

PROJECT IDEA

Title	Ukraine: Enhancing institutional capacities and strengthening SME competitiveness in the fresh and processed fruits and vegetables sector of the Kherson region
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PROJECT PURPOSE

The project seeks to enhance the export competitiveness of the fresh and processed fruits and vegetables sector of the Kherson region in Ukraine through sector-specific assistance and institutional capacity building while at the same time enhancing awareness of WTO accession implications.

DETAILS

Project duration - anticipated	36 months
Project value - estimated	USD 3,000,000

Background and Context

Describe the project origin

The project design was initiated in response to requests from regional Ukrainian authorities the Kherson region and the Ministry of Economy of Ukraine (which were officially transmitted by the Ukrainian mission in Geneva).

Through these requests, authorities expressed interest in the development of the agricultural sector's export competitiveness development, with a strong emphasis on the role of SMEs.

In response to the inquiries, ITC initiated desk research and organized a mission to Ukraine in October 2013. The purpose of this mission was to assess and validate trade development needs, agree upon programming priorities with the competent authorities, identify potential counterparts, and discuss financing possibilities with potential donors.

In coordination with both public and private sector stakeholders, the needs assessment mission identified the following programming priorities: **building trade support institutional capacities and targeted assistance to the SMEs and small producers in the fresh and processed fruits and vegetables sector of the Kherson region.**

In addition to sector-specific capacity development, central Government authorities (namely, the Ministry of Economy of Ukraine) identified gaps in Ukraine's understanding of WTO membership implications. As a result, it was determined that support is required in order to **raise awareness of anti dumping measures and trade remedies, TBT and SPS issues, and the implications of the WTO Bali Package, including trade facilitation agreement**

Rationale

Problem(s)/needs addressed

Despite the advantages enjoyed by the Kherson region in the fresh and processed fruits and vegetables sector, it has been unable to fully capitalize upon its potential. Significant opportunities exist for export development and value addition, but progress is currently being hampered by deficiencies in both SME and TSI capacities. Particular attention must be paid to enhancing SMEs' understanding of market requirements, including quality issues, so that they are better able to align production to foreign demand.

Insufficient export capacities of SMEs and small producers in the target sector: Ukrainian SMEs in the agriculture sector lack knowledge, capacity and experience in export operations. In particular, they lack access to market information and skills in business management and modern agro-production and export promotion, and are relatively unaware of technological advancements. The project will conduct a thorough value chain analysis for the target sector and individual company assessments for selected enterprises in order to provide tailor-made capacity building assistance aimed at increased export competitiveness, with a particular focus on developing market linkages.

Weak trade support institutional capacities: Trade Support Institutions in Ukraine have limited capacities to provide the services necessary for SMEs to increase their international competitiveness. Although Ukraine seeks to deepen its trade relations with the European Union, its institutions face challenges in providing relevant services to SMEs that would facilitate EU exports. In particular, the main shortcomings include lack of knowledge and skills in market intelligence, limited geographical coverage and specialisation. Some institutions lack appropriate tools to gather and disseminate trade intelligence and have limited networking expertise. As a first step, the project will explore and assess the trade related institutional and regulatory framework in the country in order to provide practical and targeted assistance that meet the needs of SMEs.

Weak understanding of WTO rules and impact on trade: Despite the fact that Ukraine has been a WTO member since 2008, both SMEs and institutions lack a sufficient understanding of the implications of WTO membership. In particular, awareness building on TBT and SPS issues is becoming increasingly important as Ukraine seeks deepened trade relations with the EU. Awareness building is also required with regards to antidumping measures, trade remedies, and the implications of the WTO Bali Package, in particular the trade facilitation agreement.

Direct beneficiaries

Direct beneficiaries include small and medium sized enterprises and small producers in the fresh and processed fruits and vegetables sector of the Kherson region, trade support institutions, SMEs in general, and related government institutions and bodies.

Expected project outcome(s)

Outcome 1: Strengthened international competitiveness of fresh and processed fruits and vegetables sector SMEs in the Kherson region.

