

Document of  
**The World Bank**  
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Report No: PAD3078

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$200 MILLION

TO

UKRAINE

FOR AN

ACCELERATING PRIVATE INVESTMENT IN AGRICULTURE PROGRAM

May 3, 2019

Agriculture Global Practice  
Europe And Central Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2019)

Currency Unit = Ukrainian Hryvna (UAH)

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UAH 26.877 = US\$ 1

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US\$ 1 = EURO 0.87581012

### FISCAL YEAR

January 1 - December 31

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Country Director: Satu Kristiina J. Kahkonen

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## ABBREVIATIONS AND ACRONYMS

ATC	Amalgamated Territorial Community
BIP	Border Inspection Point
CCFLA	Coordination Center for Free Legal Aid and Its Territorial Offices
CIPE	Center for International Private Enterprise
CMU	Cabinet of Ministers of Ukraine
CPF	Country Partnership Framework
CRI	Corporate Results Indicator
DLI	Disbursement-Linked Indicator
DLR	Disbursement-Linked Result
EC	European Council
EU	European Union
EUP	Export Unit Price
EV	Export Value
FDI	Foreign Direct Investment
FLAS	Free Legal Aid System
GeoCadastrer	State Service for Geodesy, Cartography and Cadaster
GDP	Gross Domestic Product
GHG	Green-House Gas
GSAP	Government Strategy and Action Plan for Leveraging Private Investment in Agriculture
HACC	High Anti-Corruption Court
IACS	Integrated Administration and Control System
IFC	International Finance Corporation
IMF	International Monetary Fund
KPI	Key Performance Indicator
MAPF	Ministry of Agrarian Policy and Food
MEDT	Ministry of Economic Development and Trade
MOF	Ministry of Finance
MOJ	Ministry of Justice
MRD	Ministry of Regional Development, Construction, and Housing and Communal Services
NABU	National Anti-Corruption Bureau
NACP	National Agency for Corruption Prevention
NBU	National Bank of Ukraine
NDC	Nationally Determined Contributions
NPV	Net Present Value
PCU	Program Coordination Unit
PforR	Program-for-Results
POM	Program Operational Manual
PPP	<i>Depending on the context: Purchasing Power Parity; or Plant Protection Products</i>
SAPO	Special Anticorruption Prosecutor Office
SLC	State Land Cadaster
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phyto-sanitary measures
SSUFSCP	State Service of Ukraine for Food Safety and Consumer Protection
TBT	Trans-Boundary Trade
TDP	Territorial Development Plans
UAH	Ukrainian Hryvna
UNFCCC	United Nations Framework Convention on Climate Change
VE	Verification Entity
WTO	World Trade Organization



**BASIC INFORMATION**

Is this a regionally tagged project?		Financing Instrument
No		Program-for-Results Financing
Bank/IFC Collaboration	Joint Level	Does this operation have an IPF component?
Yes	Joint Project - involving co financing with IFC (loan, equity, budget, other) or staffing	No

**Proposed Program Development Objective(s)**

The Program Development Objective is to alleviate select constraints to increased participation of the private sector, in particular small and medium-sized enterprises (SMEs), in agricultural input and output markets of Ukraine.

**Organizations**

Borrower : Ministry of Finance

Implementing Agency : Ministry of Agrarian Policy and Food

**COST & FINANCING**

**SUMMARY (USD Millions)**

<b>Government program Cost</b>	646.91
<b>Total Operation Cost</b>	646.91
Total Program Cost	646.91
<b>Total Financing</b>	646.91
<b>Financing Gap</b>	0.00

**Financing (USD Millions)**

<b>Counterpart Funding</b>	<b>446.91</b>
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Borrower/Recipient	446.91
<b>International Bank for Reconstruction and Development (IBRD)</b>	<b>200.00</b>

**Expected Disbursements (USD Millions)**

Fiscal Year	2019	2020	2021	2022	2023	2024	2025
<b>Absolute</b>	0.00	28.00	20.00	33.50	38.40	44.60	35.50
<b>Cumulative</b>	0.00	28.00	48.00	81.50	119.90	164.50	200.00

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Agriculture

**Contributing Practice Areas**

Finance, Competitiveness and Innovation

**Climate Change and Disaster Screening**

Yes

**Private Capital Mobilized**

Yes

**Public Private Partnership**

No

**Gender Tag**

Does the program plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes



c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

Risk Category	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Moderate
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Substantial

**COMPLIANCE**

**Policy**

Does the program depart from the CPF in content or in other significant respects?

Yes  No

Does the program require any waivers of Bank policies?

Yes  No



**Safeguard Policies Triggered**

Safeguard Policies	Yes	No
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

**Legal Covenants**

Sections and Description

Schedule 2, Section I, A.2.(i):

The Borrower, through MoF, shall establish and thereafter maintain throughout Program implementation, a Program coordination unit (“PCU”) responsible for the monitoring of the Program, including the preparation of the Program’s annual progress reports, preparation of pertinent financial statements, and staffed with adequate professional, fiduciary, administrative and technical personnel, with qualifications, experience and terms of employment acceptable to the Bank, all as described in the Program Operational Manual (“POM”).

Sections and Description

Schedule 2, Section I, A.2.(ii):

The Borrower shall ensure that each Implementing Institution has sufficient personnel to carry out the implementation of the Program, including social and environment specialists, if applicable.

Sections and Description

Schedule 2, Section I, A.2.(iii):

The Borrower shall establish, not later than three months after the Effective Date, and thereafter maintain throughout Program implementation, a strategic working group for the support of the agriculture and agribusiness sector development (“Steering Committee”), comprised of representatives from each Implementing Institution, responsible for strategic oversight and guidance under the Program, all under terms and conditions acceptable to the Bank and as set forth in the POM.

**Conditions**

**TASK TEAM****Bank Staff**

<b>Name</b>	<b>Role</b>	<b>Specialization</b>	<b>Unit</b>
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<b>Extended Team</b>			
<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>
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UKRAINE  
ACCELERATING PRIVATE INVESTMENT IN AGRICULTURE PROGRAM

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## 1. STRATEGIC CONTEXT

### A. Country Context

**1. Ukraine's pattern of economic growth has been uneven since independence in 1991 due to a combination of structural and external factors.** Between 2000 and 2007, Ukraine sustained high annual growth rates of seven percent, on average. Capital inflows surged, and credit growth boomed, fueled by the external borrowing of the commercial banks. This enabled an expansionary fiscal policy that resulted in the accumulation of a structural deficit. While growth during this period was supported by favorable external conditions, it was not matched with necessary structural reforms. With the onset of the global financial crisis in 2007, the Ukrainian economy contracted rapidly. Growth was negative during 2008–2013, with an annual average of -0.7 percent. The Maidan Revolution of 2013–2014, the events in Crimea in March 2014, and the armed conflict in eastern Ukraine since 2014 resulted in a deep recession. During 2014–2015, the economy contracted by 16 percent, requiring a series of fiscal and business environment-related reforms that helped stabilize the economy. Growth resumed, albeit at a modest rate: gross domestic product (GDP) grew by 2.3 percent in 2016, by 2.5 percent in 2017, and by 2.3 percent in 2018.

**2. Declines in public spending and household income since 2015 have led to an increase in poverty.** The deep recession, the currency depreciation, and the compression in public current expenditures together contributed to a significant decline in disposable income, with both labor and non-labor incomes decreasing in real terms in 2015. As a result, Ukraine's estimated poverty rate, measured at US\$5 per day (in 2005 purchasing power parity terms) increased from 3.3 percent in 2014 to 5.8 percent in 2015. Poor households were hit especially hard by the large increase in energy prices in 2015. Reversing the trend of increasing poverty and promoting shared prosperity will require Ukraine to capitalize on drivers of growth through structural and policy reforms.

**3. Ukraine has achieved considerable fiscal consolidation since the 2014 crisis, but fiscal pressures and public debt remain high.** The overall fiscal deficit, including Naftogaz, narrowed from 10 percent of GDP in 2014 to under 2.5 percent during 2015–2018, four years in a row. This was achieved in large part through higher energy tariffs to reduce the Naftogaz deficit, and tight controls on spending, including a nominal freeze in pensions, social benefits, and wages. At the same time, fiscal pressures remained significant in 2016–2018 due to key structural challenges, including a cut in the payroll tax rate, inefficiently targeted social assistance, large public sector employment (including among civil servants and health and education workers), and weak tax administration. In 2017, expenditure grew by 11.7 percent in real terms due to higher spending on social programs and significant wage increases, including a doubling of the minimum wage and a more than 40 percent increase in the wages of teachers and doctors. Due to strong revenues, however, the fiscal deficit stayed within its target at 2.3 percent of GDP in 2017. In 2018, education and health sector wages increased further. Given limited progress in right-sizing staffing, the public sector wage bill is projected to reach 11.3 percent of GDP in 2018, up from 9.3 percent in 2016. In addition, general government revenues were five percent below the target in the first half of 2018, owing mainly to weaker proceeds from excise tax, import value-added tax, payroll tax, and postponed Naftogaz dividend payments.

**4. Support from the World Bank and other development partners is critical to public sector reforms.** Ukraine faces major financing needs in 2019 and 2020, which will require mobilizing sizable international financing to maintain macroeconomic stability. Staying within the fiscal deficit target of 2.3 percent of GDP in



2019–2021 will be critical to managing macroeconomic vulnerabilities and reducing public debt to under 60 percent of GDP by 2021.<sup>1</sup> The proposed program is expected to contribute to increased investment and exports, improving liquidity of key factor markets and ultimately generating increased foreign exchange and tax revenue.

## B. Sectoral (or Multi-Sectoral) and Institutional Context

**5. Agriculture has been a steady driver of growth, even during crises.** Primary agriculture accounts for 10 percent of GDP (2017) and 18 percent of formal employment (2016). From 2001 to 2016, agriculture real value added increased by 97 percent, outpacing services (35 percent) and industry (12 percent). Agricultural exports remain a driver of the Ukrainian economy, representing almost 42 percent (US\$18 billion) of total export value (US\$43.3 billion, 2017). Ukraine is the world's largest exporter of maize, the third largest exporter of grain after the United States and the European Union (EU), and a large producer and exporter of sunflower seeds and oil. Close to 23 million hectares, or 54 percent of Ukraine's agricultural land is comprised of highly fertile black soil, which, together with favorable climatic conditions and abundant water resources, provide a conducive environment for agricultural production.

**6. An important share of Ukraine's agricultural output is produced by Small and Medium Enterprises (SMEs).** Nearly half (43 percent) of gross agricultural output is produced by household farms with less than three hectares of land, representing 90 percent of the farming units in the country. Households produce most of the high-value crops, including 84 percent of fruits and berries, 94 percent of vegetables, roots and tubers, 73 percent of milk, and 99 percent of honey. The rest of the sector is represented by about 42,200 farms of up to 700,000 hectares of land. For the purposes of this Program, agricultural SMEs are defined in two groups. First, small and medium agricultural producers are defined as individuals and entities that operate on less than 1,000 hectares of land with annual revenues of less than 40 million UAH (approximately EUR 1.3 million).<sup>2</sup> Second, in compliance with the provisions of the Commercial Code of Ukraine, agribusiness SMEs are defined as: (a) small companies with an average number of staff of up to 50 people and annual revenue of up to EUR 10 million (based on the National Bank of Ukraine or NBU exchange rate); and (b) medium-sized companies with staff of up to 250 people and annual revenue of up to EUR 50 million (based on NBU exchange rate). Women represent 51.6 percent of registered land owners in Ukraine and own 53 percent of total agricultural land. Average land holdings are 1.7 hectares for women and 1.6 hectares for men (Geocadaster 2018).

**7. Ukraine's agricultural sector operates below its potential and, with increased higher-value exports, it could make a significantly larger contribution to economic growth.** A 30 percent increase in agricultural productivity could result in 4.4 percent growth in GDP over five years and 12.5 percent growth over ten years. Exports, especially those of high-value agri-food products, remain well below their potential as well.<sup>3</sup> While Ukraine is at the top of the world export charts for some commodities (wheat, corn, and sunflower oil), it ranks only 24<sup>th</sup> in total agricultural export value, with low-value annual crops accounting for more than 49 percent of total agri-food exports. This reflects the dominance of annual crops in the crop production mix,

<sup>1</sup> Total spending on agriculture does not contribute significantly to existing fiscal pressures. In 2018, it accounted for only 1.3 percent (or 15.6 billion UAH) of total spending, compared, for example, to 16.3 percent spent in education or 8.7 percent spent on health sector.

<sup>2</sup> The definition of farm SMEs is derived from the Food and Agriculture Organization (FAO) classification (2017).

<sup>3</sup>For the export potential assessment methodology, see [http://exportpotential.intracen.org/media/1089/epa-methodology\\_141216.pdf](http://exportpotential.intracen.org/media/1089/epa-methodology_141216.pdf)

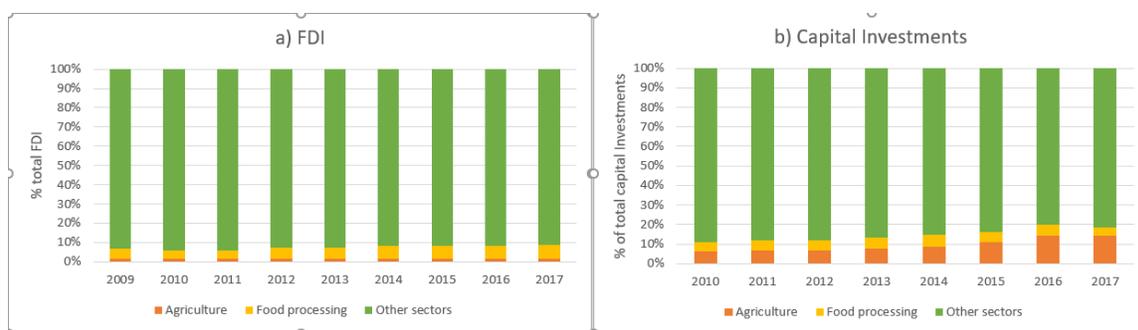


which are produced in high volume but are exported in unprocessed or slightly processed form, thus bringing limited value added. It also reflects the relatively high return on investment for grain and oilseed production, which is reinforced by the lack of investment in higher value-added products and other structural constraints, particularly non-contested land markets and an unpredictable business climate. Most of the higher-value agri-food products, including vegetable oils, dairy and meat products, fresh produce/fruits and vegetables, remain below 50 percent of their export potential. The foregone annual export value is estimated to amount to US\$8 billion. Recent trade agreements—including the Deep and Comprehensive Free Trade Area (DCFTA) with the EU (effective since September 1, 2017), the trade agreement with Canada, and the agreements under negotiation with Turkey and Israel—will create important opportunities to further increase agricultural exports. Given the dominant role played by SMEs in the production of high-value agri-food export products, realizing the full potential of recent trade agreements will require increasing their productivity and efficiency.

**8. Exposure to climate change hazards such as extreme floods and drought are increasing challenges in the sector.** Changing rainfall patterns and runoff indicate that future summer river flows are likely to decrease substantially, by as much as 50 percent, across central and eastern Europe, including in Ukraine. Annual river runoff in northern Ukraine may rise by 15 to 25 percent, with increased winter runoff and decreased spring runoff. In southern Ukraine, annual river runoff may decrease by 30 to 50 percent, exacerbating both drought risk and the frequency and magnitude of extreme floods. It is likely that the country will suffer increased water stress over the 21<sup>st</sup> century, as severe droughts—classified today as events that would occur once in every 100 years—are projected to become twice as likely by 2070.<sup>4</sup> Think Hazard rates the risk of river and urban flood and wildfires as high, and the risk of extreme heat and water scarcity as medium.<sup>5</sup>

**9. Without a strong push to attract investment, the economic contribution of the agriculture sector will remain below its potential.** During 2000–2013, both domestic and foreign direct investment (FDI) in agriculture increased. This trend reversed in 2014, however, in the face of concerns about the business environment and growing uncertainty associated with the conflict in the east. Agricultural investment as a share of total investment has been and remains low, accounting on average for only six percent of total annual capital investments over the last decade. Investment in the food processing sector has also been very low, accounting for an average of 5.5 percent of total annual investment in the sector since 2007 (Figure 1).

**Figure 1: Agriculture and Food Processing Sectors Are Underrepresented in FDI and Capital Investment (2004–2017)**



<sup>4</sup> World Bank, Climate Change Country Brief - Ukraine, <http://globalpractices.worldbank.org/climate/Pages/CountryBriefs/Ukraine.aspx>  
<sup>5</sup> See <http://thinkhazard.org/en/report/254-ukraine>



**10. Accelerating growth and private investment in agriculture, especially in lagging areas, will require addressing the business environment constraints faced by SMEs operating in the agriculture sector and reducing risk.** Several market failures lead high transaction costs and perceived risks of doing business. These include disincentives due to inadequate or contrary public policies and regulations, limited provision and poor targeting of public goods and services, and concentrated market power and limited competition in agricultural input markets. Addressing these market failures would have significant positive impacts on the provision of goods and services through the private sector:

**(a) Better business regulations and infrastructure could help promote private investment in the agriculture sector.** Ukraine has made important progress in streamlining its business environment in recent years, with its *Doing Business* ranking improving from 140<sup>th</sup> in 2013 to 80<sup>th</sup> in 2017. However, structural constraints such as weak infrastructure, a highly concentrated market structure, and weak land management continue to undercut investor confidence.

**(b) Improved state support for agriculture, guided by evidence-based policy analysis and a medium-term expenditure framework, could strengthen long-run competitiveness.** The allocation of state support funds is often administratively cumbersome, non-transparent and ad hoc. Furthermore, state support favors the largest producers, while 41 percent of all agricultural SMEs, including individual farmers, are not aware of the state support program. Only 20.3 percent of small farmers applied for the state subsidy program during 2000–2017 (FAO 2018).

**(c) Well-functioning primary input markets could contribute to improved productivity and investment.** Agricultural land markets are not open and do not function properly: about 25 percent of agricultural land are under State control and there is an existing moratorium on the sale of land. Along with other State-Owned Enterprises (SOEs) operating in the fertilizer markets, a local monopoly in the nitrogen fertilizer market drives up the cost of fertilizer for producers and stymies innovation and investment. Irrigation water supply is publicly managed and often unreliable. Financial instruments—such as leasing, crop receipts, transaction finance, and other innovative instruments for improved productivity and efficiency of supply chains—are almost non-existent in the financial sector. It is estimated that only about 30 percent of finance needs in the agriculture sector are met.

**(d) Adherence to food safety standards, along with lower-cost and more efficient transport and port logistics, could boost international trade.** Ukrainian exporters suffer from limited market access due to the weak capacity to comply with Sanitary and PhytoSanitary (SPS) and, especially, food safety standards. Exports of live animals from Ukraine, for which there seem to be market demand, is at risk of being blocked by the tightening animal welfare requirements in Ukraine. Logistics costs also remain high. For example, it is estimated that the cost to move grain from farms to ports in Ukraine is approximately 40 percent higher than in France or Germany (IFC). Ukraine's high logistics costs result from the predominant use of road and rail transport for agricultural commodities rather than water transport. As the old truck fleet is also fuel-inefficient, this mode of transport also results in comparatively high carbon dioxide emissions.

**11. There is strong support for a cross-cutting program to address the constraints faced by agricultural SMEs.** Extensive consultations held with private and public sector representatives as part of the preparation of this Program confirmed that SMEs in the agriculture sector (including all household producers and farms



up to 1,000 ha) are disproportionately affected by the above-mentioned regulatory and institutional constraints. The awareness and ability of small farmers to access the government's input subsidy programs is limited, as is their ability to access the state land lease market that is dominated by large agribusinesses. The lack of easily accessible information on food safety puts agricultural SMEs at a disadvantage, as they are less able to spend the time and money required to obtain the necessary information. This imbalance discourages SMEs from investing and exporting high-value crops and livestock products.

**12. Over the past four years, the government has taken initial steps to reduce constraints faced by private investors that want to invest in Ukrainian businesses, including in the agriculture sector.** With support from the EU, United States Agency for International Development (USAID), and other partner organizations, the government has provided extensive support to facilitate the country's economic development. The EU is the largest development partner in Ukraine and supports a wide range of sectors,<sup>6</sup> including education, transport, and trade, as well as economic development in Eastern Ukraine. USAID's program focuses on agriculture and rural development, microfinance, and privatization of state assets. Several international nongovernmental organizations (NGOs) are also active in the country, including the Center for International Private Enterprise (CIPE), which works at the regional level in Ukraine on private sector advocacy and anticorruption issues.

**13. The government's recent efforts to strengthen the country's anticorruption institutions are also expected to help improve the investment climate in Ukraine.** The country adopted a new set of anticorruption laws in 2014–2015, with support from the World Bank and other development partners. Most notably, these laws established the National Anti-Corruption Bureau (NABU, with investigative functions), the Special Anticorruption Prosecutor Office (SAPO, responsible for anticorruption prosecutions), and the National Agency for Corruption Prevention (NACP, responsible for asset declarations of public officials and conflict of interest provisions). The law to create an independent High Anti-Corruption Court (HACC) was enacted in June 2018. The law provides for the creation of a specialized court, with both first-instance and appellate chambers, that will hear corruption cases that fall within NABU's jurisdiction over high government officials.

## C. Relationship to the CPF and Rationale for Use of Instrument

### Relationship to CPF and World Bank Group corporate priorities

**14. The proposed Program for Results (PforR) is fully aligned with the World Bank Group Country Partnership Framework (CPF) for Ukraine FY2017–2021.** The Program seeks to contribute to CPF Focus Area 1: *Making Markets Work* by unlocking the potential of development finance in the agriculture and agribusiness sectors. Within this focus area, the Program will contribute to the second sub-objective of Focus Area 1, Objective 4, on *creating a level playing field in the private sector* by working with the government to

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<sup>6</sup> The ongoing EU support program includes: (i) almost 200 technical assistance projects, totaling EUR 262.7 million, under implementation through national and regional EU assistance programs, cross-border co-operation programs, the *Twinning* mechanism, the educational programme *Tempus*, and the Comprehensive Institution Building Programme and Instrument for Nuclear Safety Co-operation; and (ii) EU Sector Budget Support, which consists of five programs totaling EUR 244 million, including: (a) promotion of mutual trade by removing technical barriers to trade between Ukraine and the European Union (EUR 45 million, MEDT); (b) support to the implementation of the Transport Strategy of Ukraine (EUR 65 million); (iii) support to the implementation of the Strategy of National Environmental Policy of Ukraine (EUR 35 million); (iv) support to the border management policy in Ukraine (EUR 66 million); and (v) support to the implementation of the Energy Strategy of Ukraine (EUR 45 million). All activities under this proposed program are in line with EU requirements and complementary to EU activities.



support amendments to the legislation enabling adoption of the EU-approved list of fertilizers, thus contributing to greater competitiveness in the fertilizer market. The Program will also support Focus Area 1, Objective 5, on *land reform*, helping to address the lack of land markets and weak land administration and management, which constrain investment and productivity in agriculture, by facilitating the completion of the registration of state land, including a minimum of 12 million hectares (or 40 percent of the total land under state control) of agricultural land, forests, natural reserve land, and water bodies protective zone land.

**15. The Program contributes to the CPF's cross-cutting theme of better governance and anticorruption.** It does this by: (a) improving the strategic approach, transparency, and accessibility of the state support program under the Ministry of Agrarian Policy and Food (MAPF), which should result in improved analytical capacity, better targeting, and improved overall efficiency of public support programs to the agriculture sector; (b) supporting the registration of state land and transparent auctions of lease or ownership rights to improve the transparency of land management, effectiveness in land rent collection, and local (communal) revenue and public financial management; (c) supporting the strengthening of the free legal aid system and legal empowerment activities; and (d) contributing to the protection of rights in the land lease and mortgage markets by strengthening the flow of information between relevant land-related registries and developing clear regulations governing private sector provision and access to land information. Each of these reforms will reduce opportunities for manipulation and corruption in the agriculture and agribusiness sectors and strengthen transparency and certainty in the enforcement of regulations.

**16. The Program contributes to the CPF's focus on addressing climate change.** Program-assisted interventions support Ukraine's pledge to the United Nations Framework Convention on Climate Change (UNFCCC)—presented as part of its Nationally Determined Contributions (NDC), ratified in September 2016—to maintain its greenhouse gas (GHG) emission levels in 2030 at 60 percent of the 1990 level. The Program would contribute to this commitment by promoting more efficient use of better-quality fertilizer, reduction of energy consumption through promoting energy-efficient infrastructure investments, and registration of forest and protected areas lands, which would delegitimize illegal logging, resulting in preservation of the existing carbon stock.

**17. The Program aligns closely with the World Bank's policy lending.** Approval of the Cabinet of Ministers Decision No 31 dated August 22, 2018 committed registration of all state agricultural land by December 2020 was one of the prior actions under the Economic Growth and Fiscally Sustainable Services Policy-Based Guarantee (PBG), approved by the World Bank's Executive Board on December 18, 2018. Building on the momentum of successful prior policy actions under the PBG, this Program will support the registration of at least 12 million hectares of state lands.

**18. The Program supports the World Bank Group's corporate priority of maximizing finance for development (MFD).** The Program supports a set of results toward removing constraints to private investment in the agriculture and agribusiness sectors, with a focus on agricultural SMEs, which would lead to increased investment in high-value crops and livestock products, thereby increasing their value as exports and as raw materials for further processing domestically and ultimately boosting value addition in the sector. The Program will support efforts to remove key agriculture- and agribusiness-related obstacles identified during extensive private sector consultations. In addition to helping establish a land market, the Program supports: (a) enhancing the coherence and strategic underpinnings of agricultural policies and improving access to the state support program as part of investment planning for the private sector; (b) improving access to the state



land lease market for a broader range of private agribusinesses and agricultural producers; (c) strengthening governance in the land sector by enhancing protection of the land rights of legal entities and private individuals; and (d) expanding the flow of information to private sector producers of food of animal origin and live animals, increasingly promising export items, to ensure compliance with export requirements. Removal or minimization of these constraints and risks is expected to result in increased private sector investment, both domestic and FDI.

### Rationale for the Program for Results Instrument

**19. World Bank support to the agriculture sector is proposed as a Program-for-Results (PforR).** The PforR instrument provides important advantages. First, it provides incentives to the government to enhance the efficiency (and the effectiveness) of the targeted public expenditure programs, while increasing transparency and accountability in the administration of these programs. Second, it provides incentives to strengthen institutional delivery mechanisms to ensure a sharper focus on achieving on-the-ground results (which would ultimately leverage increased private investment) and more efficient implementation of government programs. For example, while the state support system for agriculture is well established, reinvigoration of the agricultural land markets and improved protection of land rights will increase incentives for private investment in the sector. Third, because the PforR lends support to a well-defined government program that enjoys broad ownership and employs a focus on results, the PforR instrument provides a strong platform for managing program risks as implementation progresses.

**20. The PforR instrument increases development effectiveness by applying global best practices to the Program.** These best practices include new methodologies for land registration and land resource management, and a state-of-the-art traceability system for food products. The PforR approach also introduces improved public-private consultation and dialogue to increase responsiveness and enhance capacity to implement the Government Strategy and Action Plan (GSAP) on Leveraging Private Investment in Agriculture and Agribusiness Sectors for 2019–2023.

## 2. PROGRAM DESCRIPTION

### A. Government Program

**21. The GSAP sets forth a broad range of measures to mobilize private investment in the agriculture and agribusiness sectors.** These measures are intended to boost competitiveness, ensure national food security, increase value addition in the sector and promote agri-food exports, and contribute to economic growth. The GSAP includes investments, instruments, and actions to promote private sector investment in agriculture and agribusiness. The cost over the seven-year program period is estimated at US\$1.192 billion equivalent and it will be implemented throughout the country. The GSAP is currently being finalized and is expected to be approved by the Cabinet of Ministers of Ukraine (CMU) in May 2019.

**22. The GSAP comprises the following components:** (a) guaranteeing the stability, predictability, and transparency of agricultural policy and the state support system; (b) stimulating diversification in agricultural production and promoting integrated development of rural areas; (c) strengthening the capacity of the national food safety system; (d) improving the efficient use of available infrastructure for storage and



transportation of agri-food products, creating a stable climate for investments in infrastructure and logistics; (e) improving tenure security, value, and transparency of the use of state agricultural land; (f) improving water resource management and user-led irrigation service delivery; (g) creating preconditions for improved access to agricultural inputs for all types of agricultural producers; and (h) improving access to finance and risk management instruments for all stakeholders using EU and international best practices.

**23. The GSAP complements the Land Turnover Law.** The law, which envisages lifting the moratorium on the sale of agricultural land is expected to be submitted to the Parliament (Verhovna Rada) in 2019 or 2020. Significant measures have already been taken to improve the transparency of land records and address other prerequisites for opening agricultural land markets. Together with the measures proposed for implementation under the Program, the GSAP would significantly improve the business environment for private investment in the agriculture and agribusiness sectors.

## B. PforR Program Scope

**24. Comprehensive consultations were held to prioritize the obstacles to private investment in agriculture and agribusiness sectors to support the definition of the scope of the PforR.** Consultations were held with a broad range of stakeholders, including representatives of the Committee of Agrarian Policy and Land Relation of Verhovna Rada; the Ministries of Agrarian Policy and Food, Finance, Infrastructure, Economic Development and Trade, and Environment and Natural Resources; the National Investment Council; the State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP); a number of trade associations and organizations, including the All-Ukrainian Agrarian Union, Ukrainian Grain Association, Association of Ukrainian Orchard Producers, Ukrainian Club of Agribusinessmen, European Business Association, American Chamber of Commerce in Ukraine; and financial institutions, including OTP Bank and Credit Agricole. Program design was also informed by the findings of recent Bank analytical work, including a sources of growth study and public expenditure review in agriculture, and a review of reports of other international organizations.

**25. Within the framework of the GSAP, the Program strengthens key aspects of agricultural input and output markets to improve opportunities for SMEs operating in the agriculture sector (Table 1).** Specifically, the Program focuses on the nexus between agricultural sector support policies, land and food safety, which are preconditions for the successful development of the agriculture sector. Private sector consultations made it evident that agricultural SMEs suffer disproportionately from lack of information on public support programs, non-transparent land markets, complicated export regulatory requirements, insufficient finance, and inadequate fertilizer inputs.

**26. The Program supports the government's efforts to create an enabling environment for private investment in agriculture and agribusiness sectors, with a focus on agricultural SMEs.** The specific activities to be supported by the Program are selected from the broader program based on their relevance for SMEs. The Program focuses, therefore, on two complementary results areas of the GSAP related to agricultural input and output markets:

- a) **Increasing competitiveness of input markets.** This Program will help enhance sector policies to increase access to key agricultural inputs, in particular land and state support. Key results would include: (i) improving the efficiency and targeting of the agriculture state support programs to crowd-in private investment by SMEs; (ii) improving transparency in the state agricultural land lease market through



inventory and registration of all remaining state land thus increasing the efficiency and returns to state land leasing; and (iii) strengthening the protection of land rights and those of other property owners by establishing an advance notification system for upcoming changes to the cadastral records, complemented by enhancements to the existing free legal aid system, which provides legal assistance on land and other property rights-related issues and is of particular importance to poorer groups of property owners and renters; and

b) **Linking agricultural SMEs to export markets.** The Program will help improve access to export markets for Ukrainian agribusinesses, in particular SMEs, operating in the space of high-value food products of animal origin and live animals. The Program will support addressing information asymmetries on food safety and other export market requirements in Ukraine's key high-value markets (such as the EU, China, Gulf Cooperation Council countries, the United States, and Canada) and facilitating trade by upgrading the capacity of border inspections and testing and introducing risk-based import-export procedures.

**27. The government is tackling key legislative constraints in two other program areas as well.** These relate to: (a) the adoption of amendments to the Law on Pesticides and Agrichemicals (Article 4) that would recognize the EU list of fertilizers and exempt them from mandatory state registration, which would facilitate easier access for farmers to high-quality and efficient fertilizer; and (b) the adoption of revisions to the Law on Crop Receipts to encourage development of a secondary market for crop receipts, which would allow for securitization and sale of pools of crop receipt assets, thus injecting additional liquidity into the financial sector.



