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**OPERATIONAL EVALUATION OF THE
RUSSIAN POTATO CONCERN**

for

USAID/NIS Task Force

prepared by

John R. Wille, Organizational and Financial Specialist

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OPERATIONAL EVALUATION OF THE RUSSIAN POTATO CONCERN

I. Executive Summary

The Russian Potato Concern (RPC), a private organization was established as an agent for change within the Russian potato industry. The scope of its activities extend to providing technical assistance in the areas of privatization and land reform, advanced growing methods as well as development of commercial ventures and market institutions, such as wholesale markets. The Concern also acts as an intermediary between the potato industry and external funding sources, including the Russian Government as well as western corporations and international funding agencies.

RPC has made great strides in addressing this ambitious mission and has developed strong working relationships with western institutions such as the Postharvest Institute for Perishables (PIP). However, RPC must continue to improve its internal capabilities as well as ongoing and predictable sources of funding if it is to successfully pursue its objective of developing a market-oriented potato industry in Russia.

Recommendations for RPC management include: (1) developing more relationships with international funding and technical assistance agencies; (2) establishing an export cooperative to facilitate overseas sales of potato-based products; and (3) the development of independent funding sources for its research and technical assistance activities.

Recommendations to PIP regarding further technical assistance to RPC are: (1) the provision of training for RPC staff in financial analysis and the preparation of investment proposals as well as the fundamentals of export marketing and (2) support for the publication *Potatoes and Vegetables* through the identification of US advertisers as well as potential investors from the US publishing industry.

II. Introduction

This paper presents a review and evaluation of the operations of Russian Potato Concern prepared by a representative from the Postharvest Institute for Perishables of the University

of Idaho. The field work was conducted during the period January 15-29, 1994 and included meetings in Moscow, Kirov and a collective farm (now privately owned) near Vladimir. The objectives of this evaluation are as follows:

- To enhance PIP management's understanding of the full scope of the RPC's activities and organizational capabilities. In particular, PIP management would like to assess the RPC's evolving role in the transformation of the Russian potato industry to a market-oriented system.
- To determine the future needs of the RPC in terms of financial and external assistance, and consequently identify new areas of technical assistance and collaboration between RPC and PIP, as well as with USAID.
- To advise RPC management on issues relating to the organization of its commercial and technical assistance activities, particularly with respect to its relationship to other organizations within the Russian potato industry. In addition, the PIP representative advised on issues relating to the development of investment proposals to the Russian Government and international funding agencies as well as the evaluation of potential export opportunities for potato-based products from Russia.

A subsidiary objective involved the evaluation of a Russian published farm journal which focuses on potatoes and vegetables. RPC had requested assistance in sustaining this publication, which was no longer being subsidized by the Government, as it is the only such journal distributed on a national basis within Russia and provides valuable information for Russian farmers.

Appendix A presents a listing of individuals interviewed during this evaluation.

The balance of this paper is organized as follows:

- Section III presents an overview of the Russian potato industry and summarizes current developments, based upon analysis and statistics prepared by RPC management.
- Section IV presents a description of the RPC, its organization and capabilities.
- Section V analyzes RPC's strategy and current initiatives to privatize the Russian potato industry.
- Section VI draws conclusions regarding the future needs of the RPC in carrying out the strategy described above, focussing particularly on those areas where PIP can provide resources and technical assistance.
- Section VII presents recommendations, both for PIP and RPC management.

III. Background to the Russian Potato Industry

The following description of the Russian potato industry is based upon information compiled by the RPC but not independently verified.

Characteristics of Russian Farms

Many formerly state-run collective farms have been privatized or are in the process of privatization. Also land reform programs in Russia have resulted in the distribution of entire farms or smaller plots to individuals. RPC refers to the latter as "garden plots". Many rural homeowners also have larger areas or "backyard plots" on the property attached to their homes.

Russian state farms account for approximately 500,000 hectares of farmland, with an average farm size of between 200-400 hectares.

Non-state or privatized farms have a total of 2.87 million hectares, of which 430,000 hectares is attributed to former collective farms and 2.44 million hectares is owned by individual farmers. The privatized collective farms have generally reorganized into either farmer associations, joint-stock companies or private cooperatives. The distribution of land among private owners breaks down as follows:

	<u>Average Plot Size</u>	<u>Total Land</u>
Private farms	10 - 20 hectares	40,000 hectares
Backyard plots	3 hectares	1,200,000 hectares
Garden plots	.1 hectares	1,200,000 hectares

Seed Potato Production

Russia produces about 2.8 thousand tons (metric tons are used throughout this analysis) of improved seed potato varieties. An analysis produced by RPC reveals the following breakdown by type:

<u>Variety</u>	<u>Annual Production</u>
Super elite	9,000 tons
Super elite	35,000 tons
Elite	130,000 tons
Reproduction A	600,000 tons
Reproduction B	2,000,000 tons

Russia's seed potato requirement currently exceeds 7 million tons, thus many inferior seed potatoes are used to fill the gap, particularly by private farmers. As a result, yields on Russian farms are only 10 tons per hectare, as compared to 35 in the US and 45 in Holland. Seed potatoes are usually grown on large dedicated farms, although RPC management believes that this is not a profitable activity at present.

