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LAND O'LAKES, INC.

**Restructuring Agriculture through Agribusiness
Formation: Private Sector Program for Russia
Cooperative Agreement number: CCN-0006-A-00-3039-00**

**Quarterly Report
October 1 through December 31, 1993**

January 25, 1994

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OVERVIEW

This past quarter has been a quarter of conflict for Russia. Political struggles caused armed conflict in Moscow, while people in Venev wondered how to get seed for their fields and feed for their livestock. As the program approaches its one-year mark, both great gains and major barriers have challenged Land O'Lakes staff and the Russian farmers participating in the program. A group of reform-minded, progressive and willing farmers work to establish a western-style agribusinesses while key individuals continue to espouse the old structures and economics. A farmer survey shows creative thinking and solid production expertise while agricultural inputs continue to be elusive and dedicated to state-owned enterprises and distribution systems are inconsistent or even non-existent.

Despite all this, however, Land O'Lakes continues to find pockets of farmers and businessmen who want to work with U.S. technical experts to develop their expertise in operating and improving private farms and businesses. Through the continued assistance of this program, these people are beginning to be reached.

PROJECT ELEMENTS

Objective: Coordinate agribusiness operations

Member Survey

Land O'Lakes long-term personnel and the Venev Farmers Cooperative manager worked together to develop a farm supply needs assessment and market survey for the Venev Farmers Cooperative membership. The purpose of this survey was to provide the Venev Farmers Cooperative with quantified information about member, educational and technical needs in the district as well as to provide a basis for financial investment decision-making. After testing the survey, some revisions were made and the survey was distributed to nearly all Venev Farmers Cooperative members. The survey included questions about the following topics:

- existing major enterprises on farms
- desired enterprises if farmers were to expand their operations
- needed services
- supplies and inputs needed
- technical advice needed
- marketing assistance needed and with which products
- construction plans
- equipment needed on farms
- opinions on lucrative markets for private farmers in the area

After the survey was returned, results were tabulated and a summary was presented to the Venev Farmers Cooperative management and board of directors. One hundred copies of this survey were also delivered to the district AKKOR office for distribution outside the membership of the Venev Farmers Cooperative. A copy of the survey, including the summary of survey results, is being translated and will be forwarded to USAID in Washington and Moscow during the next quarter.

Land O'Lakes Program Implementation Plan

The USAID-approved year one implementation plan for this program was translated into Russian and given to the Venev Farmers Cooperative manager. The objectives and planned results were discussed with the manager so that he would understand the program and to solicit his suggestions for additions or changes as the situation might warrant. The manager carries a copy of the implementation plan with him at all times and is actively involved in working with Land O'Lakes in-country personnel to implement the program along planned objectives. In this way, an understanding has been reached as to what tasks need to be completed in order to establish a successful cooperative and communication about those tasks has been improved.

Venev Farmers Cooperative Office Move

The Venev Farmers Cooperative main office was moved into space which allowed for more room for Land O'Lakes and Venev Farmers Cooperative management personnel. The move also provided the Venev Farmers Cooperative with an opportunity to create its own identity because it no longer shares office space with several other organizations. Telephones for the Venev Farmers Cooperative were installed and a plan was discussed with Venev Farmers Cooperative management for furnishing and renovating the office.

Venev Farmers Cooperative Financial Performance and Accounting System

Land O'Lakes personnel were able to obtain a copy of the Venev Farmers Cooperative's chart of accounts and 9-month balance. These documents are currently being translated and should be a good source of information about what financial decisions transpired before the arrival of the Land O'Lakes long-term program personnel. Operating budgets for the coming year will be prepared based in part on the information in these balance sheets. In addition, standardized western-style financial statements can be prepared which show current Venev Farmers Cooperative information.

A Russian language computerized accounting program has also been identified and will be installed in the Venev Farmers Cooperative office.

Summary of Impact

An agreement was reached between the Land O'Lakes long-term personnel and the Venev Farmers Cooperative manager that good business practices based on western standards will be implemented in the daily operations of the cooperative. While it remains to be seen how well this agreement will be upheld, particularly by the former management of the Venev Farmers Cooperative still involved with the board of directors, it represents a major breakthrough in the development of free market and democratic practices within the Venev Farmers Cooperative.

Objective: Design management plans

Board Meetings

Progress was made in establishing, through the cooperative manager, a long-range schedule of Venev Farmers Cooperative board meetings. Board meetings are planned monthly, weather and holidays permitting.