**Table 1: Summary of the PforR Program Boundary**

<b>Parameter</b>	<b>Government Strategy and Action Plan (GSAP)</b>	<b>PforR Program Boundary</b>
<b>Program Development Objective</b>	To mobilize private investment in the agriculture and agribusiness sectors to boost competitiveness, ensure national food security, increase agri-food exports, and contribute to economic growth.	To alleviate select constraints to increased participation of the private sector, in particular, small and medium-sized enterprises (SMEs) in the agricultural input and output markets of Ukraine.
<b>Key Performance Indicators</b>	<ul style="list-style-type: none"> <li>- Increased private investment and business activity in the agriculture and agribusiness sectors;</li> <li>- Increased production volumes of the gross agricultural product by all categories of economic entities;</li> <li>- Increased value of agricultural exports;</li> <li>- Improved levels of employment and incomes in rural areas;</li> <li>- Strengthened transparency and governance of the agricultural state support system and agricultural policy making;</li> <li>- Completed registration of state-owned lands to advance land reform;</li> <li>- Increased percentage of land with secure water tenure;</li> <li>- Improved access to better-quality agricultural inputs, resulting in increased agricultural productivity;</li> <li>- Improved financing of the agricultural sector;</li> <li>- Reduced cost of transporting agricultural goods.</li> </ul>	<ul style="list-style-type: none"> <li>- At least 60 percent of state support funding has been transferred to small and medium agricultural producers;</li> <li>- At least 95 percent of free legal aid cases have been responded to in writing within 10 days of the receipt of inquiry;</li> <li>- At least 60 percent of food businesses newly registered as exporters of food or animal origins are SMEs;</li> <li>- Women beneficiaries (at least 50 percent).</li> <li>- Satisfaction rate of beneficiaries from improved service provision (at least 85 percent).</li> </ul>
<b>Program Activities by Component</b>	<i>Ensures broad-based institutional strengthening, improvement of legislative and regulatory framework, and public investment support.</i>	<i>Supports achievement of agreed outcomes in the areas of: (i) increasing efficiency and targeting of state support in the agriculture sector; (ii) improving functioning of the land market; and (iii) improving agribusiness SME's access to export markets.</i>
<i>Guaranteeing stability, predictability and transparency of the agricultural policy and state support system</i>	<ul style="list-style-type: none"> <li>- Implementing mid-term budget planning for the agricultural sector;</li> <li>- Aligning medium-term expenditure framework with strategic sector goals based on transparent and evidence-based principles of agricultural policy design;</li> </ul>	<p><b>Under the Framework of DLI 1:</b></p> <ul style="list-style-type: none"> <li>-Operationalization of the State Agrarian Registry;</li> <li>- Adoption by MAPF of medium-term strategic priorities of the state support in agriculture sector;</li> </ul>



	<ul style="list-style-type: none"> <li>- Improving monitoring of the state support allocation;</li> <li>- Enhancing analytical capacity at MAFF to provide reliable agriculture sector information, analysis, and assessments of proposed policy changes;</li> <li>- Improving evaluation of the efficiency of state support for agriculture.</li> </ul>	<ul style="list-style-type: none"> <li>- Approval of the Medium-Term Expenditure Framework for calendar years 2020-2022, including Key Performance Indicators designed in accordance with principles approved by MAPF;</li> <li>- Ensuring that at least 60 percent of all agricultural producers registered in the State Agrarian Registry are small and medium agricultural producers;</li> <li>- Ensuring at least 60 percent of the state support funding is transferred to small and medium agricultural producers.</li> </ul>
<i>Strengthening food safety system capacity in the country</i>	<ul style="list-style-type: none"> <li>- Strengthening analytical capacity of the SSUFSCP in ensuring compliance with the SPS requirements of export markets;</li> <li>- Border control strengthening by establishing food safety border control points based on EU requirements and best practices;</li> <li>- Improving the animal identification system and creating a transparent, user-friendly state system of animal registration;</li> <li>- Implementation of the pilot interactive map with information about use of plant protection products;</li> <li>- Establishing regulation for food traceability as per international best practice and in view of implementing the Food Safety Law;</li> <li>- Establishing the regulatory framework to enable compartmentalization.<sup>7</sup></li> </ul>	<p><b>Under the Framework of DLI 3:</b></p> <ul style="list-style-type: none"> <li>- Installation of 10 Border Inspection Points (BIPs) with SPS and food safety capability at the border of Ukraine with the EU;</li> <li>- Adoption of relevant amendments to Law No. 771 On Basic Principles and Requirements for Safety and Quality of Food”and support for secondary legislation for the national traceability system;</li> <li>- Operationalization of interactive information system on food safety and export market requirements;</li> <li>- Operationalization of an interactive map on use of plant protection products.</li> <li>- Ensuring export of live animals;</li> <li>- At least 60 percent of food businesses newly registered as exporters of food of animal origin are SMEs.</li> </ul>
<i>Encouraging and improving the use of infrastructure for storage and</i>	<ul style="list-style-type: none"> <li>- Improving efficiency and competitiveness of inland waterway logistics;</li> <li>- Improving seaport logistics performance.</li> </ul>	N/A

<sup>7</sup> Compartmentalization is a concept where the animal population considered for trade maintains a functional separation through management or geographic boundaries that allow a clear epidemiological differentiation from animal populations of higher risk.



<i>transportation of agri-food products</i>		
<i>Improving tenure security, value, and transparency of use of state agricultural land</i>	<ul style="list-style-type: none"> <li>- Complete inventory and registration of state land;</li> <li>- Registration of received boundaries of administrative units in the State Land Cadaster;</li> <li>- Ensuring transparent transfer of ownership rights over public land to local communities and/or private individuals;</li> <li>- Ensuring full registration of ownership and use rights and interoperability between registers to protect land owners' and users' rights;</li> <li>- Increase owners' and users' awareness of their land rights and their protection;</li> <li>- Strengthening capacity of amalgamated communities in effective land management.</li> </ul>	<p><b>Under the Framework of the DLI 2:</b></p> <ul style="list-style-type: none"> <li>- Adoption of transparent methodologies to carry out land inventories and verification;</li> <li>- Registration of unregistered state lands (at least 12 million ha) in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures;</li> <li>- Operationalization of the E-auction platform and E-auction of rights to at least 70,000 ha of state land;</li> <li>- The adoption of a methodology for development of Territorial Development Plans (TDPs);</li> <li>- Development of orthophotos and topographic maps at a scale 1:10,000 for at least 17 oblasts;</li> <li>- Ensuring public access to land governance monitoring data produced by GeoCadaster;</li> <li>- Operationalization of an automated notification system for all parties affected by changes in the data held in the Land Cadaster;</li> <li>- Collection on behalf of Local Governments of resources from state land leases and sales of at least up to US\$150 million;</li> <li>- Establishing the system for automated notifications to all affected parties on changes in the land cadaster records;</li> <li>- Strengthening of the free legal aid system (FLAS);</li> <li>- Provision of free legal aid in written form within 10 days in at least 95% of cases.</li> </ul>
<i>Improving water resource management and user-led irrigation service delivery</i>	<ul style="list-style-type: none"> <li>- Adopting new legislation on the establishment of Water User Organizations (WUOs);</li> <li>- Reforming water tariffs for irrigation and drainage service delivery;</li> </ul>	N/A



	<ul style="list-style-type: none"> <li>- Reforming the legal and regulatory framework for issuing groundwater-abstraction permits to agricultural water users;</li> <li>- Establishing a modern Water Information Management Systems (WIMS) accessible via an open portal.</li> </ul>	
<i>Creating preconditions for improved access to agricultural inputs for all types of agricultural producers</i>	<ul style="list-style-type: none"> <li>- Enacting amendments to the legal and regulatory framework to improve farmers' access to fertilizer enabling recognition of the EU fertilizer list (paragraph 28 above).</li> <li>- Strengthening the enabling environment for agricultural input markets and service provision;</li> <li>- Enhancing technical modernization of agricultural production.</li> </ul>	N/A
<i>Improving access to finance and risk management instruments for all the stakeholders using the best EU and international practices.</i>	<ul style="list-style-type: none"> <li>- Improving credit support mechanisms for farmers and cooperatives;</li> <li>- Development of state support for insurance of agrarian risks;</li> <li>- Improving the enabling environment and practices in agriculture lending including collateralization and value chain financing;</li> <li>- Expanding the use of crop receipts to include the creation of a secondary market (adoption of revisions to the primary and secondary legislation to the existing Law No. 5479-VI to enable securitization of crop receipts, paragraph 28 above).</li> </ul>	N/A
<b>Program Implementation Period</b>	2019–2025	2019–2024
<b>Geographic Coverage</b>	Nationwide	The Program will be implemented in the Northern, Southern, Central and Western Regions of Ukraine <sup>8</sup>
<b>Total Financing, US\$ equivalent</b>	US\$1.192 billion	US\$ 646.91 million, including World Bank financing of US\$ 200 million

<sup>8</sup> Additional areas may be included during implementation of the Program as needed upon agreement between the Bank and GOU.



**28. The proposed Program is expected to be implemented over a period of six years.** Most of the activities are expected to be completed within four to five years. Additional time is added to verify the results of the final year.

**29. Implementation of the overall GSAP is expected to cost around US\$1.192 billion in total over a six-year program period, covering the components described in Table 1.** The expenditure program associated with the proposed Program amounts to US\$646.91 million over the seven-year period (Table 2). The relevant budget codes of the expenditure program at the ministries and agencies that are implementing the Program and are responsible for achieving the disbursement-linked indicators (DLIs) are indicated below.<sup>9</sup> Program financing support is calculated based on the average annual budget line allocations during 2016–2019.

**Table 2: Summary of Program Financing**

Government Ministry/Agency	DLI	Budget codes <sup>10</sup>	Program Boundary (US\$ '000)
<b>Total</b>			<b>646,910</b>
MAPF	DLI 1: Improving efficiency and targeting of state support in agriculture	2801010 2801130	24,830 3,527
Geocadaster	DLI 2: Improving functioning of land markets 2.1: Increasing inventory and registration of state land 2.3: Improving protection of rights in land and mortgage markets	2803010 2803020	202,195 38,027
Ministry of Regional Development	DLI 2: Improving functioning of land markets 2.2: Improving transparency and competitiveness of state land lease system	2751010 2751270	22,075 14,569
MOJ	DLI 2: Improving functioning of land markets 2.4: Strengthening of the Free Legal Aid System	3603020	73,648
SSUFSCP	DLI 3: Improving SME access to export markets	2809010	268,039

**30. Budget implementation efficiency and expenditure composition are generally sound.** The government’s budget execution rate is high. Across the budget lines related to the proposed Program, the average execution rates were 94 percent for 2016 and 2017, respectively. The budget lines are generally characterized by high personnel and recurrent costs, with capital expenditure allocations often not exceeding 10 percent—except for selected Geocadaster and MRD budget lines, where capital expenditure is higher (Table 3).

<sup>9</sup> Neither the GSAP nor the Program include the amounts allocated under the state support programs in agriculture, which amount to around 1 percent of the GDP.

<sup>10</sup> Multiple budget codes in an implementing institution indicate that the Program-related activities are financed from more than one budget code.

**Table 3: Program Expenditure Composition, by Economic Category.**

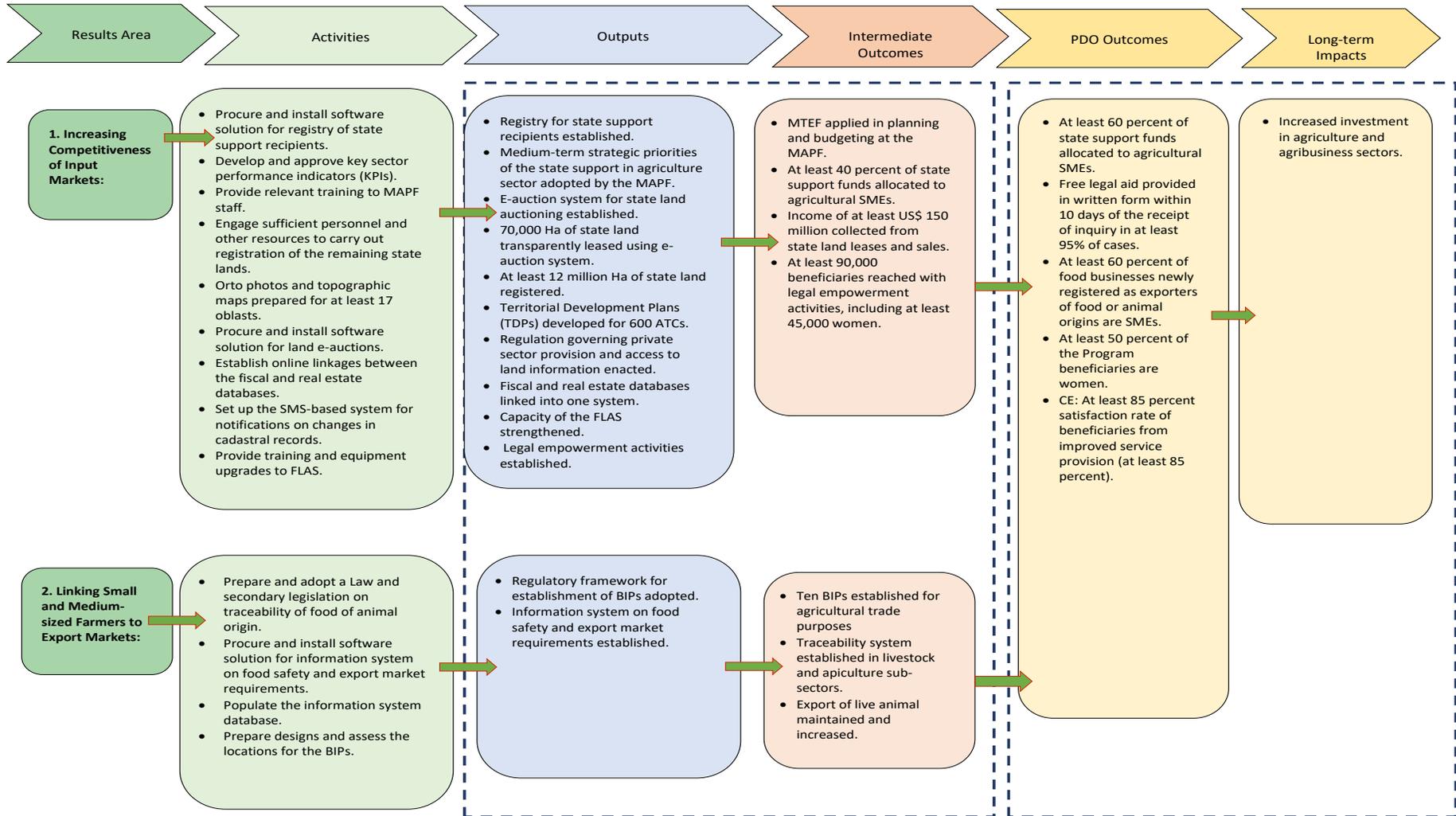
Government Ministry/Agency	Budget codes	Total Financing, (US\$ '000)	Personnel	Non-personnel recurrent	Capital
			Percent (%) of total		
MAPF	2801010	24,830	52.7	47.0	0.3
	2801130	3,527	65.4	34.0	0.6
Geocadaster	2803010	202,195	-	70.9	21.1
	2803020	38,027	16.6	33.3	50.1
Ministry of Regional Development	2751010	22,075	79.2	19.4	1.4
		14,569	0.0	0.0	100.0
Ministry of Justice	3603020	73,648	86.4	13.5	0.1
SSUFSCP	2809010	268,039	59.9	31.8	8.3

**31. The theory of change reflects the chain of results expected from the implementation of the GSAP, including the outputs and intermediate outcomes to be achieved under the proposed Program (Figure 2). The outcomes are expected to contribute to an improved investment climate in the agriculture and agribusiness sectors, facilitating private investment in the sector in the long term.**



Figure 2: Program Results Chain

PDO: To alleviate select constraints to increased participation of the private sector, in particular, small and medium-sized enterprises (SMEs) in the agricultural input and output markets Ukraine.





32. World Bank financing represents 31.8 percent of Program financing. The Government of Ukraine will contribute 68.2 percent (Table 4).

Table 4: Program Financing

Source <sup>11</sup>	Amount (US\$ millions)	% of Total
Counterpart Funding	446.9	69.0
Borrower	446.9	69.0
International Bank for Reconstruction and Development (IBRD)	200.00	31.0
<b>Total Program Financing</b>	<b>646.91</b>	<b>100.0</b>

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

33. The Program Development Objective is to alleviate select constraints to increased participation of the private sector, in particular small and medium-sized enterprises (SMEs), in agricultural input and output markets of Ukraine.

34. The PDO-Level Results Indicators set forth the specific determinants for measuring success in achieving the PDO, and include:

- (a) Share of the state support funds allocated to agricultural SMEs (at least 60 percent).
- (b) Share of free legal aid cases responded to in writing within 10 days of the receipt of inquiry (at least 95 percent).<sup>12</sup>
- (c) Percentage of food businesses newly registered as exporters of food or animal origins that are SMEs (at least 60 percent).<sup>13</sup>
- (d) Women beneficiaries (at least 50 percent).
- (e) Citizen Engagement: Satisfaction rate of beneficiaries from improved service provision (at least 85 percent).

D. Disbursement Linked Indicators and Verification Protocols

35. A defined set of disbursement-linked indicators (DLIs) will guide the disbursement of Program funds into the GSAP (Table 5). Gradual disbursement will take place upon achievement of the disbursement-linked results (DLRs), which will capture progress toward achievement of each DLI. The DLIs are described in detail in the following paragraphs.

<sup>11</sup> Total funding under the GSAP for the 2019-2023 period.

<sup>12</sup> Response means that a satisfactory advice has been found for the client: either the information necessary to answer the customer’s enquiry has been provided, or the customer has been referred to the organization (a court, for example) that can provide the necessary assistance, or other suitable solution.

<sup>13</sup> Measured from the date of Program effectiveness.



**Table 5: Program disbursement-linked Indicators and disbursement amounts<sup>14</sup>**

Results Area	DLIs	DLI (US\$ millions)	% of total	Responsible government counterpart
<b>Results Area 1: Increasing Competitiveness of Input Markets</b>	<b>DLI 1:</b> Improving efficiency and targeting of state support in the agriculture sector	27.5	13.8	MAPF
	<b>DLI 2:</b> Improving the functioning of land markets	132.0	66.0	
	<b>Sub-DLI 2.1:</b> <i>Increasing inventory and registration of state land</i>	43.0	21.5	GeoCadaster
	<b>Sub-DLI 2.2:</b> <i>Improving transparency of land auctions</i>	33.0	16.5	MRD
	<b>Sub-DLI 2.3:</b> <i>Improving protection of rights in land and mortgage market</i>	45.0	22.5	Geocadaster
	<b>Sub-DLI 2.4:</b> <i>Strengthening the FLAS</i>	11.0	5.5	MOJ
<b>Results Area 2: Linking SMEs and Farmers to Export Markets</b>	<b>DLI 3:</b> Improving agribusiness SME access to export markets	40.0	20.0	
	<b>Sub-DLI 3.1:</b> <i>Promoting SME access to export markets</i>	22.0	11.0	SSUFSCP
	<b>Sub-DLI 3.2:</b> <i>Facilitating cross-border trade</i>	18.0	9.0	SSUFSCP

**36. Ensuring satisfactory quality of the DLI achievement.** The DLIs should be achieved with a quality satisfactory to the World Bank, as verified by an independent verification entity (VE) reporting to the MOF (paragraph 59 item c). The quality of outputs—including draft laws prepared for submission to the Verhovna Rada,<sup>15</sup> ministerial regulations, procurement packages prepared for tenders, other documents, and outputs within the competence of the government prepared toward the achievement of the DLIs—will be subject to

<sup>14</sup> The amounts indicated in the Table 5 do not account for the front-end fee included in the loan amount.

<sup>15</sup> The criteria for acceptability of any laws to be adopted under the Program are discussed in the respective sections on relevant DLIs.



the World Bank's review and no objection. The implementing institutions (participating ministries and agencies) will implement the activities as defined in the critical paths toward achievement of the DLIs. Upon achievement of agreed DLR (or the entire DLI), the ministries and agencies will collect the relevant documentation and submit to the VE and MOF. The VE will send its conclusion on the basis of the evidence submitted by the ministries and agencies regarding the achievement of the DLIs, or an activity under it, to the MOF. The MOF will submit to the World Bank the relevant evidence of the total or partial achievement of DLRs. The World Bank will review the VE report. If the evidence presented on the achievement of the DLI/DLR is found satisfactory, the World Bank will invite the MOF to submit a disbursement request.

### **DLI 1: Improving efficiency and targeting of state support in the agriculture sector**

**37. Rationale. Ukraine has a long history of agricultural state support in the country, although the allocation of support has been inefficient and inequitable due to the lack of strategic vision, limited policy analysis capacity at MAPF and the lack of transparency in channeling state support payments.** During 2014–2018, public spending for agriculture averaged around US\$400 million annually (one percent of total government spending). In 2018, US\$232 million (45 percent of total agriculture spending) was allocated to the state support program for inputs for higher value-added agriculture (such as seedlings for orchards or animals for herd improvement reproduction of cows), as well as some direct payments for specific production type (i.e. households would get a payment for having an animal). This support was allocated on an ad-hoc basis and without a program of strategic priorities. Furthermore, a large share of the state support payments was allocated to the largest agricultural producers that already have access to credit, equipment and latest technologies. As an example, in 2014, close to 37 percent of the agricultural state support budget was allocated to 79 large farms that operate on over 5,000 hectares of land but account for less than two percent of all farms in the country. In 2017, the two largest poultry producers received almost 50 percent of all state support allocated to agricultural producers. Agricultural SMEs, on the other hand, represent a significant economic and social footprint in Ukraine's agricultural sector – 88 percent of all farms - and have the highest potential for driving the sector's future growth (World Bank 2018). However, they only received 30.7 percent of the state support allocation. Of over four million SME farms operating on about 50 percent of Ukraine's farmland and producing predominantly higher value-added crops, including 94 percent of the horticultural output, only about 41 percent are aware of the state support program and only 20 percent applied for state support between 2000 and 2017.

**38. A number of key bottlenecks should be corrected to improve the efficiency and transparency of the agriculture state support system.**<sup>16</sup> These can be grouped around the following areas and are closely in line with EU requirements under the EU-Ukraine Association Agreement:

- a. *Strategic Vision:* Approach to the state support in agriculture lacks a conceptual coherence between the strategic vision for the agricultural sector and the choice of the specific policy instruments. Going forward, it would be important to look for opportunities to optimize the size of state support and allocate an increasing share of the support in line with a satisfactory program of strategic priorities.
- b. *Policy Formulation and Design:*
  - i. Budget planning: Up until 2019, budget planning of the state support allocation has been done on the annual basis. Coupled with the lack of the strategic vision for the sector, this results in an ad

<sup>16</sup> Ukraine Public Sector Expenditure Review in Agriculture (World Bank, 2018).



- hoc approach to policy making. Prevailing uncertainty in state support planning and implementation that stems from the lack of strategic planning for the sector, annual budget cycles and limited monitoring mechanisms has been identified by the private sector as one of the difficulties in planning for and implementing investment decisions.
- ii. Policy analysis capacity: There is very limited evidence-based agricultural policy evaluation. There is no centralized analytical unit that exists within MAPF, and policy analysis is done in an arbitrary manner across different ministerial departments. Such lack of capacity makes it difficult to evaluate the efficiency of existing or potential policy interventions. Partially because of this, state support is characterized by the dominance of the market-distorting payments to producers and limited spending on growth-enhancing investments, correcting market failures and public goods' provision, since none of the instruments are evaluated for their efficiency.
  - iii. Instruments' design: Cumbersome application procedures have been among the key reasons for the small and medium agricultural producers not to apply for the state support (FAO, 2018), resulting in bulk of the support being channeled to the largest, well-connected producers. State support programs should be link with overall development goals of the sector and to be designed in the way that reduces the role of the state in their distribution.
- c. *Budget Expenditures Monitoring and Evaluation:*
- i. Monitoring capacity: There is no central database that can be used to monitor the allocation of funds. The agricultural budget system has weak built-in controls for monitoring that create pre-conditions for fraud and misallocation of public resources.
  - ii. Budget evaluation: Current budget performance indicators that are used to evaluate the effectiveness of budget execution are process- and not results-oriented. Therefore, they do not allow for the assessment of how different programs contribute to the strategic goals and the impacts they may have on the producers of different sizes.

**39. The MAPF has already taken the first steps to address these bottlenecks in order to align state support with EU practice and to develop a strategy and financing plan for further reform over the medium term.**

The medium-term-strategy that the MAPF will adopt embodies the main elements needed to meet EU requirements and international good practice in terms of state support. The first steps to achieve the targets set out in its strategy have been taken: (a) the importance of a transparent and predictable agriculture support system has been recognized and an expenditure program to improve the stability, predictability, and transparency of the state support system outlined; (b) the draft law on the *State Target Program* outlining the medium-term strategic priorities in the agriculture sector has been prepared and submitted to parliament; (c) preparation of a three-year program expenditure estimate to be attached to the annual budget has been started, and will transition in 2019 to a three-year budget planning process;<sup>17</sup> (d) an information campaign on the availability of the state support program to agricultural producers has been undertaken; and (e) an institutional restructuring process that envisions the creation of a policy analysis unit in MAPF has been initiated.

**40. The Program will further support the state support reform process and will support MAPF in implementing a set of key actions to improve the transparency, efficiency and targeting of state support.**

The expected benefits will be: (a) strengthened capacity of MAPF to evaluate policy instruments from the standpoint of efficiency, effectiveness, and equity (including through KPIs); (b) improved transparency of state

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<sup>17</sup> On January 8, 2019 the President of Ukraine signed the Law "On Introducing Changes to the Budget Code Regarding the Introduction of the Medium-Term Budget Planning"



support to agriculture; (c) improved awareness and application rates by small and medium agricultural producers for state support; (d) improved statistical information on agricultural producers; and (e) improved alignment of the state support system with EU requirements and practices.

**41. Expected program results and benefits.** Expected results include: (a) strengthened medium-term budget planning based on strategic plans, evidence-based policy formulation, and monitoring of policy implementation; (b) capacity building for MAPF staff on program design, management, budget planning, and policy analysis that would enable rationalization and better targeting of state support; (c) adoption of Key Performance Indicators (KPIs) for evaluating the effectiveness of budget execution that are not only process- but results-focused and allow for transparent and equitable access of small and medium agricultural producers to state support; (d) a scalable computerized registry of the recipients of state support, in line with the design principles of the EU's Integrated Administration and Control System (IACS), and the registration of the all state support recipients; (e) an information campaign on the state support programs available to small and medium agricultural producers. These five results represent the critical path toward DLI achievement, as reflected in the DLRs (Table 6). In achieving DLI 1, the benefits of the Program are expected to be increased growth and investment in the agricultural sector due to the lower crowding-out effect of the state support on private investment.

**42. Verification protocols.** An independent verifier would ascertain completion of the DLRs toward the achievement of the DLI and submit a verification report to MOF. The achievements subject to verification are as follows. The medium-term strategic priorities of the state support in agriculture sector are in line with legally established strategic sector objectives, include justification for policy intervention and rationale for the choice of specific policy instruments. The registry of state support recipients: (a) is compatible with the other agricultural registries in the country—such as, the registries for animals and land—to be verified based on the existence of a unique ID number used across various registries; (b) contains a minimum amount of mandatory information, including beneficiary name and type, unique identifier, address of the farm, bank account details, contact information, other farm plots managed by the same beneficiary; (c) is scalable to allow for registering all agricultural producers, if necessary, without restrictions that would prevent different farm types from registering; and (d) accessibility is deemed easy or rather easy by registry users on the basis of a built-in assessment tool with the capability to provide a management report upon request. The KPIs meet legally established requirements<sup>18</sup>, are quantifiable, measurable, and explicitly linked to the legally established strategic sector objectives; and measure the effectiveness of program implementation. Quantifiable results include: (i) achievement of each KPI of at least 90 percent against the targets agreed during the development of the strategy-based KPIs and targets; (b) ensuring that at least 60 percent of all agricultural producers registered in the State Agrarian Registry are small and medium agricultural producers;<sup>19</sup> and (c) ensuring that at least 60 percent of all State Support Funding is transferred to small and medium agricultural producers.

## **DLI 2: Improving the functioning of agricultural land markets**

**43. Rationale. Out of Ukraine's total land area of about 60 million hectares, 42.5 million hectares are suitable for agriculture.** About 32 million hectares are arable land and highly fertile, making the country one of the world's potential agricultural powerhouses. The state owns about 8.5 million hectares of agricultural

<sup>18</sup> Cabinet of Ministers Order # 1536 from 10.12.2010 On Key Performance Indicators for Budget Programs

<sup>19</sup> As mentioned before, these are agricultural producers with land not exceeding 1,000 hectares and annual revenue of less than UAH 40 million.



land, of which only 3.7 million hectares are registered in the Land Cadaster, and even less in the Registry of Rights. The total area of unregistered land still under state control, including around 4 million hectares of unregistered state agricultural land, as well as forests and protected watershed areas amount to at least 12 million hectares. Most unregistered state land is used under informal arrangements with unclear rights, undermining investment incentives, encouraging unsustainable practices, and opening pathways to corruption (including, 1.4 million hectares of state agricultural land are estimated to have been leased noncompetitively below their true economic value).

**44.** There is ample evidence that inadequacies in land tenure are serious impediments to land improvements and land-based investments such as land levelling to reduce water run-off, establishing moisture conservation measures, introducing soil retention measures, investing in high efficiency irrigation systems, and adopting sustainable land management, all of which contribute to better management of water and soil, and improvement of factor productivity. Lack of registration of forest land is a key source of illegal logging resulting in soil erosion, water run-off, reduced ground water recharge, sedimentation of irrigation systems reducing their efficiency, reduction in the carbon sequestration base, and release of captured carbon. Additionally, informal and unrecorded land use deprives local and central governments of taxes, auction revenues, and lease fees, estimated at least US\$250 million annually.

**45. The registration of private agricultural land and associated property, and of the property rights on the private land is well advanced.** About 85 percent of all private land are registered, and the remainder is being addressed satisfactorily but in a sporadic way. Private land owners, however, face various issues. A high percentage of private sector participants is at risk from so-called “raider attacks” that often occur at harvest time. The attacks allege defects in land rights, leading to disruption and reduced investor confidence. In January 2016, the Ministry of Justice (MOJ) established an anti-raider commission to provide an instant response to reported cases of such attacks. Reports indicate that the commission has addressed 1,600 cases and returned more than 16,000 hectares of land to legitimate owners or users. Key policy actions to support investor confidence include preventing infringement on registered use or ownership rights, better awareness of land law and procedural norms (for example, for contracting) among land owners and local administrations and courts, and provision of dispute resolution and grievance redress mechanisms.

**46. In addressing these issues, the government has proceeded with key reform actions, as follows:**

(i) ***Making land auctions mandatory:*** Procedures for auctioning lease rights to public agricultural land were established in 2013 and mandated for state and communal land in 2015. This reform led to a fourfold increase in mean annual rents (from UAH 555/ha in 2013 to UAH 2,300 in 2017) and a decrease in the duration of contracts to less than 10 years, suggesting that auctions have contributed to greater competition in the land market. Electronic and blockchain-based platforms were introduced in 2018 on a pilot basis, and draft legislation to make e-auctions mandatory has been prepared. However, despite the registration and transfer of 1.5 million hectares of state land to local governments, the number of auctions has remained limited. To expand land supply through competitive auctions, more information is needed on how the auction platforms perform, along with systematic land use planning at local levels. The proposed Program would support the preparation of territorial development plans (which are essentially public land management plans) to facilitate such information provision and e-auctions and thereby decrease the size of the informal sector, increase tenure security and investment, enhance local land revenue generation from new and existing leases, and address corruption in the land sector. The Program



would also support the training of local government staff in land use planning, e-auctions, and the establishment of a centralized database to record the lease fees collected by local authorities.

(ii) **Improving protection of existing rights:** The government has implemented several key measures to strengthen existing rights and protect owners and users against abuse. The free legal aid system (FLAS) with its apex Coordination Center (CCFLA) provides free legal advice and free representation in court cases for poorer land and property owners in every rayon. There are around 550 such centers throughout the country. These centers currently lack capacity and knowledge on the regulatory and institutional environment for land and the ability to proactively educate local officials and land owners on their rights, ways to exercise them in a market environment, and avenues for seeking redress for violations. A training program has been developed, implemented on a pilot basis, and accredited with support from the EU and requires scale-up support. To ensure development of amendments to the regulatory framework on technical inventory of real estate objects to fill in the Register of real estate with information about real estate assets based on their technical inventory, the Cabinet of Ministers on June 6, 2018 issued the Resolution No. 484 on “Functional issues of the State Registry of Property Rights”. According to the Resolution, the MOJ shall take actions to create the Registry of real estate objects and define the procedure for its administration.

**47. Expected program results and benefits.** The Program would build on, accelerate, expand, and improve the ongoing government initiatives. The DLI 2 would act as a catalyst to achieve the following results: (a) complete registration of all state land, including agricultural, forests, lands around watersheds, etc. It is estimated that such lands amount to at least 12 million hectares (possibly up to 14 million hectares in total) by 2024 (sub-DLI 2.1). The registration under the Program would be based on a new improved methodology which would take into account principles of transparency, participatory approach and competitive selection of the inventory services. The registration of the unregistered state lands is expected to start with registration of all remaining agricultural lands. Once agricultural lands have been covered, all remaining unregistered land would be covered by administrative unit. Annual works plans will be prepared by GeoCadaster for no-objection by the World Bank; (b) ensure registered land contributes to local government (at the village and amalgamated territorial community levels) revenue through land auctions and effective collection of land-related rents and taxes (sub-DLIs 2.1 and 2.2); (c) create a public orthophoto and topographical map to assist land use planning by public bodies as well as private sector and providing land owners and users nationwide with access to information and the means to seek redress against any violations of their land rights (sub-DLIs 2.3. and 2.4). The notifications would be offered as a cost-free service for the all cadastral transactions (estimated around 1 million transactions annually) and would include small landowners in the system. The notification system will act as an early warning system regarding changes to in the data of objects of state land cadaster to be linked to the registry of rights. Upon receipt of the notification, the system will provide a 15-day notification period during which affected parties would have an opportunity to raise objections before any changes are finalized and implemented; and (d) provide free legal advice in written form within 10 days of the receipt of the inquiry, which would reduce the room for inaccurate interpretation by the clients and improve the availability of reliable and clear information vs. trying to remember advice received from the FLAS orally. The legal empowerment activities would preventively seek out people in need for information on their land rights to ensure awareness of availability of such information. Achievement of DLI 2 would help create the basis for a transparent and competitive land market and ensure that land contributes to broad-based economic development, decentralization, and the rule of law. It would also provide the basis for more far-



reaching reforms, including opening of markets for agricultural land sales, simplification of administrative procedures, decentralization, and financial sector development.

**48.** Registered agricultural land with clear rights will incentivize investments in better soil and water management, resulting in sustainable land management and land use practices. In addition, registration of forest or protected areas as such would discourage illegal logging, resulting in preservation of the existing carbon stock, and avoid further degradation of forested lands. Improved security of land rights, as result of the DLI 2 activities, would lead to more efficient land and water use, decreased illegal timber logging and resultant reduced/avoided Green House Gas (GHG) emissions, and increased investment in modern climate-smart agriculture technologies. Registration of buffer zones around water bodies will help ensure better protection of these environmentally sensitive areas.

