural advantages for mass organic production. The livestock sector needs special attention in the cooperation agenda with respect to increasing natural cost effective feeder base and using breeding best practices (international expertise). At

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<sup>34</sup> These recommendation based on analysis presented in scientific report “Ukrainian model of agrarian development and its socioeconomic reorientation”, V. Gets, O.Borodina, I. Prokopa, National Academy of Sciences of Ukraine, Institute of Economy and Forecasting

the same time cattle breeding provides more organic fertilizers for crop production and is more environmentally friendly.

4. **Rural development:** Rural communities should be at the centre of governmental support. Best practices accumulated in pilot projects should be used as a model. Rural communities should have direct access to governmental support, donors, and charity funds. Agri holding using local resources (land, water, etc) should provide rent payments for resource utilization to rural communities. Diversification of agricultural activity is an important means to improve life quality and human potential development. Learning of EU countries' experience in this sphere and application of best practices should be considered to be extremely important for Ukrainian agrarian policy. As a conclusion in this very important branch there is a need to underline the necessity of further stimulating cooperative development, production associations and land share owners' societies. Their role in the improvement of rural areas needs to be further enhanced. At this point we need to learn from the experience of EU countries about how to increase the level of effective employment and develop small and medium business in rural location

Finalizing assessment of agricultural and rural development potential of Ukraine, the research team emphasised that agricultural and rural development definitely should be a priority in EU – Ukraine bilateral agenda.

MAPF, Academy, farming organizations and other stakeholders are very interested to participate in developing and tailoring the ENPARD agenda for Ukraine's needs. This process should be initiated by MAPF. Understanding the multifunctional role of rural development and its sustainability should be in the centre of this cooperation.

## 9.1. Common Regional Agenda Items for the Panel on Agriculture and Rural Development

<b>1</b>	<i>Agriculture and Rural Development policy, institutional and regulatory framework development</i>
<b>1.1</b>	<b>Rural development policy, competence and budget resources</b>
<b>1.1.1</b>	<b>Issue:</b> No rural development policy, assigned competence, or strategic priorities within a defined budget framework.
<b>1.1.2</b>	<b>Issue:</b> inclusion of cross compliance mechanisms within state support measures aimed at improving food security in strategic arable (cereals) and animal products.
<b>1.2</b>	<b>Standards and regulations</b>
<b>1.2.1</b>	<b>Gaps in standards, regulations, legislation and comparative information</b> <b>Issue:</b> a need for common standards meeting international and EU standards, to include compliance measures - monitoring and inspection mechanisms for existing regulations
<b>1.2.2</b>	<b>Under-developed system of food safety and animal health</b> <b>Issue:</b> compliance with SPS standards especially veterinary-sanitary for animals and animal products
<b>2</b>	<i>Agriculture and livestock sector competitiveness and sustainable productivity enhancement</i>
<b>2.1</b>	<b>Land management and improving the environment</b>
<b>2.1.1</b>	<b>Fragmented land holdings and lack of producer cooperation and integration</b> <b>Issue:</b> the predominance of small and fragmented land plots leads to inefficient and insecure supply of agriculture products
<b>2.1.2</b>	<b>Low level of professionalism and training in rural communities</b> <b>Issue:</b> access to training and education for rural producers through extension services, farmer schools and college courses
<b>2.1.3</b>	<b>Outdated technology and lack of appropriate infrastructure in rural areas</b> <b>Issue:</b> outdated and inefficient systems for production and post harvest operations including storage, handling, distribution and markets
<b>2.1.4</b>	<b>Regional codex for good agriculture practices</b> <b>Issue:</b> Definition of a codex for good agricultural practices and the supporting mechanisms, including water and irrigation
<b>3</b>	<i>Community-led rural development</i>
<b>3.1</b>	<b>Improving the quality of life and encouraging diversification of economic activities</b>
<b>3.1.1</b>	<b>Promoting community driven rural development</b> <b>Issue:</b> mechanism to enable community participation in agriculture and rural development policy and strategy development

The first proposed topic for the panel on agriculture and rural development (Technical Workshop 19th November, 2012, is: "*What is Rural Development*"?

