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LAND O'LAKES, INC.

**COOPERATIVE SUPPORT GRANT
COOPERATIVE AGREEMENT NUMBER:
PDC-0192-A-00-1045-00**

**QUARTERLY REPORT
OCTOBER 1, 1993 - DECEMBER 31, 1993**

JANUARY 25, 1994

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I. ACTIVITIES

A. PROGRAM DEVELOPMENT

The project development team explored the potential for new projects in the New Independent States of Kazakhstan, Kyrgyzstan, and Russia, and in the African countries of South Africa, Uganda, and Cameroon. Following are summaries of those reconnaissance trips.

Kazakhstan

October 12-16, 1993

Kristin Penn

Accompanied by Vladimir Dukhnov of the Land O'Lakes Moscow office, Kristin Penn traveled to Kazakhstan to follow up on leads from a previous visit and to scout for new project development activities. Land O'Lakes had previously proposed, through a new initiatives grant, to work with women dairy producers in and around the city of Alma-Aty to help them develop a marketing cooperative. It was discovered that the women are no longer selling their milk and milk products to "middlemen" but rather marketing their products on their own. Discussions with women selling milk and milk products in Alma-Aty's center market revealed that there remains a need and desire to market dairy products as a group to cut logistical costs. VOCA was briefed on this situation and is interested in providing cooperative development technical assistance through their volunteer program to the women dairy producers.

The local ACDI office recommended that Land O'Lakes develop a proposal to collaborate with ACDI in responding to a request from the regional government to perform a feasibility study of the six dairy processing plants in the Alma-Aty oblast to determine profit potential and necessary reforms in management, operations, and marketing.

As a result of discussions with various U.S. development organizations located in Alma-Aty, it was concluded that there is a great need to provide Kazakhstan agricultural entrepreneurs exposure to possible business formation activities such as pre-cooperatives, small business development, etc. Land O'Lakes submitted a proposal, in collaboration with VOCA and the Kazakhstan Institute of Management, Economics and

Strategic Research, to USIA for \$179,000 that offers U.S. agribusiness internships to key leaders from the emerging private agriculture sector in Kazakhstan.

Kyrgyzstan

October 16-21, 1993

Kristin Penn

The focus of the trip, geographically, was in the Issik-Kul Region of Kyrgyzstan. The tour logistics were arranged by the Mayor of Karakol, the regional capital. Visits were made to the region's largest dairy processing plant, various agricultural cooperatives, state farms, and private agribusinesses. This trip resulted in the development and submission of two proposals to the Eurasia Foundation. One proposal will be for third country training -- a Kyrgyzstan delegation to visit Poland and Hungary to investigate the activities of small business development organizations. Another proposal will be for agribusiness development through U.S. internships and in-country business management training (formal classroom training, focus groups and business center activities.)

An additional concept involving Land O'Lakes and FINCA still is in development. FINCA would develop micro-lending programs for rural women in one to three Central Asia Republics, while Land O'Lakes would provide the business management and agricultural technical expertise. This proposal will be submitted to the USAID/NIS business development section.

Support for future Land O'Lakes activity with individuals from the World Bank who are responsible for lending programs in Kyrgyzstan was developed through meetings held in Bishkek and in Washington, D.C. Time and energy building support with the Kyrgyzstan government officials in Washington has been spent in preparation for possible activities with the World Bank. We will have strong support from the Kyrgyzstan Embassy if Land O'Lakes succeeds in being placed on the World Bank short list for projects in Kyrgyzstan.

Russia

October 22-24, 1993

Traveler: Kristin Penn

In June 1993, Land O'Lakes hosted a delegation of 21 Russians from the Nizhny Novgorod oblast of Russia, whose trip was coordinated through Agland. Kristin traveled to this oblast at their invitation, to search for project development sources. The AgroBusinessCentre is very interested in collaborating with Land O'Lakes on a proposal to the Soros Foundation. Kristin explored the possibility of funding through the International Finance Corporation. The IFC contact was impressed with Land O'Lakes' proposal to provide support to the collective and state farms that IFC is assisting to transform to private enterprises. The IFC person recommended contacting EBRD to

check out possible collaboration as it sets up business centers in Tula, Nizhny Novgorod and Tomsk to provide support to small businesses. Kristin also identified a large farm, Ktsova, that could benefit from a Land O'Lakes' Farmer-to-Farmer intervention in the dairy operations, to complement the interventions by VOCA in its vegetable storage and processing.

