Interim USAID Assessment of Agribusiness Partnerships --II (AP-II) Program for Western NIS

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ABBREVIATIONS AND ACRONYMS

AP-I	Agribusiness Partnership I Project
AP-II	Agribusiness Partnership II Project
CNFA	Citizens Network for Foreign Affairs
ENI	Bureau for Central and Eastern Europe and New Independent States
GOU	Government of Ukraine
KAU	Kiev Atlantic
NIS	New Independent States
UADC	Ukrainian Agricultural Development Company
USAID	US Agency for International Development

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EXECUTIVE SUMMARY

This report provides a mid-term assessment of the “Agribusiness Partnerships-II Program for the Western NIS (AP-II), being implemented by the Citizens Network for Foreign Affairs (CNFA). The Evaluation Team interviewed nearly every CNFA agribusiness partnership in Ukraine and Moldova over the course of 2 weeks from 1-12 June 1998. The primary findings and recommendations include:

- Th AP-II Project has not leveraged *new* investment outside of what businesses would normally have invested and likely will not bring new investors into the Ukraine. Rather, AP-II provides strong incentives to its Agribusiness partnerships, which have already indicated their commitment to investing in Ukraine, to broaden and accelerate their activities into non-core business areas, i.e.development.

- New partnership investments are being actively contracted, although the progress of actual business investment is limited. To date, 19 agreements are in place at an investment level of $50, 246,660 with matching USAID funds of $11,615,630.

- Of the potential private investment total of $50,246,660, only $13,033,782 or 26% has actually been invested, indicating a slow investment environment. Concurrently, out of $18.5 million in matching USAID funding, only $1,665,266 (9%) has been expended to date, indicating the potential for a large surplus of project funding at the EOP.

- The Evaluation Team identified significant value-added by the CNFA AP-II program, including both a broadening and accelerating of private U.S. agribusiness activities in Ukraine and Moldova that otherwise would not have occurred in the short-run. AP-II has caused U.S. agribusinesses to devote resources to a number of activities supportive of market development, privatization and improved farm productivity.

- AP-II has to date made good progress in engaging U.S. small- and medium-scale enterprises (SME’s) in the partnership program, with SME’s accounting for over 40 percent of the total number of development contracts.

- The Evaluation Team recommends that emphasis on promoting the development of private farms and producers in Ukraine remain an integral part of AP-II, but that this component be accelerated.

- As Ukrainian farms are unable to obtain short-term credits from domestic or foreign financial institutions, and U.S. farm input suppliers are generally reluctant to become suppliers of credit, the UADC offers an innovative and welcome mechanism for generating and providing agricultural credits.

- The partnership with the UADC represents the most clear and successful leveraging of USAID monies, in that the $45 million credit facility would not have been established except for the efforts of the UADC.

- The Evaluation Team recommends that the one-year request for an extension be accepted. However, any extension of the AP-II program should clearly define what is anticipated in terms of the leveraging issue. We believe that there is a misconception among some parties about the actual extent of investment leveraging that is taking place.

I. INTRODUCTION AND BACKGROUND

Purpose and Scope of Evaluation

The evaluation team, composed of Christian Foster, G/EGAD, and Paul Novick, ENI/ED/SB, was requested by USAID/Kiev and the ENI/ED/AGR office to conduct a mid-term appraisal of the Agribusiness Partnership II Project. The team spent 2 weeks from June 1-12, 1998 interviewing most of the agribusiness partnerships developed by the Project in Ukraine and Moldova, as well as talking to staff from CNFA and USAID responsible for implementing the Project. The team examined (1) progress to date in achieving the specific technical objectives set out in the Cooperative Agreement and (2) the effectiveness of project administration and implementation. This report was prepared to present pertinent findings along with recommendations for project implementation over the remaining LOP. In addition, the Team examined a request from CNFA for a one-year program extension.

Primary Objectives of APII Project

Citizens Network (CNFA) entered into a Cooperative Agreement (CA) with USAID on August 30, 1996 which laid out a range of objectives that would be pursued and achieved by the APII Project. Given that AP-I was drawing to a close, it was felt by both partners that a second project could capitalize on the momentum of the earlier effort and further enhance investment and impact in the Ukraine and Moldovan agribusiness sectors**.** APII was designed to do this by "mobilizing sustainable private sector action and investment -- bringing to bear the investment capital and world-class technology and know-how of the U.S. private agricultural and agribusiness sectors" to stimulate private enterprise development and growth. A range of objectives to be achieved were highlighted in the CA. Following is a discussion of the most prominent objectives and the Team's appraisal of the extent to which they are now being achieved through the implementation of the APII Program.

II. GENERATING US PRIVATE ENTERPRISE INVESTMENT

A. Leveraging US Agribusiness Investment

APII was designed to stimulate significant new US firm investment in productive agribusiness W/NIS enterprises. Wording in the CA indicates that **leverage** of modest USAID resources will generate "significant new U.S. private investment capital, technology, and real development impact which would not otherwise be brought to bear for West NIS development." To meet this challenge the Project has implemented a number of **agribusiness partnerships** or investment contracts -- formal agreements between CNFA and US/local firms. These contracts state the scope of activities to be pursued, amount to be invested by the firm, and the support to be provided by CNFA. The assessment has determined that mid-way through the Project **new partnerships are being actively contracted, although the progress of actual business investment is still limited**. To date in Ukraine, 14 contracts between CNFA and US/Ukrainian firms have been signed. An additional partnership activity, the Ukrainian Agricultural Development Corporation (UADC), has been established with investments from USAID and US/multinational firms.