Business Plans

With the assistance of Dave Eckholm, a short-term technical expert (see page 4), local program participants and local and regional government officials agreed upon the need to develop a joint business plan that includes an operating budget and a capital budget. The question remains as to whether or not any business plan developed by the manager and Land O'Lakes long-term personnel will be accepted by the board of directors or even whether or not the board of directors recognizes its power to do so. (See next objective below) Work on a complete business plan continued throughout the quarter. A review of Venev Farmers Cooperative performance for the first nine months of 1993 was also completed.

Summary of Impact

The concepts of board meetings and business plans are foreign within the old collective farm or state-owned business structure. Just to understand the necessity for regularly scheduled board meetings is an indication of the Venev Farmers Cooperative board's intention to follow democratic management policies. In addition, in this case, the meetings were not only scheduled but an agenda is being developed for each meeting. It was also a significant step for the many Russian agribusinessmen and government officials involved to agree to the need for a business plan prepared by on-site management and voted on by a governing body made up of private farmers.

Objective: Design organizational structure of member owned agribusinesses

Venev Farmers Cooperative Organizational Structure and Communication

Work continues with the Venev Farmers Cooperative board of directors and manager to instill the concept that they, as members elected to the board and as a manager hired by the board, have the power as a group to determine the plans and financial commitments for the Venev Farmers Cooperative. This objective quite possibly represents the most challenging aspect of the formation of a private member-owned agribusiness in Russia. The culture as a whole continues to be dominated by the concept of a single director running the business and dictating to the collective members the requirements for the business to succeed. This concept often results in power mongering by key individuals.

Land O'Lakes long-term technical assistance staff visited members of the Venev Farmers Cooperative board of directors on their farms and continue to discuss the progress of the Venev Farmers Cooperative and agreements made by the management of the Venev Farmers Cooperative. Land O'Lakes remains dedicated to working with groups of private farmers and private farm groups that desire a democratic and free market style organizational structure.

Annual Meeting

Plans for the Venev Farmers Cooperative annual meeting were initiated with the Venev Farmers Cooperative manager.

Joint Ventures

The cafe manager wrote a short business plan and both the cafe manager and the feed mill managers gave financial reports about their enterprises at a Venev Farmers Cooperative board meeting. This represents a step forward in both organizational structure and a willingness to communicate using western formulas.

Objective: Assist in registering the agribusinesses as private businesses under Russian law

Venev Farmers Cooperative Legal Status

Documents concerning the establishment of the Venev Farmers Cooperative have also been obtained and were translated. It was determined that under current Russian law, the Venev Farmers Cooperative is actually legally considered a joint stock because no farm cooperative law currently exists. Land O'Lakes long-term staff met with Eugenia Sorova, an advisor to the Minister of Agriculture of Russia for advice concerning current and proposed cooperative law in Russia. See Attachment A for a summary of this meeting.

Feed Mill Joint Venture

Joint venture documents for the Venev Farmers Cooperative's relationship with the feed mill have been obtained and are being translated. This will help the Venev Farmers Cooperative determine the range of influence it has over the feed mill.

Objective: Establish membership requirements, privileges and levels of equity

Membership List

A list of all current registered members of the Venev Farmers Cooperative was compiled including confirmed addresses and telephone numbers. In addition, documentation of the fees paid by each member will be collected. These are the beginning steps to establishing membership requirements and privileges.

Objective: Work with government and AKKOR's banks to finance start-up costs

AKKOR Loan

The Venev Farmers Cooperative has obtained a 260 million ruble loan from AKKOR. Land O'Lakes long-term personnel discussed with the Venev Farmers Cooperative board the necessity for jointly preparing a business plan for this money before spending it. During this discussion, everyone learned an interesting cultural diversity lesson. John Brannaman explains:

"Americans prepare a business plan and then find the funding for it while Russians prepare a spending plan only after they receive the money. Neither of us realized the thought process the other side was using until we talked about it."

Again, in this process, the recognized financial authority may not rest with the board as a group or the Venev Farmers Cooperative manager because of key individuals who continue to acknowledge, for the most part, the old collective-style power structure. Program objectives and goals continue to be stressed with the management and board of the Venev Farmers Cooperative.