Ukraine

November 1-8, 1993

Jill Kohler

Jill Kohler, Land O'Lakes Director of Project Development, traveled to Ukraine to determine options for agricultural development. These options are: 1) a joint proposal for a reverse Farmer-to-Farmer program, with VOCA handling in-country selection and administration and Land O'Lakes providing training; 2) Land O'Lakes' inclusion in a sector-wide agriculture project led by Citizens Network with USAID support and direction; and 3) an unsolicited proposal for model agribusiness formation with Ukrainian Farmers Association (UFA) as local counterpart. In February 1994, Jill will follow up on the second option, traveling to Ukraine as part of a Citizens Network project development team.

South Africa

December 1-5, 1993

Rosemarie Kelly-Rieks and Martha Cashman

This trip was not as fruitful as had been hoped. Rosemarie Kelly-Rieks of the Land O'Lakes project development team, and Martha Cashman, Vice President of Land O'Lakes International Development Division, met with representatives of Education Africa, CARE International, Kagiso Trust, BICSN, INSIKA and Umthombo Pride, but no near-term projects were developed. Land O'Lakes will continue contact with CARE, Kagiso Trust, BICSN, INSIKA, and U-Pride, monitoring them for future possible collaboration.

Uganda

December 5-17, 1993

Rosemarie Kelly-Rieks

Martha Cashman (December 5-11)

Uganda is a beautiful country with tremendous agricultural potential, and correspondingly exciting possibilities for project development. It has the potential to be self-sufficient in dairy, even to export dairy products. Rosemarie and Martha traveled the eastern, western, and central regions of Uganda, visiting farms with dairy herds ranging in size from 1 to 200 head. They determined that dairy farmers need technical

assistance and intensive training in all aspects of dairying to be efficient business managers, as well as increasing the size of their herds to boost production. Land O'Lakes will work toward being a partner with USAID/Kampala in the development of the Uganda dairy sector.

Cameroon

December 11-15, 1993

Martha Cashman

Martha Cashman traveled to Cameroon to review the implementation of previous training programs by the Fulanis of the Tadu Dairy Cooperative Society (TDCS) and to determine the next step. The TDCS has incorporated their training into their daily lives: 1) the use of artificial insemination is spreading and crossbred calves have been born; 2) the TDCS functions as a forage seed production cooperative; and 3) milk quality and milk production have increased. Martha met with The Fon, the chief of chiefs of the Banso region, who agreed to use his influence to stop the planting of eucalyptus trees that drain the rivers. The land use pressure and human rights violations of the traditional farmers were also brought to his attention and to that of some of the local government officials. The Mission in Cameroon is closing. The staff want to fund one more training program through Land O'Lakes, which will use local trainers to provide herd health and nutrition training.

Project Development Travel for Next Quarter: Ukraine and possibly Latvia

B. LIMITED PROGRAM SERVICES

Eileen Eichten-Carlson, manager of a small-scale cheese plant in Minnesota, traveled to the Bamenda Highlands of Cameroon November 1-9, 1993, to conduct training on cooperatives principles and practices and conduct a follow-up milk quality procedure review for the Fulanis of the Tadu Dairy Cooperative Society (TDCS). In total, Eileen spoke to approximately 1,065 men on cooperatives and to 545 women about milk quality. Eileen's audience during her instruction on the formation of a cooperative included many men from the area besides the Fulanis. During Eileen's follow-up review of quality milking procedures, she heard very positive reactions from the women as to how much healthier their families seem to be, the better-tasting quality of their milk, and the long-lasting capability of the milk from less than one day to two to three days, due to the fast cooling of warm milk.

Limited Program Services Travel for Next Quarter: Mexico

C. COMMUNICATIONS

A Twin Cities-based television station, KSTP, sent a crew to Cameroon in early November 1993 to videotape the Fulanis of the Tadu Dairy Cooperative Society. In late November, KSTP broadcasted several five-minute segments. They presented a balanced yet favorable view of Land O'Lakes' training efforts to improve their milk quality and quantity and of the problems the Fulanis face in keeping their culture as they improve their economic situation. The videotape is being sent to interested parties internationally and is available upon request from the Land O'Lakes International Development Division.

Land O'Lakes' programs in Russia are highlighted in the Fall 1993 issue of Land O'Lakes' International Outlook quarterly newsletter (Appendix B), which has a distribution of 2,000 worldwide. Of particular interest are the article on the first page that traces the history and success of the PL-480 project in Jamaica and the page six article about the new butter monetization program in Russia.

