

Land O'Lakes, Inc.

4001 LEXINGTON AVE. N., ARDEN HILLS, MINNESOTA

Mailing address: P.O. Box 116, Minneapolis, MN 55440
Telephone: (612) 481-2222

PD-AAX-723

15J 55790

1987 STATUS REPORT

USAID/Land O'Lakes Cost Sharing Grant

PDC-0209-G-SS-6182-00

March, 1988

Contact: Douglas Petty
Manager, International
Program Development
Land O'Lakes, Inc.
(612) 481-2508

1987 Status Report
USAID/Land O'Lakes Cost Sharing Grant
PDC-0209-G-SS-6182-00

INTRODUCTION

Section G, paragraph two of the Schedule of cost sharing grant No. PDC-0209-G-SS-6182-00, dated September 19, 1986, as amended July 23, 1987, requires Land O'Lakes to "Submit semi-annual report . . . to AID/PRE/PD on activities funded [by] this the (sic) grant. The reports will reflect the level of field activity and will detail project activity and the developmental and commercial impact of the activities funded through grant expenditures." Paragraph three requires Land O'Lakes to inform the Grant Officer of events having "significant impact upon the project."

This report satisfies the above requirements for 1987, complementing the May, 1987, report. Grant program activity during the entire year of 1987 is described in this report. Land O'Lakes requests the remaining \$150,000 authorization for the grant be obligated on April 1, 1988, as scheduled and the funding period be extended to December 31, 1990.

PROJECT ACTIVITY DESCRIPTION

New projects initiated and project activity in the eight targeted countries during 1987 are described below. Level of activity in direct expenses by project account is specified while indirect costs are separated into a distinct account.

NEW PROJECT DEVELOPMENT: \$17,282

Numerous opportunities to bring Land O'Lakes expertise to bear on problems of LDC agribusinesses in AID countries were explored.

- Impact:
- A multiple-year sub-contract for a dairy processing consultant working in an Asian Development Bank funded project in Pakistan has resulted in lower overhead costs for all technical services.
 - A late 1987 reconnaissance trip to the West Bank to assess Palestinian dairy cooperatives may result in a proposal for Land O'Lakes involvement in the U.S. Overseas Cooperative Development Committee's (OCDC's) Cooperative Development Project.

HONDURAS: \$8,480

The USAID/Honduras-initiated relationship between LEYDE (Leche y Derivados, S.A., Honduras' largest private dairy processor) and Land O'Lakes was broadened into negotiations concerning an expansion of LEYDE's product line and processing capacity. Land O'Lakes organized and escorted LEYDE's chief executive officer on an examination tour of several U.S. dairy processing facilities and in discussions with equipment and packaging suppliers. A Farmer-to-Farmer project initiated by Land O'Lakes under the matching grant and sponsored by LEYDE resulted in the installation of a dairy processing pilot plant at the local national university campus.

- Impact:
- With matching grant funding, Land O'Lakes will be supervising LEYDE's plant expansion in 1988. By doubling processing capacity, LEYDE will be positioned to procure more milk and expand sales to partially displace the 6000 metric tons of imported milk solids.
 - Plans are laid to conduct a feasibility study of a joint investment which may involve the privatization of Honduran government-owned facilities.
 - The university's pilot plant, procured with AID funds twelve years ago, is finally operational. LEYDE expects to hire qualified technicians trained at the facility.

JAMAICA: \$6,578

Nine young dairy farmers were selected by Land O'Lakes and Jamaican sponsoring organizations to participate in the 1988 International Farmer Program (IFP), a six-month, hands-on training program primarily conducted on Land O'Lakes member farms. This training program was temporarily suspended during 1987 to fully evaluate and modify the structure and content of the program to enhance its overall effectiveness.

- Impact:
- Training participants are expected to transfer dairy production and leadership skills acquired in the IFP to their dairy farms in Jamaica.
 - Contacts with Jamaican sponsors and related businesses have resulted in Land O'Lakes commercially providing feed formulations to a feed manufacturer and entering into negotiations concerning the sale of technology for a consumer spread product.

ECUADOR: \$29,697

Matching grant funds were used to support the institutional development and stature of COORSA, a regional agricultural farm supply cooperative selected by USAID/Ecuador to implement a project using surplus dairy commodities to manufacture calf feed. Land O'Lakes exposed COORSA and Ecuadorian government officials to U.S. cooperative agribusiness operations and feed manufacturing technology. COORSA was inducted as an "international affiliate" at the Land O'Lakes annual meeting. In addition two Farmer-to-Farmer projects were initiated by grant activities and general support was given to the PL-480 project.

- Impact:
- COORSA began feed production in August through an activity initiated under the cost-shared grant and later transferred to the dairy link cooperative agreement. Land O'Lakes feed premix is sold to COORSA. Commercial impact of the sale, although insignificant to total Land O'Lakes feed sales, is important to our international effort. COORSA and Land O'Lakes were business agents in the sale of dairy cows to an Ecuadorian farmer.