Objective: Assist in design of marketing and sales programs for the agribusinesses

A mailing list was created from the membership information obtained as reported above. With this information in hand, the first edition of a newsletter funded by the Venev Farmers Cooperative is being produced. The newsletter introduces the Venev Farmers Cooperative manager and the Land O'Lakes long-term advisors. The newsletter will also recap the activities of the technical assistants during the past four months and provide educational information about cooperatives.

When the newsletter is published, a copy of it will be included in the quarterly report.

Objective: Prepare how-to documents on agribusiness formation

An outline on writing business plans was prepared and translated. This outline, along with technical assistance intervention reports (see Technical Assistance Interventions section below) and minutes of past board meetings were assembled in ring binders and distributed to the Venev Farmers Cooperative manager, board of directors and the Tula regional government officials.

Copies of New Farmer magazine were distributed to area private farmers. These magazines were in Russian and made available by VOCA/Moscow through a USAID-funded program which VOCA is implementing for translating agricultural materials into Russian.

Objective: Assess range of products and services agribusinesses will supply private farmers

A farm supply needs assessment and market survey was performed to assess the needs of Venev Farmers Cooperative farmer members. See first objective for a description of this activity.

Objective: Methods to acquire materials, farm machinery, and facilities

Grain Storage

One of Land O'Lakes current long-term technical experts and the Venev Farmers Cooperative manager traveled to Ukraine in order to look at current grain facilities at the Agribusiness Center. In preparation for this trip, the following criteria for an ideal grain storage facility location were discussed:

- close to rail line
- close to feed line
- easy accessibility (hard surface road)
- truck scales nearby
- potential for expansion

Several possible sites for grain storage facilities in Venev were researched. Sample grain purchase/storage agreements were obtained from the United States to be used as models for Venev Farmers Cooperative agreements.

Objective: Develop plan for leasing farm equipment for members

An equipment lease agreement has been written and is being reviewed by legal experts. After the document is translated into Russian, lease rental rates will be established.

Objective: Supervise formulation of animal feed products

Work continued on expanding feed sales from the feed mill with which the Venev Farmers Cooperative has a joint venture. The following ideas were implemented with the Venev Farmers Cooperative manager:

- the Venev Farmers Cooperative will sell cattle, hog and poultry feed at the Venev Farmers Cooperative's product store
- feed will be available 7 days a week
- the Venev Farmers Cooperative manager is drafting a newspaper advertisement and flyer advertising the feed.

The possibility of selling feed products through the Venev Farmers Cooperative will allow the manager and employees to learn marketing and sales techniques while increasing profits for the cooperative. It will also increase the visibility and desirability of the Venev Farmers Cooperative. These types of feed products will also provide a much needed product for local farmers and residents: balanced, high quality feed.

TECHNICAL ASSISTANCE INTERVENTIONS

One technical assistance intervention took place this quarter. A description follows. Translations of past technical assistance expert reports were completed and delivered to the beneficiary organizations. Information regarding future technical assistance assignments can be found below (Major Changes/Adjustments/Barriers).

David Eckholm/October 16-23, 1993

Eckholm is a vice president in the Ag Services division at Land O'Lakes. He has been closely involved in working with Land O'Lakes' International Development Division on the Tula project since its inception. He also participated in the feasibility study in the Venev area that was financed by the Russian government. He was responsible for building many of the relationships between Land O'Lakes and the Venev Farmers Cooperative and worked directly with the Venev Farmers Cooperative to write and ratify their charter.

When there began to be some questions from program management personnel, both in the U.S. and Russia, as to whether or not Venev Farmers Cooperative members and management understood the

scope and requirements of the USAID program they were participating in, Eckholm volunteered to return once again to Venev and help to answer some of those questions.

While in Venev, Eckholm reviewed the history and goals of the Venev Farmers Cooperative with the new manager, board members, local, regional and national Russian government officials and local and national AKKOR leadership. He also discussed the importance of implementing good business practices at the Venev Farmers Cooperative including the need for a jointly developed business plan, a short-term technical assistance schedule, an educational plan, a Venev Farmers Cooperative operating and capital budget, financial accountability process and a financial review of the Venev Farmers Cooperative's financial activities. The discussions led to an agreed upon plan for implementing these good business practices in the Venev Farmers Cooperative management.

Before leaving Russia, Eckholm also reaffirmed support for the project with local, regional and national government and AKKOR officials. He also met with the Deputy Minister of Agriculture of the Russian Federation and updated USAID on program activities.