II. FUNDING

Over the past quarter, Land O'Lakes International Development Division signed no new agreements for projects. In late January, Land O'Lakes received word of approval for a \$25,000 Kyrgyzstan third country training program for the Eurasia Foundation. Land O'Lakes awaits notification on award of several submitted proposals: Kyrgyzstan business center proposal for Eurasia Foundation, Kazakhstan training for USIA, a Ukraine Reverse Farmer-to-Farmer program for USAID, a Russian Reverse Farmer-to-Farmer program for USAID, a Latvia Women in Development project for USAID, and a cooperative support grant for 1994-99.

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APPENDIX A

FINANCIAL REPORT

COOPERATIVE SUPPORT GRANT
#PDC-0192-A-00-1045-00
FINANCIAL SUMMARY

	Expenditures			
	Grant to Date		Projected	Quarter
	<u>A.I.D.</u>	<u>Match</u>	<u>1/1/94 to 3/31/94</u>	<u>10/1/93 to 12/31/93</u>
Africa				
Program Development	\$96,375	\$5,920	\$2,000	\$33,927
Limited Program Svcs	34,498	0	0	0
Subtotal	130,873	5,920	2,000	33,927
ANE/CEE/APRE/Baltics				
Program Development	85,012	4,654	4,922	2,801
Organizational Development	28	0	0	0
Limited Program Svcs	18,620	6,109	0	0
Subtotal	103,660	10,763	4,922	2,801
NIS				
Program Development	193,447	4,464	7,334	25,282
Limited Program Svcs	38,918	188,953	0	0
Resource Enhancement	12	0	0	0
Subtotal	232,377	193,417	7,334	25,282
Latin American/Caribbean				
Program Development	7,634	0	0	0
Limited Program Svcs	21,670	0	0	161
Subtotal	29,304	0	0	161
Headquarters				
Program Development	244,190	1,430	15,683	27,662
Organizational Development	87,706	73	3,000	3,200
Limited Program Svcs	6,643	0	1,500	1,526
Resource Enhancement	55,862	7	0	1,065
Evaluation	204	0	0	0
Staffing	6,167	0	0	0
Program Management	44,921	237	3,000	2,510
Land O'Lakes Contribution	0	189,117	0	0
Subtotal	445,693	190,864	23,183	35,963
Total Direct Costs	941,907	400,964	37,439	98,134
Indirect Costs	<u>382,100</u>	<u>105,594</u>	<u>13,853</u>	<u>25,006</u>
Total Program Costs	<u>\$1,324,007</u>	<u>\$506,558</u>	<u>\$51,292</u>	<u>\$123,140</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 quarterly financial summary.

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APPENDIX B

INTERNATIONAL OUTLOOK NEWSLETTER

INTERNATIONAL

O U T L O O K

VOLUME 1, No. 4

Fall 1993

The Cashman Report

Dear Readers:

History — in my opinion, and second only to people — is one of the most valuable assets that a company possesses. With its successes and failures, history has the potential for being our most eloquent teacher. We need to refer to it frequently, heed its counsel and apply its wisdom as we formulate plans for future business opportunities.

Ten years ago, history was in the making for Land O'Lakes when we received approval from the U.S. government to embark on a first-time effort to blend, and effectively utilize, U.S. private sector technology and expertise, surplus U.S. dairy products, and foreign aid funds for development purposes.

That first project was undertaken in Jamaica, where Land O'Lakes assisted in the organization of a non-profit foundation, the Jamaican Agricultural Development Foundation (JADF), to coordinate the processing of bulk commodities into value-added products. Processing technology was also provided by Land O'Lakes to the Jamaican food processors. The products were then sold commercially in the Jamaican market at current local market prices.

Profits generated from the sales of products were then, and continue to be, used by JADF to provide financing in the form of loans, loan guarantees, equity positions, investments and grants for small- and medium-scale projects. These venture capital projects are designed to improve Jamaican food and agricultural industries. Included in the portfolio of projects, which have been assisted by JADF, are Spring Valley Farms Limited, a local agribusiness, and Cadien Wallace, a private dairy farmer.

In 1989, JADF entered into the re-development of a 38-acre dairy farm at Bogue, St. Elizabeth, using a concept whereby management resources of a farm are shared between two parties, the owner (Cadien Wallace, a 1984 graduate of Elim Agricultural School) and JADF, without forming a partnership or company. The farm has positive financial prospects, and a ready market for the dairy products. Since 1952 to the early 1980s, milk production in Jamaica has remained stable, though relatively low. Approximately 80 percent of Jamaica's annual dairy consumption is imported, primarily in the form of milk powder, butter, oil and cheese.