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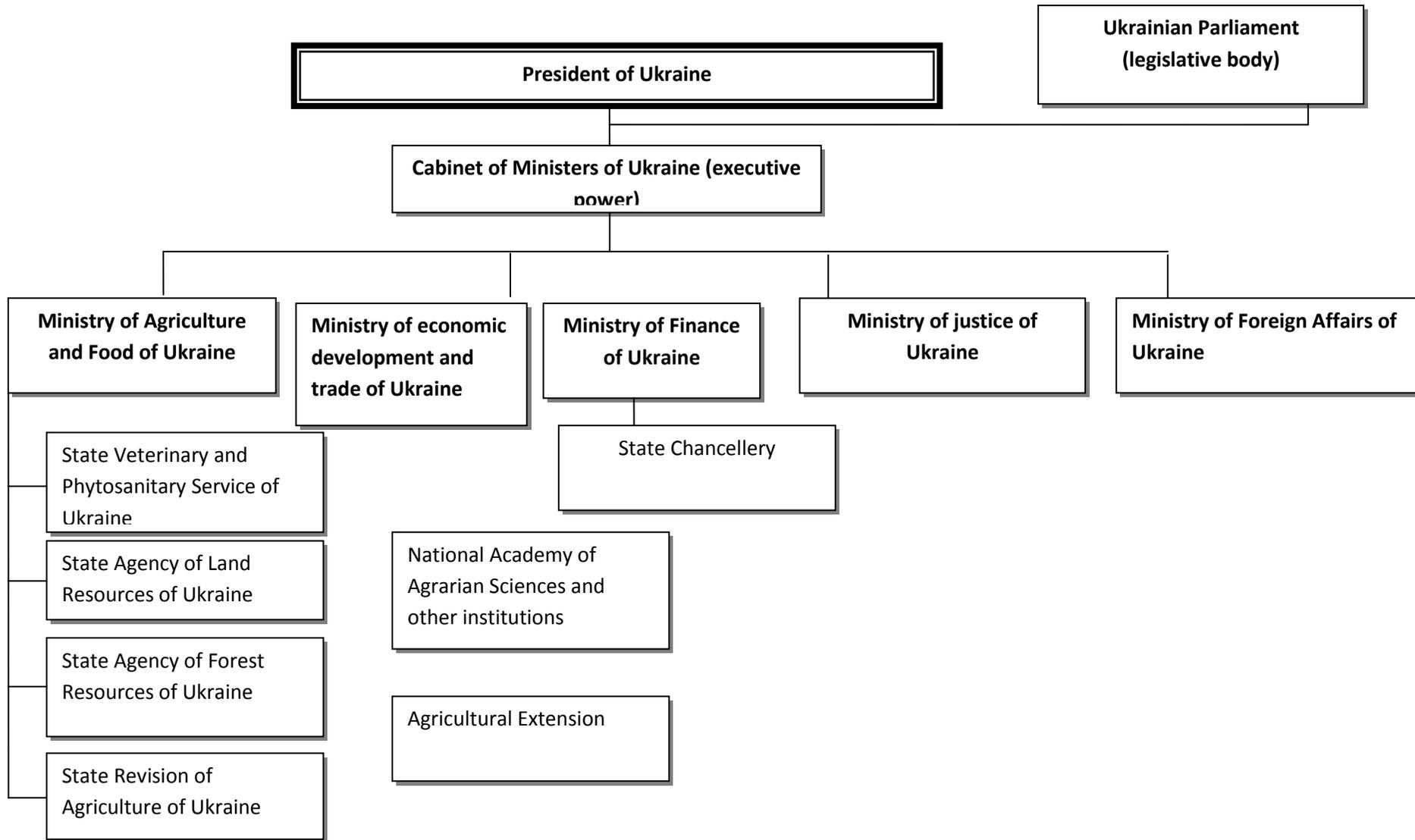
## 11. Annexes

