

# Agriculture: priorities for sustainable investments to aid Ukraine's recovery



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The agricultural sector was a major driver of Ukraine's economy prior to the full-scale war and will continue to be important during the reconstruction process. Although many officials and producers<sup>1</sup> expect production will return to pre-war levels, post-war reconstruction needs to align with Ukraine's EU accession ambitions, which will require the adoption of relevant EU requirements and regulations. Moreover, the 'build back better' principle foresees that reconstruction will address the key environmental challenges that jeopardise the sustainability of food production, such as soil degradation, water and air quality pollution, and the biodiversity and climate crises. Post-war development in the sector should be seen in the wider scope of the sustainable rural development of Ukraine and should proceed in a participatory and inclusive way. In short, recovery of the sector should be based not only on production growth goals, but also on ensuring long-term sustainability for Ukraine on its path to EU membership.

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<sup>1</sup> The New Agrarian Policy, updated in May 2023 by the Ministry of Agriculture, forms part of Ukraine's Recovery Plan. The document covers projects across various activities, including irrigation, logistics, food production (meat and dairy, fruits and vegetables, seeds) and export growth, spatial planning and digitalisation of spatial data, and green growth of the agrifood sector. The tentative total cost for the implementation of the projects is USD 76.3 billion. The draft of the New Agrarian Policy was obtained upon request on 12 May 2023 by Ecoaction, CEE Bankwatch's member group in Ukraine.

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## Losses and reconstruction needs

The World Bank Rapid Damage and Needs Assessment report<sup>2</sup> concluded that during the first year after the full-scale invasion (February 2022 to February 2023), direct damage to assets in the agricultural sector (USD 8.7 billion) and indirect losses due to reduced production opportunities (USD 31.5 billion) totalled USD 40.2 billion. The demining costs are estimated at USD 37.6 billion. Separately, the assessment evaluates damages and losses for the irrigation and drainage sector at USD 380.5 and USD 282.5 million, respectively. As of February 2023, irrigation reconstruction costs were USD 8.9 billion. According to the assessment, the reconstruction and recovery needs for agricultural production in Ukraine are estimated to be USD 29.7 billion from 2024 to 2033, including USD 600 million in 2023, mostly for the immediate recovery of production.

The Rapid Damage and Needs Assessment has, however, limitations when it comes to calculating the long-term indirect losses to the sector, such as those arising due to issues like soil cover degradation and pollution caused by military actions. The cost of the destruction of the Kakhovka dam in June 2023 is also not included in the assessment.

## Agricultural production during the full-scale war in Ukraine

Damage and occupation of the means of production, infrastructure and logistics disruptions, rocketing prices for agrichemicals and fuels, and the lack of human resources are having tremendous impacts on the country's capacity to produce food. This is especially the case for grain production: during the spring campaign of 2022, on average 21 per cent fewer fields were sown, and 41 per cent fewer winter crop fields were sown in the autumn. Twenty-five per cent of Ukraine's vegetable production areas are under occupation. Numbers for animal products also fell, especially in regions that were or still are under occupation. After a sharp drop in March 2022, the export of animal products recovered later in the year, especially for chicken meat.<sup>3</sup>

In 2022, agricultural export revenues formed 52 per cent of all export revenues, compared to 41 per cent in 2021. This can be attributed to the loss of other major export products like metals, ores and machinery. In absolute numbers, the revenues from agriculture were smaller: USD 21 billion in 2022 versus USD 27 billion in 2021.<sup>4</sup> These imbalances in the Ukrainian food system have caused systemic consequences for supply chains both in Ukraine and globally.<sup>5</sup> In this context, the system, which is based on large-scale monoculture production and centralised logistics and processing, lacks resilience and is therefore extremely vulnerable to external attacks.

Following the blockade of Ukraine's ports and the European Commission's suspension of all duties on imports from Ukraine,<sup>6</sup> exports of agricultural products in 2022 skyrocketed from 27.7 per cent in 2021 to a gigantic 55.2 per cent in the EU. Local producers in Bulgaria, Hungary, Poland, Romania and Slovakia have

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<sup>2</sup> World Bank, Government of Ukraine, European Union, United Nations, [Rapid Damage and Needs Assessment](#), *World Bank Group*, March 2023.

<sup>3</sup> Agribusiness Ukraine, [9th edition of the infographic guide: "Agribusiness of Ukraine during the war"](#), *Agribusiness Ukraine*, accessed 16 June 2023.

<sup>4</sup> Ibid.

<sup>5</sup> Ecoaction, [Ecoaction's principles of the green post-war reconstruction of Ukraine](#), *Ecoaction*, 16 May 2022.