SME capacities will be enhanced through training and advisory services targeted at improving competencies in production and post-harvest techniques, trade information, market analysis, quality management, certification procedures, and sector-specific marketing and sales. The exporters will then be connected to target markets and potential buyers in order to ensure that the improvements are linked to practical trade-based results.

Training and technical support will also be provided to TSIs in the areas of information services, market development, quality management, certification procedures, supply chain management, buyer and investor communication, the organization of market orientation missions, and the facilitation of technical cooperation with buyers. In addition to benefiting from direct training, TSIs will have the opportunity to participate in training and consulting events targeting SMEs.

Outcome 2: Strengthened confidence of the private sector in WTO membership and improved knowledge on the opportunities of accession. Stakeholder confidence in dealing with WTO issues will be enhanced through awareness building activities geared at increasing knowledge of antidumping measures and trade remedies, TBT and SPS issues, and the implications of the WTO Bali Package, including

	trade facilitation agreement.
Expected impact	The project will contribute to increased exports of fresh and processed fruits and vegetables from the Kherson region of Ukraine and enhanced confidence of the private sector in WTO membership.
Relevance for host country	<p>Situated in a temperate climate with access to an abundance of rich soil and water resources, Ukraine is endowed with roughly 32.5 million ha of arable land representing 76% of the country's total agricultural area, 30% of European arable land, and 2.4% of the world's.¹ Ukraine benefits from 25% of the world's black soil (Chernozem) and has traditionally leveraged these advantages as one of the region's most important agricultural hubs.² While the contribution of agriculture to GDP has declined since the early 1990's, it still serves as a cornerstone of Ukrainian economic activity, accounting for 8.2%³ of GDP (2010) and 15%⁴ of total employment (3 million workers, 2011). In addition to providing employment and income generation opportunities for rural, and often poorer areas, the sector has proven itself to be resilient in the face of volatile global economic conditions. Although 2009 saw a sharp -14.8%⁵ retraction in GDP, agricultural growth maintained a slightly positive +0.01%⁶ trajectory, making it the only important sector to achieve positive growth that year. As such it has been recognized as an important component of economic activity that has the potential to help stabilize Ukraine's economy and mitigate national risk factors.</p> <p>Although large agricultural enterprises are responsible for certain areas of production, the fresh and processed fruits and vegetables sub-sector is largely reliant upon individual and household activity.⁷ As a result of the fact that such enterprises are estimated to have produced 88% of vegetables and 84% of fruits in 2010, this sub-sector represents significant potential for SME enhancement and socio-economic development.⁸ The Kherson region in particular, which has access to 1,770 ha of arable land, is relatively well-placed for enhanced production and enjoys a healthy reputation for its fruit and vegetable products.⁹ In addition, local processing infrastructure is available to add value to crop products resulting in opportunities to develop industry, build linkages with foreign markets, and introduce improvements along the value chain.¹⁰ Nonetheless, it is the least developed region of the country, and has thus far not benefited from foreign assistance.</p> <p>In light of the sector's export potential and competitive advantages, which include abundant resources, geographic positioning, low labor costs, and surplus production, the government has identified agriculture as a priority sector to be targeted for development in its "State Program for Activation of Economy Development in 2013 – 2014."¹¹ Moreover, Kherson's specialization in agro produce was emphasised in President Yanukovich's speech in late 2012, where he demonstrated the government's commitment to enhancing sector capacities in Kherson by detailing modernization plans.¹³ As a result of this commitment and sector potential, the regional authorities of Kherson oblast have requested direct assistance aimed at enhancing export competitiveness of the fresh and processed fruits and vegetables sector.</p>

¹Deloitte (InvestUkraine). Agriculture Industry Overview.

² IBID

³European Commission (JRC Scientific and Policy Reports). The agri-food sector in Ukraine: Current situation and market outlook until 2025. 2012.

⁴Deloitte (InvestUkraine). Agriculture Industry Overview.

⁵Economist Intelligence Unit. Country Report: Ukraine. December, 2013.

⁶European Commission (JRC Scientific and Policy Reports). The agri-food sector in Ukraine: Current situation and market outlook until 2025. 2012.

