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Informal Consultation for Europe and Central Asia
12-15 July 2021

Background Note
Session 4
Country Case Study for Priority 2: Value Chain Selection (VCS) in Ukraine

1. Introduction

This document serves as background for discussing the emphasis that should be given to Regional Priority 2: "*Food system transformation and support in exploring new markets through the alignment of trade, food safety and sanitary and phytosanitary policies to meet WTO commitments and promote value chain development.*" As an entry point for the discussion, this paper uses FAO's work in the region on value chain interventions that support food systems transformations. It is divided into three sections: an analytical framework, a country case study, and questions that aim at triggering discussions.

2. Analytical framework

Value chains play a key role in conceptualizing Europe and Central Asia's Regional Priority 2. Value chain development, according to FAO, consists of the promotion of value chains that are inclusive, financially viable and environmentally friendly, in an interconnected manner. FAO combines these three dimensions and their linkages in the notion of "sustainable value chains."

Sustainable value chains transform food systems in the same way that the Sustainable Development Goals transform our world. Moreover, demand at country level for advancing on specific SDG targets inform value chain development. In other words, FAO's work on sustainable value chains that transform food systems seeks to contribute to specific SDGs that transform our world. SDG targets that seek the elimination of hunger (SDG 2) may be priorities for the region. Those that seek responsible consumption and production (SDG 12) also may be important, for value chains take into consideration all actors involved in the production, storage, transformation, transportation, trade, consumption and disposal of agricultural products.

Value chain selection (VCS) has become, for this very reason, the first step of most contemporary rural development projects. Clearly, VCS is a complex, action-oriented operational activity. It seeks to identify value chains that offer actionable opportunities in light of prioritized objectives. On one hand, that which is actionable stems from the resources and time frames that are defined by projects. On the other hand, objectives are defined by FAO's normative work and country priorities. Regardless of the objectives being pursued, addressing food insecurity and all forms of malnutrition should be among them, as these represent overarching regional priorities.

Identifying entry points for value chain selection is a challenging endeavour. Value chains operate in food systems, and systems thinking is complex. Analysts are expected to understand not only linkages but also the degree of incidence of these linkages on outcomes. Faced with complexity and limited information, VCS ultimately depends on the background of the analyst or team of analysts who carry out the VCS and on the way in which the research is carried out. Specialists of different fields of knowledge will emphasize

different outcomes. Selecting experts for VCS is not a problem *per se,* provided trade-offs across disciplines are well understood.

Since no expert can understand all the trade-offs of all value chains that operate in every subsector, and because information is more often than not scarce, VCS should involve beneficiaries at an early stage. Beneficiaries cut through complexity with experience. For example, experience teaches farmers that trade-offs result not in the maximization of outcomes but rather in their optimization (productivity goals that minimize financial risk, for example). Value chain selections that emphasize one discipline, that fail to take trade-offs into consideration, and that fail to involve beneficiaries offer no guarantee of successful VCS.

Value chain selection is a process that involves a vision for the future, on one hand, and an understanding of the reality on the ground, on the other hand. The first will determine the development pathway, and the second the factors that need to be targeted. The factors that determine intervention needs vary significantly, both spatially across household types and locations and temporally as food systems transformation takes place. The challenge for VCS is to determine from the available data which factors will be targeted to ensure appropriate emphasis and sequencing. Namely, data are essential to understanding which constraints are holding back the process of transformation, and for which categories of beneficiaries, in order to identify the greatest payoffs to interventions. In addition, the process of structural transformation is not smooth. For instance, as markets evolve, timing becomes an essential element of success. Incentives change; supply, demand and prices change; and the reality of business opportunities shifts from product to product as market developments take place. Depending on context, interventions that seek productivity growth (mechanization or value addition) may be better suited than those that improve the enabling environment where value chains operate (geographical indications or wet market facilities). Some interventions may be better suited for short value chains, and others for long value chains.