### Annex 1: Organization scheme of the Ministry of Agrarian Policy and Food of Ukraine<sup>35</sup>

<b>MINISTER</b>				
Organisation Department, Ministry activity (patronage service)	Department of Law and bills activity	Administration of internal audit	Assistant of Minister (the Secretary of collegiums)	
Direction and coordination through Minister				
State Veterinary and Phytosanitary Service	State Agency of land resources	State Agency of forest resources	State Revision of Agriculture	State Agency of the fish industry
First Deputy of Minister	Deputy of Minister		Deputy of Minister - Head of personnel	
Department of economic development of agrarian market	Department of farming (Crop production)		Department of work with staff	
Department of financial-loan policy	Department of cattle breeding		Department of control of staff	
Department of foreign-economic relations	Department of food		Department of business accounting, state property and economic providing	
	Department of technical providing and agricultural machinery construction		Administration of agricultural statistics and IT	
	Department of scientific-educational providing of Agri-Industrial Complex and rural territory development		Operative-restricted Administration	
			Division of public information, interaction to Cabinet of Ministers of Ukraine and consideration of citizens' appeal	
			Branch of prevention and response to corruption	
		Branch for labour protection and fire safety		

<sup>35</sup> Decree of the MAPF # 356 dated 13.06.2012 “On division of responsibilities between Minister and deputy Ministers”

**Annex 2. Structure of Ukrainian bodies responsible for formation and implementation of agriculture and rural development**



## Annex 3. Workshop Report

**Kiev, Hotel Kreschatik, Conference Hall “Anriivskiy”, 5<sup>th</sup> October 2012, 09:00 - 13:00**

### Programme

- 8.30 Registration of the participants
- 09:00 Opening remarks, *Mrs. Richard Eberlin, FAO*, Vladimir Ganganov, MAPF.
- 09.10 Strategic priorities for the activities of the Ministry of Agriculture in the frame of ENPARD.  
Sergiy Petrenko, MAPF, presented detail statistical data about agriculture development in Ukraine and draft strategy 2020 developed by MAPF including initiative “Ridne selo”
- 09:30 EU Delegation to Ukraine, Oleksandr Radionov passed words from Natalia Korchakova, sector manager from EU Delegation to Ukraine, as agreed by phone with her
- 09:45 An introduction to the workshop – concept and strategy FAO, *Mr. Richard Eberlin, FAO*  
Presentation of the report, “Assessment of the Agriculture and Rural Development Sectors in Ukraine “:  
Alexander Radionov: Ukraine country report, presented presentation described trends in Ukrainian economy, agriculture and rural development  
*Mark Le Seelleur: Priorities, gaps and targeting in agriculture and rural development*
- 10:45 Coffee Break
- 11:15 Second session: Group discussions based on a working document prepared by FAO
- 12:45 Summary of conclusions/recommendations and lessons learned, presenting guiding principles for future interventions. *Moderated by Dragan Angelovski*
- 13.00 *Closing Richard Eberlin, FAO*

### Group Discussions

#### 1. Policy Documents related to Rural Development and Agriculture

The agricultural and Rural Development (RD) support policies in Ukraine are based on both, the pre transition system and the EU like support modalities top down approach. The Ministry of Agrarian Policy (MAP) is the body responsible of elaboration and implementation of these policies through a top-down approach.

The RD programme is implemented as follows:

✓ At national level

The “Programme of the Ukrainian Rural Development until 2015” is the current framework of the RD sector; it was adopted by the Government in 2007. The program during the preparation phase included activities aimed towards income diversification in rural areas as well as support for non-agricultural rural activities, which were removed during final review. The document mainly focuses on the improvement and the harmonization of the policies and the capacity of the institutional setup in number of sub-sectors<sup>36</sup>, emphasizing the need for a more holistic approach to agriculture production and rural development.