⁷European Commission (JRC Scientific and Policy Reports). The agri-food sector in Ukraine: Current situation and market outlook until 2025. 2012.

⁸IBID

⁹Sodruzhestvo.Agriculture.Accessed 20/1/2014.

http://www.sodruzhestvo.ua/index.php?option=com_content&view=article&id=43&Itemid=13&lang=en.

¹⁰ IBID

¹¹European Commission (JRC Scientific and Policy Reports). The agri-food sector in Ukraine: Current situation and market outlook until 2025. 2012.

¹²State Program for Activation of Economy Development 2013 – 2014.

¹³Press office of President Viktor Yanukovich. President: We will pay attention to agricultural development of Kherson region. 11/10/2012. Accessed 20/1/2014. <http://www.president.gov.ua/en/news/25721.html>.

	<p>The component on WTO accession will complement the sector-specific activities by expanding the project's impact to other areas of economic activity. Despite presenting various benefits, the accession period can be a dangerous time for enterprises that are not prepared to confront the risks associated with membership. In order to help the private sector fully capitalize upon WTO membership, the project will enhance stakeholder awareness of antidumping measures and trade remedies, TBT and SPS issues, and the implications of the WTO Bali Package.</p>
<p>Relevant projects of other organisations</p>	<p>ITC has not identified any donor-funded projects targeting the export development of the fresh and processed fruits and vegetable sector of the Kherson region.</p> <p>ITC met with key donors, including the EU, USAID, UNDP, and GIZ, during its recent needs assessment mission and maintains close contact with them in order to ensure proper synergies and avoid duplication. Although aid organizations are currently implementing a variety of programs in Ukraine, the following projects have been identified as those bearing relevance to the proposed interventions:</p> <p><u>USAID</u> Agroinvest (2011 – 2016). Seeks to create a more competitive agricultural industry by enhancing awareness of land rights, supporting market-oriented legislation, facilitating agricultural lending to SMEs, supporting the development of wholesale and regional markets, and enhancing capacities of sector associations. Partnership for Sustainable Water Supply for Agriculture Development in Crimea (2012 – 2014). Seeks to enhance agricultural production in the Crimea through improved water supply. Financial Systems and Agrarian Policy Dialogue project (2012 – 2014). Seeks to facilitate access to finance for agricultural enterprises and strengthen the public private dialogue mechanisms within the sector.</p> <p><u>GIZ</u> Sustainable economic and employment promotion (2009 – 2014). Seeks to introduce support the coordination of policies on SMEs, innovation, and technology, and improve networking in order to strengthen competitive advantages through better collaboration. EU Integration of South Eastern Europe (2009 – 2014). Supra-regional project aimed at increasing capacities, management, resources, and networking in anticipation of enhanced EU integration.</p> <p><u>UNDP</u> Aid for trade project (2011 – 2013). Its goal was to increase trade by supporting the development of trade promotion related national strategic documents, enhancing the institutional framework, and providing export-oriented technical assistance to SMEs.</p> <p><u>EU</u> Building capacity of the National Accreditation Agency of Ukraine according to the European practices (2011-2013). Enhanced the capacities of the NAAU in the areas of testing, calibration, certification, and inspection. Supporting Ukrainian in approximating its phytosanitary legislation and administration with the EU standards (2012 – 2014). Seeks to enhance the ability of veterinary and phytosanitary services to protect against harmful organisms and comply with EU phytosanitary requirements.</p> <p><i>In addition to these projects, it should be mentioned that a number of organizations, including the EU and UNDP, anticipated introducing projects aimed at enhancing SME competitiveness and strengthening market linkages in the wake of the DCFTA. The current uncertainty surrounding this agreement means that the status of these projects is in doubt.</i></p>
<p>Strategy</p>	
<p>Results Chain</p>	<p>See Annex 1 for a more detailed description.</p> <p>Outcome 1: Strengthened international competitiveness of fresh and processed fruits and vegetables sectors' SMEs in Kherson region</p> <p>Output 1: Roadmap (Strategy) for fresh fruits and vegetables sectors (target</p>