<sup>6</sup> European Commission, [EU takes steps to suspend all duties on imports from Ukraine](#), *European Commission*, 27 April 2023.

pushed governments to enforce exceptional and temporary preventive measures on imports of wheat, maize, rapeseed and sunflower seed from Ukraine.<sup>7</sup> This backlash from EU farmers stems from various concerns, including production costs and environmental standards in Ukraine, arguments used in favour of preventing these imports.

As Ukraine has the ambition to become a full member of the EU, international investors such as the European Bank for Reconstruction and Development (EBRD) must create stronger incentives for their clients to implement the EU's green agenda for agriculture in future investments. This will mean accelerating the integration of EU requirements into Ukraine's production, namely: Good Agricultural Practices<sup>8</sup> and Best Available Techniques<sup>9</sup> to reduce and prevent environmental pollution from the sector.

## The role of the EBRD and other international financial institutions in agricultural developments in Ukraine

Since 1996, the European Bank for Reconstruction and Development (EBRD) has invested in over 70 agricultural projects in Ukraine,<sup>10</sup> helping to develop the capacity of large enterprises that have become some of the world's major producers. Since the full-scale war, another three loans have been provided to two companies: two loans of EUR 24 million<sup>11</sup> and 90 million to the MHP Group<sup>12</sup> and one loan of EUR 10 million to Slobozhanshyna Agro.<sup>13</sup> Totalling EUR 124 million, these investments are aimed at recovering production of grain and oil seeds for export.

The new investments provided to the EBRD's longstanding client MHP were made with limited environmental and social due diligence during martial law, and in the full knowledge that the compliance<sup>14</sup> of previous investments in MHP Group projects remained unresolved. Moreover, chicken meat exports from Ukraine to the EU jumped by 54 per cent immediately after the export quota was lifted in 2022. This has caused great alarm among European producers, given that a single company, MHP, is now responsible for almost all of Ukraine's chicken exports.<sup>15</sup>

In 2022, the EBRD also provided loans to intermediary banks under the Food Security Guarantee (FSG) and the Resilience and Livelihoods Guarantee (RLG) with the aim of providing access to financing for small and

<sup>7</sup> European Commission, [EU extends trade benefits for Ukraine](#), *European Commission*, 5 June 2023.

<sup>8</sup> European Commission, [Nitrates: Protecting waters against pollution caused by nitrates from agricultural sources. Implementation](#), *European Commission*, accessed 16 June 2023.

<sup>9</sup> European Commission, [Sustainable production: best available techniques](#), *European Commission*, accessed 16 June 2023.

<sup>10</sup> European Bank for Reconstruction and Development, [Project Summary Documents](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>11</sup> European Bank for Reconstruction and Development, [MHP EUR 24 million agri loan under RLF](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>12</sup> European Bank for Reconstruction and Development, [RLF - MHP Sunflower](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>13</sup> European Bank for Reconstruction and Development, [RLF - Ukraine IMC grain transport fleet](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>14</sup> European Bank for Reconstruction and Development, [MHP Corporate Support Loan, MHP Biogas](#), *European Bank for Reconstruction and Development*, 16 June 2023.

<sup>15</sup> Reuters, [EU imports of Ukrainian chicken soar after quota lifted, French group says](#), *Reuters*, 9 September 2022.

medium-sized enterprises, including farming and other agriculture-related activities.<sup>16</sup> In 2022, under the FSG and RLG, 10 projects were provided with a total sum of EUR 105.5 million. Another four projects are being discussed, with a total amount of EUR 112.5 million earmarked for ProCreditBank,<sup>17</sup> OTP,<sup>18</sup> Kredobank<sup>19</sup> and PrivatBank.<sup>20</sup> The common goal, according to the EBRD's Project Summary Document, is 'to finance long term capital investments of micro-, small-, and medium sized enterprises (MSME) to upgrade their technologies and equipment to EU standards, including investments in sustainable and green technologies, thereby enhancing businesses' competitiveness'.

Financial support from international financial institutions is vital to address short- and medium-term issues such as the recovery of the agricultural sector and reconstruction of its assets, the strengthening of public institutions, guaranteeing liquidity for smaller farms and banks, and more sustainable investment. Additionally, it is strategically important to develop policies and measures that address underestimated issues such as soil degradation, water infrastructure restoration and development, and sectoral weaknesses such as lack of transparency and the distortion of competition caused by the dominance of large enterprises. The EBRD, as both a financier and an active supporter of policy development, must consider these issues as Ukraine moves toward EU accession.

## Priorities for the reconstruction and recovery of agriculture

The Rapid Damage and Needs Assessment lists the following mid- and long-term goals for agricultural recovery:<sup>21</sup> provide direct financial support to farmers by diversifying agricultural production and creating a food-energy nexus; incentivise the environmental and social sustainability of food systems in Ukraine in line with the European Green Deal; develop the capacity of institutions so that they can deliver climate-resilient recovery; and help farmers use EU pre-accession funds wisely to integrate Ukraine's agriculture sector into the EU system.