**49. The critical path toward achievement of DLI 2 will include actions to support achievement of the above results.**

- (i) *Actions to ensure complete inventory and registration* (sub-DLI 2.1) of state land are defined as follows: (a) a transparent and participatory process to systematically inventorize and register unregistered state land is formally adopted by the relevant state institution and codified in a manual; (b) a methodology to determine the extent of unregistered state land and to verify error-free registration is established; (c) this methodology is applied nationwide by an independent third party to establish a pre-project baseline; and (d) information on the amount of state land registered and errors identified/corrected as well as maps of these areas is included in a permanent public land governance monitoring system.
- (ii) *Actions to increase land revenue* (sub-DLIs 2.1 and 2.2) include: (a) approval of a manual for preparation of the territorial development plans, including arrangements for quality control, approval authority, and criteria to identify what land has to be brought to auction; (b) preparation of territorial development plans in 600 amalgamated communities; (c) availability of a central database on land lease revenue for public land and establishment and testing in pilot locations of interoperability between the State Fiscal Service, the registry of rights, and the cadaster; (d) establishment of the normative base for land e-auctions based on results from current pilots.
- (iii) *The establishment of the notification system and map database* (sub-DLI 2.3) will include: (a) development of regularly updated public website for land governance monitoring with data produced by Geocadaster and other institutions; (b) development of ortho photos and topographic maps at a scale of 1:10,000 for 17 oblasts that, together with relevant technical documentation, would be available publicly without restrictions; and (c) development of the specifications and design of the automated notification system for provision of notifications to all parties affected by changes in the data of objects of state land cadaster (estimated at 1 million transactions a year).
- (iv) *Actions to support the FLAS* (sub-DLI 2.4) include: (a) training for FLAS staff, in accordance with the curriculum already developed by MOJ<sup>20</sup>, to improve the capacity in the system; (b) development of methodology to identify gaps and measure the impact on communities' legal empowerment, including simplified land use planning, inventory, state land registration, land use violations, e-auctions and raider attacks; and (c) refinement of the existing case management system to provide

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<sup>20</sup> FLAS trainings for lawyers "Land Education" includes the following modules: Land as the object of civil rights; Protection of rights to the land plot in pre-trial and judicial proceedings; Protection of rights to the land plot in court. The training will be provided by the Coordination Center of the FLAS. The duration of the training is one day per module.



information not only on client profiles and the number and type of requests, but also on speed, customer satisfaction, and effectiveness of case disposal for land-related cases.

**50. Verification protocols.** The VE would ascertain completion of the DLRs towards the achievement of the DLIs and submit a verification report to the MOF. The verification report for state land inventory and registration (sub-DLI 2.1) will be based on automated verification using the methodology agreed upon prior to the start of Program-related state land registration activities, complemented by field visits to a random set of locations where land was registered and customer satisfaction surveys of land owners/users who might have been affected by such activities. Verification for increased land lease fees collected by local governments at the village and amalgamated territorial community levels (sub-DLI 2.2) would be based on territorial development plans generated and the increased local government land revenue generated as a result of having such plans through more effective land use, more effective and complete collection of land related taxes and fees and auctioning of public land as indicated in a centralized database for land lease revenue maintained by the Treasury. The Treasury would also make available disaggregated raw data at village level for analysis purposes. Verification of improved functioning of land and mortgage markets and protection of land rights (sub-DLIs 2.2 and 2.3) will be based on the operation of a comprehensive land governance monitoring system as mandated in the Cabinet of Ministers resolution No 639 adopted in August 2017, creation and use of topographical maps, and error correction on private parcels. Verification of increased legal empowerment and stronger FLAS (sub-DLI 2.4) will be based on the number of individuals, especially women, who gained better awareness of their land rights and the analysis of the achievement of the provision of the free legal aid in writing, as well as random customer satisfaction survey(s) applied routinely to beneficiaries of free legal aid, complemented by other measures, as needed.

### **DLI 3: Improving agribusiness SMEs' access to export markets**

**51. Rationale.** Ukraine is a major exporter of staple crops (wheat, barley, and corn) but lags behind in exports of higher-value food products, especially in exports of products of animal origin. Large companies dominate in the database of 866 exporters of food of animal origin, while SMEs struggle to understand export market requirements and lack access to information that would allow them to comply with food safety and traceability requirements. Based on feedback from the Ukrainian Food Export Board (UFEB), the lack of an efficient food traceability system in Ukraine is a key constraint to increasing the volume of trade in food products with added value. The tightening animal welfare requirements in Ukraine, particularly for transportation and export of live animals, will require exporters to improve their capacity and practices and may significantly reduce, or altogether eliminate, exports of live animals during the transition until such improved practices are in place. Most live animal, especially sheep and cattle, exports where Ukraine currently has significant headroom, are carried out by agribusiness SMEs. Revenues from the export of live animals are estimated at only US\$48 million per year. To maintain and expand live animal exports, appropriate border inspection infrastructure and management is urgently needed.

**52. In addition to measures included in the GSAP, the government has recently launched an agriculture export promotion program under the framework of Ukraine's Export Strategy.** The strategy is expected to be approved in 2019 through the adoption of the CMU Resolution *On approval the Strategy for export of agriculture products, food and processing industry of Ukraine until 2026*. An open-access information platform would provide export-relevant information and trading partners to SME food exporters and simplify permit and registration procedures. Creation of this platform is included in the annual *Action Plan of the Government*



*Priorities up to 2020*, adopted by CMU Resolution No. 275-p of 03.2017 and part of the Export Strategy, adopted by Resolution of the Cabinet of Ministers of Ukraine of 27.12.2017 No 1017-p *on Approval of Export Strategy of Ukraine during 2017-2021*. CMU Resolution No. 649-p of 20.09.2017 *On approval of the e-government development concept* provides the legal basis for establishing the e-documentation system within the platform.

**53. The State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP) has developed the list of amendments to the draft Law on Basic Principles to Food Safety and Quality, which it plans to submit to parliament in 2019.** Based on the SSUFSCP's analysis of the regulatory framework, a list of bylaws that need to be adopted to complete the establishment of the food traceability system and ensure its full operationality has been developed. These, and other food traceability-related activities, are conducted under the framework of the SPS harmonization strategy adopted by CMU Resolution No. 228-p of 24.02.2016. To help ensure a high level of consumer protection and prevent the spread of animal diseases, the SSUFSCP has developed an action plan for the construction of ten border BIPs by 2024. The list of BIPs is expected to be adopted by the CMU Resolution *On approval of the list of designated border points and designated BIPs on the state border of Ukraine* in 2019. To start the construction process, an intergovernmental working group has been established by the *Protocol of the Special Anti-Epizootic Commission* under CMU Resolution No. 3 of 28.12.2018. The SSUFSCP has also developed regulations for risk-based import-export control implemented at border control points, which will complement the installation of the BIPs, and has initiated the training of relevant staff.

**54. Expected program results and benefits.** The Program supports the SSUFSCP's overall work and expenditure program. In view of the importance of increasing exports of high-value food products, in particular by SMEs, the Program focuses on eliminating information asymmetries and facilitating access to information and services on the part of SMEs that aim to export food products of animal origin, specifically in the livestock and honey subsectors. While these activities would provide access to information and services to all exporters and some importers of food products, the Program aims—through DLI 3—to focus on facilitating access to markets for SME exporters of foods of animal origin (DLI 3.1) and reducing the border crossing time and requirements for food exporters (DLI 3.2). Expected results include: (a) adoption of the relevant legal and regulatory amendments to ensure traceability of products of animal origin; (b) establishment and operationalization of an interactive information system on food safety and export market requirements; (c) ensuring that at least 60 percent of food businesses that have newly registered as exporters of food of animal origin are SMEs; (d) installation of 10 BIPs; and (e) achieving at least US\$58 million worth of exports of live animals. A set of DLRs has been identified under each DLI, describing the specific results to be achieved. Achievement of the DLRs associated with the respective DLI in their entirety constitute a full achievement of the DLI.

**55.** The construction of the BIPs is expected to include energy efficient technologies and materials in the newly built facilities, as well as being designed in a climate resilient way. It is expected that at least 50% of the funding for the BIPs, i.e., US\$7.5 million, would finance climate-resilient and energy efficient materials, equipment and appliances. In addition, strengthening of the Ukraine's food traceability system and more transparency on the food export requirements would result in lower food losses and more efficient resource use along the agriculture supply chain.

**56. The critical path toward achievement of DLI 3 will include the following measures:**



(a) *Strengthening Ukraine's food traceability system*, including: (i) establishing the regulatory framework for animal identification and food traceability, including the relevant amendments to the Law "On Basic Principles to Food Safety and Quality," development and adoption of a number of secondary legal acts on the traceability of food of animal origin and related procedures, and establishment of a balanced system of state controls based on best global practices that would provide an adequate level of protection of life and health of food consumers, together with an effective system of self-control implemented by the food business; (ii) upgrading the platform for state animal registration and identification to ensure its full operationality; and (iii) creating an interactive database on the use of plant protection products of crucial importance for the safety of food of any origin (honey).

(b) *Establishing a public (open access) interactive platform on SPS (sanitary and phyto-sanitary) measures, Technical Barriers to Trade (TBT), and other food export requirements of international markets*, including: (i) establishing a public (open access) interactive database platform on food export-related requirements of at least five trading partners, including EU, China, US, GCC countries, and Canada; (ii) establishing an electronic system for the provision of administrative services by SSUFSCP (e-documentation); and (iii) establishing an interactive dialogue system to provide online consultations for agribusiness SMEs on export market requirements, administrative services, and other food-related issues.

(c) *Installing 10 BIPs*, including: (i) selection of locations on Ukraine's border with the EU, based on trade volume; (ii) preparation of site designs and implementation of the necessary assessments (such as environmental); (iii) construction of the BIPs applying, where possible climate-resilient and energy efficient designs, materials and appliances; and (iv) implementation of a process of acceptance into operation and launch of the operations using the risk-based controls.

**57. Verification protocols.** The VE would verify the achievement of DLRs in these areas on the following basis:

(a) *Strengthening of Ukraine's food traceability system*: (i) adoption and registration of the amendments to the Law on Basic Principles to Food Safety and Quality and related secondary (based on the list provided by the SSUFSCP) in the official MOJ registry. As with all SPS-related regulations in Ukraine, the VE should ascertain and confirm that the provisions of the amended law are based on the World Trade Organization (WTO) SPS Agreement and approximated to relevant EU requirements; (ii) a VE assessment report that proves full operationality of the platform and correspondence to the agreed TORs and specifications for the platform upgrade; and (iii) the list of documents developed and adopted by the SSUFSCP (with hard copies of the documents) on the establishment of the database, along with an assessment report of the VE, confirming full operationality of the database.

(b) *Establishment of a public (open access) interactive platform on SPS/TBT and other food export requirements of international markets*: (i) VE assessment report confirming full operationality of the interactive platform, including availability of and access to food export requirements in the EU, China, US, GCC, and Canada; and (ii) the legal and regulatory framework for an electronic system to provide SSUFSCP administrative services (e-documentation) has been established and, based on a VE assessment report, is deemed fully operational.

(c) *Facilitating cross-border trade*: A VE report will be prepared on the full installment of ten BIPs, including a physical on-site inspection to observe the BIPs in full operation. The report should also include an



assessment of the application of risk-based import/export controls (implemented by the government under GSAP) as part of the overall assessment of the functioning of the BIPs.



**Table 6: Summary of DLIs and DLRs**

DLI/Sub-DLI	DLI Baseline	Indicative Timeline for DLR Achievement					2024
		2019	2020	2021	2022	2023	
<b>DLI 1: Improving efficiency and targeting of state support in agriculture sector</b>							
	<p><i>Baseline for 2020 and 2021:</i> The State recipient support registry does not exist; MTEF, including KPIs not applied.</p> <p><i>Baseline for 2022 and 2023:</i> 30.7 percent (2014)</p>		<p>#1 The State Agrarian Registry has been operationalized and is publicly available.</p> <p>#2 Medium-term strategic priorities of the state support in agriculture sector have been adopted by MAPF.</p>	<p>#3 The Medium-Term Expenditure Framework for calendar years 2020-2022 has been approved including Key Performance Indicators designed in accordance with principles approved by MAPF.</p>		<p>#4 At least 40% of all agricultural producers registered in the State Agrarian Registry by the end of calendar year 2023 were Small and Medium Agricultural Producers and at least 40% of all State Support Program Funding have been transferred to Small and Medium Agricultural Producers by the end of calendar year 2023.</p>	<p>#5 At least 60% of all agricultural producers registered in the State Agrarian Registry by the end of calendar year 2024 were Small and Medium Agricultural Producers and at least 60% of all State Support Funding have been transferred to Small and Medium Agricultural Producers by the end of calendar year 2024.</p>
<b>2: Improving functioning of land markets</b>							
2.1 Increasing	Baseline for 2019-	#1 CMU	#2 e-auction	#3 At least 10% of	#4 At least 30%	#5 At least 60%	#6 100% of



<p><i>inventory and registration of state land</i></p>	<p>2020: Transparent methodology for land inventorization and verification not adopted and e-auction platform does not exist. <i>Baseline for 2020 (E-auctions):</i> E-auction platform not established, no land e-auctions take place as of January 1, 2020.  <i>Baseline for 2021 – 2024:</i> The baseline to be determined as of January 1, 2020<sup>21</sup></p>	<p>resolution to simplify methodology to carry out land inventory and verify results from inventory has been adopted.</p>	<p>platform is operational and at least 70,000 ha of rental rights to eligible State Land have been e-auctioned of a baseline of zero as of Jan 1, 2019.</p>	<p>unregistered state lands as of January 1, 2020 registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p>	<p>of unregistered state lands as of January 1, 2020 have been registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p>	<p>of unregistered state lands as of January 1, 2020 have been registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p>	<p>unregistered state lands as of January 1, 2020 have been registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p>
<p><i>2.2 Improving transparency and competitiveness of state land lease system</i></p>	<p><i>Baseline for 2019:</i> Acceptable methodology not adopted; Complete satellite mapping of the</p>	<p>#1 A methodology for developing Territorial Development Plans (TDPs) for</p>	<p>#2 TDPs have been completed using the new methodology for 50 ATCs in Selected Areas<sup>22</sup>.</p>	<p>#3 TDPs have been completed, using the new methodology and orthophotos, for 200 ATCs in</p>	<p>#4 (i) TDPs have been completed, using the new methodology and</p>	<p>#5 (i) TDPs have been completed, using the new methodology and orthophotos, for</p>	<p>#6 Annual revenue of at least \$150,000,000 equivalent for the sale and lease of land, has</p>

<sup>21</sup> The land registration efforts under the Program should follow a specific methodology to be approved as DLR for 2019. Therefore, it is expected that methodology-compliant land registration will be done starting 2020. Since there are some land registration activities ongoing in 2019, the baseline will be determined as of January 1, 2019.

<sup>22</sup> Selected Areas mean the Program Boundary Geographic Coverage (Northern, Southern, Central and Western Regions of Ukraine) in accordance with Table 1 above.



	<p>entire territory of Ukraine is not available as of January 1, 2019</p> <p><i>Baseline for 2020:</i> No land management plans completed as of January 1, 2020</p> <p><i>Baseline for 2022-2024:</i> Land lease revenue low (UAH 208 million as of January 1, 2019) due to unsystematic collection of lease fees and taxes.</p>	<p>Amalgamated Territorial Communities (ATCs) has been adopted and complete satellite mapping of the Borrower's territory has been carried out.</p>		<p>Selected Areas from a baseline of 50.</p>	<p>orthophotos, for 400 ATCs in Selected Areas from a baseline of 200.</p> <p>(ii) Annual revenue of at least \$30,000,000 equivalent for the sale and lease of land, has been collected by local governments during calendar year 2022.</p>	<p>600 ATCs in selected areas from a baseline of 400.</p> <p>(ii) Annual revenue of at least \$75,000,000 equivalent million for the sale and lease of land, has been collected by local governments during calendar year 2023.</p>	<p>been collected by local governments during calendar year 2024.</p>
<p>2.3 Improving protection of rights in land and mortgage market</p>	<p>Information on land rights only on request/online cabinet and on request</p>	<p># 1 Orthophotos at a scale 1:10,000 produced for 2 Oblasts in Selected Areas from a baseline of zero and its technical documents have been made publicly available.</p>	<p>#2 (i) Land governance monitoring data produced by Geocadaster has been made publicly available in a fully functional website.</p> <p>(ii) Orthophotos and topographical</p>	<p>#3 (i) Orthophotos and topographical maps at a scale 1:10,000 produced for at least 12 oblasts in Selected Areas from a baseline of 7, and its technical documents have been made publicly available.</p>	<p>#4 Orthophotos and topographical maps at a scale 1:10,000 produced for at least 17 oblasts in Selected Areas from a baseline of 12, and its technical documents have been made publicly</p>		



			maps at a scale 1:10,000 have been produced for at least 7 Oblasts in Selected Areas from a baseline of 2, and its technical documents have been made publicly available.	(ii) An automated notification system for all parties affected by changes in the data held in the Land Cadaster has been established and is operational.	available.		
2.4 Strengthening of the FLAS	<p><i>Baseline for 2020-2023:</i> Share of cases for which free primary legal aid is provided in written form within 10 days is 12 percent for the entire country in 2018.</p> <p><i>Baseline for 2020:</i> Methodology for legal empowerment of communities does not exist.</p> <p><i>Baseline for 2021-2023:</i> Zero.</p>		<p>#1 (i) At least 80% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request across 10 Oblasts in Selected Areas during calendar year 2020.</p> <p>(ii) A methodology to</p>	<p>#2 (i) At least 85% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request across 20 Oblasts in Selected Areas during calendar year 2021.</p> <p>(ii) At least 50,000 individuals including at least 25,000 women, benefitted from</p>	<p>#3 (i) At least 90% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request in all Selected Areas during calendar year 2022.</p> <p>(ii) At least 70,000 individuals,</p>	<p>#4 (i) At least 95% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request in all Selected Areas during calendar year 2023.</p> <p>(ii) At least 90,000 individuals, including at least</p>	



			identify legal problems, define actions to address those problems and measure the impact of community legal empowerment on land rights, has been developed and approved.	Legal Empowerment Activities during calendar year 2021.	including at least 35,000 women, benefitted from Legal Empowerment Activities during calendar year 2022.	45,000 women, benefitted from Legal Empowerment Activities during calendar year 2023.	
<b>3: Improving agribusiness SME access to export markets</b>							
<i>3.1 Promoting SME access to export markets</i>	<p><i>Baseline for 2021 – 2022:</i> Relevant amendments to the primary and secondary legislation not implemented.</p> <p><i>Baseline for 2023 – 2024:</i> Zero</p>			#1 Amendments to the Law on Basic Principles and Requirements for Safety and Quality of Food have been approved and secondary legislation on the traceability of products of animal origin has been issued.	#2 The Interactive Information System on Food Safety and Export Market Requirements has been operationalized.	#3 At least 30% of all food businesses registered between the Effective Date and December 31, 2022 as exporters of food of animal origin were Agribusiness SMEs.	#4 At least 60% of food businesses registered between the Effective Date and December 31, 2023 as exporters of food of animal origin were Agribusiness SMEs.
<i>3.2 Facilitating cross-border trade</i>	<p><i>Baseline for 2022 – 2024:</i> BIPs not installed.</p> <p><i>Baseline for 2024:</i> Value of exports of live animals:</p>				#1 2 BIPs have been installed by December 31, 2021 in Selected Areas from a baseline of 0.	#2 6 BIPs have been installed by December 31, 2022 in Selected Areas from a baseline of 2.	#3 10 BIPs have been installed by December 31, 2023 in Selected Areas from a baseline of 6.



	US\$48 million as of January 1, 2019							#4 The value of exports of live animals between January 1, 2019 and December 31, 2023 is at least \$58 million.
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**58. Two additional activities would be included in the results framework for implementation under the proposed Program.** These are: (a) the adoption of a regulation for mandatory price recording for land and real estate assets, satisfactory to the World Bank; and (b) operationalization of an interactive map on the use of plant protection products that improve the traceability of food of animal origin, satisfactory to the World Bank.

### 3. PROGRAM IMPLEMENTATION

#### A. Institutional and Implementation Arrangements

**59. The Program's institutional implementation architecture relies on a number of implementing institutions with clear roles and accountability.** Given the various areas of engagement, the Program will use a two-tiered implementation structure and will include the following stakeholders with the following responsibilities:

(a) **The overall implementing agency will be the Ministry of Finance.** The MOF will house the Program Coordinating Unit (PCU), which would hold the following key responsibilities: (i) monitoring the implementation of agreed actions, based on detailed implementation schedules agreed during negotiations; (ii) ensuring that verification of the achieved results takes place and receiving the verification reports by the VEs; (iii) transferring the necessary financing for activities in support of achievement of the DLIs to the implementing institution, in accordance with budget funding requirements; (iv) overall financial management of the Program; and (v) ensuring audits of the Program, with audit expenditures to be covered as part of the Program.

(b) **The following line ministries and government agencies will have technical responsibility for achievement of the DLIs and presentation of evidence of DLI achievement to the MOF:**

- (i) The **Ministry of Agrarian Policy and Food** will be responsible for the implementation of DLI 1. MAPF will carry out all functions related to the technical implementation of the DLI, as well as any related procurement, financial management, and safeguards functions.
- (ii) The **State Service for Geodesy, Cartography, and Cadaster (Geocadaster)** will be responsible for implementation of DLI 2, sub-DLIs 2.1 and 2.3. Geocadaster will carry out all functions related to the technical implementation of these sub-DLIs, as well as any related procurement, financial management, and safeguards functions.
- (iii) The **Ministry of Regional Development, Construction, and Housing and Communal Services (MRD)** will be responsible for implementation of DLI 2, sub-DLI 2.2. MRD will carry out all functions related to the technical implementation of this sub-DLI, as well as any related procurement, financial management, and safeguards functions.
- (iv) **Ministry of Justice (MOJ)** will be responsible for implementation of DLI 2, sub-DLI 2.4. MOJ will carry out all functions related to the technical implementation of this sub-DLI, as well as any related procurement, financial management, and safeguards functions.
- (v) The **State Service of Ukraine for Food Safety and Consumer Protection** will be responsible for implementation of DLI 3. The SSUFSCP will carry out all functions related to the technical implementation of this DLI, as well as any related procurement, financial management, and safeguards functions.



(c) **An independent verifying entity or entities reporting to the MOF** will be hired under the Program to assist in verifying results with regard to achievement of DLIs and the component DLRs. It is expected that several individuals or companies would be hired as VEs, depending on the technical area of the Program's engagement. The VE(s) will have specialized technical expertise and qualified personnel, satisfactory to MOF and World Bank, and the TOR for the VE(s) will be subject to review and no objection by the World Bank.

(d) **Annual financial audits** of the Program ministries and agencies (MOF and implementing institutions) will be ensured by the Accounting Chamber of Ukraine.

(e) **Program steering committee.** Given the multisectoral nature of the GSAP, a Strategic Working Group for the Support the Agriculture and Agribusiness Sector Development will be set up to ensure a coordinated approach to sector development. The Strategic Working Group would comprise representatives from the ministries and government agencies involved in the implementation of the State Program, complemented by private sector representatives. The Strategic Working Group will also serve as the Steering Committee for the proposed Program and provide overall implementation guidance.

## **B. Results Monitoring and Evaluation**

**60. Implementation of the DLIs is within the direct responsibility of the various ministries and government agencies involved under the GSAP.** Their respective monitoring and evaluation (M&E) systems will be strengthened, and achievement of expected results and outcomes will be monitored at two levels:

(a) Monitoring and Evaluation systems will be strengthened in all implementing institutions (MAPF, MOJ, MRD, Geocadaster, and SSUFSCP) as well as at the FLAS to ensure adequate capacity for monitoring and evaluation of achieved results, and to ensure that progress toward achievement of the DLIs and DLRs is appropriately tracked for verification purposes. The adequacy of the established M&E systems at the implementing institutions will be assessed by the independent VE(s).

(b) Implementing institutions will report to MOF on the progress made in implementing the direct Program results and outcomes. MOF will ensure consolidated reporting on the achievement of DLIs and Program outcomes.

## **C. Disbursement Arrangements**

**61. Program funds will be disbursed upon verification of the achievement of the specific DLRs indicated under each DLI.** MOF will submit to the World Bank the relevant evidence on total or partial achievement of DLRs. The World Bank will review the provided evidence and inform MOF of its conclusions regarding the fulfillment of the DLRs and the corresponding level of disbursement for each DLR. On that basis, disbursement requests will be submitted to the World Bank by the MOF. A copy of the World Bank's communications confirming DLR achievements should be attached to the disbursement requests.

**62. Scalability of disbursements for partially achieved DLRs will be applied on a case-by-case basis, subject to availability of funds for those partially achieved results.** Remaining resources would become available for transfer to those DLRs where expected outcomes have been exceeded. Reallocation of any resources that may



become available under the Program as a result of partial achievement of the DLRs will be determined by the decision of the Program Steering Committee in consultation with the World Bank in accordance with the formulas included in the POM. Disbursements under the DLIs will be made as a share of the allocated amount (Table 7). For results not achieved, or partially achieved, by the due date in each year of the Program, the allocated amount outstanding would be carried over to subsequent years and disbursed upon full achievement of DLRs. The specific amounts to be disbursed against achieved and verified results are provided in Table 7 below.

**63. Budget appropriation and execution would be managed to allow for proper availability of budget resources to each participating ministry and government agency.** Budget lines will cover an amount equal to or higher than the amount of Bank-financed resources assigned to cover the DLIs for each year. The final reconciliation of these amounts will take place at the end of the Program implementation period. At the same time, progress toward achievement of the DLRs will be reviewed by the World Bank and the MOF in collaboration with participating ministries and agencies on a regular basis. In case of delays in achieving a specific DLR, a joint decision will be made regarding the redistribution of funds. With the introduction of the medium-term (three-year) budget planning cycle, based on a law adopted in January 2019, information on upcoming budget programs for 2019–2021 should be submitted to the MOF in early 2019, provided that the necessary underlying financing has been identified. Following an initial advance (paragraph 64), it has been agreed that during the remainder of the Program implementation period (2021–2023), resources will be made available for project implementation through the regular annual budgeting process.

**64. An advance in the amount of US\$20.0 million (representing 10.0 percent of the total Program amount) may be disbursed once the Program becomes effective.** The reason for this would be to ensure the availability of financing for the second half of 2019 and 2020 to begin implementation toward the achievement of DLRs. The advance will be managed by the MOF and disbursed to an existing MOF State Treasury System account in Ukreximbank. This single advance will be made in the full amount following Program approval and declaration of Program effectiveness. The advanced amount would not be replenished in subsequent years, and would be recovered upon achievement of the DLRs as early as the results are achieved. The Borrower has indicated its intention to avail itself of the full advance upon effectiveness. The advance would be distributed by the MOF to the participating ministries and agencies on the basis of need.

**65. Verification Process.** Implementation of the DLRs will be monitored by MOF and verified by the VE. The VEs will be hired by the MOF at the outset of the Program implementation, and subject to a mutual agreement, will be retained for the entire Program implementation period. Awareness of the overall Program implementation, indicative timelines, specific steps to be taken, etc., will facilitate and speed up the verification process. The MOF will submit to the World Bank the relevant evidence of the total or partial achievement of DLRs. The World Bank will review the provided evidence and inform MOF of the conclusions regarding the fulfillment of the DLRs and the corresponding level of disbursement for each DLR. On that basis, disbursement requests will be submitted to the World Bank by the MOF. A copy of the World Bank’s communications confirming DLR achievements should be attached to the disbursement requests.

**66. Program implementation and reporting.** The MOF will be responsible for reporting and disbursement under the Program, including one consolidated disbursement report managed by the MOF for regular Withdrawal Applications. The MOF will also be responsible for consolidated financial reports to the World Bank throughout the Program implementation.



**Table 7: Expected Disbursement**

DLI	DLR	Indicative DLR Achievement Date (By Date)	Total DLI Allocations (US\$ million)	Disbursement Allocation in Absolute Numbers; US\$ million
<b>DLI 1:</b> Improving efficiency and targeting of state support in the agriculture sector	<p>#1 The State Agrarian Registry has been operationalized and is publicly available.</p> <p>#2 Medium-term strategic priorities of the state support in agriculture sector have been adopted by MAPF.</p> <p>#3 The Medium-Term Expenditure Framework for calendar years 2020-2022 has been approved including Key Performance Indicators designed in accordance with principles approved by MAPF.</p> <p>#4 At least 40% of all agricultural producers registered in the State Agrarian Registry by the end of calendar year 2023 were Small and Medium Agricultural Producers and at least 40% of all State Support Program Funding have been transferred to Small and Medium Agricultural Producers by the end of calendar year 2023.</p> <p>#5 At least 60% of all agricultural producers registered in the State Agrarian Registry by the end of calendar year 2024 were Small and Medium Agricultural Producers and at least 60% of all State Support Funding have been transferred to Small and Medium Agricultural Producers by the end of calendar year 2024.</p>	<p>#1 Dec 31, 2020</p> <p>#2 Dec 31, 2020</p> <p>#3 Dec 31, 2021</p> <p>#4 Dec 31, 2023</p> <p>#5 Dec 31, 2024</p>	27.5	<p>#1 3.0</p> <p>#2 1.5</p> <p>#3 5.0</p> <p>#4 12.0</p> <p>#5 6.0</p>
<b>DLI 2:</b> Improving transparency in the state agricultural land lease market				
<i>2.1 Increasing inventory and registration of state land</i>	<p>#1 CMU resolution to simplify methodology to carry out land inventory and verify results from inventory has been adopted.</p> <p>#2 e-auction platform is operational and at least 70,000 ha of rental rights to eligible State Land have been e-auctioned of a</p>	<p>#1 Dec 31, 2019</p> <p>#2 Dec 31, 2020</p>	43.0	<p>#1 8.0</p> <p>#2 5.0</p>



	<p>baseline of zero as of Jan 1, 2019.</p> <p>#3 At least 10% of unregistered state lands as of January 1, 2020 registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p> <p>#4 At least 30% of unregistered state lands as of January 1, 2020 have been registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p> <p>#5 At least 60% of unregistered state lands as of January 1, 2020 have been registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p> <p>#6 100% of unregistered state lands as of January 1, 2020 have been registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures with inventory services procured competitively using the Borrower’s e-government procurement system ProZorro.</p>	<p>#3 Dec 31, 2021</p> <p>#4 Dec 31, 2022</p> <p>#5 Dec 31, 2023</p> <p>#6 Dec 31, 20124</p>		<p>#3 3.0</p> <p>#4 6.0</p> <p>#5 9.0</p> <p>#6 12.0</p>
<p><i>2.2 Improving transparency and competitiveness of state land lease system</i></p>	<p>#1 A methodology for developing Territorial Development Plans (TDPs) for ATCs has been adopted and complete satellite mapping of the Borrower’s territory has been carried out.</p> <p>#2 TDPs have been completed using the new methodology for 50 ATCs in Selected Areas<sup>23</sup>.</p> <p>#3 TDPs have been completed, using the new methodology and orthophotos, for 200 ATCs in Selected Areas from a baseline of 50.</p> <p>#4 (i) TDPs have been completed, using the new methodology and orthophotos, for 400 ATCs in Selected Areas from a</p>	<p>#1 Aug 31, 2019</p> <p>#2 Dec 31, 2020</p> <p>#3 Dec 31, 2021</p> <p>#4 Dec 31, 2022</p>	<p>33.0</p>	<p>#1 3.0</p> <p>#2 1.5</p> <p>#3 4.5</p> <p>#4. (i) 6.0 + (ii) 2.4</p>

<sup>23</sup> Selected Areas mean the Program Boundary Geographic Coverage (Northern, Southern, Central and Western Regions of Ukraine) in accordance with Table 1 above.



	<p>baseline of 200.</p> <p>(ii) Annual revenue of at least \$30,000,000 equivalent for the sale and lease of land, has been collected by local governments during calendar year 2022.</p> <p>#5 (i) TDPs have been completed, using the new methodology and orthophotos, for 600 ATCs in Selected Areas from a baseline of 400.</p> <p>(ii) Annual revenue of at least \$75,000,000 equivalent million for the sale and lease of land, has been collected by local governments during calendar year 2023.</p> <p>#6 Annual revenue of at least \$150,000,000 equivalent for the sale and lease of land, has been collected by local governments during calendar year 2024.</p>	#5 Dec 31, 2023		#5 (i) 6.0 + (ii) 3.6
		#6 Dec 31, 2024		#6 6.0
<i>2.3 Improving protection of rights in land and mortgage market</i>	<p># 1 Orthophotos at a scale 1:10,000 produced for 2 Oblasts in Selected Areas from a baseline of zero and its technical documents have been made publicly available.</p> <p>#2 (i) Land governance monitoring data produced by Geocadaster has been made publicly available in a fully functional website.</p> <p>(ii) Orthophotos and topographical maps at a scale 1:10,000 have been produced for at least 7 Oblasts in Selected Areas from a baseline of 2, and its technical documents have been made publicly available.</p> <p>#3 (i) Orthophotos and topographical maps at a scale 1:10,000 produced for at least 12 oblasts in Selected Areas from a baseline of 7, and its technical documents have been made publicly available.</p> <p>(ii) An automated notification system for all parties affected by changes in the data held in the Land Cadaster has been established and is operational.</p> <p>#4 Orthophotos and topographical maps at a scale 1:10,000 produced for at least 17 oblasts in Selected Areas from a baseline of 12, and its technical documents have been made publicly available.</p>	#1 Dec 31, 2019	45.0	#1 8.0
		#2 Dec 31, 2020		#2 (i) 4.0 + (ii) 10.0
		#3 Dec 31, 2021		#3 (i) 10.0 + (ii) 3.0
		#4 Dec 31, 2022		#4 10.0



<p>2.4 Strengthening of the LFAS</p>	<p>#1 (i) At least 80% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request across 10 Oblasts on Selected Areas during calendar year 2020.  (ii) A methodology to identify legal problems, define actions to address those problems and measure the impact of community legal empowerment on land rights, has been developed and approved.</p> <p>#2 (i) At least 85% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request across 20 Oblasts in Selected Areas during calendar year 2021.  (ii) At least 50,000 individuals including at least 25,000 women, benefitted from Legal Empowerment Activities during calendar year 2021.</p> <p>#3 (i) At least 90% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request in all Selected Areas during calendar year 2022.  (ii) At least 70,000 individuals, including at least 35,000 women, benefitted from Legal Empowerment Activities during calendar year 2022</p> <p>#4 (i) At least 95% of cases received: (a) Primary Free Legal Aid in written form; or (b) a decision about provision of Secondary Free Legal Aid; within 10 calendar days from receiving the request in all Selected Areas during calendar year 2023.  (ii) At least 90,000 individuals, including at least 45,000 women, benefitted from Legal Empowerment Activities during calendar year 2023.</p>	<p>#1 Dec 31, 2020</p> <p>#2 Dec 31, 2021</p> <p>#3 Dec 31, 2022</p> <p>#4 Dec 31, 2023</p>	<p>11.0</p>	<p>#1 (i) 1.75 + (ii) 1.75</p> <p>#2 (i) 1.25 + (ii) 1.25</p> <p>#3 (i) 1.25 + (ii) 1.25</p> <p>#4 (i) 1.25 + (ii) 1.25</p>
<p><b>DLI 3:</b> Improving agribusiness SME access to export markets</p>				



<p>3.1 Promoting SME access to export markets</p>	<p>#1 Amendments to the Law on Basic Principles and Requirements for Safety and Quality of Food have been approved and secondary legislation on the traceability of products of animal origin has been issued. #2 The Interactive Information System on Food Safety and Export Market Requirements has been operationalized. #3 At least 30% of all food businesses registered between the Effective Date and December 31, 2022 as exporters of food of animal origin were Agribusiness SMEs. #4 At least 60% of food businesses registered between the Effective Date and December 31, 2023 as exporters of food of animal origin were Agribusiness SMEs.</p>	<p>#1 Dec 31, 2020  #2 Dec 31, 2021  #3 Dec 31, 2022  #4 Dec 31, 2023</p>	<p>22.0</p>	<p>#1 5.5  #2 5.5  #3 5.5  #4 5.5</p>
<p>4.2 Facilitating cross-border trade</p>	<p>#1 2 BIPs have been installed by December 31, 2021 in Selected Areas from a baseline of 0. #2 6 BIPs have been installed by December 31, 2022 in Selected Areas from a baseline of 2. #3 10 BIPs have been installed by December 31, 2023 in Selected Areas from a baseline of 6. #4 The value of exports of live animals between January 1, 2019 and December 31, 2023 is at least \$58 million.</p>	<p>#1 Dec 31, 2022  #2 Dec 31, 2023  #3 Dec 31, 2024  #4 Dec 31, 2024</p>	<p>18.0</p>	<p>#1 6.0  #2 6.0  #3 3.0  #4 3.0</p>



#### D. Capacity Building

**67. The proposed Program will contribute to capacity building of the implementing institutions.** The Program would help promote a new and open a public-private sector dialogue through the Strategic Working Group, thereby building awareness within the public sector of concerns and constraints experienced by private sector actors. The Program would also support capacity building of implementing institution staff, including training focusing on the critical pathways toward achievement of the DLIs and safeguards aspects of the Program.