Commercial Potato Production

Commercial potatoes are grown on both large collective farms as well as individual garden plots. The collective farms produce approximately 5.3 million tons of commercial potatoes annually. This production is distributed approximately as follows:

<u>Use</u>	<u>Amount</u>
Wholesale markets	3,000,000 tons
Processing plants	900,000 tons
Shops/restaurants	600,000 tons
Losses	300,000 tons
Animal feed	200,000 tons

Individual farmers produce approximately 30 million tons per year. This amount is distributed approximately as follows:

<u>Use</u>	<u>Amount</u>
Self-consumption	15,000,000 tons
Seed	6,700,000 tons
Animal feed	4,300,000 tons
Losses	3,000,000 tons
Shops/restaurants	800,000 tons

Self-consumption of potatoes supports approximately 100 million individuals, while about 45 million people purchase potatoes through local markets. Most retail sales of potatoes are handled through the government-run distribution system, which is very inefficient and results in losses of approximately 20 percent (600,000 tons per year). The total amount of potatoes distributed through retail channels is approximately 3.4 million tons (9 percent of production), of which 2 million tons comes from the state-run distribution system. Average consumption for potato producers is 150 kg per year while retail consumers purchase an average of 80 kg per year. RPC management considers 105-110 kg per year to be an acceptable consumption rate from a dietary standpoint.

Imports of Potatoes

Russia imported approximately 100,000 tons of seed potatoes and 300,000 tons of commercial potatoes in the past year. Estimates of import volumes in recent years are presented below (in thousand of tons):

	<u>Seed Potatoes</u>	<u>Commercial Potatoes</u>
1986	-0-	162.5
1987	-0-	100.0
1988	-0-	533.5
1989	-0-	490.4
1990	-0-	632.5
1991	152.8	404.5
1992	72.2	300.0
1993	100.0	300.0

Potato Pricing and Distribution

Retail and wholesale prices for commercial potatoes vary considerably from region to region in Russia. For example, wholesale prices (quantity purchases by commercial customers) in Moscow during January 1994 were approximately R200 per kg, with retail prices averaging about R500. Prices in more remote areas (eg. Irkutsk) or in other urban centers (eg. St. Petersburg) were significantly higher while prices in provincial cities (eg Tyumen) were generally much lower.

It is reported that the distribution of commercial potatoes in large cities is controlled by the state-run distribution system, which is allegedly inept and reportedly corrupt. As these entities control a great portion of the available potato storage capacity, they can compel farmers lacking adequate storage facilities to sell their production immediately after harvest when prices are at their lowest. For example, the farm "Russia" near Vladimir sold most of its production to the Moscow distribution system at R68 per kg, which was in their view was a very poor price. Moscow authorities also apparently imported potatoes from Poland in 1993, despite abundant local supplies. This, of course, had a negative effect on local wholesale prices.

There are also trading companies, such as Central Trading Cooperative, which buy potatoes from private farmers at harvest time and transports them to regions where potatoes are in low supply. RPC management considers these intermediaries to be undesirable because of the low prices they offer to the farmers.

Processed Potato Products

Processed potatoes products produced in Russia today include alcohol, starch, powder and flakes. A very limited amount of more sophisticated products such as potato chips and french fries are produced at present.

RPC and several of its members are interested in developing provincial markets, particularly in the northern regions, with a focus on processed potato products. These would initially include potato flakes, starch and powder, eventually expanding into chips and french fry production. They view the main state-run potato processor, Kolos, as very inefficient and uncompetitive. Also the distribution of processed potato products can occur outside the state-run distribution channels, which avoids many of the pricing and corruption problems affecting the marketing of commercial potatoes. In remote northern regions, many manufacturing and mining concerns take responsibility for purchasing and distributing food products to their workers.

IV. Description of Russian Potato Concern

The mission and structure of Russian Potato Concern typifies the institutional vacuum which exists in many parts of the Russian economy today as a result of the conversion from central planning mechanisms to a market-oriented economic system. RPC has an extremely broad mission which, in a developed market economy, would be normally undertaken by a number of more specialized institutions. In terms of the US system, RPC has some of the characteristics of the following types of organizations: (1) industry associations; (2) consulting firms; (3) venture capitalists and commercial entrepreneurs; and (4) industry research organizations.

RPC was formed on a private basis with support from the Ministry of Agriculture (MOA) pursuant to a 1991 presidential decree concerning the commercialization of the activities of state organizations. RPC's main objective, as officially stated in its by-laws, is to encourage entrepreneurship and support the transfer of the potato industry to a private market status. This mandate encompasses both privatization of state-owned enterprises (particularly seed potato growers) as well as the development of new commercial activities in the potato industry. RPC is officially recognized through a joint decree by the MOA and the Ministry of Privatization as an organization acting as an agent for change within the potato sector.

RPC also enjoys a special status with the MOA, along with about 15 other organizations. This entitles RPC to rent office space from the Ministry, utilize the Ministry's mail and administrative support services, apply for investment funds and receive special exemptions from taxes and customs duties for certain of its activities. Previously, over 100 organizations

with special expertise were given this special status. However, group members were recently reduced by the MOA.

RPC is officially a mixed joint-stock company, whose founding members include an arm of the Ministry of Agriculture, the Potato Storage Institute, three state farms, AKKOR (a farmers' organization) and a commercial firm. Several of these organizations are no longer involved in RPC. The Concern has not formally distributed its shares or formed a board of directors. It essentially appears to be controlled by its management, particularly the President, Dr. Yuri Moiseev.

Business Activities of the RPC

One of RPC's primary roles is to act as a type of industry association, representing commercial firms, farmers associations, trusts, individual farmers, scientific organizations and other entities within the potato industry. This activity is sanctioned by the MOA and appears to enjoy the support of over 100 entities within the industry, although the financial and organizational approach is much different than that of similar associations in the US. Approximately 80 percent of the entities affiliated with the RPC are growers, however there is no standard due-paying mechanism or governing board made up of these organizations. RPC's work with these "member" organizations can be characterized as a network of personal and contractual relationships designed to develop various aspects of the potato industry infrastructure.