COSTA RICA: \$ 0

No activity was undertaken in 1987 in this targeted country. However, the commercial relationship with "international affiliate" Dos Pinos remains strong.

COLOMBIA: \$ 0

No activity was undertaken in 1987 in this targeted country. However, the commercial relationship with "international affiliate" COLPURACE remains strong.

INDONESIA: \$7,968

A reconnaissance trip to ascertain the need and possible role of development activities which complement the efforts of the Land O'Lakes commercial joint venture with PT Mantrust was undertaken.

Impact: - A proposal for forty Farmer-to-Farmer volunteers has been submitted to VOCA.

PANAMA: \$ 0

No activity was undertaken in this targeted country nor is any activity being planned.

EGYPT: \$332

A reconnaissance trip to uncover ways Land O'Lakes development efforts might be brought to bear upon livestock production and foods processing problems was conducted in late 1987.

Impact: - Several opportunities for joint commercial and development involvement are currently under study.

GRANT ADMINISTRATION: \$13,661

Expenses related to reporting to AID, managing the cost accounting system, file administration, etc.

INDIRECT COSTS (48%): \$31,544

Calculated over IDU direct expenses, but not over other LOL Program expenses.

BUDGET STATUS

AID's 1987 expenditures under the grant program were \$73,771. This brings the December 31, 1987, life-of-project status to:

<u>Cost Element</u>	<u>12/31/87 Total Program</u>	<u>AID/W Obligated 1/1/86 - 3/31/88</u>
1. Land O'Lakes Program	\$ 75,538	\$158,871
2. IDU Program	161,141	393,906
3. IDU Training	12,871	36,983
4. Indirect costs	<u>250,022</u>	<u>310,240</u>
Totals	\$499,572	\$900,000
Land O'Lakes share	\$292,323	\$450,000
AID/Washington share	\$207,249	\$450,000

The Land O'Lakes contribution exceeds the 50/50 match requirement by \$85,074.

REASONS FOR IMPLEMENTATION DELAYS

Program expenditures are currently under budget due to:

- A 30% reduction in budgeted Land O'Lakes overhead.
- The temporary suspension of the International Farmer Program in 1986 to redesign and strengthen the training program.
- Extensive commitment of the Land O'Lakes matching grant program manager on the Ecuador PL-490 activity to ensure project continuity. This important activity, initiated under the matching grant program in 1986, was transferred to the AID/FFP-Land O'Lakes Cooperative Agreement program, whose objectives it is more conceptually in line with. This shift of limited Land O'Lakes project management resources inhibited the development and implementation of activities under the matching grant, but led to the successful initiation of the innovative USAID/Ecuador calf milk replacer activity. Responsibility for the Ecuador activity was transferred to other Land O'Lakes staff in early 1988 to allow an increased focus on the matching grant.
- AID mission reluctance to utilize the "buy-in" provision of the grant program. Missions anticipate programming problems with this untried procedure. They hesitate to initiate this novel and innovative way to leverage their resources without greater familiarity of the procurement process and definition of the required commitment of mission management resources.
- The willingness of LDC agribusinesses to make significant contributions toward the total cost of the program's technical services has slowed expenditure of AID funds.

- The ten-month delay in program authorization and retroactive funding which limited activity in 1986.
- Success of the cost-sharing grant in initiating activities which are spun off to other donor-funded Land O'Lakes development programs (i.e., Farmer-to-Farmer, Dairy Development Cooperative Agreement, ADB subcontract).

REQUEST FOR BUDGET REVISION

Land O'Lakes requests a revision of the grant budget because of:

- Plans to transfer funds budgeted for indirect costs to absorb increases in direct costs,
- The need to extend the current grant period through 1990 (a two-year extension) to ensure completion of planned activities, maximize the effectiveness and long-term nature of the relationships which result from grant activities, and allow missions to become familiar with "buy-in" procedures,
- Plans to increase funds allotted for training through the transfer of funds from other categories.

Land O'Lakes proposes the following budget revision, which assumes the obligation of the final estimated AID/W contribution of \$150,000 on April 1, 1988 and a two-year extension of the funding period.

PROPOSED BUDGET REVISION

<u>Cost Element</u>	<u>Obligated Amount</u> <u>1/1/86 - 12/31/90</u>		<u>Total</u>
	<u>AID/W Program</u>	<u>Mission Program</u>	
1. LOL Program	\$ 205,000	\$102,150	\$ 307,150
2. IDU Program	379,000	215,300	594,300
3. IDU Training	175,000	16,600	191,600
4. Indirect Costs	<u>441,000</u>	<u>115,950</u>	<u>556,950</u>
Total	\$1,200,000	\$450,000	\$1,650,000
<u>AID Grant</u>	<u>\$ 600,000</u>	<u>\$360,000</u>	<u>\$ 960,000</u>
LOL share	\$ 600,000	\$ 90,000	\$ 690,000

The budgeted level of activity for the extended funding period with AID/W is:

PROPOSED EXTENDED FUNDING PERIOD BUDGET

	<u>LOP</u> <u>12/31/87</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Total</u>
Land O'Lakes	\$292,323	\$150,000	\$ 78,839	\$ 78,838	\$ 600,000
AID/W	<u>207,249</u>	<u>150,000</u>	<u>121,376</u>	<u>121,375</u>	<u>600,000</u>
Total	\$499,572	\$300,000	\$200,215	\$200,213	\$1,200,000

However, current Land O'Lakes contributions to the grant program exceed the 50% matching requirement of total expenditures and may be expected to exceed the 50/50 requirement at the end of the extended funding period.

