It’s All About Teamwork: Unlocking Opportunities for Agribusiness in Ukraine

The Ukraine Investment Climate (IC) Project and the Sustainable Business Advisory (SBA) Food Safety Project in Ukraine formed a partnership — one that has led to tangible results in the form of burdensome regulations being abolished and businesses receiving advice on safety standards that will help them become more competitive in European Union (EU) markets. IC-SBA advice has helped facilitate IFC investments in Ukraine and helped set triggers for World Bank lending. It has also defined the future of the work being done by these two business lines in the agribusiness sector. This Smartlesson relates lessons and experiences of the teams in designing and implementing such an innovative and holistic technical assistance solution, within a specific sector, for government and private sector clients.

Background

Agribusiness is a key driver of the Ukrainian economy: Some 70 percent of the country’s total land area is dedicated to agriculture, and over 20 percent of the population is employed in the agriculture sector. However, arcane regulations for agricultural and food products carried over from the Soviet era have held business in this sector back. The regulatory burden is particularly heavy with regard to the food safety system, which should aim to ensure public safety and support the competitiveness of Ukrainian exports. Ukraine’s system instead placed a heavy burden on companies, with costly and duplicative controls imposed by multiple state agencies, without adequately increasing the safety standards of food products.

IFC Advisory Services (AS), the Investment Climate (IC) and Sustainable Business Advisory (SBA) teams worked together to address this, streamlining regulations and harmonizing food safety management systems with international and EU best practices (see multimedia slideshow). The results of these efforts have included:

- Mandatory certification of food products (excluding baby food and tobacco and alcohol products) was eliminated, resulting in $20.7 million annual compliance cost savings for the food processing industry
- Requirements for costly duplicative licenses for certain agribusiness activities were canceled, including those for wholesale seed trading, rearing of domestic animals, and manufacturing of agrochemicals
- Licenses for trading of agrochemical and selling of biogas/biofuel, previously subject to 5-year renewals, were made permanent
- The President of Ukraine committed to establish a single food safety controlling agency instead of several agencies undertaking duplicative responsibilities, and prioritized food safety on the deregulation agenda of the Committee for Economic Reforms
- Amendments to the national food legislation were drafted that will lead to a further reduction of costs to food producers (the estimation of the cost of food-related inspections in Ukraine is $8.6 million per year) and an increase in the safety and competitiveness of Ukrainian food products, since requirements will be harmonized with EU requirements
The teams helped develop six industry checklists on hazard analysis and critical control points (HACCP) in the poultry, eggs, and dairy sectors in collaboration with the Veterinary Service and endorsed by the EU. These are expected to open up new opportunities for exports to EU markets.

Businesses are already reaping the benefits of these improvements.

“The cancellation of mandatory certification has been very favorable for us. We import tea and coffee from various parts of the world, and package and sell it in Ukraine. Previously we paid up to US$3,000 a month for certificates, and it took a week and a lot of paperwork to obtain them. We also incurred additional costs of having the container sit at a port in case the certification was delayed for any reason, as customs clearance was not possible without it. So the cancellation of these certificates will literally save us thousands in terms of cost and man hours per month!” said Volodymyr Barabash of the Monomakh tea and coffee company.

The agribusiness work in Ukraine serves as an example of a fully-integrated country pilot with strong collaboration between IC and SBA on policy and food safety, and coordination with other AS business lines and Investment Services (IS) to address additional challenges along the value chain (see diagram below).

Lessons Learned

**Lesson 1: Don’t just give lip service to collaboration; “walk the talk” through an integrated approach across Business Lines.**

The Ukraine Investment Climate Project worked jointly with the SBA Food Safety team from an early stage, sharing staff and resources:

- **There was a clear and full complementarity between IC focusing on policy work and SBA focusing on firm-level work to present a unified private sector reform agenda**

- **There were three staff shared 50-50 between IC and SBA**

Source: IFC EMECA Strategy Presentation PY12-14
that had joint results agreements, dual clear reporting lines, and clear guidelines to deliver the joint components between IC and SBA

- On the investment climate side, there was also the element of sharing knowledge between the global and country team, with the agribusiness component team leader’s time shared 50-50 between HQ and the IFC region

- The teams held joint planning meetings and also tested approaches to jointly developing research products (as outlined in Lesson 2, below)

- The teams also held regular meetings/updates with all other agribusiness-related AS projects and IS to check on progress on joint strategic objectives

These efforts helped shape a joint technical assistance intervention that addressed issues both at the government/policy level and at the firm level.

**Lesson 2: Innovative industry-specific diagnostics helped set clear reform targets and create consensus on reform priorities.**

An objective of the IC work was to use research and diagnostic tools to help kick-start the dialogue with government, the private sector, and other stakeholders. One of the studies produced jointly with the SBA team and widely promoted to stakeholders was the report “Reforming Food Safety Regulation in Ukraine — Proposals for Policymakers,” which emphasized the urgent need for change in policies governing this critical sector. The IC team also produced another report, “Investment Climate and Industry Competitiveness in Ukraine — an Industry-Level Regulatory Analysis of the Impact of Food Safety Regulation on the Dairy Sector in Ukraine,” which constitutes a first IFC analytical pilot combining the strengths of both industry-level value chain competitiveness analysis and regulatory analysis of the economic impact of regulation on the private sector through the standard cost model (SCM) analysis.