	<p>sectors) developed</p> <p>Output 2: Capacities of SMEs strengthened in selected areas critical for export competitiveness</p> <p>Output 3: Capacities of trade support services built to help SMEs comply with market requirements</p> <p>Output 4: Business linkages created for SMEs to expand exports in potential markets</p> <p><u>Outcome 2:</u> Strengthened confidence of the private sector in WTO membership and improved knowledge on the opportunities of accession</p> <p>Output 1: Seminars and awareness building activities conducted on WTO issues</p>
<p>Sustainability</p>	<p>Focusing on the fruits and vegetables sector, this project has the potential to include the rural poor into the growth process by means of employment generation while also introducing sustainable and environmentally-friendly production methods. ITC's experience in the region has demonstrated the advantages of an integrated approach to sector development, covering the main business processes in individual enterprises, providing trade support institutions with the skills and tools necessary to improve the efficiency of their services and addressing bottlenecks in the regulatory environment.</p> <p>TSI capacities will be enhanced so that they may become anchors of sector-specific knowledge. As such, they will play a critical role in promoting the spread of best practices beyond the project's direct beneficiaries, thereby expanding socio-economic impact, providing for sustainable growth, and allowing the sector to achieve its full potential.</p> <p>The sequenced approach, starting with capacity-building for a smaller number of committed participants, the multiplier effect from engaging the TSIs and its emphasis on networking between enterprises, TSIs and the government will help to:</p> <ul style="list-style-type: none"> - allow a continuously larger number of participants and beneficiaries to be reached; - develop both the demand for and the supply of trade development services, thereby helping to secure their sustainability; and - establish and enhance the local capacity for successful trade development in both enterprises and TSIs. <p>Where appropriate, the project will ensure that its benefits are equitably shared by men and women, that the needs and interests of vulnerable groups, including poor communities, are duly considered and that the preservation of the environment is supported. The project will thus determine benchmarks, set targets for improvement, and monitor them, with respect to the participation of men and women in project activities.</p> <p>The support provided for the purposes of enhancing WTO awareness will also have a significant impact on sustainability. By preparing the private sector to better capitalize upon the advantages of membership while at the same time mitigating the risks associated with accession, the project will serve to protect vulnerable industries and increase the probability that Ukraine's enterprises can leverage accession for enhanced socio-economic development.</p>

Organization and Management

Counterpart(s) in host country(ies)	Name & contact details	Kherson Regional State Administration
	Brief description of the organization	Government body of the Kherson region that is comprised of a number of departments, among which the Department of Agricultural Development, and Department of Economic and Regional Development and Trade will be actively engaged in project initiatives.
	Foreseen responsibilities in the project	The Administration will be the main government focal point for the project and will play an important role in ensuring that the project is aligned with government priorities and coordinated with other donor initiatives.
	Additional comments:	The Administration will chair the Project Steering Committee to ensure transparency of both the planning and implementation of project activities.
Other partners (e.g. international organisations, education institutions, etc.)	Name & contact details	Ukrainian Chamber of Commerce and Industry
	Brief description of the organization	The Ukrainian Chamber of Commerce and Industry represents nearly 10,000 private sector enterprises throughout Ukraine. Its mission is to advocate on behalf of and promote Ukrainian business, facilitate entrepreneurial activity, and foster technical and trade relations with international partners. It provides a variety of services including but not limited to trade information, inspection, certification, consulting, legal, export promotion, and intellectual property.
	Foreseen responsibilities in the project	Will be a project beneficiary in capacity building activities and will be closely consulted during the formulation of project activities.
	Additional comments:	
	Name & contact details	Ministry of Economic Development and Trade of Ukraine
	Brief description of the organization	Responsible for formulating and implementing the government's domestic and foreign economic policies, formulating economic governance policies, providing data and forecasting services, fostering market relationships, and stimulating a competitive environment.
	Foreseen responsibilities in the project	The Ministry will be a government focal point for the project and will play an important role in ensuring that the project is aligned with government priorities and coordinated with other donor initiatives.
	Additional comments:	