Spring Valley Farms, in a joint venture partnership with JADF, took over a 60-

Now, a decade later, we are drawing upon our history and successes, such as the project in Jamaica, to offer a similar type of assistance to Russia to aid in the country's privatization and economic reform efforts. This project involves the monetization of 25,000 metric tons of surplus butter under the PL480 Section 416(b) program over a period of four years. The Russian Farmers Foundation, in collaboration with Land O'Lakes, will use revenues generated from the sale of the butter to finance private sector agricultural development projects. This will improve the flow of agricultural inputs to private farmers and promote the growth of private sector Russian agribusinesses involved in the production, processing, and distribution of food and agricultural products.

The concept is similar to our efforts of ten years ago, and some of the challenges are similar: overcoming stifling agricultural policies, and strengthening a weak infrastructure.

Encouraged by our previous successes and by the potential which Russia possesses both in the agricultural production and agribusiness arenas, Land O'Lakes is moving forward to help strengthen the emerging agricultural private sector in Russia ■



Dairy farmer, Cadien Wallace (left), keeps a watchful eye on his prized, camera-shy, Jamaica Hope cows.

acre property in January of 1992 to establish ten acres of fish ponds and 32 acres of papayas for export. These industries are expanding rapidly and have a ready export market, with great foreign exchange earning potential.

As tangibly evidenced by the aforementioned projects, JADF continues to be a major contributor to the improvement of the Jamaican economy and has enabled them to buy unavailable products such as packaging materials and equipment directly from U.S. companies.

Sincerely,

Martha Cashman
Martha Cashman, Vice President

Inside . . .
2 A Russian Experience
4 Russian-style
Democracy
7 Reflections on Estonia

THE RUSSIAN EXPERIENCE

By Charles McCullough

For many years I had the desire to travel to Russia. My dream became a reality, thanks to the International Division of Land O'Lakes. When the changes in Russian agriculture started appearing in the news a few years ago, my interest and reasons to travel to Russia increased. Chuck Kiefer of Land O'Lakes and I volunteered to go to the Vologda region from late July until mid August under the USAID-funded Farmer-To-Farmer program.

The local AKKOR, the Association of Peasant Farms and Agricultural Cooperatives, coordinated the local details and schedules. Most of our time was spent on farms and in small villages. We also met with local government administrators in four different districts. These people are very powerful locally in directing policy toward the new private farmers, or the old state and collective farms. All the meetings went very well, and I had the feeling of good accomplishment.

Although the level of farming in Russia is 25 to 30 years behind the U.S. (and occasionally parts of it are much farther behind than that), the countryside is beautiful. The Russian people made the time spent very rewarding. The private farmers were especially warm and friendly. We also saw many large, mediocre, and inefficient state farms, but the enthusiasm on the new private farms was exciting to experience.

We visited one particular Russian farm family where the work ethic and pride in farming was evident: The eldest son, Alexander, happily tended to his daily chores, running to the barn and smiling all the way. His 4-year-old brother followed his dad all day long, helping and learning to farm. Their mother would leave her month-old baby daughter in the house with her paternal grandmother at 6:00 in the morning to help her mother, brothers and husband milk their very impressive private herd of 100 cows. These are a few of the great differences we saw in Russia: the old and new side by side. The Russian people

Chuck Kiefer (left) and Charles McCullough (right) stand out in the oat field of a proud, new private farmer (center)



face many challenges ahead, but I think with proper government and international cooperation they will be successful.

At the end of our assignment, Chuck and I were guest speakers at a conference on the future of the Vologda Oblast private agricultural sector. The aim of the conference is to develop a plan of action for the appropriate direction of the sector. We answered many questions on the principles and practices of a private farmer cooperative: how to form a cooperative and manage it in the early stages of development. The questions ranged from dairy marketing and processing to agricultural service, and from meat processing to farm credit banks. My experience as a farmer and a member of the board of a private, farmer-owned cooperative added weight to recommendations I made to local officials, who are not actively supportive of the private farmers' movement. Also important was Chuck's and my familiarity with the local terrain and climatic conditions, which are very similar to those of northern Minnesota and southern Canada.

Chuck and I feel we were truly able to help the new Russian farmers at this stage of development, thus making our trip worthwhile and productive. At the same time we gained many wonderful new friends ■

Chuck Kiefer, a Land O'Lakes employee, and Charles McCullough traveled as a team under the USAID-funded Farmer-To-Farmer volunteer, technical assistance program to work with the local Vologda AKKOR.

Charles McCullough is a farmer and member of Land O'Lakes board of directors.

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Food: A Resource for Development

by Ellen Levinson

Food aid is one of our government's most successful foreign aid programs. For over fifty years, agricultural commodities produced and processed in the U.S. have been donated to people overseas who lack the wherewithal to produce or purchase enough food to provide for their basic needs. Each year, approximately 6 to 8 million metric tons of commodities are provided through programs administered by the U.S. Department of Agriculture (USDA) and the United States Agency for International Development (USAID).