The value chain analysis presented in the report focused on the industry-specific regulatory framework (food safety regulation) as a way to provide an objective and quantitative reference point for addressing sector-specific regulatory constraints of the investment climate. At the same time, the report followed the view that better regulation is crucial in order to enable private sector-led growth and improve both economy-wide and industry-specific competitiveness. A central aspect of better regulation relates to minimizing the administrative burden of compliance with regulatory requirements for the private sector.

More specifically, the SCM methodology and value chain analysis were combined to identify and assess the impact of all relevant types of regulatory (food safety) requirements (permits, licenses, certifications, inspections, conformity assessments, etc.) affecting the selected industry. This was a significant change from the traditional “horizontal” approach to regulatory analysis, in which the SCM methodology is used to assess the administrative burden of a specific type of regulation (either inspections regime, or licensing regime, or permits regime, or product certification, etc.) without taking into account the cumulative effect of the different types of “horizontal” regulation on industry-specific dynamics.

A second significant synergy, resulting from the combination of the value chain and SCM methodologies, relates to the ability of this joint approach to identify and assess the distributional effects of a specific piece of regulation throughout the selected value chain, and estimate the differential impact of policy proposals on the various stages (and stakeholders) of the chain.

**Lesson 3: Taking a focused and industry-specific approach to reform can generate big wins.**

A number of countries have invested significant amounts of resources and effort in undertaking reforms to their business environment. However, most of these reform efforts are “industry-blind,” as they seek to address economy-wide regulatory obstacles. While these type of economy-wide reforms are often required to level the playing field for competitive businesses, combining or following these reforms with sector-specific initiatives can significantly enhance the probability, type, and extent of measurable impacts (as

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illustrated by the well-known cases of the rise of electronics in Malaysia and high-tech clusters in East Asia, car parts and assembly in Eastern Europe, salmon farming in Chile, wine in South Africa, among other cases). For a country seeking to increase the competitiveness of its established businesses and attract new foreign and domestic investment, a sectoral approach to reform and investment generation is complementary and often necessary for success.

In investment climate, the idea of sector-specific policy reform is a relatively new one, being honed through projects like this one in Ukraine, the success of which has set the stage now for a next phase of an investment climate program focused fully on agribusiness reform.

Lesson 4: Go West — Customize the intervention to meet the client’s priorities.

The need to open up Ukrainian businesses to EU markets was a key factor that the project team highlighted in order to keep the momentum on these reforms alive. In fact, a key challenge faced by food processors, even the ones with state-of-the-art facilities, is that access to the European market is conditional on the recognition of the Ukrainian public food safety controls system by the EU. In this respect, a key lesson is that the IFC team adopted a gradual, yet strategic, advisory support engagement by assisting the Ukrainian State Committee for Veterinary Services (a unified agency responsible for food safety in the country since 2011) in the development of EU-compliant food safety controls procedures and checklists for priority agribusiness value chains in terms of export potential (see results in the “Background” section above). The prospects of being able to enable greater exports of food products from Ukraine to the EU, opening the huge new market for Ukraine’s food processors, helped create strong support for reform from the private sector, since this was fully aligned with their business priorities.

5) The battle of the giants for Ukraine’s agribusiness development — Get the World Bank and IFC IS on board to leverage the AS offerings.

The investment climate team also worked closely with the World Bank to leverage policy lending. In Ukraine, agricultural policy and any agribusiness-related reform initiative is a “big ticket” policy item, given the sheer importance of the sector in the national economy. In this context, a small project like IC had to play it smart and join forces with the World Bank to include the key investment climate reform priorities on food safety among the overall economic policy reforms as part of the policy lending negotiations with the government. The key success factor of the internal “deal” was that the Bank put its financial weight behind the investment climate policy triggers included in the policy lending vis-à-vis the Government of Ukraine, while the IC team worked on a daily basis with the government agencies charged with implementing the reforms to build their capacity to adopt and operationalize them.

Collaboration between IC and SBA helped closely align with the IFC IS agribusiness strategy in Ukraine and in ECA. The AS teams have worked closely with the IS team and advised two IFC IS clients in Ukraine — Globino and Khlibprom — on improving food safety management systems and introducing HACCP. This advice has facilitated $25 million in investment so far, as well as a combined increase in sales by $24 million.

Conclusion

The Investment Climate and Food Safety projects in Ukraine came together in a way that has set a standard for collaboration between the IC and SBA business lines. The great teamwork and innovation seen in this partnership have led to results, including building a base for strong collaboration with other AS and IS units at the IFC and with the World Bank. It has also generated strong learning and knowledge, which is now being applied across other agribusiness projects across ECA – the IC and SBA teams are working together in Georgia, Belarus, and Moldova, with additional projects in Armenia, Tajikistan, and the Balkans in the pipeline. For investment climate, the work in Ukraine serves as a model for a growing agribusiness portfolio and pipeline that spans every region, and it has fed into the new FY12-16 strategy for investment climate that is more focused on sector- and industry-specific reforms.