Ministry of Foreign Affairs of Denmark

DANIDA | INTERNATIONAL DEVELOPMENT COOPERATION

EVALUATION OF DANIDA SUPPORT TO VALUE CHAIN DEVELOPMENT

Ukraine Country Study

Evaluation

February 2016

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List of Abbreviations

ABD	Agri Business Development
EBRD	European Bank for Reconstruction and Development
EU	European Union
FS	Financial Services
IFC	International Finance Corporation
MSME	Micro-, Small- and Medium-sized Enterprise
RPSD	Rural Private Sector Development
ToC	Theory of Change
VC	Value Chain
VCD	Value Chain Development

1 Background/Introduction

1.1 The evaluation

Danida has supported Value Chain Development (VCD) in different forms since 2002. In order to assess Danida VCD support and to provide recommendations for the future, Danida's evaluation department (EVAL) has commissioned Orbicon A/S and the Centre for Development Innovation (CDI), Wageningen UR to undertake an external evaluation.

The purpose of the valuation is to contribute to improving the design and implementation of Danida's bilateral programme cooperation. The evaluation will primarily focus on the learning aspects, thereby providing an opportunity to enhance Danida's capability in the area of VCD support.

The evaluation focuses on Danida VCD intervention within 11 countries: Burkina Faso, Ghana, Kenya, Mozambique, Tanzania, Uganda, Zimbabwe, Central America (Regional Programme, covering Honduras and Nicaragua), Albania, Serbia and Ukraine. Three countries have been selected as primary case countries (Serbia, Uganda and Burkina Faso) and two countries as secondary case countries (Ukraine and Kenya). The primary case countries have included two-weeks fieldwork missions while the secondary case countries have included three-four days visits.

This report contains the evaluation case study for **Ukraine**. This evaluation is not a traditional programme evaluation but is particularly focusing on the VCD perspective.

1.2 Evaluation methodology

For this country study a number of documents have been studied. The town and immediate surroundings of Lviv were visited for three days during which 14 key stakeholder and key informant interviews were carried out.

1.3 Some background to the value chains

The VCD interventions were implemented in one oblast in Ukraine, with an area half the size of Denmark. In 2008, private farms produced 1% and village households[1] (1-3 cows) 82% of the milk. Most of this milk was consumed in the village. 17% the milk was produced by large farms and this milk mainly went for processing at two dairies.

In 2008, 95% of vegetables and 98% of fruits were grown by households growing small acreages. There was no or little storage, sorting or packaging. 80% of the product was sold at harvest for a minimal price. There were three fruit and no vegetable processors in the oblast. Fruit processors and shops had difficulties in finding marketable quantities of

1 The households are on average 0.4 ha with two cows which operate on a subsistence level although excess production is sold off. They are the main producer of fruits, vegetables and milk.

quality product. The only place where marketing visibly happened was in Shuvar wholesale market in Lviv (at that time the only modern-type wholesale market in Ukraine).

1.4 The VCD intervention studied

Ukraine is one of the six European Neighbourhood countries where Danida support rural development. This Rural Private Sector Development (RPSD) programme was the first one in Ukraine. The RPSD programme had two components, the Agri-Business Development (ABD) and the Financial Services (FS) components. The overall objective of the programme was: "*Increased livelihoods through creation of Micro, Small and Medium Enterprises based employment in rural areas of Ukraine*". The immediate objective of the ABD component was: "*Increased productivity and profitability in the agricultural and processing sector in Lviv Oblast*".

Programme Component 1 addressed low productivity and efficiency in **dairy** products and in **fruit & vegetable** production. There was low production on small family farms or broken up large scale farms, a weak remaining infrastructure and an undeveloped private agri-business and banking sector. The intervention focused on building storage capacity in the fruit and vegetable sub-sector and on production and processing in the dairy sub-sector. The interventions used a mix of seminars, study tours, match making forum, business planning, a 40% grant, training/coaching and direct marketing to achieve better prices and increasing volumes. This was expected to lead to viable businesses.