The New Agrarian Policy,<sup>22</sup> which forms part of Ukraine's Recovery Plan, sets out priority areas for recovery until 2032 along with details on anticipated financing sources. The draft document specifies the expectations for the involvement of international financial institutions in projects such as green growth for the agrifood sector, territory mapping and infrastructure development for geospatial data, and spatial planning for community territories.

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<sup>16</sup> European Bank for Reconstruction and Development, [Project Summary Documents](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>17</sup> European Bank for Reconstruction and Development, [RLF-RLG, EaP SMEC - ProCredit Bank Ukraine 2023](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>18</sup> European Bank for Reconstruction and Development, [RLF-RLG - OTP Leasing 2023](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>19</sup> European Bank for Reconstruction and Development, [Kredobank 2023: Resilience & Livelihoods Guarantee](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>20</sup> European Bank for Reconstruction and Development, [RLF-RLG, EaP SMEC - Ukraine PrivatBank](#), *European Bank for Reconstruction and Development*, accessed 16 June 2023.

<sup>21</sup> World Bank, Government of Ukraine, European Union, United Nations, [Rapid Damage and Needs Assessment](#), *World Bank Group*, 79, March 2023.

<sup>22</sup> See Footnote 1.

Agriculture was the sector with the sharpest upward trend in the growth of greenhouse gas emissions during the last decade in Ukraine, increasing by almost 30 per cent over 10 years.<sup>23</sup> At the same time, the escalating effects of climate change have left agricultural production vulnerable,<sup>24</sup> especially in central and southern Ukraine, with higher temperatures, less water and soil moisture, and more frequent extreme weather events. The harvest volatility (unpredictability) rate for winter wheat in the steppe zone of Ukraine is among the highest in the world.<sup>25</sup> Given the increasing severity of these impacts, climate change mitigation and adaptation measures are urgently required.

The development of irrigation systems in southern Ukraine has been widely promoted as a necessary climate change adaptation measure. For decades, irrigation systems in the region have languished in poor condition. Since Russia's invasion in 2022, these systems have become targets of military aggression, resulting in further destruction. Most recently, the destruction of the Kakhovka dam on 6 June 2023 caused untold damage to the country's largest freshwater reservoir. Besides the immediate immense harm and transformation of the landscape, the event will have medium and long-term consequences for the region's water supply, including irrigation. Although there has been discussion as to whether it is even possible to restore the blown-up facilities, some officials have put forth the projected cost and timeline of such a reconstruction: at least EUR 800 million and five years.<sup>26</sup> Economically and timewise, reasonable alternatives are needed to secure the future of these lands in the form of decentralised, climate-smart irrigation solutions.<sup>27</sup>

Soil degradation is another long-term consequence of the war that will shape the future of agriculture in Ukraine. Demining is an expensive and time-consuming process that will take up to 10 years to conduct. However, the chemical pollution of the soil at former mine sites will have negative consequences for agriculture, the environment and people for generations to come.<sup>28</sup> For these reasons, mine clearance must proceed in conjunction with extensive testing and monitoring of soil pollution. Science-based recultivation on less polluted lands and fair land conservation on the most polluted lands are also crucial – for farmers, who may otherwise lose their means of production; for local communities and consumers, who should have access to healthy food; and for the environment, whose distorted ecosystems must be restored. The involvement of civil society and local communities in assessing the severity of the pollution and planning joint clean-up efforts will be paramount, as will the selection of best practices for land recovery.<sup>29</sup>

Small and medium-sized farms are the backbone of rural communities. They provide workplaces, budgetary support, social security, a greater potential for achieving ecological balance, and food for settlements. Their importance was ably demonstrated during the invasion of Ukraine. Supporting and

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<sup>23</sup> TNA Project, [Ukraine Technology Needs Assessment Report. Climate Change Mitigation](#), UNEP DTU Partnership, 6 July 2019.

<sup>24</sup> TNA Project, [Ukraine Technology Needs Assessment Report. Climate Change Adaptation](#), UNEP DTU Partnership, 36, 49-50, August 2019.

<sup>25</sup> Florian Schierhorn, [Impact of climate change on wheat production in Ukraine](#), Leibniz Institute of Agricultural Development in Transition Economies (IAMO), 9-10, December 2019.

<sup>26</sup> Deutsche Welle, [‘Для відновлення Каховської ГЕС потрібно п'ять років’](#), Deutsche Welle, 6 June 2023.