In total, these partnerships represent commitments of $42,509,186 of private firm investment with matching USAID investment of $10,119,796. In Moldova, 3 contracts have been completed with US/Moldovan private investment projected at $7,737,474 matched by USAID support of $1,495,834. (One additional contract was cancelled due to financial problems). Totalling up these figures shows a **matching ratio of private investment to USAID funding of 4.3:1 -- well above the project requirement of 2.5:1.**

Table 1: **Private Enterprise Investment vs. USAID Contributions**

Country	**#Agreements**	**Firm Invest**	**USAID Funds**	**Minimum Ratio2.5:1**
Ukraine	15	$42,509,186	$10,119,796	
Moldova	4	$ 7,737,474	$ 1,495,834	
Total	19	$50,246,660	$11,615,630	4.3:1

While these figures might indicate that the project is making progress in pursuing its objective of “leveraging” new investment, we think it important to clarify this point. **The investment figures in the partnership agreements do not for the most part, represent *new business investment* generated because of the Project. In our interviews, all of the U.S. agribusinesses indicated to us that the investments in the partnership agreements represented their previously planned investments.** Most businesses have been operating in Ukraine for several years and their investment targets were established before they decided to partner with the Project.[1]

What the Project has accomplished instead, is to broaden the scope of associated development activities and improve the quality of the overall business investments. Some investment has clearly been “accelerated” by the Project -- i.e. it was planned by the firm as a future activity but is being invested today due to the positive influence of the Project. Investments are generally of a higher quality than would normally be the case because of the Project support (equipment, training and technical assistance) for building human capacity. Furthermore, the companies are more "development" oriented as a result of CNFA involvement, making greater efforts to reach marginal clients not usually served by profit-oriented initiatives. And, there is a stronger emphasis on reaching private farmer beneficiaries which is another objective of the Project. (There are several other positive investment benefits which are discussed in more detail in section C). However, on the overall issue of *leveraging,* the requirement of at least 2.5:1 investment ratio is certainly a bottom line figure required in all formal partnership contracts with CNFA to encourage businesses to invest at certain minimum levels, but it should not be read as leveraging ***new*** **investment "which would not otherwise be brought to bear for West NIS development,"** as stated in the Cooperative Agreement**.**

[1] **A major exception is the UADC partnership, which is an innovative attempt to inject serious credit resources into the agribusiness sector. Already, the UADC has generated $2.335 million in private sector investment and has $10 million in credit applications, which if processed by the Banque Societe Generale (UADC partner) later this year, will represent a major success in generating sorely-needed agricredit resources.**

Another point that should be explored on the issue of investment is the ***actual*** investment that has been made to date versus the committed amounts in the investment contracts. As Table 2 shows, in Ukraine, present investment already made under the Project, totals $8,441,076, while in Moldova, investments total $4,592,706. Out of a total investment commitment of $50,246,660 for all of the partnership agreements, therefore, only $13,033,782 or 26% of the investments have actually been made at this half-way point in project life. This was not unexpected because many of the partnership agreements are relatively new and have not had much time to get operational. Nevertheless, **there is a concern that the total investment contracted thus far in the project will not be fully attained before the project completion date.**

Table 2: **Partnership Investment Flow**

Country	# of Agreement	Investment Commitments	Investments as of 6/30/98	%Investment at mid LOP
Ukraine	16	$42,509,186	$ 8,441,076	
Moldova	4	$ 7,737,474	$ 4,592,706	
Totals	20	$50,246,660	$13,033,782	**26%**

The slow rate of investment similarly affects USAID project funding. Only $1,665,266 has been expended to date (includes accruals) to match US firm investment. This is only 9.0% of the total $18.5 million in funds approved for generating Project investments! **With only one and a half years remaining, it appears that unless there is an accelerated rate of business investment, there will be a large amount of unexpended funding in the development contract component at the end of this three-year project.**

B. Financial Flow Analysis

At this midway point in the Project it is useful to review Project funding to see how expenditures in the various components are progressing. As seen from Table 3 there are large differences in the "burn rate" of funds for the three major components.

Table 3: Funding Flows

Project Component	Authorized Funding Amount	Expenditure as of 6/30/98	% Expended at midway LOP
Mgmt & Operations	$7,710,346	$4,330,208	56%
Agribusiness	$3,685,545	$2,069,839	56%
Environment	$ 670,800	$ 376,728	56%
Policy	$ 670,800	$ 376,728	56%
Management	$1,341,600	$ 753,456	56%
Administration	$1,341,600	$ 753,456	56%
Development Contracts	$18,500,000	$1,665,266	9%
Private Farm Commercialization	$ 2,986,206	$ 113,984	4%

Management and Operations, which includes technical staff for the major project activities, as well as administration and overhead, is on track at the halfway point in project life. At the present rate of expenditure this component will be fully depleted at the EOP.

Development Contracts, which are the primary project activities, have a very low expenditure rate to date. As explained earlier, many of the partnership agreements are relatively new and are only now being implemented. Also, there is the problem of a difficult investment climate, which is slowing the rate of investment. Expenditures should pick up smartly in the 2nd half of the Project with the addition of several new partnerships. **Nevertheless, with only one and a half years remaining in Project LOP, it appears likely that there will be a significant amount of unexpended funds in this account.**

The third component, **Private Farm Commercialization**, has gotten off to a very slow start. Recently, some new contracts have been signed and other new initiatives are in design. Expenditures will increase but there will probably be a residual in this account at EOP.

C. Value Added/Additionality of Investment Program

The Cooperative Agreement specifies that an important objective of AP-II is to induce U.S. agribusiness participants to provide "high impact development initiatives which are outside of the core business activities of participating companies, and which would not otherwise occur without USAID support." In assessing the program, **the Evaluation Team identified significant value-added by the CNFA AP-II program,**

including both a broadening and accelerating of private U.S. agribusiness activities in Ukraine and Moldova that otherwise would not have occurred in the short-run. While AP-II is not leveraging much *new* investment, it is causing U.S. agribusinesses to somewhat diversify and accelerate their investments into developmental areas. As a result of the Project, companies are devoting resources to a number of activities supportive of market development, privatization and improved farm productivity.

Some of the technical assistance and training activities conducted by the AP-II partnerships include: 1) input application techniques, 2) input disposal practices, 3) input storage, 4) inventory taking, 5) accounting skills, 6) management practices, 7) agronomic practices, e.g. no-till cultivation, 8) equipment and machinery operation, 9) equipment maintenance and repair, 10) marketing skills, 11) environmental awareness, 12) leasing operations, 13) credit practices, 14) contract sanctity, 15) dispute resolution, 16) financial, banking and tax practices, 17) harvesting and storage techniques, 18) soil conservation, 19) pest management, and 20) labor management practices.