The second major role of RPC is that of a consultant to enterprises within the Russian potato industry. There are several areas in which they provide advice, including:

1. Development of investment proposals for submission to the MOA for funding. Normally, the organization seeking funding has contracted with RPC to prepare the proposal and move it through the review process. This is a very important activity since there does not appear to be any other entities within the Russian potato industry possessing the technical capabilities and MOA contacts necessary to adequately perform this function.

Also, the Ministry of Economics, currently headed by Alexander Shokhin, is requiring that investment proposals submitted to it through the MOA for funding contain much more rigorous analysis and clearly demonstrate either an adequate return on investment or an ability to repay credits through projected cash flows. The RPC currently has three major proposals in the review process at the Ministry of Economics. All three proposals have been placed on the Ministry's short list of 74 projects for further consideration (out of 200 submitted).

In addition, the government's spending procedures are being revised in order to channel more investment funds through the oblast governments instead of through the MOA. This

will require further effort by RPC and its members to determine the appropriate application procedures.

RPC would like to also develop the capability to prepare investment proposals to the international funding agencies on behalf of its members.

This lack of financial analysis and proposal preparation capabilities has been recognized as a problem in many parts of Russian industry and agriculture. It has also been cited by many international funding agencies as a major impediment to the rapid dispersal of investment and technical assistance funds. For larger projects, western consulting firms or merchant banks are typically retained to perform this analytical function, however this approach is not cost-effective in the case of smaller projects. Therefore an indigenous capability, such as that which RPC is attempting to offer, is essential in ensuring access to external capital for projects in the potato industry.

2. Advising clients on privatization issues, including forms of privatization, allotment of land to private farmers, and documentation of land privatization transactions. RPC has a small team of specialists with a background in land use and management, headed by Anatoly Kupchenenko. This group is in the field on a continuous basis, working with member organizations and local authorities in implementing land reform.

3. Advising farmers and member organizations on technical aspects of potato growing and storage, including choice of varieties, planting, plant protection, fertilization, harvesting, bruise prevention and storage. In particular, RPC disseminates the results of its ongoing research programs and arranges for technical assistance from Russian experts and PIP.

This advice is provided on a fee-paid or pro bono basis, depending upon the ability of the recipient organization to pay. Other organizations, such as AKKOR, provide similar services but do not specialize in potato products.

The third major role of RPC is as project promoter and venture capitalist. This function differs somewhat from its advisory role in that RPC is spearheading certain projects designed to build up the infrastructure of the potato industry. One of the primary examples is the Farmer Service Centers (or wholesale centers), which are designed to be a source of technical assistance as well as providing a wholesale market for advanced varieties of seed potatoes. Although RPC is collaborating with other commercial firms in developing these centers, RPC management is taking the lead in this initiative. RPC is also in discussions with an American company, Global Steel Corporation, concerning a joint venture to market and construct crop storage facilities and retrofit existing storage structures with modern ventilation/cooling controls.

In addition, RPC has been collaborating with a Moscow-based commercial bank, Reinkbank, in developing what RPC management characterizes as an investment fund for the potato industry. This "fund", known as Selkhoz-Invest, is designed to be a vehicle for channeling

capital to RPC-supported projects. At present, most of the monies available have come directly from Reinbank and only one project, a greenhouse for seed potatoes, has been funded. RPC and Reinbank expect to invite other investors into the "fund" as new projects arise.

RPC's fourth major activity is in coordinating and funding various types of potato-related research. The Concern has collaborative relationships with several research institutions affiliated with the MOA, such as the Potato Storage Institute. A large portion of its budget is apparently allocated to supporting research, including paying the salaries of several research specialists.

Organization of the RPC

The nucleus of the organization is eight individuals, although approximately 15 people are on the Concern's payroll. Most of the other employees are research professionals or field consultants whose research and advisory activities are supported by the RPC. Other staff members collaborate with the Concern through their own research organizations, but are not loaned to RPC, as previously thought. Appendix B presents details concerning the core team, including job titles, educational background, and primary roles. The organizational aspects of the Concern's primary activities is summarized below:

- **Strategic consulting, investment proposal preparation and project promotion** - largely managed by Yuri Moiseev and Nadia Rodina with support from Elena Barinova, Olga Tretiakova and Vladimir Chibatarov.
- **Investment fund operation (Selkhoz-Invest)** - coordinated by Nadia Rodina and Reinbank management with support from Olga Tretiakova.
- **Technical advice to farmers and potato processors** - primarily Gennady Chanov and Elena Barinova with support from research specialists.
- **Advice on privatization and land reform** - managed by Anatoly Kupchenenko with a small team of specialists.
- **Development of Farmer Service Centers** - the Moscow region center is being established and managed by Oleg Rybakov.

The offices of the RPC are located in a MOA building in Moscow. Some employees work from home or in affiliated research institutes.

Financial Aspects of the RPC

The budget process of the RPC is very short-term oriented with project costs and income for six months. Estimates of operating cash flows were provided by RPC management, however a capital budget was not estimated due to the uncertainty surrounding the funding for future investment projects.

Most of the RPC's operating capital comes from Selkhoz-Invest, which is apparently allocated a small portion of Reinbank's operating earnings. The balance largely arises from consulting fees for work conducted on behalf of member organizations, such as the preparation of investment proposals. Investment capital comes both from Selkhoz-Invest (only one project funded to date) and through grants from the MOA. RPC also hopes to tap external funding agencies in the future for investment capital and consulting contracts.