During the first decade of this century the advocacy on rural development needs has been led by the international community (donors and projects) through various approaches<sup>37</sup>; he

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36 Reform of agricultural land market; increasing of land’s fertility; Food safety and Food security Economic growth and improved livelihoods in rural areas; Rural infrastructure development; International technical assistance for livestock sector development within ENPARD framework.

results achieved through those initiatives at the field level, have been reflected at Government level through the development of policy papers prepared by Governmental bodies such as the MAP, the Institute of Economics and Forecasting, and the National Academy of Science. In an effort to further streamline the issues related to rural development the Ministry of Agrarian Policy and the Academy of Agrarian Sciences developed a paper on priority areas and strategic measures. This document is adopted at Ministry level and further streamlines the needs in regards to the rural development and parts of the agricultural sector.

Certain policy support documents have also been prepared in parallel such as the analysis of the economic performance of the agricultural sector prepared by the Institute of Economics and Forecasting, within the National Academy of Science using EU support.

Although significant efforts have been made in the establishing of proper directions for the distribution of the budgetary support among the needs of the rural areas (with special focus on non-agriculture diversification activities) other specific priorities such as market infrastructure, access to finance and basic social infrastructure have poorly been addressed.

As a rule, the semi-subsistence sector (which represents over 50% of the supply of certain agriculture products), does not benefit from the government support as much as the commercial and semi-commercial farmers are benefitting.

The continuous underlining of the increasing disparities and the further eroding of the rural areas, have recently culminated in the preparation of a new Strategy for Agriculture and Rural Development. This new strategy, support by the EU, has been implemented through a Task Force which included 25 representatives from the MAP, research institutions, civil organizations, agriculture extension services and other organizations. The draft was prepared by the Academy for Agricultural Sciences and currently has been circulated for comments to various stakeholders.

According to some of the participants of the workshop, it is foreseen that there will be high discrepancies with respect to this new strategy, especially the allocation of budget between rural and urban areas, as certain aspects and infrastructure related interventions in the past have been regularly rejected and marginalized (awareness campaigns, water pumping systems etc.).

Once the strategy is finalized and adopted, the current Programme of the Ukrainian Rural Development until 2015 will be cancelled. Other related laws which are currently effective, will be harmonized within the principles of the new strategy.

#### ✓ Regional/Local level

Few regions of the country (Oblast among others) have prepared regional development programs that refer to both, the agriculture and rural development sector. Some of these programs have been prepared with donor support, and some others have been co-financed by budget from local authorities. While two regions have prepared their strategies within the seven month existence of the Rural Development Concept Paper prepared in 2010. Parts of these strategies were expected to be co-financing by the national budget, but eventually only local budgets were used.

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37 Establishment of appropriate research and advocacy structures, public education and awareness raising events have been conducted for agrarian sector workers such as seminars, roundtables, and presentations. Pilot RURAL development Operational Programs and projects, capacity building on all levels including the Rural Development Department of the Ministry of Agrarian Policy, study tours and technical assistance for improvement of the legislative framework.

## **2. Support programs for Rural Development**

The 2012 budget for Rural Development of Ukraine is approximately 3% of the total agricultural budget. Often this amount is not available for the programs of the Ministry of Agrarian Policy and priorities within priorities have to be defined and funded on basis of available budgets. Support programmes are developed by the relevant ministries mainly on annual basis and in accordance to the policy documents.

They are drafted by the Ministry of Agrarian Policy and Food <sup>38</sup> based on the proposals of Regional Departments of the Ministry of Agrarian Policy which are in general linked with the Programme of the Ukrainian Rural Development until 2015, which includes concrete measures for implementation.

The support programs are the main planning instruments for implementation of the support, identifying the budget allocations for each measure and the target beneficiaries<sup>39</sup>.