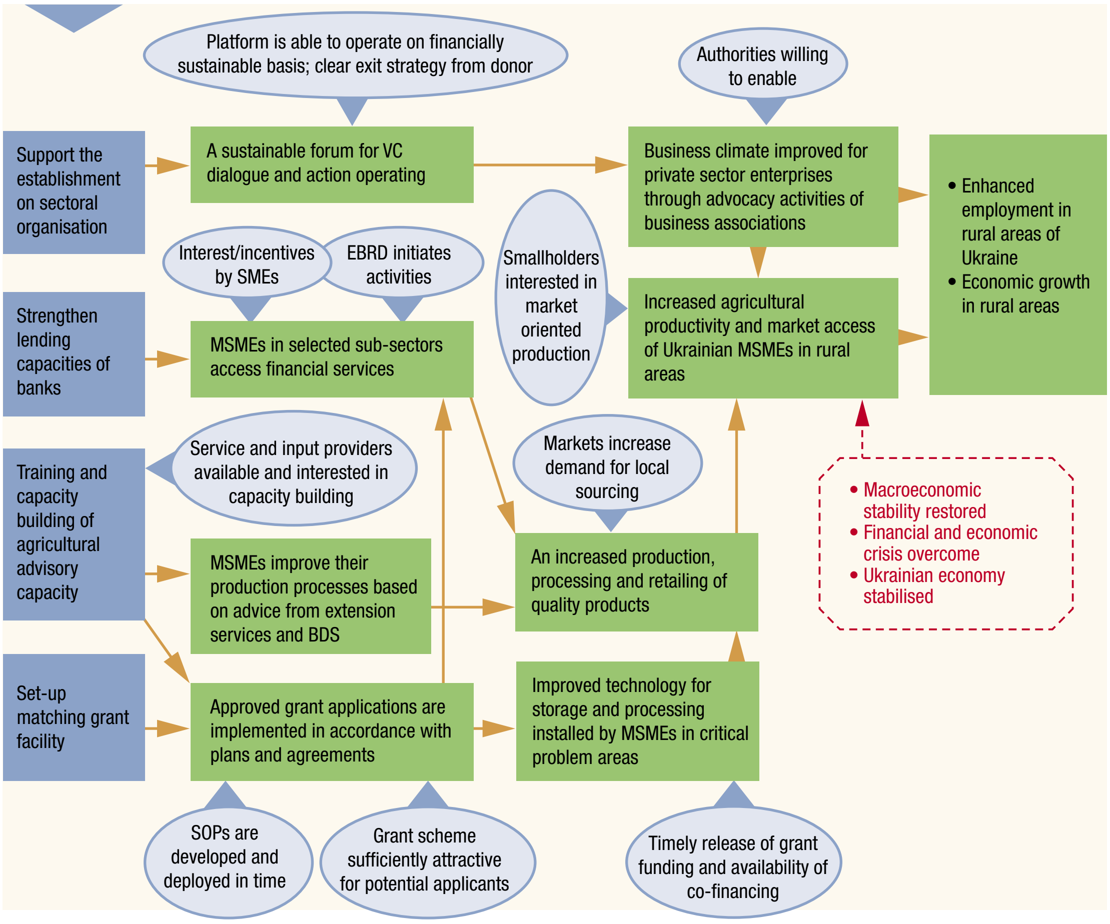
Programme Component 2 addressed the lack of access to rural financing. Due to the economic crisis this component did never take off. Halfway through the programme, a small Access to Finance activity was attached to Component 1 instead. The facilitation of the programme was contracted to a Danish consultancy firm with base in Lviv. The budget for the ABD component was originally DKK 24.7 million for the period 2010 to 2012. Actual funding became in the end DKK 30 million for the period 2010 to mid 2015 (extended).

2 Theory of Change and Value Chain Map

2.1 Theory of Change

Below the Theory of Change (ToC) as developed by the evaluation team for the ABD component.

Figure 1



Going from the left (inputs) to the right (impacts):

- Only one platform got off the ground, the AgroLviv Forum, facilitated by the Shuvar wholesale market, for the fruit and vegetable sector. No forum/platform/dialogue for the dairy sector could be set up; the two large diaries were not interested and the small producers were not organised enough and too far away from each other. The platform continues to function, self-financed, but its activities are reduced after programme completion.