Most of the RPC's activities are taxable, however certain economic development projects are granted tax-exempt status by the government. These projects can sometimes be eligible for subsidized credits from the government as well.

Projected income for the first half of 1994 consists of the following:

Distributions from Reinbank	R200 million
Consulting fees	R 25 million+
Contributions from members to support technical assistance programs	R 10 million+

There is also a possibility that RPC will receive a contribution of up to R350 million from a market oriented political party which wishes to support agricultural reform.

Estimated expenses for the first six months of 1994 are as follows:

Salaries (15 persons)	R 15 million
Rent, MOA services and communications	R 10 million
Development of Farmer Service Center (Moscow Region)	R 10 million
Research	R100 million

The balance of funds will be spent on travel, technical assistance activities and development of proprietary projects, such as the establishment of the other five Farmer Service Centers. The Concern pays no dividends to its shareholders nor does it appear to maintain a balance sheet.

Description of the Journal *Potatoes and Vegetables*

Part of the RPC assessment included an evaluation of the farm journal *Potatoes and Vegetables*, which is in serious financial difficulty. RPC management views this publication as essential in keeping Russian farmers apprised of new technical developments in potato farming as well as informing them of relevant farming methods being utilized in the West.

The journal has been in continuous publication since 1956, although predecessor publications date back almost two centuries. It was previously published by Agro Industrial Publisher, which was a publishing house affiliated with the MOA. However, since the reorganization of the MOA the journal has essentially become an independent publication, nominally under the supervision of the Ministry of Information. It is a non-state entity but does not have a clearly defined legal status as yet. It receives occasional grants from the Ministry of Information but otherwise must subsist on subscription and advertising revenues.

The journal deals with scientific and production topics in four main areas: (1) potatoes; (2) green vegetables; (3) greenhouse operations; and (4) truck crops (eg. melons, pumpkins, etc.). About one half of the articles are oriented to "backyard" or "garden plot" farmers.

Potatoes and Vegetables is published on a bi-monthly basis, with a current circulation base of approximately 10,000 subscribers. Most subscribers are in Russia and it is still distributed in the other republics and several foreign countries. Before the collapse of the USSR the circulation was as high as 40,000, however this figure has fallen to 13,000 in 1993. Over half of the current subscribers are private farmers. The current subscriber base is considered sustainable as long as subscription rates do not greatly exceed the rate of inflation.

The journal is only distributed via mail subscription, utilizing the subscription processing service which has been traditionally provided by the post office. This is considered an advantage as many private publications do not appear to have access to this service.

Subscription prices per issue have been rising rapidly in response to the inflation in production costs. The current procedure is to offer subscriptions for six month periods beginning in May and September. A separate rate is set for each issue, which is now rising from R50 in 1993 to R300 for the first issue of 1994. The expected subscription revenue for the initial 1994 issue is thus R3 million.

Advertising is purchased by both Russian and foreign organizations, although the majority of the advertisements are of foreign origin. Current advertising revenue is approximately R2 million per issue. Ad rates are as follows:

Front or rear cover - US\$ 1,000 - 2,000 or ruble equivalent for Russian advertisers (Color)
Inside cover - US\$ 800 - 1,400 (Color)
Interior pages - US\$ 500 - 800 (Black & white)

The paper size used in the journal is being enlarged to reduce production costs. Also interior ads can now be produced in color. Currently, foreign advertisers consist mostly of European firms, such as Wolf & Wolf, Bayer, and Ciba. Monsanto is the sole US advertiser noted.

Production and mailing, which is contracted out, currently costs R5 million for a print run of 10,000. Thus the journal is at a breakeven level before editorial and administrative costs are considered. The editorial staff consists of four persons, including a managing editor, two editors and a part-time accountant. Most of these individuals are near retirement age.

Currently, annualized editorial and overhead costs are estimated as follows:

Personnel and royalty costs	R3,000,000
Office lease	<u>R4,000,000</u>
Total	R7,000,000

Thus an increase in advertising revenue of approximately US\$ 5000-7000 per year will likely cover the fixed operating costs without the need to increase subscription prices above the rate of inflation.

RPC would like to absorb the journal into its organization if it can be made to operate in a self-sustaining manner. However, if it were converted into a purely private publication, it would lose access to the occasional grants from the Ministry of Information.

The managing editor of *Potatoes and Vegetables* is Svetlana I. Sanina, tel. 207-17-11. Editorial offices are located at 18 Sadovaya-Spasskaya, Room 702, B-78, Moscow.

Other traditional journals cover horticulture, fruits, mushrooms, and other topics. Foreign publishers have also established several joint ventures to produce farm journals. These include:

- *Farmer* (AKKOR-supported)
- *New Farmer* (Rodale Publications)
- *New Agribusiness* (Meredith Publications) - initial issue expected shortly.

All of these publications rely mainly on ad revenues, although they are not expected to be profitable for some time. The former two publications have an estimated circulation of 40,000. Most issues are not distributed by mail but instead are handed out by traveling advisers or at farm exhibitions. Volunteers in Overseas Cooperative Assistance (VOCA) also publishes extension publications and helps to distribute *New Farmer*.

V. Strategy of the Russian Potato Concern

As noted previously, the RPC's activities are quite broad in scope. The Concern is seeking to fill many gaps within the current industry and financial infrastructure, thus it is taking on several roles.