### 4. ASSESSMENT SUMMARY

#### A. Technical (including program economic evaluation)

**68. The technical assessment (a summary is attached as Annex 3) concluded that the Program will support the government's key reform areas and that these reforms will address the binding constraints to increasing agricultural investment, competitiveness, and inclusive growth, particularly for agricultural SMEs.** The assessment was carried out based on an analysis of up-to-date statistics, a review of recent studies, stakeholder assessments, and consultations with key stakeholders in Ukraine's agribusiness sector.

**69. The agriculture sector plays a fundamental role in ensuring sustainable and inclusive growth in Ukraine, but its potential has yet to be fully harnessed through increased production and export of higher-value-added products.** To realize this potential, an enabling investment environment needs to be in place to support Ukrainian agricultural producers, processors and exporters, particularly SMEs, that produce a dominant production share of high-value agriculture products. Due to various policy and regulatory constraints and market failures, agricultural SMEs suffer from a general underinvestment and, as a result, the productivity and competitiveness of SMEs operating in the agriculture and agribusiness sectors remains well below their potential and much lower than in comparator countries.

**70. The proposed Program aims to support and complement the government's ongoing reforms.** These aim to mobilize private investment in agriculture and agribusiness sectors to boost their competitiveness and productivity, to ensure national food security, to increase agri-food exports, and to contribute to steady economic growth. Within the broader GSAP, the proposed Program aims to achieve a set of results to improve the functioning of key aspects of agricultural input and output markets, with a focus on benefitting SME participants in the agriculture and agribusiness sectors. Specifically, the Program focuses on two complementary areas that are part of the GSAP: (a) increasing competitiveness of the input markets; and (b) linking agribusiness SMEs to export markets. Private sector consultations also highlighted that small and medium agricultural producers and agribusiness SMEs are more prone to suffer from constraints particularly in areas such as access to state support, access to information on their land rights and opportunities to rent land, access to information on export requirements, access to finance and access to high-quality fertilizer.

**71. Analysis of the government's expenditure framework concluded that the government has adequate budget and expenditure management systems and practices in place to support the Program in reaching its expected results.** Budget allocations appear adequate, and budget implementation is generally efficient with an average budget absorption rate of 94 percent during 2016–2018. Based on an analysis of *ex post* budget



allocations and budget projections, the World Bank concluded that MOF would be in a position to advance funds to the implementing ministries and agencies in the amount needed to achieve the results of the Program. This conclusion was supported by projected budget allocations for 2019, under which budget funds allocated to the budget lines relevant for Program implementation are scheduled to increase, signaling the government's commitment to the Program.

**72. The main technical risks associated with implementation of the Program include weak collaboration among the institutions involved in implementation and potential staffing and capacity constraints that may slow down implementation.** While the MOF as well as all implementing institutions have experience implementing large donor-funded programs, most of them with a focus on technical assistance, the proposed Program will be the first World Bank engagement with MAPF and the related agencies in over 15 years. The assessment established, however, that all implementing institutions have a good understanding of the Program requirements. Given the multisectoral nature of the GSAP, a multisector Strategic Working Group will be established to support GSAP implementation and ensure a coordinated approach among the involved institutions. The Strategic Working Group would include representation from the ministries and government agencies involved in implementation of the GSAP and from the private sector. This Strategic Working Group would serve as the Program Steering Committee for the proposed Program and provide overall implementation guidance.

#### **Program Economic Evaluation**

**73. Rationale for public sector provision and/or financing.** The Program aims to strengthen the provision of key public goods in the agri-food sector, including food safety management capacity, improved access to public information on land, better access to state support, a stronger enabling environment for investment by reducing policy uncertainty, and better alignment of policy and regulatory practices with international best practices. It will also address market failures and existing institutional rigidities in the agriculture sector, which lead to a misallocation of resources and underinvestment in the sector. These market failures contribute to high transaction costs and risks associated with access to markets and financing, and underdeveloped organizational structures that prevent agricultural producers from achieving economies of scale and limit their incentives for investing. As a result, the Program is expected to be instrumental in accelerating private sector investment in Ukraine's agriculture sector, particularly on the part of agricultural SMEs.

**74. The World Bank's support under the Program is expected to provide value-added by improving the efficiency and targeting of various government measures, increase their economic benefits, facilitate adoption of best global practices, and strengthen inclusion.** The World Bank brings global knowledge and experience in supporting similar activities in the agriculture sector elsewhere, as well as expertise in aiding governments in advancing reforms and actions to address key constraints to mobilizing private investment in the agriculture sector.

**75. An evaluation of the economic impact of the Program confirms the soundness of the Program.** The evaluation of individual interventions in the Program was underpinned by: (a) a financial analysis of the main investments expected under the Program; and (b) an international benchmarking, completed by analyzing similar activities accomplished in countries with agriculture and agribusiness sectors that exhibit strong similarities with those in Ukraine. The analysis confirmed the economic soundness of the interventions



supported by the Program, although in many cases direct quantification of benefits and longer-term impacts was difficult.

**76.** The key benefits of the Program are estimated to be: (i) strengthening of the regulatory framework along the agricultural value chain and improving access to information are expected to result in correction of market failures and improvements of institutional rigidities that exist in the agriculture and agribusiness sectors; (ii) the improved policy and budgetary planning and institutional capacity strengthening under the DLI 1 would considerably increase the effectiveness of the state support program and its impact on the agriculture sector growth; (iii) the compendium of activities under DLI 2 would improve transparency and strengthen the enforcement of land tenure and property rights, but also incentivize investment in high value agriculture and value addition and provide additional significant inflows into the state budget estimated up to US\$ 1 billion a year by moving land leases into the formal sector; and (iv) activities under DLI 3 would result in uninterrupted and even increased market access for Ukrainian producers and exporters of food of animal origin, improved public and animal and plant health. The results of the Monte Carlo simulations find that with a minimum additional 5 percent of growth, over ten years and with the observed rates of growth of Export Value (EV) and Export Unit Price (EUP), the project achieves a positive return for the investment with the least amount of risk. The project under this scenario generates an NPV of about US\$42 million and a return of almost 6 percent.

## B. Fiduciary

### Financial Management Assessment

**77. The Fiduciary Systems Assessment confirmed that the MOF has sufficient capacity, including qualified staff, to carry out its functions as overall coordinating agency.** Key staff in the MOF's International Financial Projects Department participated actively in Program preparation and will oversee the MOF's fiduciary responsibilities during implementation. Consolidated financial statements will be prepared by the MOF based on the individual reports received from the ministries and agencies. The MOF Program Coordinating Unit (PCU) will work with the implementing institutions on monitoring agreed actions as well as on reporting and verification.

**78. The Fiduciary Systems Assessment confirmed that the implementing institutions have adequate capacity to execute the budget codes captured in the Program, including their budgeting, execution, accounting, reporting, and monitoring (Annex 4).** A fiduciary assessment of each of the five implementing institutions was carried out, with a focus on existing processes and procedures in those ministries and agencies and their capacity to implement their respective parts of the Program—specifically, their respective budget codes as captured in the Program Expenditure Framework. MAPF, MRD, MOJ, Geocadaster, and SSUFSCP have all been assessed to have sufficient and qualified staff in charge of their program budgeting, accounting, and reporting activities. The number of financial units, staff, and division of responsibilities between staff varies among these ministries and agencies. Generally, the financial units are responsible for consolidated budgeting processes at the ministry/agency, with engagement and inputs from technical units.

**79. The key financial management risks and mitigation actions are as follows:**

- (i) As the Program is implemented by five implementing institutions, their specific responsibilities and the scope of required coordination have been clearly defined. Key decisions regarding their roles were



agreed during project preparation and described in the Fiduciary Systems Assessment (FSA). This clarity should be maintained throughout the Program implementation. The MOF will establish a Coordinating Unit to facilitate implementation. The government will further prepare and approve a Program Operational Manual (POM), which will provide further detail on the roles and responsibilities of MOF, as well as MAPF, MOJ, MRD, Geocadaster, and SSUFSCP.

- (ii) The implementing institutions all receive state financing through their respective budget lines, under the overall coordination of MOF. The government does not automatically produce specific, consolidated program financial statements. Throughout implementation, however, MOF will be required to prepare annual program reports which would provide annual planned and actual amounts involved in the implementation of budget programs associated with the Program. The MOF would consolidate data received from the respective implementing institutions. Each implementing institution has the capacity and necessary systems in place to prepare reports on all budget programs under their responsibility. Reports are produced within the timeframe required by budget legislation and include sufficient detail.
- (iii) While there is some risk that the relevant budget programs of the implementing institutions may be insufficiently funded, this risk is assessed as minimal. The MOF has incentives to allocate sufficient funds, as state budget funds will be replenished by the World Bank in the amount connected to each specific DLI upon its achievement. Costs associated with the achievement of each DLI will be less than the value of the respective DLI.
- (iv) The state budget for 2019 may not include full provision for the costs required to start activities in support of the achievement of the DLIs. This risk will be mitigated by advancing to MOF an amount of US\$20.0 million upon Program approval and declaration of effectiveness. The MOF will provide additional funding to the implementing institutions upon receipt of requests along with detailed calculations from the implementing institutions.
- (v) Disbursements may be delayed if the achievement of the DLI is delayed. To address this risk, the implementing institutions jointly with the World Bank and under the overall coordination of the MOF, developed detailed implementation schedules and cost estimates for activities required for the implementation of each DLIs. The implementing institutions have confirmed their intention and readiness to work on implementing the DLIs, and the respective capacity of each entity to do so was confirmed by the technical and fiduciary assessments. During Program preparation, the disbursement mechanism to be used upon completion and verification of DLIs was discussed and agreed with government.
- (vi) The internal audit function of the implementing institutions is sometimes understaffed, and the budget programs captured in the Program are not regularly reviewed by the internal audit department. It was deemed impractical to expand the scope of work of internal audits to cover these budget programs on an annual basis. It was therefore agreed that the consolidated Program financial statements will subject to an external financial audit on an annual basis, carried out by the Accounting Chamber of Ukraine. The audit report will report on the execution of these budget programs and will be submitted to the World Bank within six months of the end of each fiscal year.



## Procurement Assessment

**80. The World Bank assess the Program procurement system and concluded that the system meets the requirements set forth in the World Bank's PforR Policy and Directive.**

**81. The Government's public procurement system has evolved and significantly improved in recent years.** The EU-Ukraine Association Agreement, signed in March and June 2014, imposed obligatory reforms regarding public procurement sectors in Ukraine. A Strategy for Public Procurement Reform (Roadmap), approved by CMU ordinance No. 175 of 24 February 2016 on harmonization with EU legislation, was developed including a robust e-procurement system called Prozorro. The current public procurement legal framework comprises both primary and secondary legislation. The main law on Public Procurement (the Law of Ukraine "On Public Procurement" No. 922-VII of 25 December 2015) came into force in April 2016. Ukraine has been a member of the WTO Government Procurement Agreement since May 2016.

**82. The procurement methods allowed by the Public Procurement Law include open procedure tendering, competitive dialogue, and negotiated procedure.** Based on the assessment of the five implementing institutions, an open competitive procedure is conducted through the ProZorro system in the vast majority of cases. The proposed Program involves procurable items limited to: (1) under DLI 1 Information Technology (IT) services for creating a new platform to manage the register of agricultural state support recipients; (2) under DLI 2, the Program plans to procure non-consulting services via open tenders in the ProZorro system for inventory, surveying, and registration of state agricultural land in the land cadaster and production of orthophotos and topographic maps of the country, and preparation of territorial development plans for 600 amalgamated communities; (3) under DLI 3, procurement of IT services for creation of new IT platforms and design and construction of ten BIPs. All procurement will be conducted at the central level of implementing institutions, except for the territorial development plans to be procured by 600 amalgamated communities. No high-value contract will be financed by this Program.

**83. The World Bank has identified the following procurement risks and mitigations measures:**

- (i) The Law on Public Procurement requires the use of specific procurement procedures. Two are competitive (open tender and competitive dialogue) and one is non-competitive (negotiated procedure). There is a risk of overuse of the negotiated procedure by the implementing institutions for cases that are not sufficiently justified in accordance with the procurement law. To mitigate this risk: (a) the implementing institutions will be requested to share with the MOF and publish on the ProZorro website their annual procurement plans, indicating competitive procurement procedures as default methods to be followed under the Program's procurable activities; and (b) the implementing institutions will reduce the total value of negotiated procedures each year by at least five percent of the value in the preceding year of the Program.
- (ii) There is a risk of low competition for procurement contracts, since the average number of bids per open tender procedure is only two. To enhance competition, the implementing institutions will try to combine into larger packages their planned tenders, including publication of the annual procurement plan at the beginning of each calendar year encompassing procurement activities for the upcoming year. In addition, business outreach/market sounding events will be organized before launching planned procurement activities under the Program. Both procurement and technical staff of the implementing



institutions shall be trained to produce high-quality tender documents before the start of Program activities and during Program implementation.

- (iii) Due to annual budget planning, annual funds allocation, and a lack of long-term planning, it may not be possible for the implementing institutions to sign a longer-term contract (beyond 12 months) with any supplier of goods or services. The proposed mitigation measure is that the implementing institutions plan their respective procurement activities in advance, so that contracts can be implemented within a single budget period, including the allowed extension.
- (iv) The implementing institutions may not be aware of the lists of debarred and suspended firms of the World Bank and other multilateral development banks. The Program does not involve many tenders by the implementing institutions, and most of the contracts planned are of relatively small size, except those related to sub-DLIs 2.1 and 2.3 (implemented by Geocadaster). It is unlikely that these contracts would be awarded to firms that are debarred or under temporary suspension by the World Bank or other multilateral development banks. Still, to avoid this risk: (a) the MOF will issue an official instruction to implementing institutions to ensure that no contract is awarded to a firm or individual that is on the World Bank's debarred list or under temporary suspension; (b) updated lists of debarred and temporarily suspended firms and individuals be shared on regular basis (through a web page, if feasible, updated concurrently with the World Bank's update) with agencies in charge of procurement; (c) the TOR for annual audit of the program will request that auditors check on a random basis whether any contract has been awarded to an ineligible firm or individual; and (d) progress reports will contain a confirmation that no such debarred and suspended firms have been contracted.
- (v) To ensure timely implementation of planned procurement activities, all currently vacant procurement staff positions in the implementing institutions shall be filled before the start of Program activities.

### **C. Environmental and Social**

**84. An Environment and Social Systems Assessment (ESSA) has been conducted as part of Program preparation.** The environmental and social impacts are expected to be limited given the focus on enabling environment and only a few activities are anticipated to be site-specific and reversible and/or able to be mitigated. Except for the construction of ten BIPs under DLI 3, no physical infrastructure activities are financed under the Program. Construction of BIPs will be performed on land owned by the government or the agency responsible. No private land is to be acquired. None of the anticipated Program activities are expected to have significant irreversible adverse impacts on the environment and/or affected people. However, it is recognized that the implementing institutions will require additional capacity building to enhance their environment and social management systems. They also need to increase staffing numbers to ensure effective implementation and monitoring. Capacity building activities will aim to establish a systematic database for management of the land registration process. The overall environmental and social risk of the Program is rated as Substantial, including Moderate for Environment and Substantial for Social. These risks can be mitigated through a series of measures, including implementation of environment and social management plans, public outreach and communication campaigns, and capacity building for the staff of implementing and associated agencies.

**85. Specific environmental risks have been identified through the ESSA for DLI 1 on *improving the targeting and efficiency of state support in the agriculture sector* and DLI 2 on *improving the functioning of land markets***



**with regard to the possible registration of environmentally sensitive land for productive use.** There may be a situation where environmentally sensitive land has been used informally for agriculture or other productive purposes when in fact it should be registered as environmentally sensitive and not be auctioned. Under DLI 3 on *improving access to export markets*, some risk associated with the construction of the ten BIPs needs to be managed, as it involves physical construction activities.

**86. The Program is expected to have positive impacts for different types of land users.** Less than half the area of state lands has been systematically registered to date. Most state lands are located outside of communal/settlement areas and are currently in use under various types of lease agreements. While there is no land acquisition or physical/forced displacement of persons or properties under the Program, and although clearly defined land rights—confirmed through the registration of state lands—will spur private investment in business activities, potential restriction of access to those currently using state lands for agriculture and livelihood activities on an informal basis is not ruled out.

**87. Potential social risks have been identified.** These include: (a) implementation of a land registration program that gives equal access to land owners who have no, or little, knowledge about obtaining the ownership titles; (b) potential conflict and/or disputes between different land users who have historical/customary rights, as well as disputes at the community level over access to productive lands; and (c) difficulties in registering lands in conflict-affected areas in the eastern part of the country, especially among those who are displaced and may have lost the legal documents for their land. In addition, while the streamlining of the subsidy program may have beneficial impacts on current recipients, it may trigger resistance from some users of large agricultural lands who are at risk of losing these benefits. Potential political opposition on the part of some local power groups could also pose challenges.

**88. Ensuring the environmental and social sustainability of the Program requires mainstreaming planning at all levels of the government, improving transparency in service delivery and grievance management, ensuring the continuous participation of target communities, and coordinating actions among all implementing institutions.** The ESSA recommends the following actions to implement an environmentally and socially sound program: (a) develop Environmental and Social Guidelines for the implementing institutions of the Program; (b) establish safeguards functional responsibilities in the implementing institutions to ensure compliance with the Six Core Principles<sup>24</sup>; (c) formulate guidelines on public consultation procedures; (d) establish a communication and outreach program; ensure a robust grievance redress mechanism; and (e) conduct capacity building for environmental and social risk management by implementing agencies. For the small-scale construction of BIPs (DLI 3), safeguards instruments such as ESIA/ESMPs will be prepared to identify

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<sup>24</sup> Six Core Principles include: (1) **Environment and Social:** Promote environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social impacts. (2) **Natural Habitats and Cultural Resources:** Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program. (3) **Public and Worker Safety:** Protect public and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards. (4) **Land Acquisition:** Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards. (5) **Vulnerable Groups:** Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups. (6) **Social Conflict:** Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.



and mitigate environmental, social and occupational health and safety risks. Overall, the recommendation is to institute systems of consultation and debate. Discussions with government agencies and stakeholders have revealed that a participatory outreach strategy to communicate the details of the proposed interventions to the stakeholders concerned is being developed and implemented in a timely manner.

**89. Land-related risks will be mitigated through multiple measures.** First, a public information system that will identify the location and processing status of land to be registered and transferred to local government will be established to ensure a transparent process. Second, satellite imagery will be used to establish an independent pre-project baseline that would identify any structures or permanent crops on state land to prevent spurious investment with the aim of preventing transfer of such land to local Governments for subsequent auctioning and to document small-scale cultivation on such land. The date of the satellite imaging will be considered as the cut-off date and no complaints/grievances related changes in utilization of state land after this date will be entertained. Third, land that has pending disputes on it or that would require, on the basis of the principles set out in the ESSA, compensation for structures built or other non-moveable assets or livelihood assistance to individuals whose livelihood would be negatively affected, will not be auctioned unless such disputes have been resolved or (in cases between the state and individuals) compensation has been paid and/or livelihood assistance has been provided in line with Bank requirements. Finally, if any violations of environmental standards have occurred on land that is proposed for registration, such information will be taken into account in the registration process, e.g. land that has been illegally deforested and is now used for agricultural production will not be registered unless such violations have been addressed through appropriate existing procedures.

**90. Availability of more efficient fertilizer will help reduce GHG emissions.** The Program would support revisions to the relevant legal framework permitting easier adoption of the EU fertilizer list. It would therefore indirectly support countrywide application of more efficient fertilizers. To calculate the ensuing reduction in GHG emissions, the Ex-Act tool allows an estimate of the expected reduction in GHG emissions due to improved nutrient management, including nitrogen use efficiency and decreased nitrogen losses, adjusted application rate, timing, and location. Assuming efficient fertilizers would be adopted on 50 percent of Ukraine’s arable land (16.3 million hectares), the analysis finds that a reduction in GHG emissions of 3,696,875 tCO2eq per year can be expected.

**91. Gender is an important aspect of the proposed operation.** The FLAS provides free legal aid to the population, including in areas related to social welfare, application of the country’s legal framework (in family law, housing law, inheritance law, labor law, among others), other civil law matters, enforcement of court decisions, and a range of non-legal matters. In 2017 and 2018, around 600,000 people, on average, sought legal support through the FLAC. Around 8 percent of legal support requests are related to issues surrounding land, of which 53.7 percent of cases were filed by women. However, a more detailed breakdown on the data regarding submission of legal claims reveals that fewer young women use the support extended by the FLAS than young men.

**Table 8: Breakdown of FLA System clients, by age and gender:**

Age Group	% of applicants		
	Male	Female	Total
0-17	56%	44%	100.0%
18-34	57%	43%	100.0%
35-54	48%	52%	100.0%



55-64	42%	58.%	100.0%
65 and older	39%	601%	100.0%

92. The Program will strengthen gender outcomes in three ways: (a) by expanding the FLAS outreach in rural areas, which will disproportionately benefit the older rural population, and older women in particular; (b) promoting participation of women in the legal empowerment activities through information outreach; and (c) by seeking opportunities to raise awareness, provide access to online submission of cases, and explore options for deploying digital tools for case submission and management, such as an app, which would help young people (including young women) to seek free legal support. Gender-disaggregated data will be collected under all DLIs: number of recipients of state support under DLI 1; access to land rental markets and FLAS services under DLI 2; and number of exporters under DLI 3, as well as gender-disaggregated customer satisfaction surveys as part of the M&E system under all DLIs.

93. **Citizen engagement.** The assessment of existing social risk management systems, and the national legal and regulatory framework, indicates that some of the implementing institutions, such as MAPF and Geocadaster, responsible for the DLI 1, and sub-DLIs 2.1 and 2.3, respectively, have mechanisms for communicating with citizens through dedicated websites and complaint handling systems to address grievances. To implement an efficient and client-centered service under the Program, however, the implementing institutions may require technical assistance, training, improved communication, and social mobilization strategies to engage effectively and, more specifically, to ensure that the procedures for registration state lands are transparent and conflict-free. In addition to agency-specific institutional strengthening, the Program Action Plan includes a comprehensive public outreach campaign to create awareness and a two-way communication system that provide the public with opportunities to access the full benefits of the Program. As a part of the ESSA, a series of stakeholder consultations were carried out. The consultation outcomes have been incorporated in the program action plans and recommendations. Stakeholder consultations are to continue throughout the program. In addition, under the FLAS (sub-DLI 2.4), people can participate in the land registration program in a systematic manner to share their views and lodge complaints through this system.

94. **The implementing institutions will establish or strengthen public engagement modalities, including a grievance management system.** Geocadaster which already has a complaint management system, will be responsible for maintaining an open and transparent complaint management system through a 24/7 hotline. Grievances will be monitored periodically, and the status of grievance resolution will be reported on through progress reports. Other implementing institutions will need to establish such similar complaint management systems, as required.

95. **Communities and individuals who believe that they are adversely affected as a result of the Program, as defined by the applicable policy and procedures, may submit complaints to the Program grievance redress mechanism or to the World Bank’s Grievance Redress Service (GRS).** The GRS ensures that complaints received are reviewed promptly to address pertinent concerns. Affected communities and individuals may submit their complaints to the World Bank’s independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of the World Bank’s non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate GRS, please visit <http://www.worldbank.org/GRS>. or information on how to submit complaints to the World Bank’s Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



#### D. Risk Assessment

**96. The overall risk for the operation is rated Substantial.** The *political and governance* risk is rated High due to high uncertainty associated with the 2019 election cycle. The presidential elections took place in March and April 2019, and parliamentary elections have been scheduled for October 2019. Ukraine also faces the risk of intensified conflict in eastern Ukraine, which would adversely affect economic prospects, weaken investor confidence, and lead to higher military spending. The overall political environment remains complex, uncertain, and influenced by vested interests, and these factors could weaken government commitment and thus pose major impediments to advancing reforms. A proactive civil society demanding reform and change following the Maidan revolution of 2014, together with close engagement and reform advocacy on the part of the international community, would be likely to support reform efforts. To mitigate these risks, the Program will maintain close engagement with the government and ensure broad-based involvement of the private sector, given broad citizen support for better governance and economic reforms. Program activities are complementary to the activities of other major donors, in particular the EU, allowing for joint advocacy for necessary reforms. The potential for corruption is mitigated through the application of clear and transparent roadmaps (critical paths) for achieving the various DLIs under the Program and minimized through broad based communication campaign and citizen engagement to hold institutions accountable.

**97. The macroeconomic risks are rated High.** This is due to high public debt servicing requirements (which require support from international financial institutions), and volatility in the banking sector and in agricultural commodity markets. The growth outlook remains weak, public and external debt are expected to remain high, and Ukraine faces large financing needs in the next few years, together with expenditure pressures from higher public-sector wages and spending on social programs. The 2019 elections could exacerbate the expenditure pressures and make it more difficult to secure the necessary financing from international capital markets. If reforms to bolster investor confidence and address fiscal pressures do not progress, the financing needs would be difficult to meet, and the growth outlook would deteriorate further, which would threaten fiscal and external sustainability and macroeconomic stability more generally. The proposed Program contributes to mitigating macroeconomic risks by promoting reforms to bolster private investor confidence. The government's close engagement with the World Bank and IMF on reviewing the macroeconomic policy framework, as well as in designing and implementing key reform measures, is important in mitigating macroeconomic risks.

**98. The risks associated with sector policies and strategies is rated Substantial.** These risks stem from the incomplete land reform, vested interests in the sector, increasing climate volatility affecting agricultural output, and export market volatilities—including those resulting from the inconsistent application of SPS and food safety standards, which result in export market closures. The proposed Program takes specific steps to address these key constraints to private sector investment.

**99. Risks related to institutional capacity for implementation is rated Moderate.** Five counterpart ministries and agencies are involved in the Program, which will involve significant coordination of efforts. However, all ministries and agencies have prior experience working with the World Bank and/or other donors and are thus familiar with the implementation requirements.

**100. The fiduciary risk is rated as Substantial.** On the procurement side, low levels of competition, frequent use of negotiated contracting procedures and, however low, but a probability that the implementing institutions



may not be aware of the list of debarred and suspended firms were identified as key issues. Publishing of annual procurements, agreed reduction in the use of negotiated contracting procedure and provision of regular information to the implementing institutions regarding the list of debarred and suspended firms were identified as key risk mitigation measures. On the financial management side, it was noted that the multiple implementing institutions will require good coordination of their efforts, timely communication and timely financing to ensure smooth implementation of the Program. It was also noted that use of the disbursement-linked indicators would incentivize the provision of necessary funds for implementation of the Program activities without any undue delays.

**101. The *environmental and social risk* is rated Substantial, including Moderate for environment and Substantial for social.** The Environment risk is moderate due to the relatively upstream nature of the DLIs, which focus on legal and regulatory reforms and involve only minor civil works. It is, therefore, possible to identify and mitigate negative environmental consequences through review and capacity building as detailed in the PforR Program Action Plan (Annex 6). The Social risks are assessed as Substantial, due to land registration activities. Although there is no land acquisition or physical/forced displacement of persons or properties under the Program, Annex 6 proposes a range of actions to mitigate and manage any potential restriction of access to those currently using of state lands for agriculture and livelihood activities under leased/rental basis through the land registration and auctioning process under DLI 2.



**ANNEX 1. RESULTS FRAMEWORK MATRIX**

**Results Framework**

**COUNTRY: Ukraine**

**Accelerating Private Investment in Agriculture Program**

**Program Development Objective(s)**

The Program Development Objective is to alleviate select constraints to increased participation of the private sector, in particular small and medium-sized enterprises (SMEs), in agricultural input and output markets of Ukraine.