- The European Bank for Reconstruction and Development (EBRD) did not implement the Financial Services component. The strengthening of lending capacities was replaced by a training of bank staff in agri-lending. This resulted in a better awareness of bank staff of family farming but did not lead to any better access to financial services. Due to the crisis in the country, access to finance might be considered worse than before.

- A sufficient number of family farms were able and capable to develop towards market-oriented production. There was a sufficiently broad market demand for fruit, vegetables and dairy products to which producers could adapt despite different crises (like closing of the Russian market and the economic crisis in the country itself).

- Initially, regulations, authorities and government institutions were not conducive to, or enabling a private sector with family farms and Micro, Small- and Medium-sized Enterprises (MSMEs) agri-businesses. That has only recently changed. Different sources stated that the Ministry of Agriculture and Food Policy learned a lot from visiting Lviv, studying the project, for formulating the 2015 rural development strategy. Regulations changed frequently, changes were made in the agriculture tax system almost every year.

- The Facilitating Office was able to identify and engage good local experts to assist the producers and processors in planning and implementing their businesses, over a period of years. The office was also able to quickly set up a matching grant facility (40% grant, 60% own contribution) that was very simple and transparent and triggered a sufficient number of emerging agribusiness entrepreneurs to invest in storage facilities on their farms.

- Modern technologies were introduced, not just hardware but also product quality management, which was critical as farmers with their storages supply directly to for example supermarkets and other buyers (e.g. Horeca). The work on quality was not sufficiently reflected in the programme design.

- A fast increase in storage capacity and the ability to sell for much better prices during a longer season to retailers had a quick positive effect on primary production levels in the fruit and vegetable sector. It took longer to develop primary dairy production and its processing.

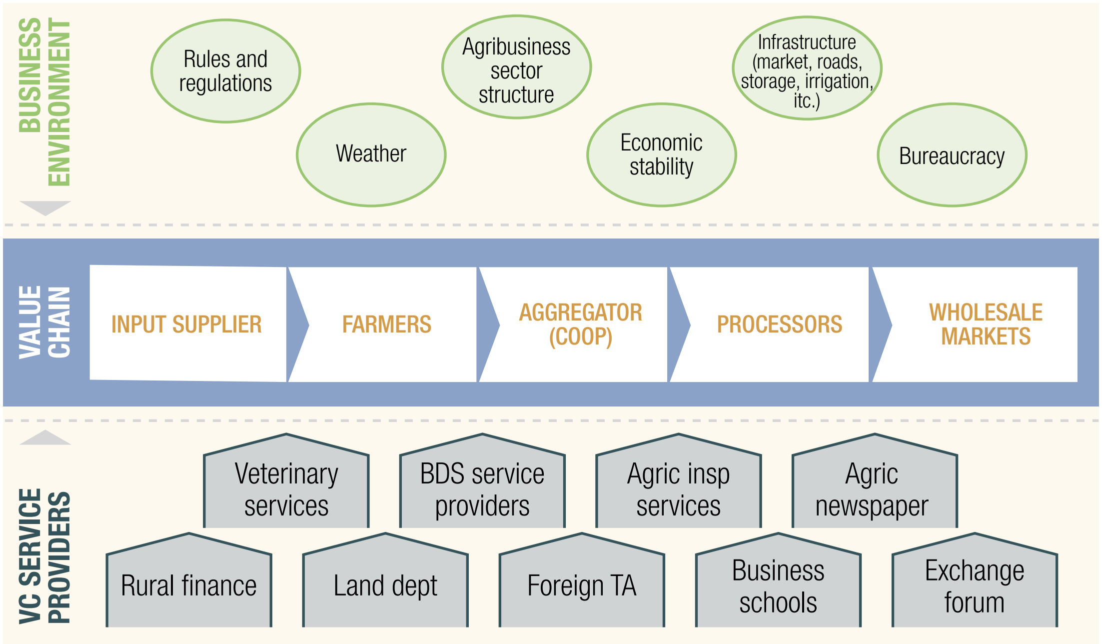
- In both cases the market demand continues to be good and more producers could follow this route. They would need access to finance to do it.

- The impact of the intervention on economic growth and employment in discussed in Section 3.1.