The current strategy of the Concern is to act as a catalyst or facilitator, as the situation demands, in developing the missing elements within the potato industry infrastructure. This extends from ensuring the distribution of high quality seed potatoes to private farms in Russia to the development of indigenous potato processing and export marketing capabilities. In certain areas, such as seed potato distribution, RPC is playing a lead role. For example, it is investing its own resources into the development of the Farmer Service Centers, whose major objective will be to distribute quality seed potatoes to small farmers, along with technical advice and plant protection products. In other areas, such as potato processing, RPC is acting in more of a consultative role and assisting in the development of funding proposals to the Government. They do not plan to take an active role in the management of ventures such as the proposed processing facilities.

As an illustration of the breadth of its activities, below is a short summary of the major projects RPC is currently involved with:

- **Farmer Service Centers** - Lead organizer and provider of operating capital. This venture will establish centers in six regions around Russia, providing seed material, plant protection and technical advice (eg. soil analysis) to backyard and garden plot farmers. Some centers will also offer storage facilities to farmers who would otherwise have to sell their entire crop in the autumn, when potato prices are at their seasonal low points.
- **Kirov Starch Processing Plants** - The local authorities in Kirov are helping to fund the construction of three plants in the Kirov region which will most likely be utilized to process excess local potatoes into starch. RPC has been retained to perform a technical feasibility study for these plants. However, during the PIP representative's visit to Kirov, he pointed out several factors which may affect the potential profitability of the venture.
- **Development of Potato Industry in Tyumen Region** - RPC has been retained to perform a feasibility study for seed potato production and potato processing operations in the region.
- **Potato Processing Operation in Smolensk** - RPC has prepared an extensive funding proposal for this project, which is currently being considered by the MOA and the Ministry of Economics. This processing plant will initially produce potato powder

and flakes, with the intention of expanding into potato chip and french fry products in the future.

- **Construction of a Seed Potato Nursery** - This project has been funded through Selkhoz-Invest.
- **Potato Storage Construction and Refurbishment** - RPC has been involved in several projects to construct new potato storage facilities or retrofit existing facilities with modern environmental control capabilities. These include the current USAID-funded project with Global Steel to build a facility at a collective farm outside of Vladimir. RPC is also in discussions with Global Steel regarding a joint venture to market crop storage facilities in Russia. In addition, RPC is assisting growers in the Omsk region, and has submitted a funding proposal to the MOA for the reconstruction of storage facilities and potato harvesting equipment.

RPC has participated in numerous research projects in collaboration with scientists working within various Russian research institutes. Their longer term objective is to unite much of this research effort under one roof through the development of a dedicated research institute. However, RPC management recognizes that funding for this institute will be difficult to obtain in the current economic environment.

Another development activity which RPC is pursuing involves the formulation of a model for the coordination of potato growing, storage, processing and marketing activities within a given region or district. In this interim period between the breakdown of central planning and the evolution of market institutions and appropriate government support programs, RPC sees a need to coordinate certain key activities within the potato industry, particularly at the local level. Otherwise, private farmers will not have access to adequate seed material, storage facilities or marketing channels. RPC is working with large farms and regional authorities to develop an approach to achieve this coordination without re-instituting central planning mechanisms.

RPC is also seeking an organizational approach to facilitate collaborative efforts to develop export markets for Russian potato products, particularly commercial potatoes, starch, flakes and powder. A possible approach, discussed in the following sections, would involve the formation of an export marketing cooperative similar to those employed in other economies with significant agricultural exports. Appendix C presents details concerning potential starch exports from the Smolensk region, which has several starch production facilities.

In developing commercial activities, RPC can act as a principal in a joint venture, although they have not successfully developed any ventures with foreign partners as yet. However, they are in discussions with Global Steel concerning a crop storage joint venture, as described previously.

RPC would ultimately prefer to work on a national basis, however as a practical matter its operations are largely centered in European Russia. The easternmost venture currently underway is in Omsk, which is in western Siberia. RPC would also like to provide consulting services to potato producers in other republics of the former Soviet Union, but has not undertaken any such assignments as yet.

VI. Assessment of Russian Potato Concern's Future Needs

Russian Potato Concern has an ambitious agenda, however the staff still lacks critical capabilities required to successfully carry out its mission. The RPC is well recognized within the Russian potato industry for its expertise in the technical aspects of growing and storing potatoes. However, its capabilities in the following areas need further development:

- **Domestic and export marketing** - RPC is rapidly developing its expertise concerning the domestic market, particularly now that western marketing techniques are more widely utilized within the Russian economy. However, RPC's understanding and access to needed information regarding potential export markets is still very rudimentary.
- **Financial analysis and preparation of investment proposals** - As noted previously a key capability which is missing throughout much of the Russian business community is the ability to prepare investment proposals to the level of detail required by western corporations and international funding agencies. This reflects the limited training of most Russian financial professionals in the areas of financial analysis and feasibility study preparation. The RPC staff has achieved an above-average degree of understanding and competence in these areas, mostly through self-training. However, further intensive training is required if they are to fulfill this role on behalf of their members.
- **Development of relationships with international funding agencies** - Although RPC has developed a good relationship with USAID, the Concern has limited contacts with other agencies, such as the World Bank, European Bank for Reconstruction and Development, and European Union's TACIS program. Many of these agencies are looking for promising projects in the agribusiness and food processing sectors.
- **Development of an ongoing funding mechanism for RPC's research and technical assistance programs** - Although RPC does receive funding from Selkhoz-Invest and some of its more prosperous members, its funding base is very limited when measured against the scope of its mission. RPC needs to seek out other external sources of funds and eventually develop a mechanism for receiving funds from its

members for projects which benefit the entire industry, much as industry associations in the US receive annual dues from their members.