**Program Development Objective Indicators by Objectives/Outcomes**

Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
<b>At least 60 percent of the state support funds allocated to agricultural SMEs</b>					
Share of the state support funds allocated to agricultural SMEs (Percentage)	DLI 1	0.00	40.00		60.00
<b>At least 95% of free legal aid cases responded in writing within 10 days of the receipt of inquiry</b>					
Share of the free legal aid cases responded in writing within 10 days of the receipt of inquiry (Percentage)	DLI 2.4	12.00	80.00	90.00	95.00
<b>At least 60% of food businesses newly registered as exporters of food of animal origins are SMEs</b>					
Percentage of food businesses newly registered as exporters of food of animal origin that are SMEs (Percentage)	DLI 3, 3.1	0.00	30.00		60.00



Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
<b>At least 50 percent of ultimate beneficiaries reached with Program activities are women.</b>					
Percentage of women beneficiaries reached with Program activities. (Percentage)		0.00			50.00
<b>CE: At least 85% of Program beneficiaries have benefitted from improved service provisions</b>					
Percentage of Program beneficiaries who have benefitted from improved service provision (Percentage)		0.00			85.00



**Intermediate Results Indicator by Results Areas**

Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
<b>RA 1: Increasing Competitiveness of Input Markets</b>					
MTEF applied in planning and budgeting at the MAPF. (Yes/No)		No			Yes
At least 12 million ha of State land registered (Hectare(Ha))	DLI 2.1	0.00			12,000,000.00
Income of at least US\$ 150 million collected from State land leases and sales (Amount(USD))	DLI 2.2	7,703,700.00			150,000,000.00
Number of women benefitting from legal empowerment activities (Number)		0.00	25,000.00	35,000.00	45,000.00
Adoption of a regulation for mandatory price recording for land and real estate assets (Yes/No)		No			Yes
<b>RA 2: Linking Agribusiness SMEs to Export Markets</b>					
Establishment of Border-Inspection Points (BIPs). (Number)	DLI 3.2	0.00			10.00
Operationalization of an interactive map on the use of plant protection products that improve the traceability of food of animal origin (Yes/No)		No			Yes



**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Share of the state support funds allocated to agricultural SMEs	Monitoring of the implementation of the DLI will take place on semi-annual basis. The following milestones (DLRs) have been agreed for the implementation of the DLIs, with the following indicative timelines: 1) The State support registry has been established, is operational, and easily accessible to potential users - December 31, 2020; 2) The Medium-term Expenditure Framework (MTEF) has been adopted by the MAPF, including the Key Performance Indicators (KPIs) - December 31, 2021; 3) The percentage of the State support allocated (aggregate of all programs) to agricultural SMEs is at least 40 percent by the end of the Program - December 31, 2023;	Semi-annual	MAPF progress reports	Semi-annual reports; with three implementation support missions for the first three years of the Program implementation.	MAPF



	<p>4) The percentage of the State support allocated (aggregate of all programs) to agricultural SMEs is at least 60 percent by the end of the Program - December 31, 2024.</p>				
<p>Share of the free legal aid cases responded in writing within 10 days of the receipt of inquiry</p>	<p>The indicator measures the rate of switching to provision of written responses within 10 days of the receipt of the inquiry for free legal aid cases. The following results will be monitored towards the achievement of the final result, within the following indicative timelines:</p> <ol style="list-style-type: none"> <li>1. The share of cases for which either free primary legal aid or a decision about provision of secondary free legal aid, is provided in written form within 10 days of receipt of inquiry is at least 80% percent across the 10 oblasts during calendar year 2020.</li> <li>2. The share of cases for which either free primary</li> </ol>	<p>Semi-annual reports; three implementation support missions a year for the first three years of the Program implementation period.</p>	<p>CCFLA/FLAS and MOJ</p>	<p>CCFLA/FLAS and MOJ reports</p>	<p>CCFLA and MOJ</p>



	<p>legal aid or a decision about provision of secondary free legal aid, is provided in written form within 10 days of receipt of inquiry is at least 80% percent across the 20 oblasts during calendar year 2020.</p> <p>3. The share of cases for which either free primary legal aid or a decision about provision of secondary free legal aid, is provided in written form within 10 days of receipt of inquiry is at least 90 percent for the entire country during calendar year 2022.</p> <p>4. The share of cases for which either free primary legal aid or a decision about provision of secondary free legal aid, is provided in written form within 10 days of receipt of inquiry is at least 95 percent for the entire country during calendar year 2023.</p>				
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<p>Percentage of food businesses newly registered as exporters of food of animal origin that are SMEs</p>	<p>The indicator monitors the achievement of results to ensure that at least 60 percent of food businesses newly (since the beginning of the Program implementation) registered as exporters of food of animal origin are SMEs: companies with staff of up to 250 people, and annual revenues of up to EUR 50 million. The following results will be monitored towards the achievement of the final result, within the following indicative timelines:  1) Adoption of the relevant amendments to the Law “On Basic Principles to Food Safety and Quality” and secondary legislation on the traceability of products of animal origin - December 31, 2021;  2) Operationalization of the interactive information system on food safety and export market requirements - December 31, 2022;</p>	<p>Semi-annual reports, with three implementation support missions a year from the first three years of the Program implementation.</p>	<p>SSUFSCP</p>	<p>SSUFSCP semi-annual reports.</p>	<p>SSUFSCP</p>
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	3) Installation of 10 BIPs - December 31, 2024.				
Percentage of women beneficiaries reached with Program activities.	<p>The indicator will measure gender-disaggregated outreach to ultimate Program beneficiaries with program activities, including:</p> <ul style="list-style-type: none"> <li>- beneficiaries of the State support program;</li> <li>- beneficiaries of notifications on cadastral transactions;</li> <li>- beneficiaries filing requests for free legal aid with the FLAS Network;</li> <li>- beneficiaries of the legal empowerment activities;</li> <li>- newly registered exporters of food of animal origin.</li> </ul>	Semi-annual monitoring reports.	MAPF, MRD, MOJ and SSUFSCP monitoring reports.	Data disaggregation by gender will be built into the M&E systems of the MAPF, MRD and SSUFSCP to allow for capturing of the gender-disaggregated beneficiary numbers.	MAPF, MRD, MOJ and SSUFSCP in their respective areas under the Program.
Percentage of Program beneficiaries who have benefitted from improved service provision	The indicator will measure satisfaction of beneficiaries benefitting from all Program activities: state support programs, protection of property rights, legal advice and aid, etc.	Semi-annual reports	All Implementing Institutions	Beneficiary satisfaction surveys.	All Implementing Institutions



**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
MTEF applied in planning and budgeting at the MAPF.	The indicator includes development and approval of the MTEF at the MAPF, including development of the KPIs; relevant training of staff; and improved M&E system.	Semi-annual reports, supported by three implementation support missions a year for the first three years of the Program implementation.	MAPF	MAPF semi-annual reports.	MAPF
At least 12 million ha of State land registered	Registration of all remaining state land, but no less than 12,000,000 ha in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures.	Semi-annual monitoring reports; support by three implementation missions a year for the first	Geocadaster	Geocadaster semi-annual monitoring reports.	Geocadaster



		three years of the Program implementation.			
Income of at least US\$ 150 million collected from State land leases and sales	Income of US\$150 million equivalent from State land leases and land sales collected by the State Fiscal Service on behalf of the local governments.	Semi-annual monitoring reports; three implementation support missions a year for the first three years of the Program implementation.	MRD in collaboration with Geocadaster.	MRD semi-annual monitoring reports.	MRD, in collaboration with Geocadaster.
Number of women benefitting from legal empowerment activities	Number of individuals reached with various legal empowerment activities by the FLAS.	Semi-annual	MOF and FLAS	FLAS information system used for client tracking.	MOJ and FLAS
Adoption of a regulation for mandatory price recording for land and real estate assets	Adoption of a regulation for mandatory price recording for land and real estate assets	Semi-annual reports.		MOJ reports	MOJ



<p>Establishment of Border-Inspection Points (BIPs).</p>	<p>Establishment and ensuring full functionality of 10 BIPs in locations selected by the GOU.</p>	<p>Semi-annual monitoring reports; three implementation missions a year for the first three years of the Program implementation.</p>	<p>SSUFSCP</p>	<p>SSUFSCP semi-annual monitoring reports and quarterly follow-up reports.</p>	<p>SSUFSCP</p>
<p>Operationalization of an interactive map on the use of plant protection products that improve the traceability of food of animal origin</p>	<p>Establishment and launch of an interactive map on the use of plant protection products that improve the traceability of food of animal origin, in particular honey and others.</p>	<p>Semi-annual reports; three supervision missions a year for the first three years of the Program implementation.</p>	<p>SSUFSCP</p>	<p>SSUFSCP reports</p>	<p>SSUFSCP</p>



**ANNEX 2. Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols**

**Disbursement Linked Indicators Matrix**

Disbursement Linked Indicators Matrix				
<b>DLI 1</b>	Improving efficiency and targeting of state support in the agriculture sector.			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Outcome	Yes	Percentage	27,500,000.00	13.75
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	0.00			
Project-end	60.00		27,500,000.00	
<b>DLI 2</b>	Improving functioning of land markets			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Intermediate Outcome	Yes	Hectare(Ha)	132,000,000.00	66.00
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	0.00			
Project-end	12,000,000.00		132,000,000.00	



<b>DLI 2.1</b>				
Increasing inventory and registration of state land				
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Hectare(Ha)	43,000,000.00	21.50
Period	Value		Allocated Amount (USD)	Formula
Baseline	0.00			
Project-end	12,000,000.00		43,000,000.00	
<b>DLI 2.2</b>				
Improving transparency and competitiveness of state land lease system.				
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Amount(USD)	33,000,000.00	18.00
Period	Value		Allocated Amount (USD)	Formula
Baseline	7,703,700.00			
Project-end	150,000,000.00		33,000,000.00	
<b>DLI 2.3</b>				
Improving protection of rights in land and mortgage market.				
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Number	45,000,000.00	22.50
Period	Value		Allocated Amount (USD)	Formula
Baseline	0.00			
Project-end	4,000,000.00		45,000,000.00	



<b>DLI 2.4</b>				
Strengthening of the FLAS				
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Percentage	11,000,000.00	5.50
Period	Value		Allocated Amount (USD)	Formula
Baseline	12.00			
Project-end	95.00		11,000,000.00	
<b>DLI 3</b>				
Improving agribusiness SME access to export markets				
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Outcome	Yes	Percentage	40,000,000.00	20.00
Period	Value		Allocated Amount (USD)	Formula
Baseline	8.00			
Project-end	60.00		40,000,000.00	
<b>DLI 3.1</b>				
Promoting SME access to export markets				
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Percentage	22,000,000.00	11.00
Period	Value		Allocated Amount (USD)	Formula
Baseline	8.00			
Project-end	60.00		22,000,000.00	



DLI 3.2		Facilitating cross-border trade.		
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Amount(USD)	18,000,000.00	9.00
Period	Value		Allocated Amount (USD)	Formula
Baseline	48,000,000.00			
Project-end	58,000,000.00		18,000,000.00	

**Verification Protocol Table: Disbursement Linked Indicators**

<b>DLI 1</b>	Improving efficiency and targeting of state support in the agriculture sector.
<b>Description</b>	The DLI will include: 1. State support recipient registry at the MAPF operationalized and can be transparently accessed. 2. Approval of the medium-term expenditure framework and KPIs designed in accordance with approved principles. 3. At least 60 percent of the state support funds are received by agricultural SMEs.
<b>Data source/ Agency</b>	MAPF
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	<p>Subject to verification is the following:</p> <ol style="list-style-type: none"> <li>1. The farmer registry: (a) is compatible with the other agricultural registries in the country, for example registries for animal and land, to be verified based on the existence of a unique ID number used across various register; (b) contains a minimum number of mandatory information, including beneficiary name and type, unique identifier, address of the farm, bank account details, contact information, other farm plots managed by the same beneficiary; and (c) is scalable to allow for registering all agricultural producers and there are no restrictions that may prevent different farm types from registering.</li> <li>2. Accessibility is deemed easy or rather easy by the users of the registry using a built-in assessment tool with a capability to provide management report upon request.</li> <li>3. The medium-term strategic priorities of the state support in agriculture sector are in line with legally established strategic sector objectives, include justification for policy intervention and rationale for the choice of specific policy instruments.</li> <li>4. The KPIs: (a) are quantifiable and measurable and explicitly linked to the legally established strategic sector objectives; and (b) measure the effectiveness of the program implementation.</li> <li>5. Outcome verification: at least 60 percent of the annual State support program allocation is received by agricultural producers not exceeding 1000 ha of land and annual revenue of less than UAH 40 million.</li> </ol>
<b>DLI 2</b>	Improving functioning of land markets
<b>Description</b>	
<b>Data source/ Agency</b>	



<b>Verification Entity</b>	
<b>Procedure</b>	
<b>DLI 2.1</b>	Increasing inventory and registration of state land
<b>Description</b>	The DLI includes registration of all remaining State lands (agricultural, forests, and others) - at least 12 million ha - in the Land Cadaster and Registry of Rights: 1. Adoption of a transparent methodology for land registration. 2. Adoption of a transparent verification methodology. 3. Registration of 100% (at least 12 million ha) of the remaining state lands registered in the Land Cadaster and Registry of Rights using simplified, participatory and transparent procedures.
<b>Data source/ Agency</b>	Geocadaster.
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	The verification report for State land registration (DLI 2.1) will be based on automated verification using the methodology agreed upon prior to the start of Program-related State land registration activities, complemented by field visits to a random set of locations where land rights were registered and customer satisfaction surveys of land owners/users who might have been affected by such activities.
<b>DLI 2.2</b>	Improving transparency and competitiveness of state land lease system.
<b>Description</b>	1. Approval of methodology for developing Territorial Development Plans (TDPs); 2. Completion of TDPs for 600 Amalgamated Territorial Communities (ATYCs); 3. Collection of land lease and sale payments for the local authorities at least in the amount of US\$ 150 million.
<b>Data source/ Agency</b>	MRD, in collaboration with Geocadaster.
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	Verification related to the TDPs: <ol style="list-style-type: none"> <li>1. Submission of final methodology for development of TDPs approved by the MRD</li> <li>2. Review and assessment of the TDPs</li> </ol> <p>The verification will ensure that the 600 TDPs have been prepared and on random selection basis will select and review 20% of TDPs to ensure that they have been prepared following the due process and in a participatory manner.</p>



	Verification of the amount of the land lease fees (DLI 2.2) would be based on the revenue generated from auctions of public land as provided by a centralized database for land lease revenue.
<b>DLI 2.3</b>	Improving protection of rights in land and mortgage market.
<b>Description</b>	The achievement of the DLI includes: 1. Development of ortophotos and topographic maps at a scale 1:10,000 for at least 17 oblasts. 2. Ensuring public access to land governance monitoring data produced by GeoCadaster. 3. Operationalization of an automated notification system for all parties affected by changes in the data held in the Land Cadaster.
<b>Data source/ Agency</b>	MRD, in collaboration with MOJ
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	The verification will ensure: (i) the availability of the maps and photos; (ii) the ability to access the governance monitoring data; and (iii) carrying out test issuance of notifications to intended beneficiaries followed by spot-checks that the notifications have indeed been received.
<b>DLI 2.4</b>	Strengthening of the FLAS
<b>Description</b>	The DLI aims to achieve: (i) the share of cases for which free primary legal aid is provided in written form within 10 days of receipt of inquiry is at least 95 percent for the entire country during calendar year 2023; (ii) supporting provision of legal empowerment activities in the country, reaching 90,000 beneficiaries with relevant activities, including at least 45,000 women.
<b>Data source/ Agency</b>	MOJ
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	The verification of the achievement will be based on the analysis of the achievement of the provision of the free legal aid in writing, as well as random customer satisfaction survey(s) applied routinely to beneficiaries of free legal aid, complemented by other measures, as needed.



<b>DLI 3</b>	Improving agribusiness SME access to export markets
<b>Description</b>	
<b>Data source/ Agency</b>	SSUFSCP
<b>Verification Entity</b>	Independent VE hired by MOF.
<b>Procedure</b>	Verification of the management report of the SSUFSCP regarding the number of SMEs among the exporters of food of animal origin since the start of the Program. SME definition: up to 250 employees and annual turnover of up to EUR 50 million.
<b>DLI 3.1</b>	Promoting SME access to export markets
<b>Description</b>	The DLI will achieve a result that 60 percent of all food businesses newly registering as exporters of food of animal origin would be SMEs: 1. Adopt the relevant amendments to the Law “On Basic Principles and Requirements for Safety and Quality of Food” and secondary legislation on the traceability of products of animal origin. 2. Operationalize interactive information system on food safety and export market requirements. 3. At least 60% of food businesses newly registered as exporters of food of animal origin are SMEs.
<b>Data source/ Agency</b>	SSUFSCP
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	<p>(a) <i>Strengthening of Ukraine’s food traceability system:</i> (i) adoption and registration of the amendments to the Law “On Basic Principles to Food Safety and Quality” and related secondary (based on the list provided by the SSUFSCP) in the official registry of the MoJ. Similarly to all SPS related regulations in Ukraine, the VE should ascertain and confirm that the provisions of the amended Law are based on the World Trade Organization (WTO) SPS Agreement and approximated to relevant EU requirements; (ii) VE assessment report that proves full operationality of the platform and correspondence to the agreed Terms of Reference and specifications for the platform upgrade; (iii) list of documents developed and adopted by SSUFSCP (with hard copies of the documents) on the establishment of the database along with an assessment report of the VE, confirming full operationality of the database.</p> <p>(b) <i>Establishment of a public (open access) interactive platform on SPS/TBT and other food export requirements of international markets:</i> (i) VE assessment report confirming full operationality of the interactive platform that provides</p>



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	access on food export and availability of food export requirements in the EU, China, US, GCC and Canada; (ii) the legal and regulatory framework for electronic system for providing administrative services by FSA (e-documentation) has been established and based on assessment report by the VE is fully operational.
<b>DLI 3.2</b>	Facilitating cross-border trade.
<b>Description</b>	The DLI will ensure preservation and increase by US\$ 10 million of exports of live animals from Ukraine by supporting installation of 10 border inspection points (BIPs).
<b>Data source/ Agency</b>	SSUFSCP
<b>Verification Entity</b>	Independent verifier (Verification Entity) reporting to the MOF.
<b>Procedure</b>	The VE shall report on full installment of ten BIPs, including a report on the physical on-site inspection of the BIPs to observe the BIP in full operation. The report should also include an assessment of the application of the risk-based import/export controls.

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### ANNEX 3. SUMMARY TECHNICAL ASSESSMENT

#### A. Strategic Relevance of the proposed Program

1. **Given its large economic, spatial and social footprint, the agriculture sector plays a fundamental role in ensuring sustainable and inclusive growth in Ukraine.** The primary sector accounts for 10 percent of GDP (2017), 18 percent of formal employment (2016) and 42 percent of total exports. From 2010-2016, the sector has been a source of growth, expanding at a robust rate of 6.6 percent per year, even as problems in the industrial sector have slowed overall economic performance. In addition, agriculture has a large spatial footprint, taking up 71 percent of the land in Ukraine and a large social footprint, because of the 4 million small farmers. The sector has become the largest single source of foreign exchange earning in recent years, boosting the sector's macroeconomic significance.

2. **Ukraine has a strong potential to make an even larger contribution to economic growth and the vitality of rural areas by further diversifying into higher-value markets and attracting more quality investment into the sector.** Close to 23 million hectares (or 54 percent) of the agricultural land in the country is comprised of highly fertile black soils, which, together with the favorable climatic conditions and abundant water resources, provides a conducive environment for agricultural production in the country. In addition, reasonably developed infrastructure and proximity to the world key markets create significant potential for Ukraine to play a dominant role in global food supply. Realizing this potential will contribute to an even larger contribution to the economic growth of the country and the vitality of rural areas.

3. **Due to the low degree of value addition in the sector, Ukraine lags behind the comparator countries in its agriculture productivity levels.** While the dominant focus of the large commercial farms on the production of grains and oilseeds, it is the household farms and agribusiness SMEs that produce a dominant production share of high-value agriculture products. However, the productivity of the SMEs is relatively low as small and medium producers remain under-invested due to the constraints that exist in the sector for increasing the farm-level investments, and often are not properly linked to the formal supply chains.

4. **Ukraine loses eight billion<sup>25</sup> US Dollars of foregone export revenue annually as a result of relatively low value addition in the sector.** Agricultural exports are a key engine of the Ukrainian economy, yet remain well below their potential, and can grow by additional 50 percent over the current annual exports of about US\$15 billion. Agricultural export potential can be harnessed by both increasing primary commodity export volumes and diversifying into higher-value markets. In addition, a predominant majority of the higher-value added agri-food (in particular, live animals, vegetable oil, dairy and meat products, fresh produce/fruits and vegetables) exports in Ukraine remain below 50 percent of their potential.

5. **Closing the value addition and export potential gaps can boost economic growth, but it would require significant private investment.** Per the World Bank study (2013), a 30-percent productivity increase in agriculture could result in an additional 4.4 percent Ukrainian GDP growth in five years, and 12.5 percent growth over ten years. However, to unleash its productive and export potential to the fullest, agricultural sector in Ukraine needs more investment in higher value crops and value addition by all types of producers, processors and exporters. Facilitating engagement of agricultural SMEs into markets is therefore key. Overall, private

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<sup>25</sup> ITC.



investment has increased over the last decade and Ukraine now has some of the largest farms in the world. Large multinational agri-food companies are also present in the country. However, the level of investment is still low if compared to the significance of the agriculture sector in the Ukrainian economy.

**6. While investors are attracted by the country's enormous agricultural potential, they continue to face significant obstacles to investment.** Agriculture accounted for only six percent of total capital investments on average over the last decade. Foreign Direct Investment (FDI) inflows in agriculture have also increased steadily between 2005 and 2009 but decreased since the global financial crisis. However, they have never been higher than 1.9 percent of total FDI inflows. Small and medium producers that constitute the backbone of value-added agriculture in the country are particularly under-invested due to the constraints that exist in the sector.

**7. Numerous market failures, exacerbated by the institutional and regulatory constraints, and low quality of public goods constraint the inflow of private investments in the sector.** These include concentrated market power and limited competition in the agricultural input markets, high transaction costs and risks associated with the access to markets and financing, and underdeveloped organizational structures that prevent farmers from achieving economies of scale and limit their incentives for investing, particularly in irrigation. In addition, the delivery of some of the public goods remain weak, while a range of regulatory and institutional constraints exacerbate the abovementioned market failures and limit more optimal private sector participation in the sector.

#### **B. The Government Strategy and Action Plan for Leveraging Private Investment in Agriculture and Agribusiness Sectors for 2019-2023 (the "program")**

**8. Government of Ukraine's Strategy and Action Plan for Leveraging Private Investment in Agriculture 2019 – 2023 (the "program") sets forth a range of measures to mobilize private investment in agriculture and agribusiness sectors** to boost their competitiveness and productivity, to ensure national food security, increase agri-food exports and contribute to a steady economic growth. Aligned with the international best practices, the GSAP (the "program") focuses on improving policy and regulatory coherence, transparency and non-discrimination, securing access to land and water, ensuring well-functioning input and output markets, improving the efficiency of infrastructure and logistics, and strengthening the capacity of public institutions in line with the best EU and international standards and practices.

**9. The GSAP (the "program") is closely aligned with five other strategic documents that underpin GOU's effort to improve investment climate in agriculture and agribusiness climate in Ukraine, including:**

a. *The Concept of the State Target Program for the Development of the Agrarian Sector of the Economy for the period of up to 2021*, which was approved by the Cabinet of Ministers by its Order No1437-p, dated December 30, 2015 (with changes and additions from February 14, 2018, N 102-p). The Concept identifies the Government's priority areas for development of the sector going forward, which include a broad range of instruments for sector support, including in the areas of food safety, taxation, environmental support measures, credits and other financial instruments, and agricultural research and development, among others.

b. *National Strategy and Action Plan for Agriculture and Rural Development in Ukraine for 2015-2020*, developed by the MAPF jointly with the donors. The Strategy focuses on the existing constraints



in the sector and outlines a long-term vision for the development of agricultural sector as well as offers a list of priority actions. While the Strategy was supported by the National Reforms Council of Ukraine, it still has not been passed into a Law.

c. *Irrigation and Drainage (I&D) Strategy of Ukraine (2017)*, which was prepared to complement the Agriculture and Rural Development Strategy for Ukraine, lays out a reform agenda in the irrigation and drainage sector during 2017-2025, focusing on facilitating the sector's adjustment to the new market conditions, reversing the decline in the irrigation and drainage sector, and improving efficiency. The key reform areas include: (i) Improving stewardship of the national water resource; (ii) Improving the bulk delivery and removal of water; (iii) Transferring management to WUOs; (iv) Ensuring financial sustainability; and (v) Stimulating profitable investment.

d. *The Sustainable Logistics Strategy and Action Plan for Ukraine (2017)* was prepared to complement the National Transportation Strategy for Ukraine (NTSU) until 2030. The goal of the Sustainable Logistics Strategy is to support Ukraine to: i) realize the country's logistics potential; ii) enhance multimodality and interconnectivity among transport modes; iii) maintain, modernize, and expand efficient transport and logistics infrastructure and promote energy-efficient freight transport; iv) improve skills and services related to transport and logistics; and v) enhance trade facilitation. The recommendations address both physical and regulatory bottlenecks, but do not cover a comprehensive restructuring of the entire transport sector or its complex entities, which is discussed in the NTSU. The four priority axes of NTSU 2030 are: (i) achievement of a competitive and efficient transport system; (ii) innovative development of the transport sector and strategic investment projects; (iii) provision of socially safe, environmentally friendly and energy efficient transport; and (iv) achievement of seamless mobility and regional integration.

e. *The Export Strategy of Ukraine (2018)* was drafted by the Economic Development and Trade Ministry of Ukraine with the assistance of the business and experts based on the methodology of the International Trade Center and with the support from GIZ. The overarching goal of the Export Strategy is to support Ukraine in developing a coherent vision for sustainable trade-led growth through an inclusive process that brings together the public and private sectors, civil society and development partners. The Export Strategy project will help support export-oriented micro, small and medium-sized enterprises and other trade operators in the following priority sectors: information and communication technology; food and beverages; machinery; creative services, and; civil aircraft repair and maintenance. The Strategy will also help strengthen the export competitiveness of Ukrainian companies by boosting knowledge and skills in areas such as trade facilitation and logistics, innovation, and quality management.

**10. The expected outcomes of the GSAP include:** a) amplified private investment and business activity in agriculture and agribusiness sectors; b) increased productivity and production volumes of the gross agricultural product by all categories of economic entities; c) increased volumes and value of agricultural exports; and d) improved levels of employment and incomes in rural areas.

## C. Technical Soundness and Economic Rationale



**11. The proposed Program is aimed at supporting the GOU's effort to improve the quantity and quality of investments in the agriculture and agribusiness sectors by addressing the binding constraints in the agriculture input and output markets that disproportionately affect the SMEs' ability to increase the level of their investments.** Acknowledging the role that agriculture SMEs' play in strengthening agricultural productivity and delivering more inclusive growth in the country, the GOU recognized the existing constraints in a number of recently issued policy and legal documents, including the GSAP. As such, the proposed Program is a continuation of an ongoing GOU program to leverage private investment in agriculture sector. The economic and financial analysis of the proposed interventions confirmed the economic soundness of the interventions supported by the program.

**12. Rationale for Public Sector Provision and/or Financing.** The proposed Program has a goal of strengthening the provision of key public goods in the agri-food sector, such as boosting food safety capacity in the country, improving access to public information on land and water resources, and bolstering enabling environment for investments in the sector by reducing policy uncertainty and aligning selected policy and regulatory practices to the best international practices. It will also address a number of market failures and existing institutional rigidities that exist in the agriculture sector in Ukraine, which lead to misallocation of the resources and underinvestment in the sector. These include high transaction costs and risks associated with the access to markets and financing, and underdeveloped organizational structures that prevent small and medium agricultural producers from achieving economies of scale and limit their incentives for investing, particularly in irrigation. As a result, the Program is expected to be instrumental in accelerating private sector investment in agriculture sector in Ukraine, particularly by the SMEs.

**13. World Bank Value Added.** The World Bank's support is expected to improve the efficiency and targeting of the various activities supported under the Program and encourage adoption of best global practices, while increasing their economic benefits and inclusiveness. The value added of the World Bank is the knowledge that it brings in supporting similar activities in the agriculture sector, as well as expertise in aiding the government in the advancement of the reforms and actions for addressing key constraints for mobilizing private investment in the agriculture sector.

**14. Given the diverse and complex set of the reforms supported by the Program, the economic evaluation of the Program was carried out through the analysis of the individual interventions** contained in the program, underpinned by, where applicable: (a) a financial analysis of the main physical investments expected under the proposed Program; and (b) an international benchmarking – done by analyzing similar activities accomplished in the countries that represent strong similarities with Ukraine in terms of agriculture and agribusiness sectors. Throughout the analysis, the counterfactual was a scenario without the program intervention in place.

**15. Several interventions supported by the Program focus on 1) strengthening regulatory framework along the agriculture value chain, and 2) improving access to public information.** For both types of interventions, quantification of direct economic benefits is out of reach due to the complexity of the systems they take place in. Nevertheless, each one of them is critical for the correction of market failures and improvement of institutional rigidities that exist in the agriculture/agribusiness sectors.

**16. Improved access to public information.** Access to public information can be considered a public good that requires government intervention for its provision. Its primary contribution is the ability to reduce information asymmetries that may exist in the sector, and risks associated with them. For example, improved information



on land plots and their prices, as well as the free legal advice and legal empowerment activities related to land rights (DLI 2) may lead to improved bargaining power for various actors along the value chain. In addition, more transparent information on the land plots contributes to security of property rights and reduces investment risks associated with lack thereof. Similarly, operationalization of the public information system on food safety and export market requirements, or improvements to the national traceability system (DLI 3), by reducing information asymmetries, boosts the bargaining power and competitiveness of the Ukrainian agricultural exporters in the world markets.

**17. Enabling regulatory environment.** Consistent and transparent regulatory framework serves as a key condition for enabling private investment climate in a country, under the condition that the right balance is achieved between the extent to which regulations correct market failures and the costs they impose on economic agents. The interventions under the proposed Program aim at both introducing regulations that have potential to correct existing market failures and improving regulations that may be too burdensome for the agricultural sector stakeholders in Ukraine (i.e. improving access of agricultural producers to state support, and access to commercial finance through the enabling of crop receipts as tradeable commodity, among others). Overall, the literature is rich when it comes to highlighting a significant relationship between government regulations and economic growth, competition, trade and investment (see examples from Djankov, Freund and Pham, 2010; Ciccone and Papaioannou, 2007; Ardagna and Lusardi, 2009; Haidar, 2009; USAID, 2015; Hoekman and Nicita, 2011).

#### Results Area 1 - Increasing Competitiveness of Input Markets

**18. Improving targeting and efficiency of the agricultural state support programs (DLI 1):** Activities under DLI 1 have a goal of supporting the MAPF in improving agriculture policy design and analysis, impact monitoring and budget management – all measures that would improve the effectiveness of public expenditure and equity in state support allocations.

**19. While a quantitative analysis identifying the increase on returns from improved policy and budgetary planning, and institutional capacity strengthening, is not possible, it can be expected that improved analysis, planning and programming of the agricultural state support will considerably increase the effectiveness of the state support program and its impact on agricultural growth.** Research shows that the structure or composition of public agriculture expenditure can have an important positive impact on agricultural per capita income<sup>26</sup>. By improving policy formulation and implementation in MAPF, activities along the DLI 1 critical path can improve the return on public agricultural expenditures by making them more productive. These improvements will also be felt by the economy as a whole through the increased productivity and competitiveness of the agriculture sector.

**20. Moreover, MAPF will significantly benefit from improved compliance of the state support management with that of the EU,** including the development of the register of the state support recipients in accordance with the IACS principles.

**21. Improving functioning of land markets (DLI 2):** The analysis focuses on evaluating, both quantitatively and qualitatively, the potential impacts of the DLI-related activities targeted at improving transparency and strengthening the enforcement of land tenure and property rights in Ukraine.

<sup>26</sup> Agriculture and EU Accession: Achieving FYR Macedonia's Agricultural Potential. World Bank, 2006.



**22. Clear and enforced land tenure and property rights are crucial in incentivizing agricultural investment for increased agricultural productivity and for value addition.** If achieved, tenure security provides a basis for low-cost functioning of land markets, facilitating access to land for various players in the economy. There are two main ways through which secure property rights for land can increase agricultural productivity. The first one is that secure land tenure would result in long-term land investment and adoption of new technologies (Besley, 1995; Deininger and Jin 2006). The studies have shown that both investments have doubled, and values of land were reported to be up to 80 percent higher for the plots with higher levels of tenure security as opposed to the plots there was a higher probability of losing them; transferability of land further increases these positive effects (Deininger, 2003). Second, secure property rights for land also encourage factor intensity, or in other words, efficient resource use (Deininger et al., 2009). Overall, positive relationship between secure land rights and increase in agricultural investment has been demonstrated across the world, including Latin America (Deininger and Chamorro, 2004; Bandiera, 2007), Eastern Europe (Rozelle and Swinnen, 2004), and Africa (Deininger and Jin, 2006).

**23. Currently, only about 3.6 million ha of state agricultural land is registered out of total of about 8.5 million ha (for comparison, the registration of private land is above 85 percent), resulting in high levels of tenure insecurity and related productivity losses.** The reports of Geocadaster indicate that only about 1.4 million ha are formally leased out. Another 1 million ha are in the permanent use (not necessarily registered). The remainder of state land remains in the 'shadow economy' with three main effects, namely (i) losses to Government budgets as any payments remain informal; (ii) high levels of tenure insecurity and associated incentives to mine the soil and plant short term crops rather than move into crops and value chains with higher value added and employment potential; and (iii) productivity losses as lack of transparency makes it unlikely that land will be cultivated by those best able to exploit it. Registering such land will address all these issues as (i) lease income will accrues to local communities, providing fiscal benefits and contributing to decentralization; (ii) allocative efficiency will increase as land can be transferred transparently (via e-auctions to the highest bidder) in line with land management plans; and (iii) higher incentives for land-related investment and sustainable land use due to higher levels of tenure security.

**24. Registration of the state agricultural land will result in the significant additional inflows to the state budget.** While research to quantify the potential benefits from state land registration using satellite imagery and compare them to the costs of doing so is ongoing, some economic impacts can, nevertheless, be quantified. As almost all agricultural land is cultivated, registration of additional 4 million ha of state agricultural land will direct at least 3 percent of normative value of this land to the state budget. Thus, the immediate effect is expected to be US\$120 million per year (an average normative value of arable land is about US\$1,000 /ha). In addition, auctioning of 80,000 ha will bring the lease payment to at least 12 percent (currently observed rate is up to 18 percent) adding at least US\$7.2 million per year. Using 5 percent discount factor, the net present value of the revenue flow to the budget is about US\$2.5 billion compared to the cost of inventory for agricultural land of about US\$20 million. This effect will be distributed between the state and local budget in proportion to the land transferred to communal ownership. Currently, the project envisages to transfer only 200,000 out of 4 million ha of agricultural land to communal ownership but this number can increase significantly if there is demand from local authorities.

**25. Additionally, registering all agriculture state land would reduce the cost and time for preparation of state land for land auctions<sup>27</sup> and will eliminate the current conflict of interest in selection and preparation**

<sup>27</sup> As the main cost for preparing lots for the auction is associated with inventory of the land parcels.



**of land for auctions.** Currently, auctioneer prepares land parcels using own budget and then is reimbursed from the auction proceeds. Thus, the auctioneer has an incentive to select and prepare land parcels only in cases when the interested parties are already identified. This change will lead to a higher price of land lease and sale at the land auctions. Registered land can be transferred to local governments faster and at no additional cost. Moving agricultural production to formal sector for about 4 million ha with at least US\$250/ha of value added per year will statistically add US\$1 billion to GDP per year. Formalizing the use of state land will increase the cost of land use for affected producers, eliminate a rent on use of state land as a factor of distortion, and, thus, will stimulate a competition and a productivity growth in agricultural sector.

## Results Area 2 - Linking Farmers to Domestic and Export Markets

**26. Improving compliance with export market requirements (DLI 3):** The analysis focuses on evaluating, both quantitatively and qualitatively, the potential impacts of the DLI-related activities in three key areas, including (i) border infrastructure; (ii) improvements to SPS information systems for monitoring and implementation of relevant controls; and (iii) advancing regulatory reform to meet SPS compliance requirements of key trading partners and improve the overall operations of the FSA.

**27. The analysis of the economic outcomes associated with the Program activities focuses on the evaluation of incremental revenues and costs of project interventions to derive the incremental profits of the project.** Incremental revenues are the difference in revenue with and without the project activities. A similar definition applies to incremental costs. The analysis focuses on the overall economic benefit of the total investments and not on the individual activities within each component. The economic analysis relies on shadow prices and not market prices to incorporate the projects return to society and not just its return as an investment-- see Gittinger (1982) and World Bank (2013) for a full discussion. By using shadow prices, we aim to take into account the returns to family labour, the cost of doing business, the opportunity cost of capital, and other economic costs that are not fully measured by market prices. We use an economic analysis factor of 10 percent to deflate market prices and obtain their shadow price.

**28. The analysis focuses on the nine chapters of the HS that capture the high-value agricultural commodities that are mainly produced by agricultural SMEs<sup>28</sup> and concludes that strengthening the SSUFSCP capacity and SPS regulatory framework has a high potential to increase the exports of high value-added exports, including live animals.** Meat (HS02) and dairy (HS04) generate the highest export value of the nine commodity chapters. In export revenue terms, horticultural products in chapters HS08, HS20, and HS07 ranked immediately below. The low export levels of live animals (HS01) suggest that there is a high potential for export growth in these commodities for which SMEs dominate production). Exports of meat, live animals and dairy products to the EU experienced the highest growth during this period. The rapid growth of exports to the EU mainly reflects Ukraine's efforts at strengthening its SPS regulatory systems in response to trade negotiations with this economic bloc, which the Program aims to support.

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<sup>28</sup> The following commodities are included in the analysis – HS01 (live animals), HS02 (meat and edible meat offal), HS03 (fish and crustaceans, mollusks and other aquatic invertebrates), HS04 (dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included), HS05 (products of animal origin, not elsewhere specified or included), HS07 (edible vegetables and certain roots and tubers), HS08 (edible fruit and nuts; peel of citrus fruit or melons), HS20 (preparations of vegetables, fruit, nuts or other parts of plants), HS21 (miscellaneous edible preparations)



**29. The main anticipated benefit of further strengthening the capacity of the SSUFSCP and the investments in the food safety system is an increase in market access for the Ukrainian agricultural exports, particularly of animal origin, by the SMEs.** Increased market access should lead to a growth in export volumes as demand increases resulting in greater price increases down the value chain. Since SMEs undertake most of the output of high valued products, they would potentially greatly benefit from such increases in market access. However, the extent of capturing such benefits would largely depend on several factors, including:

- a. *Market structure:* the share of any price increase received by SMEs will depend on how much of the export price is captured by the farmgate price. This will partly depend on the share of direct export sales captured by SMEs. Under the project, this share is anticipated to increase as information asymmetries are reduced with the deployment of market information systems, simplification of regulatory requirements and improved SSUFSCP capacity.
- b. *Ability of the SMEs to comply with the quality requirements:* responding to the new market demands, particularly to premium markets, will require the exporters' ability to comply with the importers' SPS and quality requirements, and further investments, which will be conditioned to the SMEs access to financing. The extent to which SMEs can comply with such requirements will be critical in the ability of taking advantage of new export opportunities.
- c. *Compliance costs:* if the cost of compliance relative to the value of production is high, SMEs may choose not to participate in the new export opportunities. This effect can be mitigated by promoting SMEs to participate in exporter associations.