As the cooperative agreement states, up to 20 percent of each partnership grant can go towards purchases of hardware, equipment etc. Many good examples of purchases of equipment for developmental purposes were identified, including: 1) procurement of computers and software for inventory management and accounting, 2) procurement of micro-refrigeration units to store milk gathered from private producers, 3) procurement of mini-storage units for on-farm use to avoid confiscation by state elevators, and 4) procurement of equipment for use in training centers, such as overheads, video players, projection screens.

U.S. companies reported that in the short-term, if it were not for the USAID grant program, they would make only the “bare minimum” in expenditures on training and technical assistance and other developmental activities. In addition, they reported that were it not for the AP-II partnership, the agribusiness companies would do very little if any outreach in the near-term to smaller, private producers, which are often seen as less profitable clients. In the case of a dairy facility in Uman, Ukraine, CNFA was able to convince the management to tap into private producers (families with 1-3 cows) for milk by setting up mini-refrigerated storage units at various collection points in villages.

In several cases, the Evaluation Team learned that an U.S. company’s partnership with the USAID AP-II program did much to convince executives or the board of directors at the company’s home offices to support certain aspects of the investment project. Partnership with USAID was reportedly seen by company executives as helping to spread risks, useful in attracting other sources of finance, and as a means of obtaining U.S. official support on thorny political issues in the Ukraine. Some U.S. agribusinesses stated that advocacy and lobbying on their part by CNFA had been very effective and timely in addressing business problems, such as Ukrainian governmental intervention in payment matters.[2]

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[2] **An interesting finding of the Evaluation Team was that in many cases, the U.S. agribusiness partner, even with all AP-II agreements in place, was often very slow in invoicing USAID for monies for which it was eligible. This may suggest that these companies sometimes view the cost of applying for funds as greater than the benefits of reimbursement. However, as one interviewed firm mentioned, they have small office staffs with lots of daily priorities, and smaller issues sometimes get delayed.**

D. Investment Contracts

The Project has informally set a target of 31 investment contracts to be achieved, given the available funding and average USAID investment of $500,000 per contract. To date, 15 contracts have been developed in Ukraine and 4 in Moldova for a total of 19. The Team reviewed with the CNFA project officers how many additional contracts could realistically be processed by the end of calendar year '98, given on-going negotiations with potential firms and the relatively short time period remaining to design and process new activities.[3] We arrived at another 9 contracts in Ukraine and 3 in Moldova that can probably be processed this year. This gives us a ***best case*** **scenario of 31 contracts that can potentially be achieved under the AP-II program, which would meet the minimum target, if accomplished.** A detailed list of approved contracts can be found in Annex I.

E. Investments Across Sectors

The emphasis in AP-I was on the production farm sector and most investments were centered there. In AP-II, priority was expanded to go beyond production to include additional sectors: food processing, feed processing, marketing, transportation, distribution, and storage systems. In analyzing the investments contracted in both Ukraine and Moldova, the Team noted that diversification of investments has taken place in the second project. However, the bulk of the investments are concentrated in the marketing (7) and production (4) sectors. One of the Project's Specific Objectives calls for **"at least 20 new agribusiness partnerships supporting private value-added food and feed processing (15 in Ukraine and 5 in Moldova)."** To date, only three investments have been made in food processing and one in feed processing. In looking at CNFA's list of projected investments, it's unlikely that this specific objective will be met by the BOP.[4]

No investments have yet been made in distribution, transportation or storage systems. The Cooperative Agreement states that the Project will achieve **"at least 4 partnerships in transportation, distribution and storage systems...and at least $5 million in new U.S. private sector investment."** Several potential projects were mentioned in the Cooperative Agreement, such as the Dnipro River Port Facilities Project, the Black Sea Port Capacity Expansion project and the Rail Car and Grain Handling Project, for example, but none of these were implemented. Looking at CNFA's present list of projected partnerships, we do not see any investments in the above areas and so conclude that it's unlikely this target will be met.

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[3]**The end of CY 98 was chosen because this would allow for one year remaining in project life to be used for fully implementing the contract investment. Any further contracts in CY99 would be largely "symbolic" before the EOP.**

[4]**There are several ambitious targets within this objective, such as "creating thousands of jobs in the region," decreasing the feed conversion ratio from 12:1 to 4:1, and reducing by 60% the quantities of grain used inefficiently as animal feed... The Team did not have time nor resources to measure these projected impacts.**

F. Farm Service Centers

The project objective is to expand the current network of Farm Service Centers (fsc) by an additional 10 in Ukraine and 3 in Moldova. Presently, in Ukraine there are 3 fscs with 5 more planned in the future. In Moldova, 1 is operating and 2 more are planned. If these planned investments take place then this objective will almost be met.[5]

G. Engaging Small and Medium-Scale U.S. Agribusinesses Engaging Small and Medium-Scale U.S. Agribusinesses

AP-II has to date made good progress in engaging U.S. small- and medium-scale enterprises (SME's) in the partnership program, with SME's accounting for over 40 percent of the total number of development contracts. (It should be reiterated that SME partners are not for the most part different from AP-II's other investor's, in that AP-II has not generally brought new SME's into the Ukraine, but has rather assisted existing one's with broadening their developmental activities.) The remainder of the contracts to date, about 60 percent of the partnerships, are with large-scale U.S. and multi-national firms, such as *Monsanto, Cargill, AGCO, DuPont, and HydroAgri*.

SME's tied to AP-II are active in such areas as dairy processing, soybean cultivation, oilseed processing, and canning. Through alliances with AP-II, SME's have broadened their activities to include training, field demonstrations, and technical consulting. The CNFA partnership with *Progressive Genetics*, a father and son business venture in Odessa oblast, represents one of the SME partnerships. This venture, which is building up a business to produce and trade long undervalued soybeans, has utilized USAID assistance to expand both its business and technical assistance activities with local Ukrainian farms. To assist in its operations, *Progressive Genetics* has hired several well-qualified but unemployed farm workers from local state farms. It is also true, though, that while grant funds have been allocated to *Progressive Genetics* under AP-II, it has been unable to apply for the monies as its limited financial resources prevented it from matching the grant.