- Throughout the intervention there was no macro-economic stability. The country was in financial and economic crises and only by the end of the programme period the economy started to stabilise. This influenced the interventions. It mainly hampered further expansion of the businesses and stopped followers to copy.

Figure 2

Value Chain map - Ukraine



2.2 Value Chain map analyses

The decision to focus on the dairy sub-sector was because of favourable market opportunities and the potential for income and employment generation for many small producers. The decision to focus on fruit and vegetables was because Ukraine has a comparative advantage; it is labour intensive and has low entry barriers.

Service providers were mapped and key drivers identified. The value analysis identified the lack of storage capacity in the fruit and vegetable value chain as the main bottleneck. Improving storage was a game-changer that changed farmers from being price takers at harvest to become value chain drivers. The dairy value chain had more bottlenecks, like economic volumes of production, milk quality, and lack of processing capacity. In both value chains, market demand was a driver.

Critical was the selection of the grantees. The Facilitating Office moved away from the original idea of forming cooperatives or dairy delivery units with micro farmers (two-three cows and 0.5 hectares) and focused on family farms that had a potential to grow to viable economic units (20-30 cows and larger acreages). Besides, it worked with not too large split-offs from former large-scale farms. Building producer organisations, cooperatives or collection points in the villages that meet quality requirements of the market would also take longer than a three-year intervention period (as originally planned).

The step from primary production to markets took place mainly through storage, with sorting and (retail) packing, not through processing. Processing is prone to excessive regulations, which could not be realised within a three-four year period.

The Facilitating Office had studies made on the bottlenecks. It participated in national round tables on regulatory reform.

25 years after the fall of the Soviet system, a free market agribusiness sector is still developing. The sector is moving from primitive capitalism to European style market based business management. While the young generation is studying this in school, the old generation has difficulty in adjusting itself to this new reality.

Most processing and storage capacity collapsed with the farms they were associated with. Most was in a bad state and energy demanding anyway. The energy situation is evolving from cheap gas to no gas to expensive gas. There is a need for alternative, rural energy production. This technology is absent. Rural roads are degrading, adding to the distance between production and markets in this huge country. Transport is a particular problem for the diary sector (with daily or when there is cooling on the village collection point every two days collection and deliveries).

The interventions included little in terms of service provision, which still needs to be built up. Training courses were developed and delivered to a variety of stakeholders. A mini-MBA programme was developed with Lviv Institute of Management for agri-entrepreneurs. With the Kiev School of Economics a three month AgroLady training was organised. This has now become a national Agric MBA course. Continued capacity building is required for the sector to develop further. The AgroLviv Forum played a critical role. It still organises seminars and distributes an agricultural newspaper electronically but could do more with external funding. Two of the service providers are setting up AgroLviv Consultancy to assist farmers mainly with the financial part of the business. They have good contacts with the other service providers and will take over the Facilitating Office premises, so they will be easy to find for the farmers. There has been a good cooperation with the Canadian development cooperation is engaged in a long-term programme supporting the dairy sector, assisting cooperatives, veterinary services, quality control.

Financial markets were and continue to be almost absent. While the intervention provided a grant, a next phase could entertain a loan guarantee facility – when there are banks willing to provide loans.

3 Achievements

3.1 Performance targets and goal fulfilment

The ABD component more than achieved its targets despite the crisis in the country. Instead of 40 grant projects, 71 were implemented in the dairy and 78 in the fruits and vegetable sector. In the dairy value chain, the average yield per cow was to increase by 15%, it increased by 35%. 15 new dairy value chains were developed instead of two. A 135% increase in farm gate price was achieved compared with neighbouring regions. In fruit and vegetables, three new value chains were developed, as targeted. The selling period of fruit and vegetables has been extended by 14 %, resulting in 41% higher prices. A total of 224 workshops and seminars (instead of 36 originally planned) took place. Likewise, 312 consultancies (instead of 40 consultancies originally planned) were implemented by local experts.

The indicators related to the programme objectives focused on "increase in economic growth and decrease of unemployment in rural areas". The interventions demonstrated the potential impact family farming and agro enterprises can have. It is evident that the intervention contributed to economic growth. The average number of employees among the beneficiaries increased by 132% in the dairy sector and 24% in the fruits and vegetable sector. With mechanized harvesting of the vegetables and equipment used for cleaning, sorting and packaging, the increase in employment in the fruit and vegetable value chain was limited. Different interviewees noted that there is a shortage of skilled labour, people to operate machines and implement quality management, as many younger and skilled people have left for urban areas or to work abroad.