At the present there are no support programs related to diversification of incomes in rural areas, rural tourism and community level interventions etc. There are others which are regularly financed, such as modernization of the livestock sector, consultations service provision and support for service oriented cooperatives.

## **3. Participation of stakeholders in the preparation of policy documents and support programs**

Participatory approach in the preparation of strategic/ policy documents and support programmes is mandatory and evaluated as appropriate by all stakeholders. Research institutions, NGOs, agriculture extension services and other organizations are consulted during the preparation of the documents.

Sub sectors issues are discussed by Public councils (including 90 civil organizations) and three commissions on Land issues and Agricultural Markets and Rural Areas within the Ministry of Agrarian Policy.

However, although the participation is ensured in the drafting phase, the government reserves the right to make changes on the draft documents on the basis of comments from the relevant ministries.

## **4. Statistics used in the preparation of policy documents and support programmes**

Ukraine has a State Statistical Agency that provides official statistics which are used by all stakeholders for analysis. The Agency operates using international methodologies for assessments related to urban and rural households. The data from the regional level is collected and compiled by regional commissions of statistics which work on the basis of the inputs provided by the local commissions on statistics.

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<sup>38</sup> Ministry of Agrarian Policy and Food is the central executive body responsible for development of agrarian policy and food security of the country. The Ministry is also responsible for the development of agrarian policy on aquaculture and fisheries, veterinary and phytosanitary policies, planting materials, land issues, forestry and hunting, and control and supervision in the agri industrial complex.

<sup>39</sup> The proposed programmes are sent for review and discussions to the Ministry of Finance and the Ministry of Economic Development and Trade. Once agreed the proposal is sent to the Ukrainian Government (the Cabinet Ministers of Ukraine). The Government on the basis of recommendations from all of the Ministries prepares a draft Budget Law which is provided to the Parliament. Following a debate in the Parliament a Law on the State Budget as a mandatory legal document is adopted.

In 2013 Ukraine expects to carry out an Agricultural Census. Currently the data collection methodologies for the census are tested in pilot areas.

For the primary production activities the MAP gathers and provides data to the State Statistical Agency through its branch offices in the districts. Data is often available on a daily basis.

### **5. Indicators and targets in the policy documents and support programmes**

The Draft Strategy on Agriculture and Rural Development contains objectives, production indicators as well as chapters on expected results and monitoring and evaluation. The indicators provided in the strategy are largely related to production (quantitative) targets for the next seven years, for a number of agricultural primary products as well as for exports of certain commodities.

The MAP developed support programs contain more detailed indicators in accordance to the legal provisions mandatory for state budget allocations. According to the legal provisions all programs must contain a section that provides for monitoring and evaluation of the programmes. The programmes with inappropriately prepared indicators and monitoring practices in accordance to the legislations are rejected for funding once they are submitted to the Ministry of Finance.

The sections on monitoring and evaluation may not always correspond to the level of detail required by all stakeholders for in-depth assessments.

### **6. Synergies with programmes implemented by other Ministries and other stakeholders**

Synergies with donor support projects are regularly established within the MAP through inclusion of the support by donor in the operational programs. There are regular round table discussions with donors order to ensure that donor supported activities contribute to the Ukraine's policies and programmes, WTO regulations, and the EU framework, specially the EU neighbourhood policy.

There is general information sharing within the Ministries although the platform for cooperation could be improved. As an example, the Ministry of Economy includes a Department for village economics (Entrepreneurial Committee) which provides employment support mechanisms and support for start-up businesses, not related to agricultural activities. This in EU countries is often referred to as regional development and is supported by relevant programs, such as the IPA component 3 (regional development) for accession countries.

Given the fact that only 700 000 out of 15 million rural residents have incomes other than agricultural activities there is an obvious need to diversify the income in the rural areas on basis of such joint platforms.

Initiatives for establishment of stronger synergies have been imbedded in the Draft Strategy for Agriculture and Rural Development including tourism, recreation oriented investments, entrepreneurial activities, resorts etc. However, this is something still pending of revision and approval by the Government.