Congress appropriates about \$1.5 billion each year to pay for the purchase and transportation of commodities under the U.S. Food for Peace of Public Law 480 (P.L. 480) program, which has three distinct purposes. Under Title I, USDA sells commodities to developing countries on very favorable credit terms. Title II, which is administered by USAID, is the "People-to-people program, since most of the food is provided directly to communities and individuals by private organizations. By comparison, Title III, which is also administered by AID, is a "government-to-government" donation program.

In addition to P.L. 480, USDA has the authority under the Section 416 program to donate government-owned surplus commodities abroad. The Food for Progress Act encourages USDA to use its funds or surplus commodities to provide food aid to emerging democracies, such as the republics of the former Soviet Union.

HELPING PEOPLE HELP THEMSELVES

The goal of the food aid programs is to alleviate hunger and its causes. Therefore, the Food for Peace and Food for Progress Acts require substantial quantities of food to be used in development programs established by cooperatives and private nonprofit organizations (such as CARE and Catholic Relief Services).

These organizations have developed innovative ways to use food aid, for instance, in education and health programs that have lasting benefits for school children, expectant mothers and toddlers. Food may also be given as payment for participation in community work

projects, such as building roads, sanitation systems, or water purification facilities. When cooperatives are involved, they often sell the food and use the proceeds to create an agricultural credit fund or to otherwise finance local businesses, cooperatives and economic development activities.

In this way, food aid is used not only to alleviate hunger, but also to create jobs, to improve peoples' living conditions, and to help people escape the cycle of poverty.

CHALLENGES AHEAD

Despite the benefits of food aid both at home and abroad, the continued success of these programs is threatened by three political and administrative problems.

First, due to federal budget constraints and reduction in government-owned surplus commodities, the provision of food aid to regions where there are constant food shortages is diminishing. Second, the regulations and procedures governing food aid programs are inconsistent, convoluted and confusing, which adds unnecessary costs and delays program implementation for months, or even years. Third, because of recent changes in Congress and the Executive Branch, only a few decision-makers in Washington are familiar with the benefits of food aid programs. This places food aid in a precarious position as Congress contemplates budget cuts and the new Administration develops plans to restructure the U.S. foreign aid program.

Therefore, the cooperatives and organizations that conduct food aid programs overseas are providing information to Congress, USDA, and USAID about the benefits of food aid, and how to improve program management. In Congress, Rep. Tim Penny (D-MN), Chairman of the House Subcommittee on Foreign Agriculture and Hunger, has taken the lead in encouraging USDA and USAID to reduce bureaucratic layers, paperwork requirements and micro management of food aid programs. He also encourages innovative approaches, such as those initiated by Land O'Lakes, that use both food aid and technical assistance to provide the skills and resources necessary for sustainable economic growth ■

Ellen Levinson is Executive Director of the Coalition for Food Aid in Washington, DC.

RUSSIA: REBIRTH OF A NATION?

It's not just the revolutions that matter in Russian history. Revolutions that fail, power grabs that fail, are equally vital. In March of 1993, Russian president Boris Yeltsin announced that he was giving himself emergency powers. The public protested loudly, and Yeltsin backed down. The public prevailed. On September 21, 1993, after trying a number of maneuvers to work with or get around them, Yeltsin announced that Russia's parliament was dissolved. The public was calm, and largely stayed away from the drama of street battles, gunfire and tank attacks that resulted in the burning of the White House (the legislature's building) and the surrender of Yeltsin's opponents. This revolt failed before millions of TV viewers.

What brought Russia to this outcome? Many point to the August 1991 attempt to oust Gorbachev. Even though it failed, it left many antagonistic Communists in place, who were profiting from a system that left them in charge of large state-owned businesses.

Reports in the media generally agree that the opposition - right wing fringe groups, the disaffected among poor or elderly Muscovites, and hardline legislators - played right into Yeltsin's hands. On October 3rd, anti-Yeltsin demonstrators attacked Yeltsin's troops. At the urging of Alexander Rutskoi, Yeltsin's chief parliamentary challenger in the power struggle, a crowd of protestors stormed the mayor's office and the national television station. This gave Yeltsin the justification he needed for sending in more troops and the heavy artillery that routed his enemies.

The ugly spectacle of Russians fighting Russians, of Yeltsin destroying the same building that he had defended so dramatically during the August 1991 coup attempt, will long stay with everyone who watched these scenes.

YELTSIN: DEMOCRAT OR DICTATOR?