<sup>27</sup> Ecoaction, WWF-Ukraine and the Ukrainian Nature Conservation Group: [Joint Position on Irrigation in Ukraine](#), Ecoaction, January 2022.

<sup>28</sup> Center for Environmental Initiatives Ecoaction, [The impact of Russia's war against Ukraine on the state of country's soil: Analysis results – Ecoaction](#), Ecoaction, May 2023.

<sup>29</sup> Giacomo Certini, Riccardo Scalenhe, William I. Woods, [The impact of warfare on the soil environment](#), *Earth-Science Reviews Volume 127*, 1-15, December 2013.

promoting the decentralisation of food systems by empowering small farmers and ensuring their cooperation is a vital element for the further sustainable reconstruction of Ukraine and the vitality of its rural areas. Therefore, efforts toward ensuring sustainable reconstruction and recovery of the agricultural sector must include support for small and medium-sized enterprises and cooperation development.

Ensuring transparency of the land market is another important consideration. Plans to postpone the second phase<sup>30</sup> of enrolments for land market reform until the end of martial law are currently being discussed. During 2022, the land market was still operational, with almost 42,000 land deals representing a total area of more than 77,600 hectares concluded over the year. In the first months of 2023, another 13,000 agreements representing a total area of 26,000 hectares were concluded.<sup>31</sup> But evaluating the efficiency of land concentration control by the State Service of Ukraine for Geodesy, Cartography and Cadastre, also known as the State Geocadaster,<sup>32</sup> is a difficult task. The State Geocadaster collects, summarises and analyses information on land deals and acts as the central body responsible for overseeing and administering the concentration of agricultural land. However, due to martial law, the access of civil society to information on land is limited, which in turn restricts independent monitoring of land concentration, planning and decision-making. Therefore, it is crucial to ensure effective control and transparency of data in the second phase of the land market reform, which will begin in 2024. This is particularly important for the recovery of the agricultural sector.

## Recommendations

Investments must be used strategically, not only to help reach pre-war levels of production, but also to achieve a deeper qualitative transformation of a sector that has ambitions to become an equal part of the EU family. EU institutions, public investors and civil society must come together to explore ways of rebuilding and reorienting the country's farming system. Putting small farmers, transparency and sustainability at the heart of these efforts should be at the top of any agenda. Decarbonised and decentralised production that can adapt to climate change would be less vulnerable and more resilient, both for Ukraine and for global food security.

As an investor in the agricultural sector, the EBRD should:

- Prepare its Ukrainian clients for further implementation of the EU's ambitious Green Deal and Farm to Fork strategies as a means of achieving carbon-neutral, socially fair, environmentally friendly and healthy production;
- Ensure the viability of small and medium-sized farmers and help them cooperate across diverse and decentralised agrifood systems designed to benefit the revival and development of rural areas;

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<sup>30</sup> From 1 July 2021 until 1 January 2024, the initial phase of the land market permits only Ukrainian citizens to purchase agricultural land. The maximum size of the land plot that can be purchased is 100 hectares per person. The second phase, which begins in 2024, opens the market for legal entities, enabling them to purchase agricultural land with a limit of up to 10,000 hectares in a single transaction. See: Legislation of Ukraine, [Land Code of Ukraine, Part X, paragraph 15](#), *Verkhovna Rada of Ukraine*, 6 August 2023.

<sup>31</sup> Ministry of Agrarian Policy and Food of Ukraine, '[Денис Башлик: функціонування ринку землі в межах воєнного стану показник впевненості українців у перемозі](#)', *Ministry of Agrarian Policy and Food of Ukraine*, 17 May 2023.

<sup>32</sup> The [State Service of Ukraine for Geodesy, Cartography and Cadastre](#) is subordinate to the Ministry of Agrarian Policy and Food of Ukraine.

- Increase the transparency of the roles of financial intermediaries.

To prioritise and coordinate policy developments, donors must:

- Accelerate the integration of EU requirements in Ukraine's production, namely: Good Agricultural Practices and Best Available Techniques to reduce and prevent environmental pollution from the sector;
- Reduce greenhouse gas emissions and adapt to the ongoing climate crisis, help to develop resilient agrifood systems and enhance ecosystem services in rural areas;
- Develop sustainable alternatives to large-scale irrigation projects, such as through soil moisture retention measures to protect and restore nature, nexus projects combining irrigation and nutrient needs with the development of wastewater treatment facilities in communities, and other climate-smart technologies for irrigation;
- Incorporate restoration measures for damaged land into the agricultural revival of de-occupied territories in Ukraine by comprehensively assessing soil contamination and conservation in the most polluted areas;
- Give the public access to information on the land market, including on efficient control and prevention of land concentration risks and extend favourable conditions to small and medium-sized enterprises for the purchase of land as a basic requirement for their sustainable development.