Given the broad array of economic, financial, political, and legal impediments to investment faced by SMEs, the Evaluation Team considers the level of SME participation as quite successful. Viable investment in Ukrainian agribusiness today generally requires deep pockets and a long-term perspective. Establishing local representation, maneuvering through the labyrinth of legal and institutional barriers, maintaining communications and contacts, complex business planning, access to broad technical expertise in transition economies, regular long-distance air travel, etc., necessitate financial resources which are often not available to most SME's. Nearly all companies interviewed by the Team reported very high operating costs, the requirement of expensive short-term investments (often greenfield in nature), and the inability to achieve profitability anytime in the 1-5 year time frame.

[5]There are several ambitious targets within this objective, such as these centers will "serve 25% of Ukrainian and Moldovan farmers on 3.45 million hectares of land...provide $480 million each year in critically-needed inputs...increase production yields by at least 30% and net annual farm income by at least $600 million..." The Team did not have the time nor the resources to measure these projected impacts.

Despite this high-risk environment, AP-II reveals that U.S. SME's can become players in the Ukrainian agribusiness market, and the Evaluation Team strongly encourages continued CNFA outreach to SME's, including through the Private Farm Commercialization component. A goal of over 50-percent SME participation in AP-II is considered a reasonable target. Having said this, the Team recognizes that some SME ventures will fail. One such unsuccessful agribusiness partnership identified by the Evaluators is with the U.S. SME *Pure Sunshine*. In this case, having invested over $500,000 of its own resources matched by over $100,000 from USAID, the *Pure Sunshine* project has encountered such insurmountable difficulties, some of its own making, that further AP-II support will be hard to justify.

III. IMPACT ON PRIVATE FARM DEVELOPMENT

From interviews with CNFA and the U.S./local companies involved in partnership arrangements it is evident that the Project has promoted the idea of working with private farmers and small-scale producers. This emphasis has started to pay off in increased access to these target groups. Under the present AP-II partnerships in Ukraine and Moldova, CNFA estimates more than 2,000 private producers, farmers, and suppliers are being or will soon be positively affected by the Project.

The Team recommends that emphasis on integrating private farmers and plot holders into AP-II not only remain an integral part of the programs in both Ukraine and Moldova, but that this component be accelerated. Despite delays and difficulties in fostering links between U.S. agribusinesses and private agricultural producers, CNFA should continue this approach in its future partnerships and accelerate these critical ties in the Private Farm Commercialization component, which was very slow getting off the ground.

It is recognized that the high transaction costs of dealing with Ukraine's diverse, small-scale, and widely-dispersed private farmers reduce interest on the part of large private agribusiness partnerships to conduct business with these units. However, as the formation of true private farm cooperatives (uniting 10-50 private farmers) is starting to pick up, the risks of doing business with these private producers is gradually declining, and prospects for profitability are increasing.

An excellent example of a new form of private farm collaboration was witnessed in the Ukrainian village of Lyubashivka, in Odessa oblast. Here, a newly formed private farmers' cooperative called "Agrokom" officially opened for business, bringing together 34 private farms. This new cooperative is one of 4 that have been under development as part of an USDA Extension service project. The Team's review indicated that a number of other farmers' cooperatives are coming on stream as well.

Pioneer Hi-Bred seed company has been working closely with the "Ratay" cooperative (uniting 60 private farms) in the western Ukrainian oblast of Ternopil'. **The growth in the number of cooperatives paves the way for CNFA to significantly increase its partners' activities with private producers**.[6] The

[6]. **It is important to note here that despite the emphasis on linking to private farms, the majority of CNFA's agribusiness partnership are with large-scale, "former" state and collective farms. Nevertheless, the Project is having a beneficial impact on the management style and structure of operations at these enterprises. While these enterprises remain far from private corporate farms as we know them, due to their relations with AP II partners they are increasingly acquiring the skills and behaviors exhibited by private entities. It is clearly a plus that these former state and collective farms are slowly learning better business practices, accounting techniques, the importance of contract sanctity, and the meaning of repossession.**

Mission might consider a future requirement that a certain minimal percentage of the clients of input distribution centers be private farmers/producers, perhaps 10-20 percent. Such an obligation would force agribusiness partners to seek out increased numbers of private farm clients.

In addition, depending on the line of business, it has been shown that even very small-scale, private plot holders can be integrated into partnerships. For example, the Uman Dairy is developing a program to collect milk from private producers that maintain only 1-3 cows each, by establishing milk collection points in centralized village locations.

One shortcoming of CNFA's private farm activities was the slow pace in utilizing the $3 million "Private Farm Commercialization" (PFC) component of AP-II. Only at the mid-way point have CNFA activities in this component started to gain momentum. Lack of CNFA leadership in the past in implementing this component explains part of the delay. At the time of the Evaluation, CNFA had just transferred responsibility for this component to its Deputy Country Director, after having dismissed the previous project officer.

In just the last month CNFA received approval from the Mission on 3 proposals it submitted under the PFC component, allocating close to $1 million of the $3 million earmark. CNFA estimates that present and planned partnerships under this component will reach over 1,500 private farmers and small-scale producers. If these investments work as planned, then this could be a very successful part of the project that will increase farmer incomes and improve their access to technology, inputs and services.[7]

The Evaluation Team took note of the absence of an "Agribusiness Center" in Lviv, as originally proposed in the Cooperative Agreement. Given the disproportionately large number of private farmers in the western part of the Ukraine, it is recommended that increased emphasis be placed on activities in this region.

IV. INFLUENCING NATIONAL AGRICULTURAL AND INVESTMENT POLICYMAKING

An important, although much smaller, component of AP-II is promotion of market-based reform of agricultural and investment policies in Ukraine. **The Evaluation Team believes that this is a vital and necessary activity within AP-II, and that it has and can continue to be effective.** A significant part of the credit for the effectiveness of this policy component must be given to the Program Leader. The individual is highly focused, genuinely interested, and well organized. He is also fluent in Ukrainian and very informed of the most critical political, economic, financial, and trade issues, and is personally plugged into the broad array of key policy players—in the government, the parliament, and the academic and private business communities.