RPC management has expressed great satisfaction with their relationship with PIP, and recommends that this collaboration be expanded into the following areas:

- **Joint development of a potato research center in Russia** - This entity would focus on both scientific research as well as the development of a market infrastructure within the Russian potato industry. According to RPC management, the Center should undertake activities in several areas, including: (1) compiling scientific information about land and water resources as well as ecological problems in each region of Russia; (2) disseminating research findings from other Russian institutes; (3) jointly developing new crop-related technologies, particularly plant varieties which are not indigenous to the US but have potential nutritional or medical applications; (4) certifying Russian potato varieties; (5) supporting extension services in Russia.
- **Joint technical assistance activities in the other republics of the former USSR** - If PIP is planning to extend its technical assistance activities to other republics, RPC would like to discuss a joint effort in this direction. The rationale is that RPC is well situated geographically and can provide resources at a low cost.

RPC would like to receive more consultants, particularly intelligent and adaptable individuals who can understand the limitations posed by the Russian economic and social environment and tailor their recommendations accordingly. However, RPC management generally views training seminars for Russian managers in the US as a more productive use of resources. They value the access to external training available through PIP and feel that the individuals who have attended courses to date have derived significant professional benefit from their US experiences. The feedback they have received concerning training courses sponsored by other international aid agencies has not been as positive as that for the PIP courses.

VII. Recommendations

The following recommendations assume that PIP and USAID concur with the view of RPC management that the Concern's major function should be to act as an intermediary between the Russian potato industry and the Russian Government as well as the international aid community.

Recommendations for RPC Management

1. RPC management needs to further develop its relationships with the international funding and technical assistance agencies - There are a number of multilateral agencies

which operate funding and technical assistance programs in areas relevant to the needs of the Russian potato industry, such as agribusiness and food processing. RPC management should take steps to better inform these agencies of its mission and capabilities. Management should also determine the specific areas which each of these agencies focus upon, their financing capabilities (eg. technical assistance, loans, equity investments) and the information and approvals required to gain access to these resources. In some cases RPC may have to obtain certain government approvals or mandates before these agencies can provide assistance.

Appendix E presents a list of relevant agencies and their capabilities.

2. RPC management should develop a cooperative approach to the development of export marketing capabilities within the Russian potato industry - Many western agribusiness and food processing organizations have formed cooperative ventures to support the development of domestic and export markets for their products. This approach would be particularly useful for producers of commodity products such as potato starch, powder and flakes. Branded products can also be handled under this arrangement if the cooperative develops its own brand identity, as Ocean Spray has done with fruit juice products. There are also technical assistance resources available from organizations such as the United Nations Conference on Trade and Development (UNCTAD) to assist in the development of export marketing capabilities. For example, UNCTAD's International Trade Center in Geneva, Switzerland provides marketing advice and information on foreign market conditions to many agribusiness enterprises in developing and transitional economies.

3. RPC should seek to develop independent funding sources for its industry research and technical assistance activities in support of small farmers - and perhaps segregate these functions from its commercial activities. RPC could seek funding from private foundations as well as from corporations and international aid agencies. The Concern's commercial activities are relatively small at present in comparison to their research and technical assistance activities. However, once commercial activities become more significant, it may be appropriate to break off these ventures into a separate legal entity so as not to alter RPC's current perceived image as a non-governmental organization (NGO). Many of the aforementioned funding sources prefer to work with not-for-profit organizations or cannot legally give grants to commercial enterprises. This not-for-profit status will also be useful once the Concern seeks to regularize its financial relationship with its members by collecting some type of annual assessment in support of its industry development activities. Most industry associations in the market economies support their operations through annual dues payment from members. The development of a formal industry association should also involve the creation of a governing board made up of representatives from the potato industry. Participation by members in policy-making will also help to encourage regular financial contributions.

commendations for Further Technical Assistance by PIP

USAID\PIP should provide intensive training in finance and marketing for key personnel RPC and Reinbank - RPC personnel need significantly more preparation in the following finance and marketing topics in order that they can act as credible intermediaries with western corporations, international funding agencies and Russian government agencies:

- Financial accounting, including the use of simple PC-based accounting packages.
- Financial analysis, including preparation of spreadsheet-based analyses and templates.
- Preparation of investment proposals, including the development of financial projections of project cash flows and financial statements.
- Fundamentals of export marketing.

Appendix D presents a suggested curriculum for this proposed training program while Appendix F presents a sample format for an investment proposal.

PIP should support the journal *Potatoes and Vegetables* by seeking US-based advertisers and other sources of financing. The publication could reach a breakeven level with the addition of 3-5 advertisements per month by US firms. Also, it is possible that a US-based marketing journal publisher may wish to invest in the publication as a means of entering the Russian market, as Rodale and Meredith have done.

**LISTING OF INDIVIDUALS INTERVIEWED
FOR THIS STUDY**

Elena Barinova
Specialist in Ecology and Environmental Control,
Russian Potato Concern

Gennady T. Chanov
Head of Production, Storage and
Processing Department,
Russian Potato Concern

Pavel Fetisov
Vice President, Reinbank

Brian Foster
Regional Representative - Russia
Volunteers in Overseas Cooperative Assistance

Dr. Stepan Ginin
President, Agroindustrial firm "Russia"

Yuri V. Kirillin
General Director,
Scientific, Research and Project Institute
of the Biotechnological Industry (Kirov)

Dr. Yuri V. Moiseev
President, Russian Potato Concern

Catherine Norris
Project Officer, USAID

Nadia Rodina
General Director, Selkhoz-Invest;
Director, Russian Potato Concern

Svetlana I. Sarina
Managing Editor, *Potatoes and Vegetables*

Victor Siderov
President, Commercial firm "Dvatka Sugar"

Olga Tretiakova
Specialist in Psychology and Management,
Russian Potato Concern

Alexander Zinakov
Farm Operations Manager, Agroindustrial firm "Russia"

**PRINCIPAL STAFF OF
RUSSIAN POTATO CONCERN**

Galina Anisimova

Title: Research specialist

Primary role: Research on seed potato production and collection/classification of varieties.