A total of 150 beneficiaries in an oblast half the size of Denmark indicate a limited direct impact. The intervention was too small and of a too short duration to expect much more. Out of the 150 beneficiaries, 10-12 dairy and 40-50 fruit and vegetable farmers were considered exemplary farms, good agribusinesses. The real impact is to come when the grantees manage to continue to do their business and expand, encouraging others to copy. However, in the current state of the country it is unlikely that this will happen without external support (technical assistance and grants). Expansion is not going to happen without rural finance in place, ideally coupled with a guarantee facility to cover the bank's risks. An important impact is that the programme interventions have shown what it takes to get a family farming and medium agribusiness based agriculture sector off the ground. The programme is a model that was studied by officials from the Ministry of Agriculture and Food Policy and this input is used in the new agriculture strategy that was published in the summer of 2015. When this strategy gets implemented, the programme interventions may end up having a large impact on economic growth in rural areas in Ukraine.

3.2 Assessment of key outcome areas for VCD interventions

Below is presented an assessment of the influence of the programme interventions on five outcome areas ("capital assets") considered of key importance for smallholders and SME's involved with VCD interventions[2].

Natural Capital: Since the collapse of agriculture 25 years ago, large tracks of land are either not used or used in a very extensive way. More fruits and vegetables are grown. Modern fruit varieties are planted, modern seed potatoes and vegetables seeds are imported. Dairy herds are built up again, with some genetic improvement. Both sectors are dependent on imported energy. There is a total absence of (local) solar water heating, solar energy, biogas, biomass or wind energy.

Human Capital: It was repeatedly mentioned by key stakeholders that companies, even MSMEs, struggle to find and keep qualified motivated staff. There is a shortage of qualified labour. In processing there are better chances for employing unskilled labour. The programme supported trainings, excursions and other capacity building. Most of the grantees visited would benefit from continued coaching. However, they found it difficult to pay. Consultancy/advisory services come when applying for a loan or considering the purchase of certain equipment. Advice on good farming practices is provided by vegetable seed companies and advice on pest and diseases is provided by the pesticides dealer. It is a food safety issue that quite some raw milk is sold off-farm, unrefrigerated, non-pasteurized. In the fruit and vegetable production there can be heavy use of pesticides. Hence, GLOBALG.A.P. certification was demanded by one of the supermarket buyers, who had started to receive production from the programme beneficiaries.

Social Capital: The programme did not invest in organising producers but in building out the network function of Shuvar wholesale market. This market continues to be a great place to meet and exchange information. The Non-Governmental Organisation set up for stimulating that, AgroLviv Forum, has now a digital newsletter (instead of the 5,000 printed hardcopies during the programme implementation). It is continuing with workshops and meetings but it is much less frequent than during the programme implementation period. Value chain actors may pay a participation fee, but the forum needs core funding to continue its activities.

Physical Capital: New stables with milking parlours have been built and farmers have acquired equipment for forage making/transport. There are some milk collection points with small scale processing facilities installed. It is simple technology. In the fruit and vegetable value chain there is now more storage capacity to prolong the selling season. There is some equipment for harvesting, sorting and for drying fruits. There is limited sharing of equipment. One farmer did contract harvesting using his modern European potato harvesting equipment.

Financial Capital: Besides access to finance there is a great need to develop the capacity in the MSMEs to manage finance in agribusinesses, to build up working capital. Those farmers who can provide a sizeable down payment can buy equipment on loan. Without that, without collateral, it is very difficult.