**30. Two additional benefits may also be anticipated from greater SPS compliance enforcement of the Ukrainian exporters and producers.** The first is improved public health to consumers and greater protection to animal and plant health by preventing the importation of unsafe food and preventing animal disease. This is mainly a result of increased border inspections of food and animal products, as more border posts are established, and regulations are implemented. The second is greater value added to national production, as local producers improve product quality and increase value locally in response to the demand in foreign markets.

**31. While it is impossible to precisely quantify the socio-economic impacts of either of these ancillary benefits for Ukraine, the benefits of improving public health and animal and plant health may be substantial.** According to World Organization for Animal Health's (OIE) data, Salmonellosis (*S. enteritidis* and *S. typhimurium*) is the most commonly reported foodborne diseases in Ukraine with 7,315 cases in 2017. Human cases of Brucellosis are rare with only 3 cases reported in 2017 whereas Leptospirosis and Campylobacteriosis are more significant with 330 and 156 cases reported, respectively. None of these diseases resulted in loss of lives except for the two incidences of Rabies in 2017. OIE also takes stock of the reporting of present animal diseases in Ukraine. Accordingly, African swine fever (limited to one or more zones), enzootic bovine leucosis (present) and rabies (present) are the ones that stand out in Ukraine's animal disease profile. Strengthening food inspection and traceability systems in Ukraine may lead to up to three-fold decrease in occurrence of the abovementioned diseases and would result in reduced working days lost to thickness and reduced disruptions to trade. Decreasing of Salmonellosis occurrence only, could result in up to EUR 1 million in saved medical costs annually.

**32. Economic benefits of moving to the risk-based import/export controls are grounded in the efficiency gain associated with the more efficient use of public resources, stemming from the categorization of goods by risk levels and focusing the controls solely on risky products.** When combined with web-based applications,



such efficiency gains can be significant. As an example, Turkey has been implementing a Risk-Based Trade Control System called TAREKS since 2010. By moving to TAREKS the need for physical inspection was reduced to only 59 percent of the total products, which are deemed riskier. This resulted in a 41 percent decrease in the costs of importer companies along with a decrease in the number of inspectors deployed. As a result, the average time of completion of procedures was decreased to 19 hours for imports and 7 hours for exports, which used to take significantly more in the earlier system. Similar benefits can be expected in Ukraine.

**33. To determine whether we are better off with the project’s intervention the EFA compares the returns of project activities with project (WP) to local practices and technology without project (WoP).** The main economic benefit is the growth in export volumes (EV) and export unit price (EUP). For the EFA an assumption is that under WoP, the rate of growth of EV and EUP remains the same as in the period 2013-2017. For WP interventions an assumption is that the impact of the investments will be reflected as an increase in the rate of growth of both EV and EUP. The sensitivity analysis is applied to estimate the rate of additional growth in the WP growth rate for EV and EUP that are needed to obtain a positive return for project.

**34. The results of the Monte Carlo simulations find that with a minimum additional 5 percent of growth, over ten years and with the observed rates of growth of EV and EUP, the project achieves a positive return for the investment with the least amount of risk.** The project under this scenario generates an NPV of about US\$42 million and a return of almost 6 percent (Table A3.2). Moreover, every dollar invested generates on average almost 2 dollars in benefit. The probability of obtaining a negative NPV and IRR under a rate of growth premium of 5 percent is 36 and 25 percent respectively.

**35. Most the value of the project is generated by increases in revenue of 5 commodity groups for which SMEs serve as main exporters: Live animals and animal products (HS01); Meat and edible meat offal (HS02); Fish and crustaceans, mollusks and other aquatic invertebrates (HS03); Products of animal origin, not elsewhere specified or included (HS05); and Edible vegetables and certain roots and tubers (HS07).** The revenue for all other groups is anticipated to continue a downward trend, reflecting the observed declining trend in prices and or demand for these commodities during the period 2013 to 2017.

**Table A3.1. Economic returns under three increases of the observed growth rates for export volumes and export unit price**

Element	Percent Premium		
	1.25	2.50	5.00
NPV (USD 1000)	(1,609)	15,542	41,921
IRR (%)	-16.7	-7.6	5.8
Benefit/Cost Ratio	-0.1	0.76	2.1
NPV costs (USD 1000)	20,330	20,330	20,330
Prob. (%) of negative NPV	80	58	36
Prob. (%) of negative IRR	60	39	25

Source: Simulation results. a: Increase growth rates refers to the additional growth in export volume growth and export unit price as a result of project investments

**36. The results for the financial analysis (Table A3.2), which does not deflate observed export unit prices by 10 percent to account for returns for unforeseen costs, also confirms the previous results.** As the minimum rate of additional growth, for the observed trends in EV and EUP growth rates, at which the project generates a



positive return is also 5 percent. Like the economic analysis the same commodity groups generate most of the value for project.

**Table A3.2. Financial returns under three increases of the observed growth rates for export volumes and export unit price**

Element	Percent Premium		
	1.25	2.50	5.00
NPV (USD 1000)	(605)	25,311	50,827
IRR (%)	-15.4	-2.4	7
Benefit/Cost Ratio	-0.03	1.2	3
NPV costs	20,330	20,330	20,330
Prob.(%) of negative NPV	78	51	34
Prob.(%) of negative IRR	56	34	25

Source: Simulation results. a: Increase growth rates refers to the additional growth in export volume growth and export unit price as a result of project investments

**Additional Intermediate Results - Improving access to fertilizer and finance**

**37. The Program supports GOU’s efforts in improving access to fertilizers for agricultural producers through the adoption of the legislation recognizing the list of the EU fertilizers.** An immediate expected impact of recognizing the EU fertilizer list in Ukraine would be a wider choice and an increase in the number of imported (innovative) types of fertilizers with high efficacy. In turn, this would contribute to increased productivity in the sector. Harmonization of the list of fertilizers could also potentially result in significant time and cost savings associated with introducing new fertilizer products in the market. Overall, potential economic benefits from the above legislative change can be approximated from the past experience of deregulating the fertilizers market in Ukraine. Back in 2015, Ukraine canceled the state registration for a limited list of nitrogen and phosphate fertilizers. This resulted in the increased usage of fertilizers by an average of 25 percent in 2016 compared to 2015. Since the Annex 1 of the EC Regulation 2003/2003 includes a way longer list of fertilizers than was deregulated in 2015, one can expect a 25-percent increase in fertilizer use as a low boundary of what could be expected once full harmonization takes place. A 25-percent increase in high quality fertilizers’ use could potentially lead to about 2.5-percent increase in agricultural output, or an equivalent of US\$450 million of crop output.

**38. Enabling crop receipts as a tradeable security has the goal of correcting an existing market failure – lack of access to finance.** While such market failure is often inherent to agriculture, in Ukraine it is further exacerbated by the moratorium on agricultural land sales that prevents land to be used as a collateral. As a result, small and medium producers in Ukraine are significantly under-financed. According to the recent IFC estimates, an agri-finance gap for small and medium producers accounts for US\$3.1 billion. Crop receipts could facilitate up to US\$520 million US for Ukraine’s agricultural sector over the next two years.

**D. Assessment of Program Expenditure Framework**



**39. The Expenditure Framework Assessment (EFA)** was conducted based on (i) budget analysis for the “program”; (ii) World Bank Public Expenditure Review on agricultural sector (2018); (iii) reports of the Financial and Economic Analysis Office in the Verhovna Rada of Ukraine. For all agencies implementing the Program, assessment is conducted at central level.

**40. The analysis concludes that the GOU has in place budget and expenditure management systems and practices that support the program in reaching its expected results.** Budget allocations appear adequate, while the program implementation is generally efficient with an average budget absorption rate at 94 percent in 2016-2018. The budget lines are generally characterized by high personnel and recurrent costs, with the capital expenditure allocations often not exceeding 10 percent, except for Geocadaster’s and MRD’s budget lines where the share of capital expenditure is higher. Based on the ex post budget allocation analysis, budget projections and the commitment from the Government during the project preparation, it was concluded that the funds would be advanced by the MOF to the implementing line agencies in the amount needed to achieve the results of the program. This was already reflected in the projected budget allocations for 2019 – budget funds allocation under each relevant for the PforR project line is scheduled to increase, signaling GOU’s commitment to the program implementation.

**41. Nevertheless, several macroeconomic risks remain in place.** While Ukraine has achieved considerable fiscal consolidation since the 2014 crisis, fiscal pressures and public debt remain high. The overall fiscal deficit, including Naftogaz, narrowed from 10 percent of GDP in 2014 to under 2.5 percent during 2015-2018, four years in a row. At the same time, fiscal pressures remained significant in 2016-2018 due to several key structural sources, including a cut in the payroll tax rate, weakly targeted social assistance, large public-sector employment including the civil service, health, and education workers, and weak tax administration. In 2017, expenditures grew by 11.7 percent in real terms due to the doubling of the minimum wage and over 40 percent increase in wages of teachers and doctors, as well as higher spending on social programs. However, the fiscal deficit was within target at 2.3 percent of GDP in 2017 due to strong revenues. In 2018, education and health sector wages were increased further. Given limited progress in right-sizing staffing, the public-sector wage bill is projected to reach 11.3 percent of GDP in 2018, up from 9.3 percent in 2016. In addition, general government revenues were 5 percent below the target in the first half of 2018, mainly due to weaker proceeds from excise tax, import value-added tax, payroll tax, and postponed Naftogaz dividend payments. Public and publicly guaranteed debt has declined from a peak of 80.9 percent of GDP in 2016 but remained high at 71.9 percent in 2017.

**42. Ukraine faces major financing needs in 2019 and 2020, which will require mobilizing sizable international financing to maintain macroeconomic stability.** The fiscal framework targets a general government deficit of 2.3 percent of GDP in 2019. Furthermore, debt repayments (to the IMF, Eurobonds, and domestic bonds in foreign exchange and local currency) amount to a total of 5.6 percent of GDP in 2019. Financing the fiscal deficit and repaying debt will thus require new borrowing equivalent to US\$11 billion in 2019 (8 percent of GDP), including about US\$4.2 billion planned from external sources, with the rest raised domestically. In order to raise the necessary external financing on affordable terms, it is critical to stay on track with the new IMF Stand-By Arrangement approved at end-2018.

**43. Meeting the fiscal deficit targets for 2019-2021 will require reforms to strengthen public finances, including the reforms supported by the Bank and other development partners.** Not exceeding the fiscal deficit target of 2.3 percent of GDP in 2019-2021 is critical to manage the macroeconomic vulnerabilities and reduce public debt to under 60 percent of GDP by 2021. To this end, the implementation of the approved budget for



2019 in line with the deficit target is essential. Careful implementation of the pension, health, and housing utility subsidy reforms, as well as the education and public administration reforms, would contribute to addressing the spending pressures in these areas, while also improving the effectiveness of these public services and social benefits. The pension reform helps stabilize pension spending at up to 10.5 percent of GDP. Improved targeting of housing utility subsidies (HUS) helps consolidate a program that has grown to cover a sizable portion of the population. This contributes to a consolidation of social assistance spending from 5.1 percent of GDP in 2018 to 3.4 percent in 2021. The health, education, and public administration reforms are expected to consolidate the oversized hospital and school network and public-sector footprint over time. In implementing these reforms, it will be particularly important to make further wage increases contingent on concrete measures to optimize the school and hospital network and public-sector staffing. This would contribute to keeping the public-sector wage bill at current levels. In addition, it will be important to avoid measures that would undermine revenues, including proposals to replace the corporate income tax with a capital exit tax (which would result in the loss of a major revenue source in a challenging fiscal environment).

**44. As part of this effort, the GOU is transitioning to the medium-term budget planning that would allow for more predictable and transparent budget planning and allocation.** Up until 2019, the GOU operated under an annual budget planning cycle, which limited ability of the line ministries to project the actual budgetary allocations over the medium-term. However, on January 8, 2019 the President of Ukraine signed the Law No 8044 “On Introducing Changes to the Budget Code Regarding the Introduction of the Medium-Term Budget Planning” that required the transition of all the ministries to the medium-term budget planning, something that is also foreseen by the Medium-Term Action Plan of the Government up to 2020, Strategy for Reforming the Public Finance Management System over 2017-2020. The proposed PforR project would support the transition of the MAPF to the medium-term budget planning through strengthening current, medium-term and strategic planning in the agricultural sector, and increasing staff’s capacity for the evidence-based policy design and transparent budget execution. This should reduce the existing uncertainty in the sector and bolster the investment climate in the sector and would result in an improved efficiency and effectiveness of allocation of the scarce public resources.

**45. The proposed PforR project aims to support government in creating pre-conditions for the increased capital outlays in the sector that have been limited in the recent years.** While the program will commence in 2019, budget execution can be retroactively accessed based on the related activities GOU has been implementing in recent years. In terms of the historic program expenditure composition in accordance with the economic classification, across all the relevant budget programs, 56.1 percent were allocated to wages, 37.9 percent to non-personnel recurrent expenditures and 6.0 percent to capital expenditure.

**46. Within the capital outlays, capital construction accounted for less than 6 percent.** Based on 2017 budget data (the latest available), across the relevant budget lines underpinning the program, only 5.8 percent of total funds were allocated to capital assets construction/acquisition, 16.6 percent were allocated to acquisition of land and durable equipment, while the remainder of capital outlays were used for overhauls and rehabilitation purposes. Within these categories, capital assets construction/acquisition and land acquisition had the highest budget execution rate – 89 and 100 percent, respectively.

**47. The budget execution has been consistently efficient in the country.** The budget execution rate, measured as actual expenditure at the end of the year vs. allocated budget, was on average 94.0 percent between 2016 and 2018.





## ANNEX 4. FIDUCIARY SYSTEMS ASSESSMENT

### Section 1: Conclusions

#### 1.1 Reasonable assurance

1. Pursuant to World Bank policy and directives for Program-for-Results Financing (July 10, 2015) and the Program-for-Results Fiduciary Systems Assessment Guidance Note (June 30, 2017), the World Bank's fiduciary team assessed whether the Program's fiduciary systems provide reasonable assurance that financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Based on the assessment and agreed upon actions to strengthen the system, which are reflected in the Program Action Plan (PAP), and other mitigation measures, the Program's fiduciary systems are considered broadly adequate to meet the requirements in the Bank's PforR Policy and Directive.

2. The assessment was conducted on the basis of desk review of relevant legislative acts, selected procurement transactions including verification of contracts executed, several meetings held with various participating agencies, as well as procurement questionnaire used, and inputs provided by these entities and other procurement related data analysis conducted including procurement and contract information available online at ProZorro website.

#### 1.2 Risk assessment

3. The key procurement risks and mitigations actions are:

- i. The Law on Public Procurement requires the use of specific procurement procedures: two are competitive (open tender and competitive dialogue) and one is non-competitive (negotiated procedure). There is a risk of overuse of a negotiated procedure by Program Implementing Institutions<sup>29</sup> for cases not sufficiently justified in accordance with the procurement law. To mitigate this risk (i) Implementing Institutions will be requested to share with the Ministry of Finance (MOF) and publish on ProZorro website their annual procurement plans indicating the competitive procurement procedures as default methods to be followed under the Program's procurable activities; (ii) the Implementing Institutions will reduce the total value of negotiated procedures each year by at least five (5) percent of the preceding year of the Program.
- ii. There is a risk of low level of competition, since the average number of bids per open tender procedure is only two (2). In order to enhance competition, Implementing Institutions will try to combine into larger packages their planned tenders and publication of the annual Procurement Plan at the beginning of each calendar year encompassing procurement activities for the upcoming year. In addition, business outreach/market sounding events will be organized before launching of planned procurement activities under the Program. Both procurement and technical staff of the Implementing Institutions shall be trained to produce high quality tender documents before the start of Program activities and during the Program implementation.

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<sup>29</sup> Implementing Institutions under the Program include: Ministry of Agrarian Policy and Food (MAPF), Ministry of Regional Development, Construction, Housing and Communal Services (MRD), Ministry of Justice (MOJ), State Service for Geodesy, Cartography and Cadaster (Geocadaster), and State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP).



- iii. Due to annual budget planning and annual funds allocation and lack of long-term planning, it may not be possible for Implementing Institutions to sign a longer-term contract (beyond 12- month) with any supplier of goods or services. The proposed mitigation measure is that the Implementing Institutions plan their respective procurement activities in advance, to ensure that contracts can be still implemented within a budget period including allowed extension.
  - iv. Multiple Implementing Institutions involved in procurement transaction might not be aware about the lists of debarred and suspended firms declared by the World Bank and other Multilateral Development Banks. The Program does not involve conducting of many tendering procedures by Implementing Institutions and most of the contracts planned are of relatively small size, except those under DLIs 2.1 and 2.3 to be implemented by in Geocadaster. It is, therefore, unlikely that these contracts would be awarded to firms debarred or under temporary suspension by the World Bank or other Multilateral Development Banks. However, to avoid this risk : (i) the MOF issues an official instruction to cause the participating agencies to ensure that no contract will be awarded to a firm or individual which is in the World Bank's debarred list or under temporary suspension; (ii) the updated lists of the debarred and temporarily suspended firms and individuals be shared on regular basis (through a web-page, if feasible, updated concurrently with World Bank update) with the agencies in charge of procurement; (iii) the TOR for annual audit of the Program request that auditors check on a random-sampling basis whether any contract has been awarded to ineligible firm or individual; (iv) the regular Progress Reports should contain a confirmations that no such debarred or suspended firms have been contracted under the Program.
  - v. There are vacant procurement positions in the SSUFSCP. In order to ensure timely implementation of planned procurement activities, all vacant positions shall be filled before the start of Program activities.
4. The key financial management risks and mitigations actions are:
- i. As the Program is implemented by a total of five Implementing Institutions, therefore scope of their coordination and their specific responsibilities have been precisely defined to ensure smooth and timely implementations. This clarity should be maintained throughout the Program implementation. Key decisions regarding their roles were agreed during the Program preparation and described in the Program documents. The MOF will establish a Program Coordinating Unit (PCU) to facilitate implementation of the DLIs. The government will further prepare and approve a Program Operational Manual (POM), which will provide further detail as to roles and responsibilities of MOF as well as MAPF, MRD, MOJ, Geocadaster and SSUFSCP.
  - ii. As the Program is implemented by a total of five Implementing Institutions which receive state financing through their respective budget lines, under the overall coordination of the MOF, the government does not automatically produce specific consolidated Program financial statements. However, throughout the Program implementation MOF will be required to prepare such annual Program reports which would provide annual planned and actual amounts on the implementation of budget programs associated with the Program. MOF would manually consolidate data that would be received from the respective Implementing Institutions. Each Implementing Institution has the capacity as well as necessary systems in place to prepare reports on all budget programs under their responsibility. The form and content of submissions will be specified in the POM for ease of consolidation. MOF also was confirmed to have the necessary capacity to produce such annual



- program reports. Reports are produced within the timeframe required by legislation and include sufficient detail.
- iii. Financing of the relevant budget programs of the Implementing Institutions may be insufficient, as included by the MOF in the State Budget for a financial year for the approval of Cabinet of Minister (CMU). However, MOF has incentives to allocate sufficient funds as the state budget, as then the budget funds will then be replenished by the World Bank in the amount which is connected to each specific DLI upon its achievement. Immediate costs associated with the achievement of each DLI will be less than the value of respective DLI, and the remaining amount will continue supporting the respective budget programs. Sufficiency of budget allocation will be monitored through the review of annual Program financial statements and analysis of actual and planned expenditures. Successful implementation of the DLIs will also provide indirect evidence of the sufficiency of budget funding.
  - iv. Given the budgeting process, the state budget for 2019 may not include full provision for the costs required to start the activities towards the achievement of the DLIs. Accordingly, an advance in the amount of US\$20 million will be paid to the MOF upon approval of the Program and its effectiveness. MOF will further provide additional funding to the Implementing Institutions upon receipt of such request along with detailed calculations from the Implementing Institutions. Such calculations are prepared during the Program preparation and will be the basis for calculations of precise amount of advance after the Program effectiveness.
  - v. Program disbursements may be delayed in case of longer period than estimated required for the Implementing Institutions to achieve the DLIs or for those DLIs to be confirmed by independent verifying agency. To address this risk, the Implementing Institutions jointly with the World Bank under the overall coordination of MOF developed detailed implementation schedules as well as cost estimates for activities that are required for the implementation of each of the DLIs. Each Implementing Institution confirmed its intentions and readiness to work on the implementation of the respective DLIs, and respective capacity of each agency was confirmed by both technical and fiduciary assessments. In preparation of this Program, disbursement mechanism to be used upon completion and verification of DLIs was discussed and agreed with the government.
  - vi. Internal audit function of the Implementing Institutions is sometimes under-staffed, and the budget programs captured in the Program are not regularly reviewed by the internal audit department. It was deemed impractical to expand the scope of work of internal audits to cover annually these budget programs. It was agreed that the consolidated Program financial statements will subject to external financial audit by the Accounting Chamber of Ukraine (ACU), on an annual basis. Such audit report will report on the execution of these budget programs and will be submitted to the World Bank within six (6) months from the end of each fiscal year of the Program implementation.

### *1.3 Procurement exclusions*

5. Given the nature of the Program, it is not envisaged that the Program will finance any contract for works, goods and consulting services above the Bank's Operational Procurement Review Committee (OPRC) thresholds<sup>30</sup>. Given the several Implementing Institutions and the nature of the Program, there is rather limited scope of procurable items in the Program. It is unlikely that the Program will finance any OPRC level contracts, as currently the highest estimated value of procurement packages planned in the Program is set at US\$40 million

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<sup>30</sup> OPRC thresholds for substantial risk projects are US\$75 million for works, US\$50 million for goods, information technology and non-consulting services, and US\$20 million for firm consultants



per contract equivalent for surveying works and registering of state land by Geocadaster. However, should such OPRC level contracts be financed, they would be excluded from the Program.

**Section 2. Scope**

*2.1 Scope of Fiduciary System Assessment*

6. The scope of the Fiduciary System Assessment is based on the defined boundary and Program Expenditure Framework, i.e. included in the PforR (captured principally in various budget codes associated with the Program). The fiduciary team assessed the fiduciary systems of the MOF for financial management and financial management and procurement functions at the Implementing Institutions at central Governmental level, including Ministry of Finance (MOF), Ministry of Agrarian Policy and Food (MAPF), State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP), State Service of Ukraine for Geodesy, Cartography and Cadaster (Geocadaster), Ministry of Justice (MoJ) and Ministry of Regional Development (MRD).

*2.2 The Government’s Expenditure Program.*

7. The total GSAP cost are expected at around US\$1.19 billion over a seven-year program period, covering the components described in Table 1. The part of the expenditure program associated with the PforR Program amounts to US\$646.91 million over the six-year period. The relevant budget codes of the expenditure program at the Ministries and Agencies implementing the Program and are responsible for achieving the DLIs are indicated below in Table 1. The Program financing support is calculated based on the average annual budget line allocations during 2016-2019.

**Table 1: Summary of GSAP and Program Financing:**

Government Ministry/Agency	Budget codes	Total Financing, (US\$ '000)	Personnel	Non-personnel recurrent	Capital
			Percent (%) of total		
MAPF (DLI1)	2801010	24,830	52.7	47.0	0.3
	2801130	3,527	65.4	34.0	0.6
Geocadaster	2803010	202,195	-	70.9	21.1
	2803020	38,027	16.6	33.3	50.1
Ministry of Regional Development	2751010	22,075	79.2	19.4	1.4
	2751270	14,569	0.0	0.0	100.0
Ministry of Justice	3603020	73,648	86.4	13.5	0.1
SSUFSCP	2809030	268,039	59.9	31.8	8.3



### **Section 3: Program Implementation and Responsibilities**

**8.** The Program will have a two-tier implementation structure supported by a Program Steering Committee. MOF will be the overall Implementing Agency for the Program. They will house the PCU with the key responsibilities of: (i) monitoring the implementation of the agreed actions based on detailed implementation schedules agreed during the negotiations; (ii) ensuring verification of the achieved results; (iii) transferring the funds to the Implementing Institutions, and (iv) overall financial management of the Program, including Program reporting and annual auditing. The Program will also have five Implementing Institutions (as listed in Section 2.1 above), which will be implementing the DLIs in their respective areas.

#### *3.2. Government Procedures for Program Implementation*

**9.** By the Program design, the transfer of funds from the MOF to the Implementing Institutions will take place in accordance with the regular (budget) financing procedures. Each Implementing Institutions is to prepare and submit to the MOF and the World Bank the set of the activities and the tentative budget allocation requirement for the duration of the Program implementation.

**10.** A Program Operational Manual (POM) will be prepared for the Program, which would include the Program objectives and targets to be achieved, detailed description, detailed implementation schedules, budget allocation requirements for the Program period, detailed procedures for transfer of the budget funds to the Implementing Institutions and periodic auditing and reporting arrangements. It has been agreed that the POM is an Effectiveness condition. It was also agreed that upon finalization the respective parts of the POM would be approved by the Implementing Institutions and the MOF will provide the overall approval of the POM.

#### *3.3. Disbursement of Program Funds*

**11.** The budget would be managed to allow for proper budget appropriation and availability to each participating Ministry and Government Agency. Budget lines will cover an amount equal to or higher than the amount of Bank-financed resources assigned to cover the DLIs/DLRs for each year. An advance in the amount of US\$20 million may be disbursed once the Program becomes effective to ensure the availability of financing for the second half of 2019 and 2020 to start the implementation of the DLIs. This advance would be further distributed by the MOF to the Implementing Institutions on a need basis.

**12.** Disbursement towards the achievement of the DLIs will take place upon verification of the achievement of the specific DLRs indicated under each DLI. Some DLIs will be scalable, while as for others – non-scalable, and the relevant formulas will be provided in the POM. Implementation of the DLIs and DLRs will be monitored by the MOF and verified by an independent verifier, to be contracted by MOF. The MOF will then submit to the World Bank the relevant evidence of the total or partial achievement of DLIs, along with verification reports. After the analysis of that evidence, the World Bank will communicate to the MOF the results of its analysis and the corresponding level of disbursement for each DLI. Each such disbursement upon achievement of DLIs will be proportionally adjusted for advance already paid in relation to that specific DLI. On that basis, disbursement requests will be submitted to the World Bank by the MOF.



### *3.4. Fiduciary Capacity of MOF*

**13.** It was confirmed that the MOF has sufficient capacity, including qualified staff, to carry out the its functions as the coordinating agency. The key staff of the International Financial Projects Department actively participated in the Program preparation and will be in charge of the MOF fiduciary responsibilities during Program implementation. Given that there is no automated system what would allow for preparation of such consolidated Program report, such consolidated financial statements will be manually prepared by MOF based on the individual reports received from the Implementing Institutions in formats outlined to be outlined in the POM. MOF was confirmed to have the necessary capacity to prepare such reports based on inputs received.

**14.** MOF will be the overall Implementing Agency for the Program. Its PCU will work with the Implementing Institutions on the monitoring of agreed actions as well as their reporting and verification. In terms of fiduciary responsibilities, the MOF will be responsible for the following:

- Ensuring that a POM is developed, including details on Fiduciary responsibilities of the MOF and the Implementing Institutions;
- Ensuring that the Implementing Institutions are provided with sufficient resources for achievement of DLIs, via the regular budgeting process. MOF will receive and analyze detailed calculations and cost estimates related to respective activities of the Implementing Institutions which will serve as a basis to determine appropriate budget allocation;
- Preparation and submission of Withdrawal applications to the World Bank, for advance and then upon achievement of DLIs;
- Preparation of the annual consolidated Program report on the basis of annual reports submitted by the Implementing Institutions to the MOF;
- Coordination of the procedure of the annual audit of the Program as well as submission of annual Program audit report to the World Bank.

### *3.5. Fiduciary Capacity of Implementing Institutions*

**15.** Fiduciary assessment confirmed that the Implementing Institutions have capacity for execution of the budget codes captured in the Program, including their budgeting, execution, monitoring and reporting, as summarized in more detail below. The key fiduciary risks and fiduciary action plan are captured in the respective sections of this assessment.

**16.** Fiduciary assessment of each of the five Implementing Institutions was carried out, with the focus on the existing processes and procedures of those Implementing Institutions and their capacity in implementation of their respective parts of the Program, specifically their respective budget codes that are captured in the Program Expenditure Framework.

**17.** Each of MAPF, MRD, MOJ, Geocadaster and SSUFSCP have sufficient and qualified staff in charge of their programs budgeting, accounting, and reporting. The names and numbers of financial units as well as their staffing and division of responsibilities between staff varies between all five Implementing Institutions. Generally, the financial units are responsible for consolidated budgeting process at the Implementing Institution, with the engagement and inputs of technical units. The five Implementing Institutions have reported on the functions of financial staff, and elements of segregation of duties and division of responsibilities are in place.



18. Existing staff is generally able to perform the required functions, as evidenced by findings of the detailed review below.

#### **Section 4: Review of Public Financial Management Cycle**

##### *4.1 Planning and Budgeting*

##### 4.1.1 Adequacy of budgets

19. Budget preparation: Fiduciary assessment confirmed that Implementing Institutions follow the budget cycle in accordance with the relevant regulations.

20. As the State Budget for 2019 was already approved and expenditures needed to commence activities required towards the achievement of DLIs have not been allocated to the Implementing Institutions via the State Budget, a Program advance in the amount of US\$20 million was agreed with the government. Upon approval of the Program, advance will be credited to the US\$ account of the MOF opened in Ukreximbank. This advance will be credited to the Special fund of the budget, and respective expenditure line item has already been included in the MOF budget for 2019. Further, MOF will make advances to the Implementing Institutions on a need basis, to their respective accounts opened in the State Treasury of Ukraine in local currency UAH.

##### 4.1.2 Procurement profile of the Program

21. Procurement Overview: The Program will cover a rather limited scope of procurable items (See Table 1). Under DLI#1: IT services for creating of a new IT platform for managing register of agricultural state support recipients (pilot project for \$600,000), several consultancy services; under DLI#2, the Program plans to procure non-consulting services via open tenders in the ProZorro system for inventory, surveying, and registration of state agricultural land in the State Land Cadaster (total of 12 million hectares estimated to cost \$120 million, divided into several tenders over 5 years), production of orthophotos and topographic maps for 17 oblasts of the country, and preparation of territorial development plans for 600 amalgamated communities; DLI#3 would involve design and construction of 10 Border Inspection Points. All procurement will be conducted at the central level of various Implementing Institutions (except the territorial development plans to be procured by 600 amalgamated communities), which all follow the national public procurement law and e-procurement system ProZorro. Supervision and control function over procurement activities in those agencies is done by the Accounting Chamber of Ukraine, as well as the State Audit Service (SAS), which conduct audits of those entities on a regular basis.

22. Procurement Regulatory Framework: The Government of Ukraine public procurement system has evolved in the recent years. The EU-Ukraine Association Agreement signed in March and June 2014 imposed obligatory reforms regarding problematic public procurement sectors in Ukraine. A Strategy for Public Procurement Reform (Roadmap) approved by the ordinance of CMU of 24 February 2016 №175 for harmonization with EU legislation was therefore developed along with the strategy of procurement reform which represent the framework of e-procurement system called ProZorro (<https://prozorro.gov.ua>). The current public procurement legal framework comprises both primary and secondary legislation. There is one main law on Public Procurement (the Law of Ukraine “On Public Procurement” no. 922-VII of 25 December 2015) that came into force in April 2016. Current legal framework includes also the secondary legislation



including several regulations, and numerous orders issued by the Ministry of Economic Development and Trade (the regulator). Ukraine is also a member of WTO Government Procurement Agreement since May 2016.

**23.** The Government has been very successful in introducing the e-procurement system (ProZorro) in Ukraine, which contributed to enhanced transparency and efficiency of the public procurement system. ProZorro was developed in close cooperation between government, private sector, and civil society. Currently, all procurement procedures are conducted in electronic manner (above thresholds set by the PPL) by all procuring entities (budget-funded authorities at central and sub-national level, utilities, state-owned or communal enterprises). All procurement information is freely available online with access to all documents submitted by bidders as well as concluded contracts and any amendments. The system is mandatory to use since April 2016 for all types of procurement above the established thresholds (UAH 200,000 - \$7,176 equivalent for goods and services and UAH 1,500,000 - \$53,821 equivalent for works). Implementing Institutions use internal regulations related to the procurement below the thresholds set in the law. In most cases, participating agencies would still use the ProZorro system (e-reverse auctions) for very small value procurements i.e. in Geocadaster ProZorro system is used for any procurement above UAH 5,000 (\$170 equivalent) and below this threshold a direct contracting can be applied. In SSUFSCP, the thresholds established in UAH 10,000.

**24.** The national procurement system is fully decentralized with each budget holder responsible for their own procurement. Each Implementing Institution, whether it is a line ministry or other government entity, which is a directly financed from state budget, prepares annual Procurement Plans and conducts procurement on the basis of annual budget allocations approved. All Implementing Institutions are subject to the public procurement law of Ukraine. All Implementing Institutions conduct procurement using mandatory ProZorro system including for tenders below the established threshold, which is a good practice. Even at the lowest level of subnational government, at the level of amalgamated communities, based on review conducted of three amalgamated communities, they hold simplified tenders via ProZorro system even for very small value procurement, which is a good practice.

#### *4.2 Budget Execution*

##### *4.2.1 Treasury management and funds flow*

**25.** Adequate funds are available to finance Program implementation as planned, based on the outcome of reviews of the following areas.

**26.** Funds availability: Fiduciary assessment confirmed with all Implementing Institutions that actual funds were largely available through the State Treasury for payments on expenditure items that are part of the approved budget. Only small delays in payments execution by the State Treasury of Ukraine were reported, but they were minor in nature, and subsequently settled in full. Generally, payments under protected budget items are financed as a priority; however, unprotected items also get financed in full, even if with a several-days delay.

**27.** As the Implementing Institutions submit their calculations for the amounts to be included in the next fiscal year budget, those initially requested amounts often reduced by 20-30 percent by the MOF, and particularly excluding most of the capital expenditure items. However, the amount that is approved by the MOF is reported to be then financed in full during the fiscal year.