Elena Barinova

Title: Specialist in Ecology and Environmental Control

Education: BS, Chemistry

Primary role: Coordinates research and advisory activities on environmental issues (eg. soil/water pollution) and plant protection. Also participates in investment proposal preparation activities.

Gennady T. Chanov

Title: Head of Production, Storage and

Processing Department,

Russian Potato Concern

Education: BS, Gorky Agricultural Institute

Primary role: Advises members on issues relating to potato harvesting, storage and processing.

Vladimir Chibatarov

Title: Head of Commercial Department

Education: Military/technical (missile technology)

Anatoly Kupchenenko

Title: Land Privatization Specialist

Primary Role: Manages small team working in the regions to support land reform and privatization activities among RPC members.

Dr. Yuri V. Moiseev

Title: President, Russian Potato Concern

Education: Doctor of Chemistry

Primary roles: Chief administrator and lead strategic consultant.

Nadia Rodina

Title: General Director, Selkhoz-Invest

Director, Russian Potato Concern

Education: Civil Engineer, specializing in land use and management

Primary roles: Leads innovation activities as well as development of new organizations and activities in adjacent spheres (eg. finance). Leads strategic consulting activities with Dr. Moiseev.

Oleg Rybakov

Title: Head of Moscow Region Farmer Service Center

Education: BS, Engineering

Primary role: Development of Farmer Service Centers

Olga Tretiakova

Title: Specialist in Psychology and Management

Russian Potato Concern/Selkhoz-Invest

Education: BS, Economics

Primary Role: Financial analysis and management.

Svetlana D. Yushina

Title: Accountant

Primary role: Accounting and financial management

**RUSSIAN POTATO CONCERN
SUMMARY OF STARCH EXPORT OPPORTUNITY**

Several members of RPC have starch processing operations which may be capable of producing starch products for export. These include five plants in the Smolensk region as well as a small plant in southeast Russia. Starch samples have been sent to PIP from these plants. RPC is also assisting one of the Smolensk plants ("Phoenix") in seeking funds to expand their operations into other potato-based products. Several of these plants have also received proposals from foreign firms interested in establishing joint ventures.

Most of these plants are rather old, and none of the firms have any experience in exporting. RPC estimates that these plants could ship up to 10,000 metric tons in the near term, but would need a minimum return of R350-400 per kg, before shipping costs. They can ship products in double-bagged form (polyethylene and cloth) through Kaliningrad. Shipment to Asian customers through Vladivostok is not recommended due to the unreliability of the rail system in the Russian Far East.

**RUSSIAN POTATO CONCERN
SUGGESTED CURRICULUM FOR TRAINING COURSE
IN FINANCE AND EXPORT MARKETING**

The following is the suggested content for a training course in finance and export marketing to be delivered to key staff from RPC and Reinbank. The export marketing portion could be delivered as a separate course, if necessary. The total class days required are estimated to be 10-15 days, depending on the level of detail presented and the amount of advance preparation in terms of case studies and financial models.

I. Elements of Financial Accounting and Financial Statement Preparation (3-5 days)

- Theoretical concepts (eg. business entity, continuity of operations, use of monetary measurement, realization, the accounting equation, cash versus accrual basis, etc.)
- Accounting terminology (RPC should also obtain copies of the Russian-English Glossary for Banking and Financial Terms, published by the World Bank and available at their Moscow offices).
- Balance sheet transactions and accounts, particularly accounts receivable, inventory, fixed assets, accounts payable, debt and capital accounts.
- Profit and loss statements, particularly methods of allocating overhead and fixed assets costs.
- Funds statements and their use.
- Cash flow statements and their use.
- Overview of managerial accounting.
- Use of computerized accounting packages in recording transactions and preparing financial statements. A simple PC-based general ledger system such as *DacEasy* could be used as a learning tool throughout this section of the course.

2. Analysis and Interpretation of Financial Statements (2-3 days)

- Definitions and uses of financial ratios (eg. profitability, leverage and liquidity ratios).
- Analysis of cash flow statements.
- Interpretation of financial statements, using a PC-based case study.
- Looking at financial statements from an investors and bankers perspective, that is, what issues do they focus on.

3. Content and Preparation of Investment Proposals (1-2 days)

- Overview of potential funding sources (eg. governments, corporations, financial institutions, international funding agencies). See Appendix E for further information.
- Issues to be addressed in investment proposals (eg. description of project, financial projections, evaluation of risks and alternative scenarios, etc.) See Appendix F for further information.
- Identifying and obtaining additional information required.
- Case study in determining the relevant information to include in a proposal to a given target audience. If possible use an existing RPC proposal as a model, such as the Smolensk potato processing plant project, where RPC has compiled over 100 pages of data. RPC needs to learn which information is relevant and how to present it.

4. Preparation of Financial Projections (2-3 days)

- Overview of financial information to be presented to a given target audience. Use same case study as above.
- Preparation of financial models, including the development of spreadsheet templates and sensitivity analysis. This exercise should assist RPC in developing appropriate templates for use in future project proposals. Quatro Pro is currently used by RPC for presenting financial information.