Russia now is a country without a legislature, a supreme court or a constitution. It does have a leader, and ominous questions are raised about Yeltsin's leadership. Can he rule democratically? News analysts

YOU ARE READING US...CORRECTLY

Despite calls for new elections, no new presidential elections are planned in Cameroon, as was reported in error in our last issue.



Our man in Moscow! Land O'Lakes country manager, Nathaniel Carin, stands outside St. Basil's cathedral on a calm day.

point to the steps Yeltsin took in April as proof of his good intentions. A referendum gave him majority approval of his reforms and of his leadership. Western leaders have supported his actions in the October crisis and attention has been focused on the reassuring announcement that elections to the lower half of the National Assembly will be held December 12. New presidential elections are promised for June.

While tolerating the ouster, Muscovites are critical of Soviet-style tactics like shutting down some presses and censoring others. Over and over, Russians say Yeltsin needs to open the lines of communication with public and private groups that stand for civilized opposition, and find a way to work together with them. This suggests that the public will be wary of any future infringements on Russia's prospective democracy.

Professor Alexis Pogorelskin, who teaches at the University of Minnesota at Duluth, cautions that some facts - such as the outlawing of some right-wing parties -

Russia, continued on page 5

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have been played down. "There was a lot in what Yeltsin did that was really self-serving. I think he was trying to get rid of certain political forces in Parliament to pave the way for new elections. The groups that he tried to expunge I believe represent powerful forces in Russian political life. We haven't heard the last of them by any means."

ECONOMIC PAIN AND PLEASURE

Economic reaction has been mixed. While the IMF and World Bank can only approve the death of a parliamentary budget, which had called for hyperinflationary public spending and budget deficits, they don't like such methods as suspending parliament and incinerating its quarters. As might be expected, the value of the ruble fell only slightly in Russian markets. In America, Commerce Secretary Ron Brown noted that U.S. exports to Russia had more than doubled in the last twelve months and could be ten times that much if certain legal and technical restrictions are solved. These reactions are as important to Yeltsin as the support of political leaders like President Clinton and German president Helmut Kohl. The pursuit of economic reform was the central reason Yeltsin gave for forcing the showdown between himself and parliament.

Carrying out those reforms may prove unpopular in a country that has not seen the benefits of market reforms, only the punishing disintegration of its former way of life. Russian history Professor Pogorelskin says: "The return of Yegor Gaidar (the economic reformer, recalled by Yeltsin five days before he suspended parliament) is a real signal to Russians. He represents what's most feared and hated by Russian society - 'oh god, here it comes again - stringency of the worst sort, more belt tightening, more false moves that are going to debase the currency.'"

Pogorelskin, who returned from Russia on October 4th, predicts that it will be a difficult winter for Russians. "I was told that 'autumn began in the spring.' On the private, kitchen-garden-level, which is how Russians feed themselves, things are bad. Food could become critical, and things (politically) could get sticky."

Melor Sturua, a columnist for the moderate newspaper *Izvestia*, agrees that conditions are hard: "People are suffering right now. It's an enigma how people survive...The whole country looks like a huge flea market. Everyone is out to sell something to buy food."

An article in *The Russian Social Science Review* confirms that general living conditions have declined. Public health reports note that the mortality rate has edged past the low birth rate. Diseases of malnutrition, like scurvy, are making themselves felt. Journalist Sturua says that

patients bring their own bedding, and sometimes the bed, to the hospital. Basic medicines and cotton wool are lacking, and doctors and nurses seek jobs outside of medicine to make money.

BREAD AND WINTER ELECTIONS

The picture isn't all bad though, according to Sturua. Early projections for this year's harvest are good, despite the fact that Russia will need to import 30-40,000,000 tons of grain. Farmers, who are short on capital for equipment and outputs, would like the government to put some hard currency at their disposal. They say they could have grown enough crops to make up the difference. Sturua says Russians' evergreen envy prevents internal investment from happening. Muscovites, who have seen the price of bread leap from 36 roubles a loaf to 150, resent the idea of farmers getting ahead of them.

Food prices will no doubt play a role in the upcoming elections. Already Yeltsin has put off plans to restructure internal grain subsidies, and is planning to build in a bread allowance for low-income Russians.