2 See the "5Capitals Approach" developed by CATIE.

4 Engagement of the Public Sector

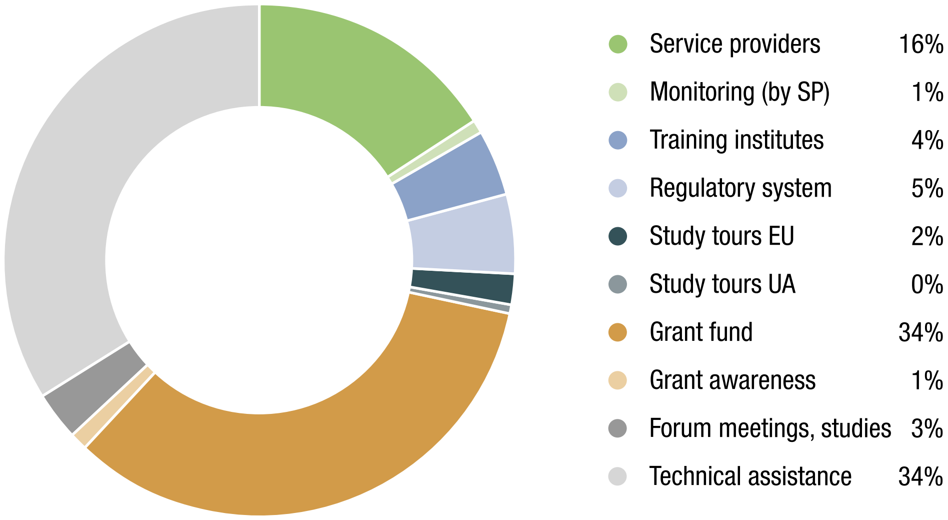
The Ministry of Agriculture and Food Policy was member of the Steering Committee. When its representative continued to not show up the program was almost stopped. The local department was more actively engaged, for example in the Grant committee.

Implementation of the programme depended on a myriad of government agencies that had to provide approvals. That was frustrating and obstructing rather than enabling. Most beneficiaries reported that it was necessary to make informal payments in order to proceed. Partly through the intervention by the programme, the government institutions gradually became less or no longer blocking investment plans. Less government officials visit the farms-enterprises to collect data or approve (or collect) something.

Towards the end of the programme, with the Poroshenko government, the situation changed. There were numerous consultations with the Ministry of Agriculture and Food Policy staff who started to develop a new understanding on how to develop a market based agricultural sector, based on the concept of the programme. This is a national sector level impact. The Facilitating Office's report on the dysfunctional Regulatory environment which, was shared with for example the World Bank, the International Finance Corporation (IFC), USAid and the European Union (EU) delegation, fed into the reform of the agricultural sector. The reform is expected to result in more clear rules, less authorities, more transparency in the subsidy regime, and less corruption.

5 Cost Issues

Figure 3



Total actual funding was DKK 30 million for the period 2010 to mid-2015. The funds were used as illustrated in the diagram above. Grant funding was 40%. Grantees had to show the presence of their 60% on a bank statement. The average grant provided was DKK 63,500.

6 Green Growth and Human Rights Based Approach

The programme did not have a particular Green Growth/Human Rights Based Approach. However, a few Green Growth/Human Rights topics surfaced:

- A main issue is the need for, and absence of, renewable energy sources (solar, biogas, biodiesel, biomass or wind), reducing the dependence on foreign gas or nuclear power.

- On fruit and vegetable farms there can be excessive pesticide use, which has human and environmental health consequences. Some of the dairy farmers who built new stables do not have correct manure handling due to lack of equipment. Manure is discharged in the immediate surroundings causing serious pollution. Manure is a great fertilizer for producing fodder and feed for the animals. On-farm nutrient cycling means more resilient farming systems.

- The programme supported a number of female grantees (dried fruit) but gender has not been a criterion for selecting applicants. It did excellent in organising the AgroLady course; to stress that agribusiness is also an interesting sector for women managers to work in. During two out of the five beneficiary interviews, the farmers indicated that their daughters would be in charge of the finances (they were still in school). A next phase should have more attention for the next generation working on the family farm.

- The difficulty of reducing rural (unskilled) employment has been mentioned earlier. It is a challenge to attract young, educated or skilled labour from the urban areas back to the countryside.

7 Results Orientation, Risk Mitigation and Flexibility

In the Component Description is mentioned a number of assumptions like macroeconomic stability restored, measures to mitigate the negative effects of the financial crisis implemented, the Financial Services component implemented, various banks in Lviv Oblast developing credit products, and a strong willingness among authorities to attract new investments. None of these preconditions were met. Later on, in the Inception Report, is mentioned even more assumptions, like that there will not be extreme price fluctuations, there will be reasonable political stability, no large changes in agricultural or trade policy, and no dramatic changes in exchange rates. Most of these assumptions were not met either.