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[7] **The new Milk Receiving Center activity in Moldova builds on the AP-I investment in a dairy processing plant. The plant is now financially stable and able to pay cash to private farmers for their milk supplies. The new receiving center, which will be operational in August, will collect milk supplies from 600 private producers in two communities. Basic calculations of milk prices by CNFA's Moldova Director, Jerry Behensky, project that annual farmer incomes will increase by $300 in year one and by $600 in year two and beyond. With annual per capita incomes of only $400, the project will more than double incomes in these poor communities -- a significant achievement for the private farm sector that is sure to attract increased private producer attention in the region.**

The policy component has correctly identified the most pressing policy issues, including land reform, leasing, farm support programs, domestic and foreign trade regulations, tax reform, market infrastructure development, market information, contract enforcement, dispute resolution, etc. The program effectively synthesizes the experiences of its member companies in defining the agenda for reducing impediments to doing business in Ukraine. The policy unit's 1997 exercise to collect specific evidence from the regions to illustrate the degree to which grain trade was being restricted by State and local authorities is one example of successfully pulling together critical information from its member companies in order to resolve immediate policy disputes. Another example was the Policy Unit's practical input concerning agricultural policy for the World Bank's Structural Loan package for Ukraine.

Products from the program have included briefing papers, media articles, lobbying efforts, reports, documentation, and advocacy activities. The policy unit regularly interfaces with and supports the Gore-Kuchma Commission and other technical assistance organizations and international institutions.

The Evaluation Team confirmed that policy-related activities have been coordinated and appropriately divided with the Iowa State University (ISU) policy unit. In avoiding the duplication of efforts, CNFA primarily addresses the most critical day-to-day commercial problems faced by U.S. agribusiness, and ISU focuses on longer-term policy analysis and development to enhance the agricultural and investment climate. An obvious potential problem of the policy component is that its effectiveness is tied almost exclusively to one individual. Given the limited nature of this AP II component, this may be a necessary evil of the activity. Of course, it must also be noted that such a small-scale policy initiative can only realistically be expected to have implications on the periphery of policymaking.

While the Evaluation Team recognized that the policy unit collaborates with a number of entities outside of the Project, it could do more to broaden its efforts to represent and communicate with companies beyond the current CNFA partner companies. The Team also encourages continuance and expanded dialogue with the other USAID policy-related NGO's, such as *Ronco* (farm privatization), *Chemonics* (commodity exchanges) and ISU. As good policymaking and business decision making is based on current and accurate market information, the Evaluation Team suggests that more time be allocated by the CNFA unit to supporting the appropriate organizations responsible for market news (commodity prices, supply, demand, and quality) dissemination.

Finally, the Team concluded that it would be useful to both CNFA and USAID if the financial reporting of "administrative costs" were broken out in more detail to show what the operating costs of the policy unit are. (This is also true for the environmental unit and the project design and implementation unit). Presently, all of these project costs are aggregated together under Administration, giving a distorted picture of the real costs of project operations.

V. THE IMPACT OF UADC--FACILITATING AGRICULTURAL SALES

The Ukrainian Agricultural Development Company (UADC) was established in the Ukraine by CNFA and its agribusiness and banking partners as a means to provide much-needed short-term credits to farms for the purchase of agricultural inputs. **As Ukrainian farms are unable to obtain short-term credits from**

domestic or foreign financial institutions, and U.S. farm input suppliers are generally reluctant to become suppliers of credit, the UADC offers an innovative and welcome mechanism for generating and providing agricultural credits. While far more problematic to develop than expected, the creation of the UADC represented a unique approach to conducting trade in an economy characterized by: 1) barter trade, 2) lack of market and price transparency, 3) enterprise illiquidity, 4) little enterprise repayment history, 5) poorly developed domestic financial institutions, 6) high risk and transaction costs, 7) little interest on the part of Western banks to engage in business in Ukraine, 8) high inflation, and 9) volatile exchange rates. It was understood that until a cash economy was developed in Ukraine, UADC could provide U.S. firms with a more effective means of financing operations. In effect, UADC would serve as a bridging mechanism during Ukraine's market transition.

The UADC, as part of AP-II, was given an earmark of $3.5 million in order to develop a viable mechanism to provide short-term credits to producers, and to leverage a significant credit facility from a participating bank. While significantly less than first envisioned, the UADC has leveraged, through its bank partner *Societe Generale,* a potential facility of up to $45 million. **It is important to note that this AP-II partnership with UADC represents the most clear and successful leveraging of USAID monies, in that the $45-million credit facility was developed solely due to UADC, and would not have been established had it not been for UADC**. Another benefit of the UADC is that its members have agreed that during the first 5 years sales revenues will not be taken out of the country, but will reinvest in their local operations. The UADC is also developing plans for leasing operations.

UADC has also been successful in spreading risks among its agribusiness members. UADC has already had the ripple effect of drawing the serious attention of other prospective banking firms to agribusiness opportunities in Ukraine that otherwise may not be currently exploring the market. Another positive outcome of the development of the UADC concept has been the initiative to establish a similar mechanism for agribusiness trade in Russia. Already the World Bank and Russian financial institutions are expressing interest in this proposal.

If successful, the UADC could make a significant contribution to establishing a more systematic, transparent, and credible means of collecting and disseminating client payment records, and conducting credit checks and due diligence on enterprises. Although an ambitious objective, given UADC's limited resources, this service could do much to facilitate increased commercial activity.

As the UADC model is unique in its design, with few if any similar experiences to build upon, and has yet to complete a single full transaction, it is impossible at this point to assess its direct impact or viability. The complex mechanism established by the UADC, including 9 input suppliers, 12 input distributors, a vast base of input users, a financial institution, and 6 international commodity traders, has incurred immense legal fees (over $1 million to date) as it has attempted to respond to Ukraine's ever changing legal environment. Nearly every time a law affecting the UADC's activities is passed in the Ukraine, the UADC must renegotiate certain terms of its agreements with its members. The first complete transaction utilizing the UADC mechanism is not expected until the end of 1998. However, as of June 1998, 5 deals, valued at about $10 million, have been submitted to UADC for financing. It was noted that the seasonality of agribusiness has played a role in limiting the first tranche of sales proposals coming into UADC.

Since the initial formation of the UADC, which included 10 members, no new members have joined. However, the Director did mention that he has 6 new applications for membership that they are reviewing at this time. One factor clearly impeding the growth in UADC members is the required entry fee. Given a $100,000 membership fee, most small and many medium-scale enterprises are unwilling or unable to join. *PioneerHi-Bred* seed company is one firm that expressed strong reluctance to paying such a fee when the costs were compared with the potential membership benefits. On the other hand, *Pioneer* noted that it was indeed interested in ongoing discussions to form a similar mechanism for Russia. The Russian version of the UADC is more appealing as domestic Russian banks are expected to participate. Since the Ukrainian banking system remains significantly underdeveloped, the UADC has to date been unable to arrange any such partnership.