Scenarios for the winter and on into next spring vary considerably. Both the *New York Times* and the *British Economist* magazine have said that Yeltsin's use of force has tarnished his image and probably made it more difficult for him to establish a credible democracy. Professor Pogorelskin thinks the future, particularly the presidential election in June is hard to predict, but she feels that a number of forces will emerge in the spring: regional leaders will emerge, and regions, such as Ukraine and Georgia, will take sides. She also feels that potential leaders other than Yeltsin - moderate reformer Grigory Yevlinsky, for example - are waiting in the wings. Add to this a disintegrating army, and Russia has the potential still for civil war. In another scenario, however, Pogorelskin points out that Yeltsin could get a Duma, or parliament, that he can work with. He is the leader who has been willing to play ball with the IMF, and he has moved quickly since he suspended parliament to put numerous reforms concerning trade and taxes into place.

However inscrutable the future, journalist Sturua points out that Russians have survived tremendous hardships in the past. They've outlasted enemies with superior forces, like Hitler and Napoleon. They appear to have survived communism - even the worst of it, like Stalin. They are the nation which reinvented itself as a communist nation after the 1917 revolution, almost overnight. They may yet survive to give birth to a new Russian democracy ■

As the Butter Churns, A butter monetization project breaks the mold

After nearly a year and a half of internal planning and contract negotiation with USDA, Land O'Lakes International Development Division will witness the shipment of 5,000 metric tons of U.S. surplus, salted and unsalted butter to Russia before the end of the year. Land O'Lakes is partnering with AKKOR, the Association of Peasant Farms and Agricultural Cooperatives and Summit, Ltd, a Nebraska-based firm, to monetize, distribute, and sell the butter on the local market. Land O'Lakes and AKKOR have formed the Russian Farmers Foundation to manage the revenue derived from the sale of the butter.

The use of U.S. surplus commodity to aid in foreign assistance is not new. The United States has been committing the shipment of US surplus grain and dairy stocks to alleviate hunger and eliminate the causes of starvation in the developing world since the enactment of Public Law 480 (PL480) in 1954. In fact, post-World War II Europe received surplus army meals from the United States Government. Nor is monetization a new idea. What is new is this type of aid is now going to the Former Soviet Union, commonly called the New Independent States (NIS).

The USDA-donated bulk butter, which comes from the stocks of the Commodity Credit Corporation (CCC), will be sold on the local consumer market. The revenue from those sales will be channeled into an agricultural development fund within the Russian Farmer Foundation and be used to provide grants for the development of private agriculture and agribusiness throughout Russia. Any private Russian agribusiness firm or farmer will be able to apply to the Foundation for no-interest loans to purchase needed equipment.

Land O'Lakes and its partners have invested hundreds of hours into planning this program. Many obstacles stand in the way of success: unforeseen problems could arise in shipping and unloading, facilitating the commodity through Russian customs, whose rules

change daily, and facilitating the distribution of the product on the local market.

Prior to undertaking this project, Land O'Lakes and Summit, Ltd. completed an exhaustive study of the distribution channels to be used in the distribution of the butter. In order to minimize waste and increase the efficiency of the distribution process, the butter is being pre-sold to local distributors who will receive the butter in St. Petersburg.

The revenues generated will benefit private sector agricultural and agribusiness enterprises lacking in equipment and spare parts. These firms will apply to the Fund through an application process for no-interest loans and grants to purchase needed equipment.

In the project's second year, Land O'Lakes plans to ship CCC processed and packaged USDA-donated and source identified surplus butter into consumer-sized portions under the Russian Venev Cooperative brand. The goal is to front-load the system for the cooperative, assisting the business to develop a brand recognition with the Russian populace. The cooperative plans to process and market its own butter in consumer portions in the third year.

The introduction of Russian-branded food products is a vital step in the development of private agriculture and agribusiness in Russia. This is needed to build a market for value-added, branded food products and the establishment of effective processing, distribution and marketing systems in Russia.

The butter monetization program has the potential to provide multiple benefits: the delivery of a needed value-added commodity to the Russian people; the generation of capital for the development of private agriculture and agribusiness; and the further development of free-market economics in that country. The project hopes to generate approximately \$5 million in 1993 into a locally controlled fund. The fund and the project will be widely advertised via television broadcasts and newspaper media ■

R

eflections...of a Seasoned Traveler

by Scott Gottschalk

Not that long ago I was writing about my escapades in Poland back in November 1992. This time as I set to fly out of Marshall airport in Minnesota to Tallinn, Estonia, my pilot kidded me on setting a new minimum luggage record for a ten day trip. I had only packed two small carry-on bags. I had learned my lesson from Poland.

Situated on the Baltic sea just south of Sweden and Finland, Estonia is a country the size of Vermont and New Hampshire combined, and has a population of about 1.5 million with 73 percent of the population living in six cities. Its main industries are fishing, textiles, and forestry.