### **7. Investment support mechanisms and access to credits**

Ukraine spends a significant amount on agricultural subsidies (more than 1 billion US\$/year<sup>40</sup>). Although most of these subsidies are carried out in the form of direct payments, there is a part of

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<sup>40</sup> The agriculture support budget for 2012 is 8, 21 billion UAH (1,026 billion USD) or 22% less compared with 2011 including: Direct support measures - 0, 83 billion UAH, State support for development of hop, orchards and

the support mechanisms which are based on investment support (Axis 1 type measures), including co-financing between the Government (Ministry of Agriculture) and the final beneficiaries.

This is the case of the livestock sector, which has benefited from substantial programs for rehabilitation of farms, with compensation provided on co-sharing basis. Also co-financing programmes aimed to the establishment and improvement of service provision cooperatives and to the establishment of wholesale markets.

A number of donor supported activities have also been involved in investment support activities both on the community and the farmer level (i.e. Heifer International). Credit access for beneficiaries of the state programs in general is not a constraint as the government also operates programs that deal with subsidized credit provision. Collateral for the small and subsistence farmers as in most of the EaP countries remains as a pending issue to address.

### **8. Institutional setup for agricultural and rural development support**

Ukraine in general provides monetary support for the agricultural and rural sector. The financing mechanisms pass through the MAP, which defines the budgets as well as the target beneficiaries, on basis of upwards flowing information from regional and local authorities.

Once the support programmes prepared by the MAP are approved by the Ministry of Finance the disbursements are done through the National treasury utilizing its National and Regional departments.

The National treasury is regularly audited by the Revision department, which is responsible for control of institutions handling budgetary funds. The system in place is evaluated as reliable by all stakeholders. However, it appears that the system is more designed for disbursement of funds, while processing of documents/applications seem to rest more with the local branches of the MAP and the Local Authorities.

There are some policy documents which propose the establishment of a Payment Agency for rural development, which it seems to be a remnant from a more elaborated idea on an Agency for Rural Development linked with a Payment Agency.

This idea was edited in the original contents of the Programme of the Ukrainian Rural Development until 2015. The proposal for a Payment agency and Rural Development Agency is seen more as a way to differentiate and detach budgets dedicated for agriculture from rural development (MAP) and budgets for rural from budgets for urban areas (Ministry of Health, Ministry of Education and Ministry of Economy). The paper also proposes the establishment of a Rural Development fund as well as establishment of models for regional level management.

For the purposes of registering of beneficiaries the Ministry of Agrarian Policy and the Treasury, relay on the State registry for legal entities and on village councils for registration of households. One person is registered as head of the household and the rest of the members are listed. Rural residents in order to obtain the status of farms are also cross-referenced with land entitlements which are a precondition for registering.

The Agency on animal registration is responsible for animal identification. The Ministry of economy issues licenses for economic activities related to entrepreneurial activities including processing of food. The land cadastre provides certificates related to land ownership and usage.

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vineyards - 1, 08 billion UAH, State support of animal husbandry - 0, 73 billion UAH, Rural development – 0, 23 billion UAH (3%), Staff training and new technological innovations – 0, 8 billion UAH (10%)