According to critics, UADC's complex and evolving financial mechanism could be overtaken by events, in as much as certain elements of the investment climate in Ukraine continue to mature. For example, the willingness of outside banks to engage in Ukraine has grown since the inception of UADC. Some U.S. companies expressed the view that they could now deal directly with Societe Generale in financing sales or could set up their own repayment schemes, without the need for UADC services. Other critics point out that UADC promotes a barter trade system and therefore impedes the development of a more transparent, cash economy.

Having weighed all pros and cons, the Evaluation Team recommends that, as the UADC has yet to conduct a complete transaction utilizing its 5-sided mechanism, and given the potential for successfully financing significant farm input sales under very complex market conditions, a one-year, no-cost extension of the UADC-partnership be granted.

VI. ENVIRONMENTAL CONSIDERATIONS

The environmental side of the Project has been problematic in the past but now seems to be operating better due to a reassignment of USAID/Kiev review responsibilities. The CNFA environmental officer is an experienced scientist who has lengthy experience with AID environmental programs. He and his staff have conducted all of the necessary assessments and impact statements for all of the investment activities. Interviews with field staff indicate the environmental unit is vigorous in maintaining strict adherence to regulations and in taking precautionary measures to preclude any possible negative environmental consequences from the Project's agribusiness activities.

The CNFA Environmental Officer related that his experience with US business was favorable. He felt that all of the Project's partners were very conscious about the environmental consequences of their activities. Because of this pro-environmental attitude he felt he was able to get them to undertake additional mitigation measures simply by suggesting improvements. Overall, both USAID and CNFA are pleased by the environmental partnership that has been forged with business under the Project.

VII. EFFECTIVENESS OF CNFA ADMINISTRATIVE/MANAGEMENT OPERATIONS

Overall, the Team felt that administration and management is good. CNFA has a large staff, but as was pointed out to us, they are responsible for also managing the Farmer-to-Farmer Program in addition to AP-II. The Project has several components -- administration, project management (design, implementation, monitoring), policy analysis and environmental management (analysis, implementation) -- which requires a large staff of expats and fsns to adequately manage. A peripheral look at CNFA staff and responsibilities did not yield any immediate conclusions on whether positions could be downsized somewhat without compromising Project implementation.

Project design and implementation is covered by the three project officers, Director and Deputy Director in the Kiev office, as well as the Director of the Chisinau office. These individuals and their local Ukrainian staff negotiate design ideas with multi-national and Ukrainian firms. Once an agreement is reached, a preliminary proposal is reviewed by CNFA staff in Kiev and then in the Washington office. If approved, it moves to USAID/Kiev for final review and approval. This process appears to work without major problems except that it can take from 4-6 months to complete an investment contract. Given the difficulties of new project design, this doesn't seem like an unreasonable amount of time.

It was noted during the review that the Agribusiness Center in Lviv that was planned in the Cooperative Agreement, was never established by mutual agreement of CNFA and the Mission. The Team didn't explore this issue in detail but did note the lack of project investment activities in the western part of Ukraine, despite this being a large area of private agricultural activity, as well as a region having historic ties to Poland and other parts of Europe. The cancellation of this activity has implications for the administrative budget, which needs to be followed up by USAID/Kiev and ENI/ED/SG.

One other issue noted in the review concerns the separation of project offices in Moldova and Ukraine. While AP-II is one project, it appears in some respects to be treated as two separate entities. The Moldova office separately manages and reports on its particular investment activities and its data is not merged with the Ukraine operations. This presented a problem for the Team in gathering consolidated data. Since the requirements of the Cooperative Agreement relate to the *combined* Moldova and Ukraine operations, it would appear useful to both USAID and CNFA to have one progress report with combined data.

VIII. EFFECTIVENESS OF USAID MISSION MANAGEMENT

Mission management is responsible for monitoring project progress, surfacing and resolving issues, approving/rejecting proposed investment contracts, facilitating implementation, engaging in policy dialogue, and providing budget support. All of these areas are being addressed in a competent manner.

While the Team was conducting its field review at the Mission, one issue did arise which concerned delays in USAID approving some of the partnership agreements submitted by CNFA. Upon further analysis we learned that the regional lawyer in Moscow questioned the types of multi-national firms that could qualify for US project assistance, i.e. the "American company" issue. Subsequently, the lawyer developed criteria for making a determination of acceptability. While this was a time-consuming process, it was legally necessary to do this additional work to ensure that the Project adhered to established procurement and policy guidelines. CNFA has subsequently used this criteria in preparing written justifications for some of its newly proposed investment contracts and the Team has recently learned that the backlog of waiting partnership agreements has been cleared by the Mission. However, the "American company" issue continues to be debated. A July 20, 1998 letter from CNFA to the USAID project manager provides a rebuttal to AID's interpretation of the issue. It appears that resolution will take awhile longer. We would urge CNFA and USAID to conclude this issue quickly, as there are several new partnership contracts that need to be designed, approved and implemented before the end of the calendar year.

Secondly, some investment projects are affected by the PD-15 Bumper's Amendment because their commodities could potentially compete with US products. In these cases, a determination is needed before approval of an investment can be given. Both CNFA and Mission staff have been working on the appropriate documentation and clearances through legal channels and it now appears that the waiver issue has been resolved.

Finally, USAID is concerned about the issue of land leasing and the potential negative impacts on members of the former collectives. Land leasing is an activity in some partnership agreements and the Mission has been debating at what level it should involve itself in such activities. It doesn't want to support any project that might give the appearance of exploiting the farmer cooperators, but at the same time, new investment in a moribund farm sector through leasing arrangements can start a development process that will benefit many small farm owners.

One final note -- CNFA and USAID appear to have established a cordial and supportive working relationship, which has contributed to the fairly smooth implementation of the project to date. We did notice on occasion, however, that there were times when we felt there could have been better communication between the two offices on some pending issues. This is only a minor comment. Communication can always be improved in any project environment and we point this out only to encourage both implementors to continue to give the same attention to their strong working relationship that they have done in the past.