5. Fundamentals of Export Marketing (2 days)

- Major steps and relevant participants in the export process (eg. freight forwarders, customs brokers, trade finance banks, etc.). Suggest a case study of a typical trade transaction.
- Identifying potential export markets, including a discussion of resources available to aid in market research (eg. export-import databases, embassy commercial officers, technical assistance agencies such as UNCTAD). Also need to identify key issues for potential buyers (eg. price, delivery, quality, etc.) and develop product positioning strategy.
- Use of trading intermediaries, such as commodity traders, overseas agents, joint venture partners, etc.
- Finance and risk management issues (eg. payment terms, letters of credit, cargo insurance, etc.)
- Development of an export marketing plan. Suggest a case study focussing on a product which RPC members wish to export (eg. starch).
- Organizational approaches for RPC members, such as the formation of an export marketing cooperative.

**RUSSIAN POTATO CONCERN
SUMMARY OF RELEVANT INTERNATIONAL
FUNDING AND TECHNICAL ASSISTANCE AGENCIES**

European Bank for Reconstruction and Development (EBRD) - Contact EBRD office, Moscow. The EBRD has to date focussed mainly on financing larger projects (US\$ 20 million+), however they are developing a Micro-enterprise and Small Business Loan Program in Russia. Micro-enterprises are loosely defined as enterprises with up to 20 employees requiring financing of \$200 - \$20,000, while small businesses can have up to 200 employees and funding needs in the \$100,000+ range. The pilot phase of this project is currently being set up in Tomsk, Tula and Nizhny Novgorod, with full implementation planned in 20 regions. Qualifying firms can obtain term loans in rubles or hard currency through this program.

European Community TACIS Program - Contact EC Mission to Russia. Helmut Lohan is a Counselor in this group. Since 1991, the EC has funded numerous technical assistance projects, including training, advisory services and feasibility studies through its "Technical Assistance for the Commonwealth of Independent States" (TACIS) Program. One of the priority sectors which the EC has been supporting through this Program is food production and distribution.

The Russian organization requesting assistance must submit a proposal through a committee made up of Russian and EC experts. Approved requests for assistance are funded either through direct agreement contracts (for smaller amounts) with consulting firms qualified to provide the requisite assistance or through open tenders involving several technically qualified firms.

RPC or its members could request technical assistance through this Program. Alternatively, RPC can act as a consultant and provide technical assistance, paid for by the EC, to relevant projects approved under the Program.

International Finance Corporation (IFC) - Contact Roger Gale, Resident Representative; Tel: 882-1045/7 or contact World Bank Office, Moscow. The IFC is an arm of the World Bank Group and focusses on financing private sector projects in developing and transitional economies. They have also been assisting in the small-scale privatization programs in Nizhny Novgorod and other cities. They have considerable experience in providing or arranging loan and equity capital for projects in both the agribusiness and food production sectors.

Overseas Private Investment Corporation (OPIC) - Address: 1615 M Street NW; Washington, DC. Tel: 1-202-457-7011 or contact through Commercial Office at US Embassy in Moscow. This is an agency of the US government which provides insurance, loan and equity finance, and information to US companies seeking to make investments in developing and transitional economies. OPIC also operates an investor "Opportunity Bank", which is a computer database which matches a US investor's interest with specific overseas opportunities which have been registered with OPIC. RPC should register the major projects for which it would like foreign participation with OPIC as well as the investment promotion agencies in the other OECD countries.

Russian-American Enterprise Fund - Contact through USAID, Moscow. This organization is a USAID-sponsored investment fund which will provide loan and equity capital to Russian ventures and Russian-foreign joint ventures. The Fund has just been established. The Board of Directors and Chief Executive, A. Robert Towbin, have been appointed. The Fund will have offices in Moscow and a city in the Far East, probably Vladivostok.

United Nations Conference on Trade and Development, International Trade Center - Address: Palais des Nations, 1211 Geneva 10, Switzerland. Tel: 41-22-730-0111; Fax: 41-22-733-7176. The International Trade Center provides a variety of information for traders and also monitors market prices and conditions for many commodities. They also provide advisory and training services on a limited basis. UNCTAD is also organizing a network of trade facilitation centers around the world to assist smaller exporters in developing their overseas markets. The Russian Trade Point is to be organized in late 1994. Contact Alexander Filippov at the Ministry for Foreign Economic Relations (244-3413) for further information.

USAID - Contact Cathy Norris. USAID is currently developing plans to assist in the development of agricultural credit programs in Russia. This program will provide technical assistance to commercial banks wishing to provide finance in the agricultural sector, and possibly loan capital. This may be an interesting opportunity for Reinbank as well.

**RUSSIAN POTATO CONCERN
SAMPLE FORMAT FOR INVESTMENT PROPOSALS**

1. Executive Summary (2 pages or less)
2. Mission Statement or Project Objectives
3. Project Description
4. Analysis of the Market Opportunity
 - Description of the market
 - Analysis of customer requirements
 - Competition
5. Products or Services Produced by the Venture
 - Description and technical characteristics
6. Production plan
 - Physical investment required (eg. production plant, distribution facilities, etc.)
7. Marketing and distribution strategy
 - Domestic sales
 - Export sales
8. Management team and organizational strategy
 - Background and qualifications of senior management of the venture
9. Risks
 - Description of the major risks to the project's economic viability and management's contingency plans for addressing these risks.

10. Financial projections

- Assumptions underlying the financial projections
- Projected income statement, balance sheet and cash flows (3-5 years)
- Details of proposed financing structure (equity, debt, external guarantees, etc.)

Supporting Appendices