Eckholm's visit not only reaffirmed the original purpose for the program and the support of government and agricultural officials but also provided valuable information about the history and purpose of the Venev Farmers Cooperative. The Venev Farmers Cooperative manager and the Land O'Lakes long-term technical experts had an opportunity to learn about and understand previous discussion and agreements.

PROGRAM MANAGEMENT

Land O'Lakes Minnesota staff continues to support the long-term staff in Venev. The procurement process for a vehicle was effected resulting in the authorization and purchase of a Cherokee Jeep. This vehicle will be used by Land O'Lakes long-term technical experts to make on-site visits to the agribusinesses in the Venev area.

Land O'Lakes also commends the work of current long-term technical experts, John Brannaman and Nancy Barickman, who, along with their daughter Hannah, continue to persevere despite difficult living conditions and political and economic opposition. Their efforts to move the program forward in the face of resistance from key individuals, has continued to further and maintain good relations between U.S. aid efforts and the Russian farmer even when reform is not welcomed.

MAJOR CHANGES/ADJUSTMENTS/BARRIERS

Short-term Technical Assistance Interventions

Technical assistance assignments have been temporarily suspended at the request of local AKKOR officials and the Venev Farmers Cooperative management. The Russian participants in this program did not fully understand the value of or necessity for short-term technical assistance. After the concept was thoroughly explained to them, they agreed that short-term technical assistance would be desirable but still wished to develop a comprehensive plan for technical assistance visits before any more were scheduled.

A technical assistance plan will be developed in conjunction with the market research survey results. Should this type of assistance still not be widely accepted, it may be that the short-term assistance will be scheduled at the end of the program to provide continuity in the agribusinesses after the long-term personnel have gone.

Animal Feed

Despite the fact that a need for high-quality animal feed has been identified in the Venev area and a feed mill is available to the Venev Farmers Cooperative, good sources for animal feed premix and protein supplements continue to be elusive. Land O'Lakes long-term technical experts will continue to research possible sources; however, plans for marketing animal feeds will be delayed until these can be located.

Venev Farmers Cooperative Organizational Structure

In November, after the goals and objectives of this program were reviewed with the board of the Venev Farmers Cooperative, Venev Farmers Cooperative management and various AKKOR and government officials and after an agreement was produced that reaffirmed the Venev Farmers Cooperative's commitment to those objectives, information began to emerge that indicated some problems within the organizational structure of the cooperative. After some research, Land O'Lakes long-term personnel discovered that the original charter of the Venev Farmers Cooperative, which was ratified by the Venev Farmers Cooperative board of directors, was changed by the former manager and current chairman of the board before the Venev Farmers Cooperative was registered with the Russian government. A clause was included at the time of registration providing for the chairman of the board to hold the position of manager for up to three years.

This type of structure is in complete opposition to democratic- or western-style cooperative structure which stipulates that the manager must always be separate from and hired by the board. The current charter of the Venev Farmers Cooperative provides instead for a collective farm or joint stock company structure. In discussions with the board of directors and current manager of the Venev Farmers Cooperative, it was ascertained that the general belief remains that the current chairman of the board is still in charge. Also, this same person continues to exert his influence over the financial assets of the Venev Farmers Cooperative which, according to the charter, he controls. In addition, membership in the cooperative had been closed.

Land O'Lakes long-term personnel again presented the goals and objectives agreed upon between Land O'Lakes and USAID for this project. Criteria were presented stating the changes that would have to occur in the Venev Farmers Cooperative structure and charter for the Venev Farmers Cooperative to remain a part of this program. These criteria are:

- The Venev Farmers Cooperative needs to be structured as a farmer-owned cooperative.
- The Venev Farmers Cooperative charter needs to be revised and approved by the members.
- The Venev Farmers Cooperative needs to be accountable for its actions and finances.
- Membership should be re-opened and encouraged.

- Business plans need to be developed and approved that meet the goals and objectives of the Venev Farmers Cooperative, AKKOR and Land O'Lakes.

These criteria will be discussed and resolutions voted on at the January 21, 1994, Venev Farmers Cooperative board of directors meeting and at the annual meeting on January 25, 1994. A revised charter has been prepared for the Venev Farmers Cooperative board should they vote to replace the current charter. USAID will be provided with a complete report as soon as it becomes available.