IX. OTHER ISSUES

Issuance of Multiple Awards

The Evaluation Team has reviewed the issue of awarding more than one AP-II contract to the same company (small-, medium-, or large-scale), and concludes that given certain pre-conditions are met, an AP-II contract might be offered to the same company more than once, but not more than twice. If the Mission clearly determines that a contract proposal will offer significant benefits as outlined in the Cooperative Agreement, such as accelerating privatization, enhancing competitiveness, impeding state control of markets, providing alternative sources of input supply and credit, reducing dependence on state subsidies, etc…, then such a proposal warrants consideration, even if it is made by a company that already has one contract under AP-II. However, in order to avoid any perception of favoritism on the part of USAID for any one company, large or small, the Evaluation Team recommends that no one company or its subsidiary be approved for more than two (2) contracts under the AP-II program. It is also recommended that any contract proposal, by a company, which already has a contract under AP-II, must be targeted at an entirely different and non-bordering oblast from the existing oblast of activity. When reviewing a second contract with the same company, the Evaluators also urge the Mission to seriously take into account any support provided to a company under AP-I.

Proposed Project Extension

The Team is aware that CNFA has requested a one-year extension for the Project. We would support that request and feel that it would significantly enhance the results and impact of the project. At the same time, the Evaluation Team strongly recommends that any extension of the AP-II program clearly define what is anticipated in terms of the leveraging issue. We believe that there is a misconception among some parties about the actual extent of investment leveraging that is taking place. This should be clarified in any extension document.

In our opinion, the three-year LOP offered too short a time period to achieve the very ambitious objectives laid out in the Cooperative Agreement. One could make the argument that CNFA had several years of prior experience in agribusiness investment in AP-I in Russia and Ukraine and should have been able to capitalize on that momentum to quickly put in place new investments. However, it should be noted that a new team was assembled for AP-II that didn't have the historical knowledge of the AP-I crew and so was subject to the same first year administrative and start-up issues that all new projects face. There is also the reality of the agribusiness investment scene in Ukraine and Moldova, which is slow, costly and difficult to exploit. The long gestation period necessary to grow profitable investments will continue until the macro policies make greater strides in facilitating private enterprise development and growth. In the meantime, an additional year will give present investments more time to bear fruit and will provide more time to exploit some new and emerging investment opportunities. This is especially important in responding to one of the primary objectives of the program --development and growth of private farms. Only now are private cooperatives starting to emerge and these entities provide -- for the first time -- access to large numbers of private farmers. From now on it should get easier to reach these farmers with new services and investments through this growing cooperative movement.

The Project is expected to have some very far-ranging impacts on the agribusiness sector. Some of these projected impacts will be difficult to achieve and to measure. The Team recommends that if USAID agrees to a project extension, then impact targets in the Cooperative Agreement should be reviewed to ensure they are realistic and can be measured at a reasonable cost. Some consideration should be given to establishing a modest line item amount to support impact measurement, if needed.

Finally, we would expect that the extension would be at no-cost. There will probably be unexpended investment funds remaining in the project that could be substantial, if the rate of investment in both the partnership and private commercialization activities in the remaining year and a half of LOP doesn't pick up. These could be reprogrammed for the final year of management and administrative costs. Also, since year 4 will be solely monitoring and implementation of investment activities, there will no longer be a need to design new programs. This will reduce staff requirements and some associated expat costs.

Annex I: List of Interviews

AP II Evaluation
Ukraine & MoldovaUkraine & Moldova

Evaluators: Christian Foster, Paul Novick, Oleksandr Muliar
June 1-12, 1998

June 1, 1998 **ODESA City,** Odesa Oblast	 **Registering Farm Service Center JV** 1. Monsanto: Karl-Albert Van Der Spiegel 2. Agrotekhnika (Ukrainian) Eduard Yershov
June 1, 1998 **Lyuboshivka Raion**, **Odesa Oblast,** **AgroKom Coop**.	**Opening of New Private Farmer's Cooperative** 1. USDA Extension Service Reps.: L. Bekham 2. 34 Private Ukrainian Farmers 3. AgroKom Cooperative Director Victor Stotsky 3. ACDI/VOCA Rep. Alberta Ashbrook 4. Peace Corps Rep. Larry Gensen 5. South Eastern States Cooperatives 6. USDA/FAS Ag Attache: L. Panasuk & A. Lyssikov
June 2, 1998 **Nova Kakhovka,** **Kherson Oblast**	**"Progressive Genetics/Genetika" Soybean Seed Production and Sales** 1. Bruce Campbell 2. Brad Campbell 3. 3 Ukr. Employees 4. 2 U.S. Advisors: Leroy Brocca, Wayne Mayer.
June 3, 1998 **Uman City,** **Cherkassy Oblast**	**Uman Dairy Plant JV (An AMP investment)** 1. Food Master/DTR: Kevin Cuthill, Gen. Dir. 2. Uman Dairy/Ukrainian: Svitlana Doroshenko, Dep. Director
June 3, 1998 **Cherkassy City** **Cherkassy Oblast**	**MAIZ Farm Service Center** 1. MAIZ Head of Agro Chemicals: Mr. Marchuk 2. MAIZ Head of Equipment Service Center: 3. U.S. CYANAMID: Boris Timofeev
June 4, 1998 **Kiev** **Kiev Oblast**	**Ukrainian Ag. Dev. Company** 1. UADC President: E. Morgan Williams