Name & contact details	Kherson Chamber of Commerce and Industry
Brief description of the organization	The Kherson Chamber of Commerce and Industry represents businesses in the Kherson region. It provides a number of services including but not limited to consulting, trade information, certification, registration, and legal in order to achieve its goal of supporting local business and promoting economic activity and trade.
Foreseen responsibilities in the project	Will be a project beneficiary in capacity building activities and will be closely consulted during the formulation of project activities. Will partner in organising and coordinating various project activities.
Additional comments:	
Name & contact details	Eastern Food Technologies
Brief description of the organization	Interregional and international agro-industrial cluster in the Kherson region.
Foreseen responsibilities in the project	Will be a project beneficiary in capacity building activities and will be closely consulted during the formulation of project activities. Will partner in organising and coordinating various project activities.
Additional comments:	
<p>In addition to the organizations detailed above, a large number of institutions are currently active in Ukraine's agricultural sector. While specific roles and areas of partnership have yet to be identified, considerations for collaboration will be given to the following: Ministry of Agrarian Policy of Ukraine, Organic Federation, Agrarian Fund, Ukrainian Agrarian Confederation, Agrarian Union of Ukraine, Association of Farmers and Private Land Owners of Ukraine, and the Association Ukrainian Agribusiness Club.¹⁴</p>	

¹⁴Deloitte (InvestUkraine). Agriculture Industry Overview.

ANNEX 1 - DESCRIPTION OF OUTCOMES AND OUTPUTS

Outcome 1: Strengthened international competitiveness of fresh and processed fruits and vegetables sectors' SMEs in Kherson region

Output 1: Roadmap (Strategy) for fresh fruits and vegetables sectors (target sectors) developed

Activity 1.1: Conduct research and analysis of the current situation and development potential of the of the target sectors in Kherson region, including value chain analysis.

Activity 1.2: Organise stakeholders consultations, including public – private forum to validate findings and strategic orientations

Activity 1.3: Draft and finalize market-led value chain development document for the target sector and validate with stakeholders

Output 2: Capacities of SMEs strengthened in selected areas critical for export competitiveness

Activity 2.1: Conduct awareness building workshops on quality and food safety, market analysis and trade information services.

Activity 2.2: Conduct trainings on post-harvest techniques and good agricultural practices

Activity 2.3: Conduct trainings and provide advisory services to selected SMEs and producers for quality and food safety certification

Activity 2.4: Conduct trainings and provide advisory services on technical issues, including packaging, labelling, requirements of target markets, sector specific marketing and sales.

Activity 2.5: Establish an information-knowledge sharing platform for SMEs

Output 3: Capacities of trade support services built to help SMEs comply with market requirements

Activity 3.1: Carry out assessment of business needs and portfolio of services of selected TSIs

Activity 3.2: Conduct trainings for selected TSIs on key areas for improvement, which may include information services, market development, quality management/monitoring, certification procedures, supply chain management, how to communicate better buyers and investors, organize market orientation missions, technical collaboration with buyers, etc

Activity 3.3: Involve TSI representatives as local consultants when possible in enterprise assistance and training activities.

Activity 3.4: Help selected national institutions to become resource centres to collect, archive and share knowledge from seminars and trainings conducted under the project

Output 4: Business linkages created for SMEs to expand exports in potential markets

Activity 4.1: Identify new potential buyers for the target sector

Activity 4.2: Help companies to prepare for and organize trade fair participation at target markets, technical study tours, buyer/seller meetings

Activity 4.3: Assist companies to ensure follow-up with potential buyers

Activity 4.4: Assist in developing guides on export procedures and requirements for selected priority markets (max 2)

Outcome 2: Strengthened confidence of the private sector in WTO membership and improved knowledge on the opportunities of accession

Output 1: Seminars and awareness building activities conducted on WTO issues

Activity 1.1: Conduct awareness building seminar on trade remedies and antidumping measures

Activity 1.2: Conduct awareness building seminar on TBT and SPS related issues

Activity 1.3: Conduct awareness building seminar on the WTO Bali Package

Activity 1.4: Conduct awareness building seminar on trade facilitation