**28. Payment processing:** It was confirmed that the State Treasury payment processes operates reasonably well. The State Treasury of Ukraine executes budget expenditures for Implementing Institutions. These arrangements enable a close and regular monitoring, reconciliation and controls (including cross-checks) related to the financial information on respective budget expenditures. All expenditure transactions of the Implementing Institutions are executed through STY, and the Treasury performs daily reconciliations of flows and balances.

**29.** Implementing Institutions are aware of their monthly limits within one month after budget approval. Treasury controls spending according to plans and apportionments. The commitment module of the Treasury system ensures that all commitments are controlled within budget allocations. Implementing Institutions commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits. In the beginning of the month the Treasury allocates protected budget categories (such as wages and utility payments), which represent about eighty percent of the budget. All other expenditures are allocated based on proposals of the Treasury approved by the MOF and taking into account available and forecasted TSA fund flows.

**30. Treasury:** It was confirmed that the Treasury Controls over the Program spending function reasonably well. Any commitment or payment of a budget spending entity needs the prior approval of the State Treasury. The Treasury checks the entities' availability of budget under the monthly apportionment ceilings. Requests for commitments and payments must be sent with documentation showing the compliance of the requests with plans, rules and procedures, including procurement procedures. The ex-ante expenditure commitment controls of the State Treasury prevent spending units taking commitments beyond the in-year spending limits. Irregularities, if any, will be in due time corrected by the Treasury control.

**31.** State Treasury of Ukraine prepares monthly and quarterly reports on the Implementing Institutions expenditures, after end of each month and end of each quarter. There are no major concerns over the quality of information, particularly considering the robust controls in place and periodic reconciliation of data with the Implementing Institutions. However, expenditures are only recorded at the stage of making payments, and commitments are not recorded in the existing system.

**32.** The Information and Communication Technology systems in the State Treasury have been maintained and upgraded.

**33. Analysis of deviations: planned vs. actual:** It was confirmed that the Program budgets lines are implemented with insignificant deviations, and such deviations are explained and analyzed. Budget actual expenditures vary slightly from the planned figures. Such analysis was performed for the relevant budget lines that are included in the Program for years 2016 and 2017 (refer subsection on Budget Execution and Monitoring of PAD). Per analysis, the budget execution rate for the identified budget lines in 2016 and 2017 varied between 82 percent and 99 percent. The Implementing Institutions do perform analysis of the deviations and were able to provide explanation for such deviations based on the analysis of 2017 budget execution reports (budget execution reports for 2017 were not yet available).



#### 4.2.2 Accounting and financial reporting

- 34.** The assessment concluded that the accounting and financial reporting systems are acceptable for the purposes of the Program. Adequate accounting records are maintained, and financial reports produced by each of the Implementing Institutions for decision-making, management and reporting. Accounting and reporting systems are comprehensive, to ensure that all activities are recorded and reported in a timely manner.
- 35.** A review of audit reports of Implementing Institutions over the past two years observes no notable findings potentially impacting the Program.
- 36.** Accounting Standards and IT solutions: Each Implementing Institution has very clear records and reports on their respective budget programs, including those that have been associated with the Program. Generally, such reports contain reliable information as it is also reconciled with the State Treasury and amounts are regularly confirmed by the State Treasury.
- 37.** National accounting standards used for keeping records are mostly cash-based, expenditure are only captured at the payment stage, with elements of accrual accounting such as reporting on assets and liabilities and debt. These standards are well known within the MOF, State Treasury, as this was also confirmed with the Implementing Institutions.
- 38.** Each Implementing Institution uses a number of IT solutions to keep accounting records, produce reports and liaise with the State Treasury. There is no universal IT solution in place at all Implementing Institutions. Further, several IT systems that were prohibited by Ukrainian government in 2016 had to be phased out and removed by others. Some of the IT solutions in use are Afina, Is-Pro (accounting), AIS State Budget, Medoc (reporting), E-Zvitnist, E-data, Kazna-Kazna (treasury documents exchange, payments, and reporting).
- 39.** Reporting arrangements: Annual consolidated Program reports will be prepared by MMF manually with the inputs of the Implementing Institutions and submitted to the World Bank after the end of each financial year.
- 40.** In order for the MOF to prepare the consolidated Program financial statements, MOF will receive inputs from the Implementing Institutions. Specifically, the Implementing Institutions will need to submit the annual reports on their budget execution, and MOF will produce an annual Program report which will only contain the budget lines of respective Implementing Institutions which are associated with the program. The MOF was confirmed to have the capacity for preparation of such Program financial statements. Each Implementing Institution has the capacity as well as necessary systems in place to prepare reports on all budget programs under their responsibility. Reports are produced within the timeframe required by legislation and include sufficient detail.
- 41.** It will be relatively easy to include only budget lines that are associated with the Program, as they would be manually extracted from the consolidated budget execution reports that are routinely prepared by Implementing Institutions. As of the time of this assessment, there are a total of nine budget lines under the responsibility of the Implementing Institutions. However, the Program is intended to have flexibility to modify the list of Implementing Institutions and associated budget programs throughout the program implementation, subject to satisfactory result of assessment of such additional agencies.

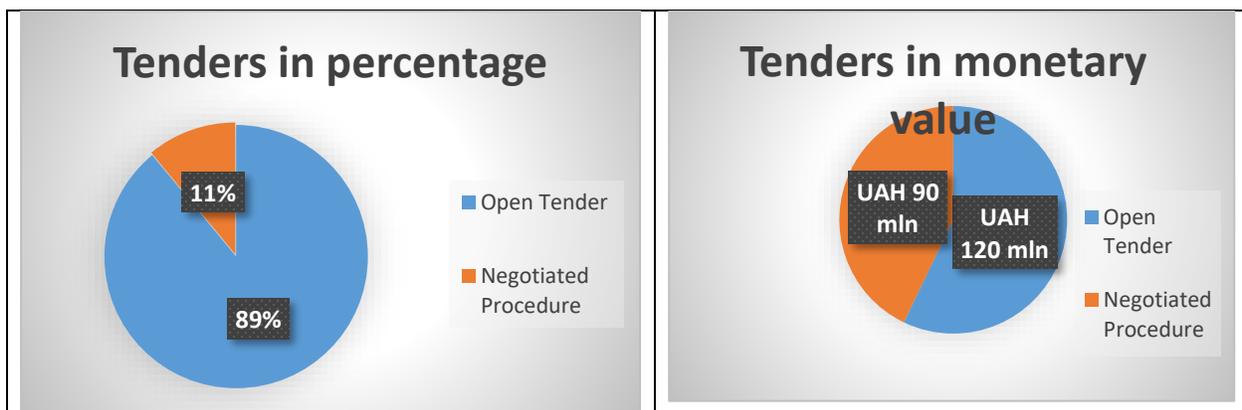


4.2.3 Performance of the procurement system

42. This assessment concludes that Implementing Institutions have adequate capacity to undertake Program procurement activities.

43. The procurement methods allowed by the Public Procurement Law (PPL) include (1) open procedure tendering, (2) competitive dialogue and (3) negotiated procedure. Based on the assessment of participating agencies in vast majority of cases, an open competitive procedure is conducted through ProZorro system. In justified cases, Implementing Institutions were conducting negotiated procedure (i.e. for telecommunication services or in case of monopoly on the market or vaccines available from only one manufacturer). The tables in Annex 1 show some key performance indicators of the procurement system on the basis of tenders conducted by the selected the Implementing Institutions (number of tenders conducted in the years 2016 and 2017, average number of bid per tender, tender processing time, tenders cancelled including any complaints received).

44. Tender efficiency data and competition level: From the information reviewed, in the past two years (2016-2017) the below three Implementing Institutions conducted a total of 124 open tender procedures (SG-5, SSUFSCP-101 and MAPF-18) and a total of 16 negotiated procedures (SG-4, SSUFSCP-3 and MAPF-9). This constitutes a total of 140 tenders conducted by all three agencies of which 89 percent were open tenders and 11 percent negotiated procedure used. However, in monetary value of those tenders the percentage ratio is significantly different. The total value of all tenders conducted in the past two years is approx. UAH 210 million of which UAH 120 million were open tenders (57 percent) and UAH 90 million (43 percent) negotiated procedures. While a positive indication is that in vast majority of cases an open tender was conducted, the processing time from tender announcement to contract award was very efficient (21 days in Geocadaster, 24 days in SSUFSCP and 48 days in SSUFSCP for EU threshold tenders above EUR 133,000 for goods and services and EUR 5,150,000 for works), however the level of competition could have been higher, in case of MAPF and SSUFSCP, where the average number of bid per open tender is only two, compared to four bids in Geocadaster. Bids preparation time seemed reasonable too (11 days for smaller value tenders and 24 days for EU threshold tenders).



45. Procurement planning, conducting tenders and contracts executions is carried out by each Implementing Institution independently. All open and limited (negotiated) bidding are being carried out by assigned standing Tender Committees in those organizations. Relevant technical departments are in charge of tender



specifications preparation for all types of procurement. For construction type of contracts, designs prepared must be approved by the State Expertise. Once the contract is awarded by the Tender Committee, contract execution and supervision including quality control is a responsibility of the relevant technical department, while payment is usually processed by respective financial departments of participating agencies. Overall, the procurement arrangements including contract implementation practices followed by the Implementing Institutions are satisfactory. The only concern identified is with respect to the land surveying/inventory work in Geocadaster which has been currently done without any competition through their own State-Owned Enterprise (SOE). Due to the fact, that there is a well-developed private sector for such services in Ukraine including abroad, and as per best international practices, such services are normally tendered out. The Bank has clarified to Geocadaster that land surveying services included in the Program shall be conducted by an open competitive tender process in accordance with the national procurement law in force via ProZorro system.

**46. Procurement Planning Phase:** With respect to procurement planning stage, on the basis of approved budget programs, a procurement plan is being prepared by each Implementing Institution for each calendar year and published on ProZorro website. These plans are subject to updates on a regular basis, after each change made to the Procurement Plan throughout the budget year. In order for bidders to take part in tendering via ProZorro, bidders are required to register via accredited e-platforms (there is a link at ProZorro website) as a new business user in order to participate in tenders and to acquire bidding documents, submit clarifications, be informed about any addenda, and submit bids and bid securities. Registration is an easy process, and does not require a fee. Only for the submission of a bid in a specific tender a fee is required. Fees are set by the CMU through a decree. Tenders are conducted in Ukrainian, however for tenders above the established thresholds of EUR 133,000 for goods and services and EUR 5,150,000 for works tender announcement including tender documents must be translated into English.

**47. Eligibility for Tender Participation:** All bidders from any country may participate in any tender procedure. However, in accordance with Article 17 of the PPL, a bidder's bid may be rejected if the bidder has engaged in fraudulent, corrupt activities, has been declared bankrupt, has outstanding tax liabilities or crime offences i.e. information on legal entity that is a tenderer is included in the Unified State Register of Perpetrators of Corruption or Corruption-related Offences or a bidder, during the last three years, has been hold liable for an infringement provided for in Article 6, paragraph 2, sub-paragraph 4, Article 50, point 1 of the Law of Ukraine "On Protection of Economic Competition" in the form of anticompetitive actions related to bid rigging. Tender procedure is also cancelled in case if less than two bids are received per single tender procedure as per Article 28 of the PPL.

**48.** If the value is lower than thresholds indicated in the PPL (UAH 200,000 for goods and services and UAH 1,500,000 for civil works), a procuring entity may conduct a simplified e-auction through ProZorro system but this is not mandatory. For procurement above the thresholds, the PPL mandates the use of specific procurement procedures among the three listed above. However, the use of negotiated procedure has to be properly justified, as this is the least competitive procedure and can only be used in the circumstances described in the PPL such as: (i) for procurement of art, (ii) procurement related to protection of intellectual property rights, (iii) there is lack of competition in the relevant market, (iv) there is an urgent need for the procurement due to special economic or social circumstances i.e. elimination of consequences of emergencies, humanitarian aid by Ukraine to other countries, (v) the contracting authority has cancelled the procedure twice due to insufficient number of bids, (vi) there is a need for additional procurement from the same supplier to



ensure standardization or compatibility with existing supplies, works or services, (vii) there is a need for additional construction works not included in the original project, but which turned out to be necessary for the completion of the project due to force majeure circumstances and total value of additional works will not exceed 50 percent of the original contract value; (viii) procurement of legal services for the protection of rights and interest of Ukraine including national security and defense legal protection, dispute settlements, representation in foreign jurisdictions.

**49. Bid Preparation:** Implementing Institutions are responsible for preparing the bidding documents specifying the terms and conditions of a public procurement contract. The tender documents are usually developed by agencies relevant technical departments and approved by the Tender Committees sitting in those organizations. Minimum requirements regarding the content of tender documentation is set out in Article 22 of the Law “On Public Procurement”, as well as in the Ministry of Economic Development and Trade’s Order no. 680 of 13 April 2016. The general structure of bidding documents includes instructions for bids preparation, qualification criteria, technical specifications, evaluation criteria for selecting, draft procurement contract. Tender announcements are published via ProZorro website allowing at least 15 calendar days for bids preparation if the cost estimates of procurement packages are below EUR 133,000 for goods and services and EUR 5,150,000 for civil works and at least 30 calendar days above these thresholds. ProZorro system assigns automatically deadlines for bids submission, bids evaluation and contract award in compliance with the national procurement law. If these deadlines are not met, then the procedure is automatically cancelled. For big value tenders above the EU thresholds EUR 133,000 for goods and services and EUR 5,150,000 for civil works, the entire tender procedure usually takes 45 days till contract award (30 days for bids preparation), 5 business days for evaluation up to 20 business days and 10 days for contract signing (in case no complaints are received).

**50. Tender Committees:** Composition of the tender committee, as well as Regulations on the tender committee are subject to approval by the contracting authority. Activities of an authorized person(s) shall be regulated by the relevant employment agreement signed with the contracting authority. An authorized person must have an academic degree.

**51.** Officers and representatives of tenderers, their family members, as well as Members of Parliament, and deputies of the district/town/city/rayon/oblast council may not be members of tender committees, nor may be appointed as authorized persons.

**52.** A tender committee shall consist of at least five members. Where a contracting authority’s staff consists of fewer than five persons, the tender committee shall be composed of all officers (officials) of the contracting authority. Chairman of a tender committee shall manage the work of the committee. Chairman of a tender committee shall be appointed by the contracting authority, organize the work of the committee and shall be personally responsible for the performance of functions vested in the committee. Tender committees or authorized persons are in charge of drafting and approving procurement plans, conducting and evaluating bids, ensuing appropriate publication of procurement related information including archiving of documents. Decisions of tender committees are recorded in the minutes from the tender committees' meetings. Tender committees are held responsible for procurement decisions. In case of non-compliance, the Administrative Code of Ukraine provisions apply including financial penalties for public officials involved in procurement process. The entities have no separate Code of Conduct for procurement, however all government officials including procurement specialists follow the Law on Civil Service. The PPL also stipulates provisions with



respect to conflict of interest inter alia: officers and representatives of bidders, their family members may not be members of the tender committee nor may be appointed as authorized persons. Regulation of Civil Service no. 158 05.08.2016 Code of Ethics for civil servants including Law on Corruption Prevention no. 14 October 2014, no. 1703.

**53. Hiring of Individual Consultants:** Hiring of individual experts is not covered by the Implementing Institutions as such contracts are covered either by the labor law or civil code depending on the contractual arrangement. If entities need to hire additional experts - government officials under the labor law, the procedure involves publication of a contest on a specific agency website including website of the Civil Service of Ukraine, who also organizes online testing before candidates can be invited for interviews with particular agency. Each agency has a selection committee established, which usually consists of directors of various departments. On the basis of conducted interviews with the shortlisted candidates, who passed the online testing, the best qualified candidate(s) are selected. If the experts are hired under the civil law for provision of consulting services, then the entities use the Prozorro system to select those experts, if the estimated cost of the contract is above UAH 200,000 (\$7,176 equivalent). For contract below this threshold, the entities would also mostly use ProZorro system.

#### *4.2.4 Contract administration*

**54.** After the contract is awarded through ProZorro system, the Implementing Institutions proceed with signing the contract with selected bidder. Copy of all signed contracts are publicly available on ProZorro website including links to payments made if the payment system is done through State Treasury. Each Implementing Institution is in charge with the contract administration throughout the contract implementation period. Given the annual budget limitations, vast majority of procurement contracts are completed by end of calendar year (which is the end of the budgetary year), with a possibility of extension prescribed by the PPL. The below table shows actual contracts signed by selected Implementing Institutions, which were reviewed by the Bank team to check if they have been implemented according to original time schedule and budget. In all cases reviewed, the contracts were successfully completed on time and within the original contract price. Only in one case reviewed, the contract award was cancelled following the decision of Anti-Monopoly Committee of Ukraine (AMCU). Overall, the contract management practices followed were satisfactory.

**55.** Contract variations, whenever needed, were handled in accordance with the terms and conditions of the contract and in an expeditious manner. In most cases, contracts amendments related to the time extension of the ongoing contracts. Contract variations were firstly certified by the relevant technical department of a particular agency and subsequently submitted to relevant financial department for approval.

**56.** Final acceptance and final inspection of the works, goods or services are conducted by representatives of relevant government agencies including finance departments.

**57.** Implementing Institutions follow payment contract conditions. Normally, payment is made within 15 days after the payment application is certified by the respective Implementing Institution.

**58.** Efficient contractual dispute resolution procedure is in place in each contract. In case of contractual dispute, the dispute is first settled by the contractual parties amicably. If the parties fail to reach agreement in amicable way, the dispute is referred to relevant civil court.



**59. Procurement Oversight:** Procurement oversight and supervision function over Implementing Institutions is normally conducted by the Accounting Chamber of Ukraine (ACU), who has the mandate to audit the financial statements of government as well as the execution of the annual state budget. In their standard audit proceedings, they also audit procurement transactions including contracts executed and payments made against signed contracts. Implementing Institutions are subject to regular audits by ACU, as well as by the SAS, which is also reviewing procurement transactions. During the assessment preparation an audit report by ACU of Geocadaster has been reviewed and there were no procurement related concerns raised there. Program audit arrangements will include terms of reference covering proposed procurement activities.

**60.** There is very active participation of civil society in overseeing the public procurement in Ukraine. One of the most active is DoZorro platform – a monitoring portal where all interested in the procurement chain (supplier, buyer, oversight body or citizen) may provide feedback to a state procurement entity or supplier, discuss and assess the conditions of a specific procurement, analyze procurements of a certain government authority or institution. There are other NGOs present in Ukraine, which monitor public procurement at all levels, not only tenders conducted, and contracts implemented by the central governmental level, but also procurement done by local subnational level.

#### *4.3 Internal Controls*

##### *4.3.1 Internal controls*

**61.** The assessment concluded that the internal controls systems of the Implementing Institutions are acceptable for the purposes of the Program implementation. The Program will apply the internal control arrangements which exist at the Implementing Institutions. To confirm the continuous soundness of the control environment of the Program implementation, the program will be subject to external audit conducted by the ACU. The auditors will be required to report on any internal control deficiencies that have been identified during such annual audit of the Program.

**62.** Internal controls and procedures of all Implementing Institutions are in line with the existing laws and regulations on the public accounting and reporting. Specifically, the legislation that governs the establishment and operations of the internal controls at the Implementing Institutions is CMU Decree #1062 from December 12, 2018. Some Implementing Institutions also issued internal orders on some specific internal control aspects, such as guidelines on the contract preparation and management. In cases where no such internal regulations are available, responsible staff follow the requirements of their job description, and perform their tasks in line with requirements of relevant legislation.

**63.** Budget execution controls are implemented consistently throughout the Implementing Institutions. The budget execution systems implement prescribed controls that include (1) technical approval by the beneficiary department (2) finance staff checking and approval (3) periodic checks by internal and external audits. These controls are applied to the entire budget execution process, from budget preparation, to contract implementation, and then to acceptance of respective goods and services.

**64.** All Implementing Institutions use the State Treasury of Ukraine for executing their expenditures. The segregation of duties between the State Treasury and the Implementing Institutions are comprehensive and relevant. All Implementing Institutions also have reasonable segregation of duties within the entities. Each



Implementing Institution has ex-ante controls over its payments. The payments are then also periodically checked by SAS and ACU ex-post, regarding their lawfulness.

**65.** The State Treasury of Ukraine has robust system of internal controls in place, that have proven the function reasonably well and reliably. Any commitment or payment of the Implementing Institution needs prior approval of the State Treasury. The Treasury checks the entities' availability of budget under the monthly apportionment ceilings. Implementing Institutions send requests for commitments and payments along with the documentation that shows compliance with the plans, rules and procedures. State Treasury requests additional information/clarifications in case of any deviations from the established practices.

#### 4.3.2 Internal audit

**66.** Fiduciary review concluded that reliance will be primarily placed on external audit, rather than internal unit reviews, to confirm proper annual Program execution. This is based on the following: (1) The audit function is implemented in all five Implementing Institutions; the capacity of such units and the scope of internal audit reviews varies. (2) The budget lines included in the Program did not fall under the scope of internal audit reviews in the recent years.

**67.** The legislation that governs the establishment and operations of the internal audit at the Implementing Institutions is CMU Decree #1062 from December 12, 2018. Some Implementing Institutions also issued internal decree or order which defines more specifically the functions and responsibilities of their internal audit units. Internal audit units in all Implementing Institutions report directly to the Minister or Head. Upon receipt of the internal audit report, the Minister or Head issue an order to respective units of the Implementing Institution to take actions upon recommendations of the internal audit. Monitoring of the implementation of the action plan is then often performed by the internal audit unit.

**68.** The size and staffing of the internal audit unit varies in all program Implementing Institutions. Internal audits of the Implementing Institutions cover the budget spending at both the central level as well as the subordinated agencies or regional offices of the respective Implementing Institutions. This broad scope is covered by relatively limited staff, and so the coverage of the budget programs as well as total expenditures covered by the internal audit can vary. It was confirmed that some of the Program Implementing Institutions publish their annual and semi-annual audit plans as well results of internal audit reviews on their website; however, this practice is not followed by all Implementing Institutions.

**69.** Most of internal audit work is focused on checking financial transactions and compliance of activities, and it still does not have systematic or diagnostic nature. Generally, three types of audits are carried out – system and operational audits, performance audits and also financial audits. Assessment of effectiveness of internal controls and management processes is not carried out. The Ukrainian Internal Audit Standards which are used by the central executive authorities are based on the International Standards for the Professional Practice and Internal Audit issued by IIA. Heads of all internal audit units of the Implementing Institutions report to the head of respective entity. The audit plans are developed semi-annually and annually, and they are somewhat based on the risk assessment. In addition, internal auditors rely on their professional judgement and recommendations received from heads of other departments, as confirmed with the implementing agencies. Audit findings are generally reported to be followed up during subsequent reviews as well as through immediate responses/actions taken by the respective heads and ministers.



#### 4.3.3 Program governance and anticorruption arrangements

**70. Complaint handling mechanism:** The agency responsible for procurement appeals in the Ukrainian public e-procurement system is the Antimonopoly Committee of Ukraine (AMCU). ProZorro supports the electronic submission of complaints from interested individuals and legal entities through one of the operating platforms directly to the AMCU. The outcomes of appeal reviews are open to public.

**71.** On the basis of Article 18 of the PPL, complaints with regard to tender documents and/or decisions, actions or omissions by the contracting authority which took place before the expiration of the time limit established for the submission of tenders may be submitted to the Complaint Review Authority (i.e., AMCU) following the publication of the announcement of the procurement procedure, but not later than four days prior to the deadline established for the submission of tenders.

**72.** Complaints regarding decisions, actions or omissions by the contracting authority which took place after the evaluation of tenders shall be submitted within 10 days following the publication of the notice of the intent to award the contract on the ProZorro website, but before the date of the procurement contract. AMCU, within three business days upon entering the complaint into the register of complaints, publishes its decision on admission of the complaint within the e-procurement system, indicating the date, time and place of the complaint review, or a decision with justification to dismiss the complaint without considering it, or a decision on discontinuing consideration of the complaint. The e-procurement system automatically publishes decisions adopted by AMCU on the ProZorro website and send notices to the complainant and to the contracting authority. There is a 10-days limit for review of complaints, which must be consistent with limits set for concluding contracts after publication of notices of intent for award of contracts (contract cannot be signed earlier than 10 days after publication of the notice of intent for award of contract and not later than 20 days and within the validity period of the bid).

**73.** Complainant or contracting authority may appeal against the decision in court within 30 days of the date of publication of the decision within the e-procurement system.

**74.** Overall, in the reviewed three Implementing Institutions in the past two years, a total of seven complaints have been submitted (refer to Annex 1) and processed within the reasonable limits of 15 days in case of MAPF and average 21 days in case of three complaints submitted SSUFSCU tenders. The above processing time includes registration of the complaint in the system, preliminary review conducted by AMCU, including preliminary decision including final resolution and publication of the AMCU decision on ProZorro website. In Geocadaster, there were no complaints submitted at all during the tender process as well as the contract award stage. In the complaint case reviewed in the MAPF, the complaint submitted by the rejected bidder to AMCU referred to discriminatory tender documents requirements and ungrounded rejection of bidder's bid. The complainant submitted a complaint on December 28, 2017 after notification for intention of award of contract was published and AMCU upheld the complainant's decision in their verdict published on January 18, 2019 (within 15 working days from submission of complaint) and requested the tender committee to cancel the decision of rejection of bid and cancel the contract award decision, which was done by the tender committee, however the entire bidding process has been cancelled and rebidding was not held due to lack of budget financing in the new fiscal year 2018.



**75. Compliance with ACGs:** Ukraine continues to be plagued by systemic and pervasive corruption which constrains economic development and weakens public trust and support for elected officials. According to a recent IMF *Ukraine - Selected Issues* paper, corruption in Ukraine remains worse than in lower middle-income countries and the countries of Central, Eastern and Southeastern Europe using a variety of corruption measures, including the Worldwide Governance Indicators and the Enterprise Surveys produced by the Bank (IMF Country Report 17/84, April 2017). Unfortunately, the business community has not seen an improvement in the situation in Ukraine following the Maidan Revolution. Indeed, according to the Global Competitiveness Report corruption was the second worst constraint on business development in 2013, rising to the top constraint in 2016. These results are confirmed by the 2017 annual municipal survey conducted for the Center for Insights in Survey Research which found that over 60 percent of Ukraine’s population believe corruption to be either “somewhat” or a “significant” problem in their cities. This negative perception is particularly pronounced in some cities, including Kyiv, where between 82 percent and 90 percent believe corruption to be somewhat or a significant problem. In Kyiv, 23 percent of respondents stated that they or someone they knew had to give a bribe or do a favor for a local official three to five times over the past two years in order to receive a service that was due to them.

**76.** At the same time, Ukraine has made progress in building the legal and institutional foundation for tackling its corruption problems with strong support and the exercise of leverage from the international community. The creation of the National Anti-Corruption Bureau (NABU) to lead corruption investigations and the Special Anti-Corruption Prosecutors Office (SAPO) have raised hopes that corrupt offenders will be investigated and brought to trial. The delayed creation of the National Agency for Corruption Prevention (NACP) and the process of launching the electronic asset declaration system increased the transparency around public officials and provided another avenue for NABU investigations and for NGO and public scrutiny of government-business links. Unfortunately, the NACP has become politicized and unable to exercise its authority to review and verify asset declarations effectively. The international community has continued to monitor challenges to Ukraine’s young anti-corruption institutions and respond through technical assistance, coordinated policy dialogue with the government and the issuance of strong public statements in support of these institutions. Coordinated lending leverage from the Bank, IMF and EU, the international community led to the creation of a new High Anti-Corruption Court (HACC) for Ukraine with a role for international experts in the vetting and selection of anti-corruption judges. It is hoped that the HACC, expected to begin operations in spring 2019, will finally break the vicious cycle of impunity that has protected Ukraine’s corrupt public officials.

**77.** As per requirements of the Anti-corruption law in force in Ukraine (Law on Corruption Prevention #1700-VII), all government agencies have established an anti-corruption position or department. As per the legal requirements, there should be at least one anticorruption specialist assigned for each 100 employees in an agency or department. All Implementing Institutions involved in procurement are subject to yearly external independent audits i.e. by ACU, SAS, with additional regular oversight conducted by various NGOs. In addition to procurement related complaint submitted via the ProZorro system, any bidder or any party can report fraud and corruption issues to any of these government agencies in anonymous or non-anonymous manner. There are established procedures for verification of such allegations, and they are also available on respective agencies websites. The number of corruption related allegations received on annual basis vary among Implementing Institutions (see below table for Geocadaster corruption related complaints). In vast majority of cases, these allegations are not referred further to the law enforcement bodies such as the police or prosecutor, as they are not substantiated. Once the claims are transferred to relevant authorized agencies,



there is no report back on the status of the final resolution, unless the entity which forwarded the complaint specifically request the authorized body to inform them on the status of complaint review and final resolution.

Period	Territorial Units of StateGeoCadaster		StateGeoCadaster		Total:	
	Number of received claims	Number of claims that were transferred to the specially authorized bodies in the sphere of combating corruption	Number of received claims	Number of claims that were transferred to the specially authorized bodies in the sphere of combating corruption	Number of received claims	Number of claims that were transferred to the specially authorized bodies in the sphere of combating corruption
2017	176	2	131	0	307	2
9 months of 2018	219	7	47	0	266	7
<b>Total:</b>	<b>395</b>	<b>9</b>	<b>178</b>	<b>0</b>	<b>573</b>	<b>9</b>

78. The Program is subject to the Bank’s Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing dated February 1, 2012, revised July 10, 2015. The MOF has agreed to inform the Bank of any credible and material allegations of fraud and corruption arising in the Program (and how the agencies addressed them) in the program progress reports, after collecting of information from all participating agencies. Program progress reports will be provided semi-annually. In case of non-compliance with the Guidelines, legal remedies may be exercised by the Bank;

79. The Government will abide by the Pfor Anticorruption Guidelines. However, there is a risk that most of the parties may not be aware about the lists of the debarred and temporarily suspended firms and individuals declared by the World Bank and other Multilateral Development Banks. Therefore, there is a potential risk that contracts will be awarded to debarred or suspended firms or individuals. The government has agreed that the MOF shall, upon Program Loan effectiveness, issue an official letter or official instruction to cause the Implementing Institutions to ensure that no contract will be awarded to a firm or individual which is in the World Bank debarred list or under temporary suspension and the participating agencies and respective Tender Committees shall be directed to check the World Bank lists of debarred and temporarily suspended firms and individuals available on the MOF’s website which will be updated concurrently with World Bank’s update. In addition, the TOR for annual audit of the program shall include a randomly selected group of awarded contracts to check whether any contract has been awarded to ineligible firms or individuals. The progress report will indicate whether any contract has been awarded to a debarred or suspended firm.

4.4 Auditing

4.4.1. Program audit



**80.** ACU will be responsible for annual audit of the Program financial statements. Such agreement will be included in the Program legal agreement, and such arrangements have been discussed with ACU during the Program preparation. Program audits will need to be carried out starting with the first year of Program implementation. The audit reports will need to be produced no later than six months after the end of each fiscal year. Such Program audit is not part of the existing annual audit arrangements at ACU (please refer section 4.4.2. for details) and therefore Program audit had to be separately discussed and agreed.

**81.** The Program financial statements will be manually prepared by MOF. The Program financial statements will include all budget lines that are associated with the Program. The Program financial statements will also include annual amounts spent on the relevant budget lines as well as cumulative amounts since the beginning of program implementation. Such cumulative amounts spent by respective implementing agencies can then be compared to the value of the DLI amount associated with each specific Implementing Institution.

**82.** The audit of Program financial statements will be carried out according to the TOR that would be discussed and agreed between the MOF and ACU, guided by the World Bank to ensure adequacy and acceptability. The TORs would require auditing the annual program financial statements as well as report on any deficiency of internal controls noted in implementation of respective budget lines. Auditors will also review the procurement procedures and respective control framework and report on any high value contracts. Auditors will be required to confirm that all budget program expenditures have been legitimate, including application of WB anti-corruption guidelines, limitations related to large scale procurements and de-barred items. Additionally, auditors will report on the performance under the determined Key Performance Indicators (KPIs) (refer to Section 6 below).

#### 4.4.2 ACU Mandate and current coverage

**83.** ACU has the mandate to audit the financial statements of government as well as the execution of the annual state budget. Performance of each of the Implementing Institutions are periodically checked by the ACU, and ACU produces a variety of hybrid reports which have similarities performance audit reports. These reports include conclusions, suggestions and recommendation. Reports include evidence of endorsement of such reports by the Implementing Institutions, however, there is no consistent evidence of the actual actions undertaken by the Implementing Institutions nor subsequent follow up of their implementation by ACU.

**84.** Each of the five Implementing Institutions was subject to ACU audits during 2016-2018. However, none of the budget lines that are associated with the Program were directly reviewed by Accounting Chamber during this period. ACU also does not necessarily need to review these specific budget line on an annual basis, per its work plan. Given the complex structure of the Implementing Institutions, including a number of subordinate entities and organizations, ACU identifies and focuses its periodic reviews on selected budget codes implemented by the Ministry or selected number of subordinated entities and organizations. Several of such relevant audit reports were reviewed in the course of the assessment.

#### 4.4.3 ACU Staffing

**85.** ACU has broad experience in audits of World Bank financed projects, although it will be the first PforR program to be audited by ACU, and ACU staff will need to familiarize themselves with the Program documents as well as underlying principles governing the implementation of PforRs.



86. ACU has sufficient staff to carry out the annual audits of the program. Such annual audits need to be included in the audit plan of ACU which is formed for each fiscal year at the end of the preceding fiscal year.

4.4.4 ACU Audit Methodology

87. ACU uses own methodology for audits which is based on the ISSAIs in some respects; however, ISSAIs are not fully used in the work of ACU. Under the respective law ACU has the legal authority to conduct financial audits and compliance audits, and therefore Program audit falls fully under the scope of responsibility of ACU.

4.5 Procurement and Financial Management Capacity

4.5.1 Staffing should be adequate in both numbers and experience

88. All five Implementing Institutions confirmed that they have adequate budget and staffing to carry out their functions related to public financial management. No serious delays or deficiencies in the budget preparation, budget execution and budget reporting processes were noted that could indicate shortage or personnel. Lack of notable and serious deficiencies noted in the reviewed audit reports related to the five agencies also indirectly indicate that the existing staff is both sufficient and adequate in terms of their professional qualifications and experiences. The composition and staffing of the budgeting/planning units of each Implementing Institution varied in size and its internal structure as well as the number of staff. However, composition of such budgeting/planning units of Implementing Institutions appear to be adequate for the scope of their work related to program execution.