1988 Implementation Plan

As the program has evolved, modifications of the implementation plan presented in the February, 1986, Land O'Lakes proposal for Institutional Development of LDC Agribusinesses have been minor, but do include a change in targeted countries for 1988 activity. No significant activity is currently projected in Colombia, Ecuador, Costa Rica, and Panama. Existing international affiliate relationships in these countries (Panama excepted) will be maintained, and technical backstopping through training and short-term trouble shooting will continue. The long-term nature and flexibility of these relationships remains a key element of the implementation plan. These aid relationships are expected to lead to self-sustaining commercial relationships.

Targeted countries for major efforts in 1988 are:

- Jamaica Up to nine young dairy farmers will be given six months training on farms and in seminars at Land O'Lakes;
- Honduras Work continues to expand the processing capacity of Leyde through equipment installation supervision, improve cheese processing techniques, and study possible joint investment opportunities;
- Egypt Follow-up to the December, 1987, reconnaissance trip may result in activities leading toward a joint commercial and development business relationship;
- West Bank Follow-up to the December, 1987, reconnaissance trip which may lead to greater Land O'Lakes involvement in the Cooperative Development Project is under consideration.
- Mexico If approval for the use of AID/W monies in Mexico is secured, a reconnaissance trip to explore program opportunities with CARE and private sector partners will be conducted;

- Indonesia A reconnaissance trip is planned to define opportunities for the matching grant program in coordination with the business relationship Land O'Lakes has with PT Mantrust;
- Thailand A reconnaissance trip is planned to explore opportunities for the program.

In addition, Land O'Lakes will be providing short-term training for private sector participants from interested developing countries. Finally, Land O'Lakes will be exploring opportunities to bring its expertise to bear on development problems through contractual and matching grant buy-in arrangements in interested AID countries.

Significant Events:

During 1987, Land O'Lakes began unified operations with another regional farm supply cooperative, CENEX, to create the largest agronomy company in the United States, serving 500,000 members in thirteen states. Dairy operations were also combined with the Northern Division of Mid-American Dairymen, a large dairy cooperative. Alex Fries, Inc., a Cincinnati flavor house, was acquired by Land O'Lakes and is held as a wholly-owned subsidiary. These joint ventures and acquisitions position Land O'Lakes to provide an ever-broadening scope of technical services and expertise to agribusinesses in developing countries. The International Division of Land O'Lakes was decentralized to ensure close technical support of the international marketing and development thrust.

Since the initiation of the cost-sharing program in 1986, Land O'Lakes International Development has been contracted by AID/FFP to manage a Cooperative Agreement providing for the development of new agricultural development projects with LDC private sector entities using surplus U.S. dairy commodities. Land O'Lakes has also been sub-contracted by VOCA for the conduct of Farmer-to-Farmer projects in Ecuador and Honduras. Further, Land O'Lakes has participated in a development education consortium, partially funded by a Biden-Pell grant from AID/FVA, and provides its members, employees, and the community at large with information relating to development issues.

These development programs, some initiated by matching grant activity, have provided Land O'Lakes greater flexibility in its response to the needs of developing country agribusinesses and allowed a reduction in allocated overhead to each activity. However, the matching grant remains the only program through which Land O'Lakes directly initiated contact and development activities with LDC private sector agribusinesses and AID missions.

The Land O'Lakes corporate commitment to international development has not flagged. Land O'Lakes is actively involved and is on the board of directors of the JADF, NCBA, ACDI, OCDC, IMDI, and ACVFA.

Issues:

Land O'Lakes seeks AID/W assistance in resolving the problem of the high cost of capital (interest) assumed by Land O'Lakes when conducting government development programs. Since the cost-sharing grant is conducted on a cost reimbursement basis, expenses incurred during one month and invoiced to AID at the end of that month are not due and payable by AID for an additional thirty days after AID's receipt of the invoice. Therefore, Land O'Lakes incurs the cost of financing for development program expenses for at least sixty days.

Federal regulations prohibit Land O'Lakes from recovering this interest expense through its indirect cost rate or through billing as a direct expense. Nor can interest expense be considered Land O'Lakes matching contribution to the grant program. At this time, Land O'Lakes has no means to recover the substantial interest cost associated with the conduct of government-funded development programs. The International Development Department paid over \$25,000 in interest charges in 1987 of which \$1,400 was from the cost-shared grant. We feel it unfair that Land O'Lakes must undertake the cost of financing overseas development programs.

Land O'Lakes proposes that AID provide a periodic advance or a federal letter of credit to eliminate this expense incurred when implementing development programs.