3. Case study: Value chain selection for improved access to finance in Ukraine

In Ukraine, FAO is selecting value chains with the potential to enhance smallholder market integration through matching grants. The SDG targets to which this project seeks to contribute are:
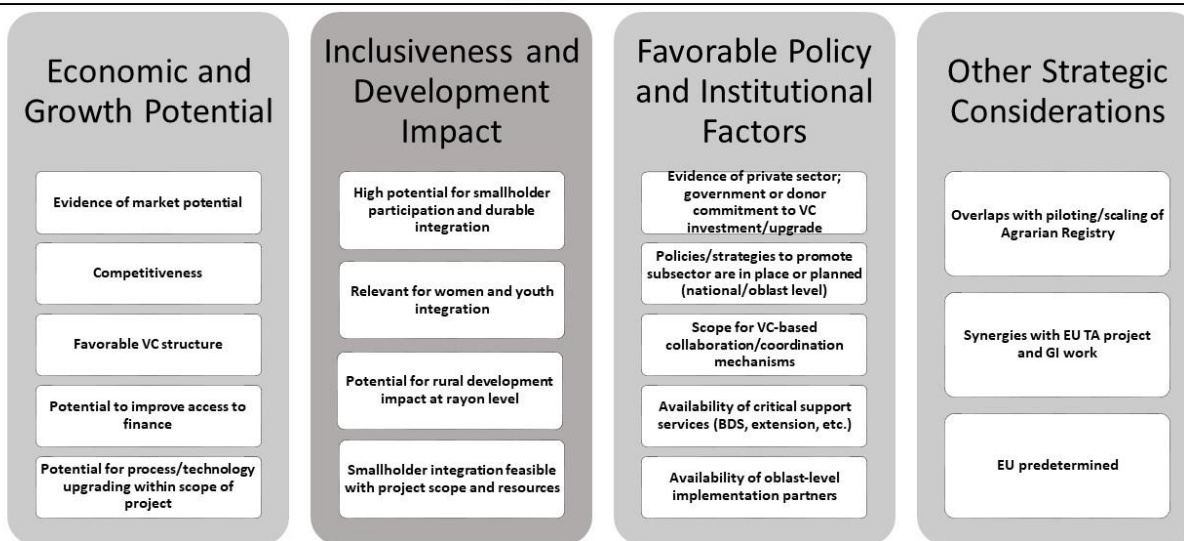
- Target 2.2: Double agricultural productivity, primarily through innovative technologies
- Target 2.3: Ensure the development of sustainable food production systems that help maintain ecosystems and gradually improve the quality of land and soil, primarily through innovative technologies
- Target 5.6: Expand economic opportunities for women
- Target 8.1: Ensure steady GDP growth by modernizing production, developing innovation, increasing export potential and exporting products with high value added
- Target 12.2: Reduce the loss of food along production and marketing chains
- Target 15.1: Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems
- Target 15.2: Promote sustainable forest management

The two entry points that guide the VCS are smallholder farmers and access to finance. The process begins with a preselection of potential value chains, which is later narrowed down to a small set of value chains that can be managed *vis-à-vis* project resources and time frames. The chart below depicts the information that was deemed necessary for a preliminary selection of the value chains that may be suitable for this

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particular project (other projects would have selected other criteria). VCS consists of scoring the different components of the chart, which are then weighted according to their relevance *vis-à-vis* project objectives. The scores that should be assigned to most of these variables may be available from secondary sources, but some key variables can be scored only through direct observation – notably those that relate to inclusiveness and potential development impacts.

Criteria for VC preselection

Sources of data:
• Ukraine official statistics/Official statistics FAO
• Reports and studies of the sectoral organizations and projects
• Stakeholder consultations/expert opinions
• Own elaborations

Economic and Growth Potential	Inclusiveness and Development Impact	Favorable Policy and Institutional Factors	Other Strategic Considerations
Evidence of market potential	High potential for smallholder participation and durable integration	Evidence of private sector; government or donor commitment to VC investment/upgrade	Overlaps with piloting/scaling of Agrarian Registry
Competitiveness	Relevant for women and youth integration	Policies/strategies to promote subsector are in place or planned (national/oblast level)	
Favorable VC structure	Potential for rural development impact at rayon level	Scope for VC-based collaboration/coordination mechanisms	Synergies with EU TA project and GI work
Potential to improve access to finance	Smallholder integration feasible with project scope and resources	Availability of critical support services (BDS, extension, etc.)	
Potential for process/technology upgrading within scope of project		Availability of oblast-level implementation partners	EU predetermined

Need to reconcile to context and limitations...

A team of national and international consultants is carrying out the VCS. Field missions were expected to play a pivotal role in data collection, as secondary information was known to be scarce during project formulation. Unfortunately, VCS occurred during the pandemic, and therefore field missions were compromised by movement restrictions. Interviews with key informants were only possible remotely, and although these proved useful for collecting some information, the team has so far been unable to engage directly with the intended target beneficiaries. Notably, COVID-19 has so far compromised the collection of information that is key for constructing the second pillar of the chart ("Inclusiveness and Development Impact").

As access to finance is a core objective of the project, and in the absence of direct guidance from farmers as to which investments would or would not work, the team was obliged to conduct substantial financial analysis. While financial investment analysis is important, VCS should entail a broader set of economic, social and environmental aspects. Therefore, the forthcoming field mission, COVID-19 permitting, will explore with farmers whether these investments are "realistic" – i.e. the trade-offs between the expected financial outcomes of these investments (according to the model) and other outcomes that farmers may deem relevant for value chain development. This experience is expected to draw lessons in terms of the expertise, resources and methodologies that are necessary for value chain selection in ECA region.

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Guiding questions:

- What emphasis would you consider needs to be addressed in supporting the food systems transformation to accelerate the achievement of the SDGs?
- What value chain innovations are priorities for the region?
- What data are required to select value chains, and what is the challenge to making those data available?