Alternatives for the formation of an additional cooperative in the Venev area are being researched and look promising. There continues to be a high level of interest and support for a free market style cooperative among the farmers and other agribusinesses in the area.

UPCOMING

Land O'Lakes program management personnel, both in the U.S. and Russia, will continue to keep USAID informed as to the outcome of negotiations with the Venev Farmers Cooperative. In addition, Land O'Lakes field personnel will proceed with research of additional agribusiness start-up possibilities for replication of the cooperative model. Processing facilities are also being investigated to find those most reform-minded and willing to work in a privatized, free market structure.

Land O'Lakes field staff will travel to Land O'Lakes corporate offices in late February to attend staff training and the Land O'Lakes annual meeting. This travel is not funded through the program.

ATTACHMENTS

Attachment A: Meeting Summary - Eugenia Sorova, Ministry of Agriculture

Attachment B: Quarterly Financial Report

Attachment A

**Meeting Summary
Eugenia Sorova, Ministry of Agriculture**

MEETING SUMMARY

Eugenia Sorova
Russian Federation
Ministry of Agriculture
December, 1993

In December, Land O'Lakes field staff met with Mrs. Eugenia Sorova, an advisor to the Minister of Agriculture of Russia. Sorova also serves on the Reform Committee which is headed by Yegar Gaidar. Sorova is the author of the agricultural cooperative legislation in Russia.

Sorova offered some ideas for the Venev Farmers Cooperative. She suggested the cooperative be registered as a consumer cooperative because the agricultural cooperative law had not been recommended to Mr. Yeltsin by the Finance Minister to be enacted by decree. As a result, the cooperative law must now be debated and passed by Parliament and it could be many months before the cooperative law is passed.

Land O'Lakes reviewed the consumer cooperative law on behalf of the Venev Farmers Cooperative. By being registered as a consumer cooperative, the cooperative could avoid the double taxation-of-dividends-problem.

Sorova provided copies of cooperative charters for a service cooperative, a marketing cooperative and a banking cooperative which mesh with the proposed cooperative legislation. She said charters could be written about any way desired because in Russia charters do not necessarily have to follow the law exactly. This is the nature of the current legal system in Russia. Sorova asked for feedback on her charters. The charters are being translated and Land O'Lakes field staff will respond to her request in a few weeks. In addition, Sorova said she would review the charter Land O'Lakes had developed for the Venev Farmers Cooperative.

Sorova asked Land O'Lakes field staff to write an article about their experiences so far with the Venev Farmers Cooperative. She is interested in learning about the successes and challenges Land O'Lakes has faced thus far relating to cultural and legal issues. Currently, Land O'Lakes staff is preparing this article.

Sorova also indicated that the U.S. Treasury Department has a new advisor to the Russian Finance Minister. This advisor apparently is not familiar with U.S. cooperative law, especially the principal of one member/one vote and the non-taxation of cooperative dividends paid to share holders. This advisor recommended to the Russian Finance Minister that the cooperative law was not reasonable. Land O'Lakes will try to obtain the name and address of this advisor so information about cooperatives can be provided to him or her.

Attachment B

Quarterly Financial Report

RESTRUCTURING AG IN RUSSIA
CCN-0006-A-00-3039-00
FINANCIAL SUMMARY

	Expenditures		
	Actual Grant to Date	Actual 10/1/93 to 12/31/93	Projected 1/1/94 - 3/31/94
1. Direct Labor	\$90,502	\$21,909	\$37,650
2. Fringe Benefits	30,178	8,535	9,036
3. Consultants	10,093	1,976	5,650
4. Travel/Per Diem	35,195	12,912	8,852
5. Expend. Supplies/Materials	5,639	1,905	2,524
6. Nonexpendable Equipment	67,127	30,145	84,498
7. Subcontracts/Subagreements	0	0	0
8. Other Direct Costs	54,344	11,634	22,773
9. Evaluations	0	0	0
10. Indirect Cost	<u>125,731</u>	<u>39,910</u>	<u>63,264</u>
Total Federal Funds	418,809	128,926	234,247
Non-Federal Funds	<u>1,147</u>	<u>1,036</u>	=
Total	<u>\$419,956</u>	<u>\$129,962</u>	<u>\$234,247</u>

This report represents a summary of actual and accrued expenses for the referenced agreement or grant. If accrual expense amounts were not available for activities occurring in the reported quarter, those expenses will be included in the next financial summary.

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