89. For procurement, the Implementing Institutions are adequately staffed with procurement specialists, except the SSUFSCP, which currently is staffed with only one Procurement Specialist, but the staffing plan is to get three more specialists. Tender Committees members, as well as procurement specialist from public procurement divisions in participating agencies receive regular training on the national procurement law including any changes in the legislation. These training are organized by the Ministry of Economic Development and Trade (MEDT) on a regular basis.

**Section 5: Risks and mitigation actions proposed**

Risk	Mitigation action	Timing	Type of action (PAP, DLI, etc.)
1. As the Program is implemented by various Implementing Institutions who receive state financing through their respective budget lines, under the overall coordination of the MOF, the government does not	Throughout the Program implementation MOF would be required to prepare such annual reports manually which would provide annual planned and actual amounts on the implementation of budget programs associated with the Program.	Annually	N/A



automatically produce specific consolidated Program financial statements.	Coordination between Implementing Institutions was confirmed during preparation and will also be reflected in POM		
2. The state budget for 2019 does not include the provision for the costs require to start the activities towards the achievement of the DLIs.	Accordingly, advance in the amount of US\$ 20 million will be paid to the MOF upon approval of the Program and its effectiveness.	2019	N/A
3. There is a risk of overuse of negotiated procedure, which is non-competitive.	The Implementing Institutions coordinators as well as MOF ensure that the annual Procurement Plans for Program supported activities establish competitive procedures as default methods. In addition, the Implementing Institutions will reduce the total value of negotiated procedures each year at least 5% of the preceding year of the Program.	Throughout the life of the Program	PAP
4. Low competition in tenders	Implementing Institutions publish annual Procurement Plans at the beginning of each fiscal year and conduct business outreach and market sounding events before launching tenders. In addition, both procurement and technical staff of the Implementing Institutions shall be trained by MEDT to produce high quality tender documents before the start of Program activities and during the Program implementation.	Throughout the life of the Program	PAP
5. Lack of long term budget planning, procurement contracts cannot go beyond a budgetary year.	Participating agencies plan their procurement in advance in particular for goods and services, in order to implement contracts within a budget year. There should be coordinators in charge of each agency's program established who shall oversight and supervise the program implementation including procurement activities envisaged.	Throughout the life of the Program	N/A
6. Fraud and corruption	Promptly inform the Bank of any credible and material allegations of fraud/and/or corruption regarding the Program as part of the overall Program	Semi-annual	LA



	reporting requirements; and ensuring that persons or entities debarred or suspended by the Bank are not awarded a contract by verifying the same prior to award under the Program during the debarment or suspension. TOR for audits firms will include the requirement to assess on randomly basis whether any contract has been awarded to a suspended or debarred firm.		
7. Shortage of qualified procurement staff	All vacant procurement positions shall be filled by the Program's effectiveness. Procurement department of SSUFSCP shall be strengthened to at least 4 Procurement Specialists.	By effectiveness	PAP
8. Implementing Institutions are involved in various procurement activities and this may make the program implementation challenging.	There should be coordinators in charge of each Implementing Institution's program established, who shall oversight and supervise the program implementation including procurement activities envisaged in support of DLIs.	Throughout the life of the Program	N/A



## **Section 6: Implementation Support measures and Key Performance Indicators**

90. The proposed fiduciary implementation support includes:

- Work with the entire team to review implementation progress, examine the achievement of the program results and implementation of proposed action plan;
- Work with the team to assess the timeliness and adequacy of the program funds appropriation as approved budget. This will be done annually as well as during interim budget steps;
- Continue assess and monitor the performance of the financial management and procurement systems including with use of below procurement Key Performance Indicators (KPIs) under the Program and provide suggestions for enhanced efficiency and effectiveness;
- The KPIs will be reflected in the Program's Progress Reports for each Implementing Institution; KPIs monitoring procedures will be reflected in the POM, and will also be subject to review and confirmation by the Program auditors;
- Monitor implementation of the application of the PforR Anti-corruption Guidelines (ACGs) by Anti-corruption specialist including review of semiannual reports and joining supervision missions once a year.
- By the Program effectiveness - training conducted on PforR ACGs to MOF staff, as well as the Implementing Institutions;
- Monitor the PforR financial statement reporting process and as advise the Implementing Institutions as well as the MOF as may be necessary;
- During supervision mission guide the clients to resolve implementation issues related to procurement processes and contract management;
- Agree on a PforR audit TOR, help MOF liaise with auditors, review audit reports including procurement transactions audited, and monitor that key audit findings and weaknesses receive appropriate and timely corrective actions by auditees;
- Monitor changes in fiduciary risks of the program including changes in the legislation, and as relevant, compliance with the fiduciary provisions of the legal covenants.

### **Procurement KPIs:**

- % of procurement completed in support of DLIs achievement;
- % of procurement (by value) following open tender procedure;
- % of contracts awarded by negotiated procedure;
- Average number of bids received;
- Volume of complaints received.

### **Financial management KPIs**

- % of annual actual financing of the budget lines that are part of the Program, compared to the planned financing of these budget lines;
- Accounts payable for the Program budget lines at the end of reporting period.
- % of such accounts payable at the end of reporting period to the annual financing
- Average amount of days required for the State Treasury to execute payments in the Program budget lines
- Nature of audit opinion on Program financial statements and timeliness in addressing audit findings.



## ANNEX 5. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

### Background and Purpose of the ESSA

1. The Government of Ukraine has requested World Bank support for the Government Strategic Action Plan (GSAP) for Leveraging Private Investment in Agriculture and Agribusiness Sectors for 2019-2023 through a Program-for-Results (PforR) loan - Accelerating Private Investment in Agriculture (the Program). The PforR Financing instrument links the disbursement of funds directly to the delivery of defined results and builds on increased reliance on borrower environmental and social and oversight systems as well as transparency and efficiency assessment of the system. The Program Development Objective (PDO) is to remove selected constraints to increased participation of private sector, in particular, SMEs in agricultural input and output markets of Ukraine. The PforR promotes the financially sustainable performance of the agriculture sector by supporting results in two key areas: Results Area 1 - Increasing Competitiveness of the Input Markets, and Results Area 2 – Linking Small and Medium Enterprises<sup>31</sup> (SMEs) and Farmers to Export Markets. These results areas are complemented by three (3) Disbursement Linked Indicators (DLIs) and 6 sub-DLIs (4 sub-DLIs on DLI 2 and 2 sub-DLIs on DLI 3) that have been selected from the broader GSAP and agreed to be supported under the PforR, which is proposed to be financed with USD 200 million.

2. This Environmental and Social System Assessment (ESSA) report has been prepared by the World Bank for the proposed PforR - Accelerating Private Investment in Agriculture Program. The ESSA includes the following information: an introduction of the PforR; a summary of environmental and social risks and benefits associated with activities for achieving PDO and the DLIs for each Results Area; an assessment of the borrower's environment and social management systems which apply to these activities and their risks and benefits; an evaluation of borrower's performance and track record in implementing its environment and social management systems; an assessment of the extent to which the borrower's environment and social management systems are consistent with the World Bank core environment and social principles of the World Bank Policy; and recommendations and actions the borrower has agreed to undertake to improve the implementation of applicable systems.

3. This report has been prepared according to the requirements of the World Bank Policy and Directive for Program-for-Results Financing for adequately managing the environmental and social effects of the Program. The ESSA aims at reviewing the capacity of the Government's existing environmental and social management systems that are the legal, regulatory, and institutional framework guiding the Program, defines measures to strengthen the system, and integrates these measures into the overall Program. The ESSA is undertaken to ensure consistency with six core principles outlined in paragraph 8 of the World Bank Policy for Program-for-Results Financing to effectively manage Program risks and promote sustainable development. These six principles are:

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<sup>31</sup> Small-and Medium Enterprises (SMEs) are defined for the purpose of the Program's Disbursement Linked Indicator 1 (DLI 1) in accordance with the FAO classification (2017), as agricultural enterprises that operate on less than 1,000 Ha of land with annual revenues of less than 40 million Ukrainian Hryvnas (UAH). The SME definition used for DLI 3 is in accordance with the Article 55 of the Commercial Code of Ukraine and includes (a) small-size companies with an average number of staff not exceeding 50 people and an annual revenue not more than EUR 10 million (based on NBU exchange rate); and (b) medium-sized companies with staff of up to 250 people and annual revenue of up to EUR 50 million (based on NBU exchange rate).



- **Environment and Social:** Promote environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social impacts.
- **Natural Habitats and Cultural Resources:** Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program.
- **Public and Worker Safety:** Protect public and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.
- **Land Acquisition:** Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.
- **Vulnerable Groups:** Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups.
- **Social Conflict:** Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

4. The ESSA analyzes the system for environmental and social management that are relevant for the Program with regards to each of these principles. The gaps identified through the ESSA and subsequent actions to fill those gaps directly contribute to the Program's anticipated results to enhance institutional structures related to the Program activities. The ESSA analysis presents a detailed description of the Program activities and the baseline conditions for existing environmental and social management systems. The Report draws on baseline information and presents an analysis of the existing system with regards to the core principles for environmental and social management in Bank Policy and Directive for Program-for-Results Financing and presents a Program Action Plan that will be incorporated into the overall Program loan documentation.

#### *Program Description*

5. The GSAP sets forth a range of measures to mobilize private investment in agriculture and agribusiness sectors to boost their competitiveness, ensure national food security, increase agri-food exports and contribute to a steady economic growth by means of improving policy and regulatory coherence, transparency and non-discrimination, securing access to land and water, ensuring well-functioning input and output markets, improving efficiency of infrastructure and logistics, and strengthening the capacity of public institutions in line with social benefit and positive social effect, environmental benefits, and the best EU and international standards and practices. The GSAP, which is currently being finalized by the Ministry of Agrarian Policy and Food (MAPF), is expected to be approved by the Cabinet of Ministers of Ukraine in May 2019.

6. The GSAP includes the following components: (a) Guaranteeing stability, predictability and transparency of agricultural policy and state support systems; (b) Stimulating the diversification of the agricultural production and promoting integrated development of rural areas; (c) Strengthening the national food safety system capacity; (d) Improving the efficient use of the available infrastructure for storage and transportation of agri-food products by creating a stable climate for investments in infrastructure and logistics; (e) Improving tenure



security, value, and transparency of the use of state agricultural land; (f) Improving water resource management and user-led irrigation service delivery; (g) Creating preconditions for improved access to agricultural inputs for all types of agricultural producers; and (h) Improving access to finance and risk management instruments for all the stakeholders using the best EU and international practices. Within this broader GSAP, the PforR focuses on promoting key reforms to prioritize and focus the government's attention on unlocking the private sector investment potential in the country's agriculture and agribusiness sectors. Following the Maximizing Finance for Development (MFD) approach, these key public investment, institutional, regulatory and public capacity constraints were identified as a priority during the extensive stakeholder consultations in the agriculture and agribusiness sectors and the existing analytical work. Within the framework of the GSAP, the proposed Program aims to improve key aspects of agricultural input and output markets to improve opportunities for agricultural SMEs. Specifically, the Program will focus on the nexus of agricultural sector support policies, land and food safety, which are key preconditions to successful development of the agriculture sector. The private sector consultations also made it evident that SME farms and agribusinesses suffer disproportionately from constraints and market failures related to access to state support, access to land, access to information on export requirements, as well as access to finance and high-quality fertilizer.

7. The Program supports the Government's efforts to create an enabling environment for private investment in the agriculture and agribusiness SMEs. The specific set of activities to be supported by the Program are selected from the broader Program because of their relevance for SMEs. The Program therefore focuses on two complementary Results Areas in the agricultural input and output markets:

- a. **Increasing competitiveness of input markets.** The Program will help improve price formulation and increase access to key agricultural inputs: policies, land and water. The key results to be achieved would include: (i) expanding the outreach of the State subsidy program to a larger number of beneficiaries, in particular agricultural SMEs, thereby improving the strategic underpinnings and efficiency of the subsidy program, and ultimately leveraging increased private investment; (ii) improving transparency in the State agricultural land lease market through inventory and registration of all remaining State lands and improving the efficiency and returns of the mechanisms of leasing this land to private parties; and (iii) improving protection of rights in land and other property owners by establishing an advance notification system of the upcoming changes to the status of the cadastral records, complemented by enhancing the Free Legal Aid System (FLAS) which provides legal assistance on land and other property rights-related issues and is of particular importance to the poorer groups of property owners; and
- b. **Linking SMEs and farmers to export markets.** The Program will assist Ukrainian agribusinesses, in particular SMEs, operating in the space of high-value food products of animal origin and live animals to improve access export markets. The Program will support addressing information asymmetries on food safety and other export market requirements in Ukraine's key high-value markets (EU, China, Gulf Cooperation Council countries (GCC), US, and Canada), and facilitating cross-border trade by upgrading the capacity of inspections and testing on the border, which will complement the introduction of risk-based import-export procedures, on which the State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP) is currently working.

8. **The Government is also tackling key legislative constraints in two other Program areas:** (a) adoption of the amendments to the Law on Pesticides and Agrichemicals (Article 4) that would recognize the EU list for fertilizers and exempt them from mandatory state registration, which would facilitate easier access for farmers



to high quality and efficient fertilizer; and (b) adoption of revisions to the Law on Crop Receipts to encourage development of a secondary market, which would allow for securitization and sale of pools of crop receipt assets, thus injecting additional liquidity into the financial sector.

### Environmental and Social Effects of the Proposed Program

9. As described below, the environmental risks are moderate and social risks are substantial due to the upstream nature of the two Results Areas and related DLIs. The downstream environmental and social risks that are envisaged are addressed by the ESSA Action Plan (see paragraph 18), which will be incorporated into the Program Action Plan during the PforR negotiations stage.

10. **Environment Risks.** The proposed PforR is largely aimed at improving systems and legal frameworks to improve the enabling environment for private investments in agriculture and agribusiness. The Environment risk is moderate due to the upstream nature of the DLIs, which focus on legal and regulatory reforms and involve only minor civil works. It is, therefore, possible to identify and mitigate negative environmental consequences through review and capacity building as detailed in the PforR Action Plan. In preparing the ESSA, the team identified environmental risks as follows:

- **DLI 1 - Improving Efficiency of State Support in Agriculture Sector**, the main risk is overall capacity and lack of a proper system to engage the public by the Ministry – the suggestion is to install a proper public engagement strategy to ensure transparency in the Ministry’s service provision under the Program. This risk will be mitigated through training and capacity building of State GeoCadastral, other implementing Agencies, local councils, and a stakeholder engagement and public outreach campaign.
- **DLI 2 – Improving Functioning of Agricultural Land Markets, dealing with the possible registration of environmentally sensitive land for productive use identification of environmentally sensitive land in areas where registration and auctions are conducted.** Also, the state land could be used under lease or sublease category for agriculture. This risk will be managed through a series of actions including a robust grievance redress mechanism by the GeoCadastral, activating legal aid assistance centers at local authority level to provide free consultations and support for land lot registration, establishment of a land registration database which is transparent and accessible to the public and public awareness and outreach where the public could participate in land auctions and registration. The public information sharing and awareness campaign aims to make it easier for people to participate in land auctions and registrations as well as opportunity to protect poor current users to seek assistance through free legal aid, legal empowerment activities, Grievance Redress Mechanism (GRM) and or through existing legal procedures (court).
- **DLI 3 – Improving Agribusiness Small and Medium Sized Enterprise (SME) Access to Export Markets**, dealing with the construction of ten Border Inspection Points (BIPs), the only physical infrastructure financed by the PforR Financing – this risk will be mitigated by requiring proper environmental licensing and site specific ESIA/ESMPs to identify and mitigate risks.

11. **Social Risks.** While overall the Program will have positive impacts for different types of land users, especially, defined and clear land plots through registration of state lands will promote private investors to engage in business activities, the social risk is substantial due to the uncertainty and possible unfavorable outcomes. It does not involve private land acquisition and /or physical displacement. It is estimated that, out of 8.5 million ha of State agricultural land, only 3.7 million ha have been systematically registered. Most of the



state lands are located outside of communal/settlement areas and are currently used through various types of lease agreements. Although, there is no land acquisition or physical/forced displacement of persons or properties under the Program, potential restriction of access to those currently using of state lands for agriculture and livelihood activities under leased/rental basis is not ruled out. In case there are disputes or conflict in land use which cause displacement or restriction of access, such land parcels will not be subjected to auctions until such issues are resolved. The potential social risks include (a) implementation of a land registration program that gives equal access to users of state lands who may not have registered their land or are unaware the updated cadaster system; (b) potential conflict and/or disputes between different land users who have historical/customary rights as well as disputes at the community level for access to productive lands; and (c) potential resistance from some users of large agricultural lands who may lose such benefits and potential political opposition from some local power groups. The proposed baseline aims to identify the status of subsidy distribution. Relevant stakeholders will be consulted on process of streamlining subsidies to curb potential resistance.

**12.** In summary, the potential risks associated with unfavorable outcome for small producers under the actions proposed under DLI 2 are mitigated through series of measures as follows:

- Building on ongoing work, methodology for simplified inventory and registration of state-owned land as well as local land use planning that is in consistent with Bank environment and social requirements will be developed as part of DLI 2. The latter will include identifying the extent to which existing environmental laws and regulations (see Chapter 3) have been violated so that corrective action can be taken as needed with due attention to social implications, if any<sup>32</sup>.
- Before activities to inventory state land are undertaken, public awareness/sensitization as well as training of officials in local administration and courts including on the methodology will be undertaken and the population will be made aware of the availability of free legal aid, and independent recourse with the business ombudsman, in addition to the enhanced GRM by Geocadaster, to facilitate transparent and effective dispute management.
- A public information system to identify land to be registered and transferred to local government and its processing status will be established to ensure a transparent process.
- Satellite imagery will be used to establish an independent pre-project baseline that would identify any structures established on state land to prevent spurious investment (e.g. construction of structures) with the aim of preventing transfer of such land to local Governments for subsequent auctioning. This will be considered as the cut-off date and no complaints/grievances related to structures built on state land after this date will be entertained. Information regarding the cut-off date and GRM will be publicized through media and other means so people will have an adequate platform to contest.
- State land that has pending disputes on it or that, based on World Bank policies, would require compensation for structures built or other non-moveable assets or livelihood assistance to individuals whose livelihood would be negatively affected, will not be auctioned unless such disputes have been resolved or compensation has been paid and/or livelihood assistance is provided in line with Bank requirements.

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<sup>32</sup> Ukraine has a public cadaster map <https://map.land.gov.ua/kadastrova-karta> which anyone could access. Lands that are not included in the cadaster are either state or communal or may belong those, who registered their rights before 2013 (date of new system of registration launched), but information is not introduced in the system yet.



### *Assessment of Borrowers Systems*

**13.** The Government of Ukraine has enacted a range of laws, regulations, and procedures relevant to the environmental and social effects of the proposed Program. In preparing the ESSA, an assessment of that legal and regulatory framework as well as the capacity of potential implementing and associated agencies to comply with the framework was carried out. The assessment of the environmental and social management systems finds that the existing legal and regulatory framework addresses the social and environmental risks identified for the planned PforR; however, capacity for enforcing those regulations among respective agencies is mixed and will require strengthening as part of the PforR Action Plan. In addition to mitigating the risks identified, the Program Action Plan will address shortcomings by strengthening the capacity of the implementing agencies and their linkages with the Ministry of Environment and Natural Resources (MENR) and the State Environmental Inspection body (a MENR agency). Hence, the Program Action Plan (PAP) includes environmental and social management capacity strengthening of the relevant institutions not only technical knowledge but also environmental and social risk management, financial capacity to operate the system as designed.

### *Stakeholder Consultation*

**14.** Stakeholder consultations were an integral part of the ESSA process and were carried in line with principles and objectives of similar Bank operations. Stakeholder consultations carried out at two levels; a) agency level, and b) community level. The first part of the consultations/focus group discussions with key implementing agencies were completed during the period between October to November 2018. The consultations with agencies responsible for implementing DLIs, more specifically the staff who are responsible for administering and managing social and environment regulations, grievance management systems and field staff implementing the laws and regulation were presented at the discussions. These focus groups discussions were carried out through structured checklists and questionnaires.

**15.** Second part of the consultation process with implementing agencies, community and public stakeholders including NGOs and Civil Society Organizations (CSOs) for the ESSA for the proposed Accelerating Private Investment in Agriculture Program was held on February 6, 2019. Chapter 6 of this ESSA discusses the consultation with the CSOs in more detail.

**16.** The Bank team made a presentation on the content of the PforR, particularly, on the DLIs and proposed activities to address existing barriers for private sector participation in developing and modernization Ukrainian agriculture sector. The Bank team also described PforR Financing instrument, since this is the first time it will be used in Ukraine, and ESSA process, including World Bank Core Principles. The participants of the consultation noted that the PforR aims to achieve a set of results that would improve the environment for private investment in the agriculture and agribusiness SMEs, particularly increasing competitiveness of input markets and linking SMEs and farmers to export markets.

### *Recommendations and Proposed Actions*

**17.** The specific actions with the timeline and responsible agency are offered on the ESSA Action Plan in the Annex 2. The team proposes the following recommendations to implement an environmentally and socially sound Program: prepare Environmental and Social Guidelines for the Implementing Institutions; establish a coordinating unit within the MOF ensure compliance with the Six Core Principals; formulate guidelines on public



consultation procedures; establish a communication and outreach program; ensure a robust grievance redress mechanism; and conduct capacity building for environmental and social risk management by participating agencies. The capacity building activities should ensure proper monitoring and an appropriate regulatory framework for managing the small-scale construction of BIP (DLI 3), prepare safeguards instruments such as ESIA/ESMPs to identify and mitigate environmental, social and occupational health and safety risks. Overall, the recommendation is to institute systems of consultation and debate. Discussions with government agencies and stakeholders have revealed that a participatory outreach strategy to communicate the details of the proposed interventions to the stakeholders concerned is being developed and implemented in a timely manner.

*ESSA Recommendations Mainstreamed in the Program Design*

**18.** This section summarizes the key measures that need to be taken during Program implementation for social as well as environmental aspects. In a broader context, the measures recommended are designed to help proponents improve their system performance and to address important gaps between the provincial systems and the PforR core principles and key elements. The Program should incorporate institutional structures including capacity to adhere social and environmental requirements as well as to track, analyze, and eventually work to mitigate negative effects, and replicate positive ones where applicable. The following major actions are proposed:

- *Environmental and Social Guidelines:* Once the PforR Operation is effective, the Implementing Institutions will develop Environmental and Social Guidelines to be agreed on with the World Bank and finalized within two years of PforR effectiveness. These Guidelines will be designed, in part, to assist the Implementing Institutions in supporting the development of Strategic Environmental and Social Impact Assessment (SESIA) of future programs and activities is required by the Ukrainian Law on Strategic Impact Assessment (#2354-VIII, March 20,2018). The Guidelines will be used to identify specific areas for strengthening actions described below and inform design of actions throughout the GSAP.
- *Establish a team responsible for coordinating and monitoring PforR implementation:* The PforR is being implemented by several different institutions including the Ministry of Finance, Ministry of Agrarian Policy and Food, Ministry of Regional Development, State GeoCadaster, SSUFSCP, and Ministry of Justice, with some involvement from regional and local level authorities. Each implementing institution will ensure the environmental and/or social safeguards responsibilities relevant to their DLRs/sub-DLRs.
- *Formulate guidelines on public consultations procedures:* Public consultation is important for the for the lifetime of the PforR and should be regularly carried out under each of the DLIs. Such guidelines allow for: (i) on-going meaningful engagement of interested parties in the land allocation/registration process, particularly with regards to designated protected areas; and (ii) broader public access to information on land allocation, including environmental NGOs to secure access to the full scope of land plot-related information and if it might have any undocumented nature-reservation value.
- *Communications and Outreach:* There is a strong possibility of mitigating the social risks associated with the Program by instituting systems of engagement with stakeholders at an early stage, and keeping these consultations open throughout Program implementation. As such, this measure to



enhance engagement and outreach is integral to the success of the Program and would go a long way to mitigating identified as well as unforeseen risks. This is highly important from social accountability perspective where the state land registration is not well understood by people in general and rural land users. The public awareness and outreach strategy must include key messages to be conveyed to stakeholders, explaining the salient features of the Program. This may entail using a variety of tools, including social and print media, TV and radio shows and even cell phone-based communication to disseminate the key messages. Systematic registration of state lands by the State GeoCadaster may include mandatory public displays and face-to-face meetings/consultations to ensure citizens are engaged and aware of the procedures, activities, and benefits registering unclaimed land lots. Information about the grievance handling system described below will also be distributed to communities across the country. At the meeting with State GeoCadaster officials, it was agreed that they would conduct public consultations prior to Program implementation, and distribute brochures/pamphlets in local languages, posting on notice boards and online when necessary. The ESSA emphasizes that by carrying out a comprehensive public outreach program, not only will the implementing agencies help lay a foundation for open public participation and citizen engagement, but also one promoting a corruption free private investment in agriculture.

- *Robust Grievance Redress Mechanism:* Transparency and accountability should be core elements of the Program to reduce potential corruption and mismanagement of Program benefit distribution. Hence, the ESSA proposes to strengthen existing GRMs at each participating agency in order to monitor feedback received from beneficiaries and provide a formal avenue to lodge complains and grievances by the public. This is critically important for the DLI 2 where a robust GRM could enhance the outcome of systematic registration of State lands. The GRM is supported by an information campaign and training for responsible staff. State GeoCadaster can respond to all requests, and the information gathered will also be used to improve services provided and to mitigate against negative social impacts on individuals. The main objective of the GRM should be to strengthen accountability to beneficiaries and provide channels for project stakeholders to provide feedback on Program deliverables/ activities. While acknowledging the existence of dedicated websites by each participating agency to engage with the public, we propose to establish/strengthen such system through following actions:
  - A dedicated email address;
  - A dedicated phone line;
  - Feedback boxes located at each local cadaster office;
  - Letters sent to a dedicated address; and
  - Verbal or written complaints to agency staff (directly or through public meetings).
  
- *Capacity building for environmental and social risk management by participating agencies:* The institutional assessment of the ESSA found that the participating agencies of the Program are lacking capacity to manage and implement social and environmental risks that may occur during the implementation of the PforR. Even though each agency has its own systems for environmental screening and website for public reporting (i.e. on corruption or other issues in receiving services from agencies), there are no staff dedicated for social and environmental risk management and/ or skills and knowledge on Bank polices regarding environment and social aspects. Hence, it is vital that the PforR include a 'Training Plan' based on training need assessment on environment and social skills and knowledge and implement training sessions in a systematic manner. This means



that the first year of operation of the PforR should include budget and consultancy assignment for environment and social risk management and capacity building program for the staff of participating agencies. The capacity building activity should be informed by the Environmental and Social Guidelines and consider all National requirements and the commitments that should be achieved according to the PforR and strengthen relevant agencies capacities and raise their awareness related to the following requirements:

- Water extraction and water discharge permitting, including monitoring and reporting on pollutants.
- Water protection measures should be prominently featured in all relevant documents.
- *Sufficient resources should be allocated to capacity building on the subject of protection of water quality, possible negative impacts of unsustainable practices and appropriate mitigation measures.*
  - Provide appropriate capacity building and personnel training for state bodies regarding environmental management and principle of sustainable development.
- *Standard ESMP for construction/rehabilitation of BIP should be developed and employed for all ten BIP contracts.*



ANNEX 6. PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement
Develop Environmental and Social Guidelines for the Implementing Institutions of the Program.	Environmental and Social Systems		All Implementing Institutions	Other	Within 24 months of the Program effectiveness	Final Guidelines agreed between the Borrower and World Bank submitted.
Establish a focal point unit or appoint a focal point person responsible for (1) communication and outreach and (2) environmental and social risks mitigation, monitoring, and reporting.	Environmental and Social Systems		All Implementing Institutions	Other	By effectiveness	A Focal Point (a person or a unit) name, contact detail and description of responsibilities (Terms of References for monitoring, addressing and social risk and facilitating capacity building during the Implementation of the Program).
Formulate guidelines for stakeholder engagement process and mainstreaming environmental, social, health and safety issues into the implementation of the Program.	Environmental and Social Systems		All Implementing Institutions	Other	Two months after signing of the LA.	Completed Guidelines on public consultations procedure; Guidelines disseminated, and training provided on their application.  Lists of names and contacts of stakeholder and CSOs, SMEs, associations to be informed, consulted on regular basis.
Make information about the Program implementation, particularly about environmental and social issues more transparent and accessible.	Environmental and Social Systems		All Implementing Institutions	Other	Three months after signing of the LA	A Comprehensive Public Outreach Program, including media to be developed and published (websites, simplified leaflets, booklets on procedures including mainstreaming environmental and social issues where applicable).
Conduct monitoring of progress on environmental and social issues, especially regarding	Environmental and Social Systems		All Implementing Institutions	Recurrent	Semi-Annually	Regularly updated list of beneficiaries and records of continued engagement with the Program of MAPF. Prepared media (websites, pamphlets,



the compliance of the Program with the environmental and social laws, regulations and standards.						etc.) in the state language outlining the application procedures to benefit from the Program.
Clarify and strengthen (build on current system) the procedures for grievance handling in effective and transparent way.	Environmental and Social Systems		All Implementing Institutions	Other	Two months after signing of the LA	GRM including (1) a dedicated phone line (telephone number); (2) a feedback boxes located at each local cadaster office; (3) a dedicated address; and (4) verbal or written complaints to agency staff (directly or through public meetings).
Training of the SSUFSCP focal point on EIA national procedures and requirements. EIAs should be prepared following the Ukrainian legislation for BIPs projects where required.	Environmental and Social Systems		SSUFSCP	Other	As per Ukrainian EIA regulation if required.	Training of the SSUFSCP focal point on EIA national procedures and requirements completed. EIAs completed for BIPs projects where required.
Provide capacity building for environmental and social risk management to implementing institutions, SMEs and smallholders.	Environmental and Social Systems		All Implementing Institutions	Other	Three months after the signing of the LA	Report on capacity building: stakeholders trained, training materials.
Changes in the amount of land registered based on application of the agreed methodology have been identified and results made available to the Bank in the form of shapefiles.	Technical		GeoCadaster	Recurrent	Semi-Annually	Results on the changes in the amount of land registered based on application of the agreed methodology made available to the Bank on regular basis.
Progress Report should provide the list of procurements completed in each year by type and amount (indicating the % use of	Fiduciary Systems		All Implementing Institutions	Recurrent	Semi-Annually	Such Progress Report submitted, including reporting on any procurement training provided.



competitive methods and negotiated procedures), participation rates, # of complaints and contracts completed.						
Program Progress Report should confirm that no contracts have been awarded to a suspended or debarred firms.	Fiduciary Systems		All Implementing Institutions	Recurrent	Yearly	Submission of a semi-annual Program Report.
Procurement Plans published on regular basis with default competitive methods indicated for the Program procurement activities in support of achievement of DLIs.	Fiduciary Systems		All Implementing Institutions	Recurrent	Yearly	Program Progress Report including procurement KPIs results.
Procurement for land surveying and other land-related services should be conducted by open tender procedure.	Fiduciary Systems		Geocadaster	Other	As needed.	Submission of a Progress Report for each planned tender.



ANNEX 7. IMPLEMENTATION SUPPORT PLAN

1. The Implementation Support Plan (ISP) is adapted to the design and risk profile of the Program. While the Borrower is responsible for the Program’s overall implementation, including its technical aspects, the basic mandate of Bank implementation support under the Program includes: (i) review the implementation progress, including the PAP and the achievement of program results, DLIs and DLRs; (ii) provide technical quality assurance review and a no objection to the: (a) draft laws prepared for submission to the Verhovna Rada, (b) Ministerial regulations, (c) other documents and outputs within the competence of the Government, prepared towards the achievement of the DLIs, and (d) the draft Terms of Reference (TOR) for the independent verifier hired to verify selected DLRs; (iii) support for resolving emerging Program implementation issues and bottlenecks; (iv) provide technical and institutional capacity building support to the Government for implementation of the PAP, the achievement of DLIs and other results; (v) monitor the adequacy of systems’ performance (e.g. through monitoring reports, audit reports, and field visits) as well as compliance with legal agreements and, as needed, the Program Action Plan; and (vi) support the government in monitoring and managing changes in the various types of risks.

2. ISP focuses on actions that the Bank will perform and on associated needs in terms of skills and resources. Given the multi-sectoral nature of the Program, successful support and monitoring of Program implementation will require a multidisciplinary set of technical specialists along with fiduciary and environmental and social specialist. It is expected that a core group of the Bank’s technical experts would help provide regular guidance and implementation support, with outside experts mobilized on as needed basis. It is expected that during the first two years of the Program implementation, more frequent visits (three times a year) may be required. It is estimated that two visits a year may be sufficient for the remaining Program implementation period.

Main Focus of Implementation Support

Table with 5 columns: Time, Focus, Skills Needed, Resource Estimate, Partner Role. It details implementation support for the first 12 months and 12-24 months, including focus areas like DLI/DLR and PAP key action achievement, and resource estimates of approximately US\$220,000 per year.



		Financial Management, Procurement, Environment and Social Management and M&E.	year	
24-48 months	Progress towards achievement of the agreed DLI/DLR actions	Technical: Agriculture Policy, Land Policy, Land Market, IT Systems, Food Safety Standards and Certifications, Food Quality Systems; Safeguard and Fiduciary: Financial Management, Procurement, Environment and Social Management and M&E.	3 implementation support missions for months 25-36; 2 implementation support missions per year thereafter, including midterm review; Total 106 weeks over 36 months; US\$160,000 per year	Limited FAO TCP Funding
Other	Implementation Completion Report	Agriculture Expert(s); M&E Specialist; Financial Analyst.	1 mission; Total 10 weeks; Approx. US\$ 40,000	

**Team Skills Mix Requirements for Implementation Support (entire Program period)**

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Management	30	12	
Agriculture Policy	10	9	
Land Policy	10	10	
Land Market	10	10	
IT Systems		10	
Food Safety Standards and Certifications		10	
Food Quality Systems		10	
Financial Management and Procurement		5	
Environment and Social		5	
M&E		5	

**Role of Partners in Program Implementation (Template)**



Name	Institution/Country	Role
Food and Agriculture Organization (FAO)	FAO, Rome	Provide technical expertise through WB-FAO Cooperative Program to participate in implementation support