## 9. Conclusions and recommendations based on the discussions of the WS:

- 1) Rural Development is one of the identified priorities for Ukraine under the National indicative programme 2011-2013.
- 2) Due to the current situation of most of the rural areas in the country (limited access to safe drinking water, basic social infrastructure, extensive agricultural production etc.) Rural Development should be one of the priorities for the country. However, for the time being, Ukraine spends more than one billion US\$ on the agriculture, sector, with a very limited funding for the rural development. Therefore, it is recommended that any ENPARD support provided by the EU is aimed predominantly at RD. In addition, the support should be provided on a basis of matching funds provided by the government. This would effectively double the impact at half the costs, without severely affecting the support system for the large scale agriculture.
- 3) Although there is a declarative consensus (inclusion in strategic documents, elaboration of specific programmes) on the need for improvement in both government policies and funding for Rural Development, in practice most of the government programmes are not funded or underfunded. While the rural development inclusion advocacy is generally donor driven, the final decision making rests with the executive authorities.  
It is recommended that ENPARD approaches are based only on adopted Governmental policy documents and in line with support programmes developed by the Ministry of Agrarian Policy, as it appears that it has sufficient capacity to meet at least the initial needs for administering of such initiatives.
- 4) While discussing the sector there were very different opinions in regards to agricultural output and productivity versus rural livelihoods, as well as rural areas versus urban centres. When discussing agricultural production the obvious separation on few categories exists, although precise separation is rather difficult. The categories would include 1) very large corporate farms, 2) commercial farms (legal entities), 3) commercial farmers and 4) subsistence farmers and non-agricultural rural households. The latter category seems to be highly constrained in terms of incomes, livelihoods and development opportunities. Opinions in this regard are quite divided on which category should be supported more or less through the budget, usually by emphasizing the low cost/benefit when supporting the lower categories and the lack of social dimension when supporting the upper categories. It is recommended that any rural development activities related to axis one, should be aimed at categories 2 and 3, while activities under axis two should be aimed at the categories 3 and 4, in addition to the communities.
- 5) The existing setup for funds disbursement seems credible and effective enough, especially taking in consideration the amount of funds disbursed annually. Testing the system through a standard rural development support scheme would probably need capacity building; given the size of the country a regional approach for this capacity building might be more recommendable. The Establishment of payment agencies is not recommended or needed in the current situation of the RD sector (level of funding, capacity of the current administration, existing support structures such as registers and databases).

## **Workshop participants:**

1. Excellency, Jan Tombinski , Head of the EU Delegation to Ukraine
2. Mr. Andrew Rasbash, Head of operations/Coordinator for Cooperation, EU Delegation to Ukraine
3. Ricarda Rierer, UNDP Country Director
4. Natalia Korchakova, Sector manager, Economics, Trade and Technical development, EU Delegation to Ukraine
5. Sergey Volkov, Senior Programme manager, UNDP Ukraine
6. Grigoriy Kaletnik, Head of Parliamentary Committee on Agrarian Development and Land Relations
7. Vasil Philipchuk, Director of Department of European Integration, Secretariat of the Cabinet Ministers of Ukraine
8. Dr. Ivan Bisjuk, 1<sup>st</sup> Deputy Minister, MAPF
9. Alexander Sen` , Deputy Minister, MAPF
10. Vsevolod Chentsov, Director of Department of the EU, the Ministry of Foreign Affairs of Ukraine
11. Olena Kucherenko, Department of Cooperation with International organizations, Ministry of Economic Development and Trade of Ukraine
12. Andriy Getya, head of livestock department, MAPF
13. Alexander Demidov, Head of crop production department, MAPF
14. Sergey Kvasha, Head of agrarian development department, MAPF
15. Kirill Klimenko, Head of international department, MAPF
16. Vladimir Ganganov, Head of rural development department, MAPF
17. Bohdan Drozdowskij, Team Leader EU SWAP RURAL project ("Making commitments to Ukraine's membership in the World Trade Organization and the European Neighbourhood Policy in the agriculture sector")
18. Aleksey Tolkachev, Public Committee for National Security of Ukraine, the European Association of Ukrainians
19. Ivan Tomich, President of the Association of Farmers and Private Landowners
20. Dr. Olena Borodina, Head of Department of economics and policy of agrarian reforms, Institute of Economy and Forecasting NAS of Ukraine
21. Oleksandr Radionov, national consultant, FAO
22. Maria Samarina, MAPF
23. Magali Herranz, FAO. Associate Animal Health and production officer
24. Richard Eberlin, FAO Land Tenure Rural Development Officer
25. Mark Le Seelleur, FAO international consultant
26. Dragan Angelovski, FAO international consultant