I was met at the airport by Olav Kart, professor of Animal Nutrition at the Agricultural University, who briefed me on my assignment. Although numb from jet lag, I managed to capture the essence of the challenge that faced me: poor management styles of dairy farmers, low quality dairy product, an inefficient dairy industry, and a government unwilling or unable to assist the dairy industry.

The next day I was ferried to the Island of Hiiumaa (Heuma), where I was to spend the next two weeks. Hiiumaa is a 1 1/2 hour ferry ride off the coast of Estonia and is Estonia's second largest island. It is also the home of the Ala Dairy where I was to spend my two weeks working alongside employees and management. I very graciously accepted an invitation to stay with Anne, a lovely grandmother whose husband had passed away, rather than in a hotel. Anne works as a "milk maid" at Ala Dairy.

Ala Dairy is in poor financial condition. Inefficient management, poor equipment, and low production levels all contribute to its current status. To add insult to injury the dairy also does not own the land it sits on. Due to a government decree giving previous land owners rights to land confiscated during communist times, the dairy is now receiving claims on the land it occupies. It is a true tribute to the human spirit that the farm workers go on. At the close of my stay I reviewed with the Ala Dairy management my recommendations and assessment of their dairy operation.

On my last night I survived an Estonian sauna at my host family's place. Because I had already experienced an



Scott Gottschalk (right) and Laivi Kirsi, a private dairy farmer stop briefly in front of her on-farm bulk tank during his tour of her farm.

authentic Scandinavian "Hide-Melter" in 1979 with my father-in-law, who is of Swedish and Finnish descent, I thought myself prepared for an Estonian sauna.

Suffice it to say that I was not prepared. I was not prepared for the fiery inferno of the 200 F degree bench that threatened to scorch my tender Minnesota cheeks, nor for the intense heat in the "Sauna from Hell". I lasted perhaps one minute before escaping to what I thought was a cold shower, but was instead boiling because the water pipes ran behind the sauna. To my relief, cold beer awaited me when I emerged from the shower. I also attended the local Lutheran church during my stay and enjoyed hearing familiar notes being sung in the Estonian language.

On this trip I answered the question I asked myself at the end of my last Poland assignment, "Is the Land O'Lakes effort overseas worthwhile?". The answer is YES! It is worth our effort to assist these people to gain control of their lives.

Once again, as my plane touched down on American soil, I hoped that all Americans would remember once in awhile how lucky we really are ■

Scott Gottschalk is a Dairy Production Specialist at Land O'Lakes.

TRAVELER TO TRAVELER: RUSSIAN HABITS...

JIMINY CRICKET! A cricket in your house means good luck, so don't kill it. We named ours Jiminy Cricket.

RAIN IS GOOD? If it rains when you are leaving Moscow, the Russians say it means you will have good luck.

BEWARE OF BLACK CATS. If Russians see a black cat, they either turn their hat around (if they are wearing one) otherwise they turn themselves around.

DID YOU HEAR THE ONE ABOUT THE WOMAN DRIVER? They don't think much of women drivers in Russia. They make jokes about them and think it's best they don't drive.

WHAT IS TIME? A meeting may start two hours one way or another. Time doesn't have much meaning. Their day starts later than ours and goes much later than most of ours. The meal times are later than we are used to and are very long in length.

THE SPIRITS FLOW. Wine and vodka flow freely at all meals and Russians love to toast their new friends while singing folk songs.

RUSSIANS AND THEIR STORIES. The Russians are a very warm and friendly people. They love to tell stories of long ago. Long stories!

These insights into Russian culture come courtesy of Clara Johnson, Plant Manager, Land O'Lakes Spreads Plant in Hudson, Iowa. Clara traveled to Russia under the USAID-funded Farmer-To-Farmer program from July 28 to August 14. She worked in Ryazan, a region located southeast of Moscow with Raisa Yakubova, a woman farmer and district manager for AKKOR. Clara's assignment was to provide technical assistance on improving milk production and increasing quality: training of personnel in milk handling and sanitation techniques, and plant equipment problems. Clara describes her experience as "back to basics!" She added, however, that what was an interesting experience for her was a way of life for her Russian counterparts.

Land O'Lakes, Inc.

P.O. Box 116, Minneapolis, Minnesota 55440 0116

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For more information on Land O'Lakes International Development activities or to contribute articles for publication in International Outlook contact:

Rosemarie Kelly-Rieks, Editor, International Outlook and Manager,
Project Development
International Development Division
MS-2010
Ph: (612) 481-2534
F: (612) 481-2556

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Land O'Lakes, Inc.

4001 LEXINGTON AVE. N., ARDEN HILLS, MINNESOTA

P.O. Box 116

Minneapolis, MN 55440-0116

USA