The programme interventions had a pragmatic, dynamic approach to value chain development. The Facilitating Office staff was led by its experiences in the field and the feedback from the private sector that the programme was to support. In that way, there was better adoption. The changes in approach came about gradually, in good dialogue with Danida.

The programme closure report mentions four important factors that influenced the programme: the considerable political, economic and fiscal changes; a drought in 2010; access to rural finance still being a major constraint; and that (fortunately) the average milk price has not fallen (despite the closure of the Russian market).

In the end it was one handful of factors that really influenced the programme – and even those did not cause it to fail. The main reason for this is that there was a diverse market for the produce. When one outlet did not work out, the producers were able to find another market. In such a situation production and marketing simply continues.

8 Key Evaluation Findings

The Ukraine Country Study leads to the following overall **evaluation findings:**

Overall, the Agri-Business Development component has been successful in its implementation despite the different crises that befell the country after project formulation and despite the Financial Services component not taking place while both components should have been executed in synergy.

The Agri-Business Development Component did achieve local short-term impact (increasing economic growth and decreasing rural unemployment through 50-60 good farms/ agribusinesses). The opportunity to develop these enterprises further (introducing processing), using them for excursions by copycats in a second phase is not used (not much more impact to be expected). *It has influenced national strategic thinking, which may have longer term, national impact.*

One success factor was that there was a diverse market for the products, at least for fruits and vegetables, accessible for suppliers who were able to change their market once problems arose. The presence of a wholesale market was important as a venue of information exchange and for producers and buyers to develop relations.

The focus was on value chain actors that had a good potential to produce for the market fairly soon, could quickly become commercially viable therefore ensuring sustainability, i.e. family farms and (in the Ukraine perspective) small corporate farms, and processors.

The demand oriented facilitation proved successful, particularly the combination of grants and training by domestic experts. This was achieved through a pragmatic value chain approach, adjusting itself to the context, to what the target group needed most.

The formula of awareness raising, excursions, business planning, proposal writing, training, granting over a few years worked very well. In a longer-term engagement all parties got to know and trust each other.

The programme did not only provide training to the grant applicant, but also the person behind him/her, like the son that is to take over and/or the daughter doing the finance. The programme undertook a lot of training in rural schools where both parents and children were trained in new techniques and this proved to have a strong impact in terms of changes implemented and likely on the sustainability of the family farm activities and business.

The programme was very prone to external influences. The context became worse. None of the preconditions, assumptions and risks identified when writing the programme document were that important.

The programme undervalued the bottleneck-cost of logistics, which is of critical importance for dairy. A good road network and refrigerated trucks are critical for frequent collection. Logistics is 20% of the price of milk. The spread of beneficiary farmers limits opportunities for efficiency and synergy.

The project did not pay attention to developing the self-financing capacity of each business, when it became clear that loan conditions and interest rates were prohibitive.

The evaluation findings lead to the following **lessons learned:**

Utilising and promoting the Shuvar fruits and vegetables wholesale market as meeting place between supply and demand, the venue for awareness raising, information exchange, seminars, training etc. was a very good strategy. Unfortunately no such place was available for dairy.

With reasonable agri-lending in place grantees would have been able to invest in their expansion. There were copycats and also they would have advanced much further if agri-lending had been in place.

Training bank staff does not change access to finance in itself. For developing agro (M) SME lending, *bank lending needs to be addressed at the national level.* Changing a bank's financial products is a lengthy process.

With a flexible and dynamic programme implementation, it is possible to adjust effectively to the specific VCD context particularly when the context is rapidly changing.

An innovative, ground breaking programme of this nature needs more than one project cycle to become effective. The programme is considered successful and a model of great importance for the country. The grantees need further coaching, to ensure that the investment matures and real impact is achieved.

Access to finance should come along with financial management. Grantees should either have had training or should receive training to give confidence that he/she can handle money.

The combination of grants and training (including multiple study tours) causes mind change. That is the most important achievement.

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