June 4, 1998 **Myronivka Raion** **Kiev Oblast**	**Kiev-Atlantic Ukraine** 1. President: David Sweere 2. V.P.: Daniel Sweere
June 5, 1998 **Kiev** **Kiev Oblast**	**CNFA** 1. Meeting w/ Dep. Country Director: T.Herlehy 2. Meeting w/ Policy Advisor: Petro Sochan
June 5, 1998 **Kiev** **Kiev Oblast**	**UkrAgroBusiness (Ag Input Distributer)** 1. General Director: Leonid Kozachenko
June 8, 1998 **Marinka Raion** **Donetsk Oblast**	**Private Farm Operations (served by Cargill)** 1. V.A. Kolodenko 2. I. G. Khrimli 3. G. V. Fokshuk
June 8, 1998 **Marinka Raion** **Donetsk Oblast**	**Raion Agrokhim Farm Service Center** 1. Agrokhim Director 2. Cargill Rep./Ukrainian
June 8, 1998 **Volnovakha raion** **Donetsk Oblast**	**EKOPROD Farm Service Center** 1. Ekoprod General Director: Ivan I. Mel'nik 2. AGCO Country Director.: Bob Dickman 3. Priv. Consultant: Mr. Asher
June 8, 1998 **Chisinau, Moldova**	**CNFA: Chisinau, Moldova** **1.** Country Dir./Proj. Manager: Gerald Bahensky
June 9, 1998 **Kiev** **Kiev Oblast**	**Iowa State Univ. Ag Policy Project** 1. Director: Don Van Atta 2. Senior Economist: David Sedik

June 9, 1998 **Kiev** **Kiev Oblast**	**Pioneer** 1. Country Director: Brian Foster
June 9, 1998 **Moldova**	**Dairy Processing and Marketing: Hinces Dairy** 1. Land O' Lakes TA Volunteer—Milk Receiving program 2. Mayor of City of Stolichny
June 9, 1998 **Moldova**	**Walnut Processing/Marketing** 1. Food Pro/Manager: Dr. A. Zaland
June 9, 1998 **Moldova**	--**Incon Processing Project** **--Cupcin Cannery** --**TeraServe Farm Service Center** 1. Dr. D. Rohrer, U.S. Advisor 2. Dr. J. Colbert, U.S. Advisor
June 10, 1998 **Kiev** **Kiev Oblast**	**CNFA** 1. Dr. W. Williams: Environmental Advisor 2. Bill Riley: Project Manager 3. Ray Diamomd: Project Manager 4. Dave Williams: Project Manager 5. Andriy Andryushko: Aide
June 11/12, 1998 **Kiev**	**USAID Mission, Kiev** 1. Huger, G.: Mission Director 2. Hadley, S.: Private Sector Dev. Officer 3. Kaiser, M.: Private Sector Dev. Officer 4. Walters, H.: Ag Officer 5. Lyvers, K.: Ag Officer
June 11, 1998 **Kiev**	**Hydro Agri Ukraina** 1. Johnsen, Kjell: Marketing Director 2. Rovensky, Andriy: Office Director
June 12, 1998 **Kiev**	**CNFA** 1. Tom Rulland: Country Director
July 1, 1998 **Washington, DC**	**CNFA** 1. John Costello, President

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CNFA AP - II PROJECT EVALUATION

AP - 11 DEVELOPMENT CONTRACTS APPROVED BY JUNE 1998

	Projects	Project Description	Life of the Project (data to date)	Company Contribution	USAID Contribution	Expenditures Company	Through June 1998 USAID
UKRAINE							
1	**Cargill Fertilizer**	Fertilizer blending operations and distribution by using the warehouse and marketing network of Rayonagrochim and their partners	February 1, 1997 - January 31, 1999	3,128,875	466,550	702,194	33,157
2	**American Cyanamid**	Sale and distribution of agricultural chemicals	April 1, 1997 - March 31, 1999	4,783,912	499,120	449,202	209,207
3	**Food Master International**	Dairy production and processing in Uman	December 10, 1997 - December 10, 1998	6,286,517	500,000	0	0
4	**Kiev-Atlantic Ukraine**	Farm Service Center. Designed to provide inputs and services for farmers.	July 22, 1997 - July 10, 1999	4,550,000	500,000	5,842,735	500,000
5	**Progressive Genetics**	Soybean farm supply and service distribution center. Expanding the current soybean seed production, multiplication, testing, and demonstration activities.	July 11, 1997 - July 10, 1999	714,165	260,655	309,495	12,820
6	**Pure Sunshine**	Dairy processing diversification. Processing and packaging Florida orange juice in partnership with Kiev milk plant for domestic sale.	July 14, 1997 - July 13, 1998	1,430,000	497,905	511,188	112,110
7	**Ukrainian Agriculture Development Company (UADC)**	Agricultural Finance for crop production and	January 1, 1998 - August 12, 1999	3,500,000	3,500,000	0	0
8	**AGCO**	Farm Service Center	January 1, 1998 -July 31, 1999	2,799,257	500,000	626,262	46,004
9	**DuPont/Rise Invest**	Agricultural crop protection	January 1, 1998 - December 31, 1999	1,883,101	500,000	0	0
10	**Hydro Agri North America**	Fertilizer distribution	January 1, 1998 - July 31, 1999	2,412,789	500,000	0	0
11	**Kiev Atlantic Ukraine and Rhone-Poulenc**	Animal Health and Nutrition Center Livestock Feed Business at KAU	March 13, 1998 - August 12, 1999	2,560,038	500,000	0	0
12	**Monsanto**	Farm Service and Supply Center	April 13, 1998 - August 12, 1999	3,309,056	500,000	0	0

13	**AgriEvo**	Sound modern farm management practices. Including proper use and storage of chemicals.		1,439,677	500,000	0	0
14	**UkrAgro Systems**	Provide farms with custom farming services, land cropping, land leasing to generate income for farms/village shareholders		2,362,499	413,091	0	0
15	**CIL**	Agroprocessing and marketing. New meat processing technology to produce high value poultry products.		1,349,300	482,475	0	0
	TOTAL AP-II FUNDING			42,509,186	10,119,796	8,441,076	913,298
			MOLDOVA				
16	**Food Pro**	Invested to date (5/31/98) $56,344 including 3,278.58 in May invoice, which is submitted recently and not paid yet		2,848,000	499,020	727,645	56,344
17	**Incon Farm Service Center**	Invested to date ($) 4/30/98, May invoice not submitted yet		3,310,724	497,270	2,642,000	45,494
18	**Cupcini Demo Orchard**	Invested to date ($) 5/30/98, May invoice not submitted yet.		1,578,750	499,544	710,000	192,916
19	**Rhone-Poulenc**			0	0	513,061	0
	TOTAL AP-II FUNDING			7,737,474	1,495,834	4,592,706	294,754
	TOTAL AP-II FUNDING -- UKRAINE AND MOLDOVA			50,246,660	11,615,630	13,033,782	1,208,052

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