

PD-ABK-722
93758



Postharvest Institute for Perishables

**Scope of Work for Re-organization
of the Ukraine Potato Institute**

for

USAID/NIS

prepared by

Dr. Ron Curtis

March 1995



University of Idaho

College of Agriculture

POSTHARVEST INSTITUTE

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Report to the Postharvest Institute
on
Scope of Work for Re-organization of the Ukraine Potato Institute

Ronald V. Curtis

Introduction

Between January 10 and 28, a PIP team, composed of Ronald V. Curtis and Taras Ogiichuk, collaborated with staff from the Ukrainian Institute for Potato Research to develop a scope of work for a proposed re-organization study of the Institute. The result is presented in Part I. Part II shows the proposed scope of work for this study. Part III reports on the Potato Storage Opening Ceremony in Tula, Russia, and Part IV addresses the remaining items of the Scope of Work. An attachment is found at the end of the report.

Part I Preparation of a Scope of Work for a Re-Organization Study of the Ukrainian Potato Institute.

The primary task of this assignment was to develop, with representatives of the Potato Institute, a Scope of Work to guide an exploration of alternatives to increase revenues, improve operations and make the Institute more responsive to private farmers. Review of available documents and briefing by PIP staff provided the following background:

- Ukraine is undergoing radical and rapid change in economic policy and the role of the public sector in the economy.
- Many of the changes are not complete nor are they all known.
- Public institutions, such as the Academy for Agrarian Sciences, are in limbo with budgets severely reduced by inflation and future budgetary allocations in question.
- Privatization of public services is the watchword and seems to apply to all government agencies except the police and military.
- The Potato Institute is one of some 50 institutes of the Academy, all facing similar situations.
- Potatoes are an extremely important element of the national diet. Most are grown in backyard plots.

With this background, meetings began with the Deputy Director of the Institute, Vasiliy Kutsenko, (one of several, I later learned) and the new Head of the Small Farmer Center, Valery Konounchenko. The Director of the Institute, Anatoly Kuchko, was ill and did not participate directly in any meetings. It did become apparent, over the course of the

three weeks, that the Director was kept well informed on all proceedings and the Deputy Director was conveying his wishes to us.

Additional information was imparted which would shape the Scope of Work. Most important was the statement that a decision had been made to "privatize" the Institute with 51 per cent remaining in the hands of the government and 49 per cent held by "private" parties, i.e., the employees. (During my stay in Ukraine it became clear that the words for privatization and ownership convey meanings that may not coincide with our understanding in the West.) The Small Farmer Center would be mostly private with 70 percent of the shares owned by private parties and 30 percent by the Institute as a shareholder.

A tour of the Institute's facilities was given; many workers were apparently still on Christmas leave.

There were indications of professional sensitivities. This came out later when we reviewed drafts of the Scope of Work. They did not feel the research program required outsiders to review; what was needed was simply a management expert from the United States to recommend how to re-organize. This concern was deflected and the Scope of Work was finally approved but only after several more discussions. The issue is likely to resurface, however, and PIP consultants will have to be prepared.

There are strong feelings in the Institute about the role of PIP, seen as a representative of the United States. Clearly, as one would expect, some people see the future of the Institute as bleak and wish for the "good old days" to return.

We returned to the Institute at the end of the week with a draft Scope of Work. We worked our way through a rough draft. Extensive notes were taken, questions asked. The strongest questions focused on Work Group I and the need for a review of research on varieties. I repeated that at a minimum, a review of research priorities was necessary as the Institute moved to private business.

I left it for them to review with a date set to meet again after our return from Kharkov.

We met on Tuesday, January 24th, and the Deputy Director was joined by several other senior officials. More discussion on the need for a review of research; again they finally agreed. I stressed that they needed to be sure that the research work would support the commercial sale of seed potatoes.

The Protocol was translated and reviewed. The Deputy Director was prepared to sign; the Deputy for Construction objected. He had appeared for the first time and now did not like language that suggested that the Institute has financial difficulties. The Deputy signed anyway. (Attached.)

The document indicates a commitment on the part of the Institute to proceed. It does not constitute acceptance of the Scope of Work; if another approval is required (I don't believe it is) then it is to be done by fax.

A visit to the new storage facility had been requested before we went to Moscow. The key could not be found. I requested in the Tuesday meeting that we visit the facility on Friday. In the company of several individuals, including the Deputy for Construction, we visited the empty storage facility. There were comments about insufficient funds to be able to use them and if the U.S. would provide more money to finish the facility, etc. These gifts did not seem deeply appreciated. One result of the study should be to place the storage facility under the control of a party which will use it properly.

David Sprague, USAID Deputy Director, had asked for a briefing on the Moscow ceremony with the view that a similar event should be scheduled in Kiev. I told him what happened in Moscow but left open the question of Kiev. I recommended against a ceremony for the Nemshaevo storage facility because at present, it is empty and unused.

Methodology

The strategy employed to prepare the Scope of Work was to involve Institute management in the process step-by-step. In part, this strategy permitted us to learn more about the problem as we moved forward. Whenever possible, written materials were provided and time allocated to review the material.

We purposely interacted with several parties outside of the Institute, who were prior contacts made by PIP. Opinions and advice were sought. During one of these meetings in the Ministry of Agriculture, we raised the question of their participation in the management Working Group. They agreed. This point was also raised with the President of the Academy for Agrarian Sciences, Mr. Sozinov, on our last day in Kiev. He too agreed that a broad participation in the study would serve the interests of the government and the Institute.

The strategy also permitted time to reflect on the skills required for the study. Institute staff see a simple "organizational" and "revenue" problem; the problem goes far beyond that. While many variables will remain beyond the control of the Institute, and PIP, the mix of skills and schedule permitting, I believe is a reasonable method to approach this problem. The resulting Scope of Work permits PIP to legitimately address a broader array of agricultural issues in Ukraine.

Results

The Draft Scope of Work follows accompanied by the Protocol Statement.

The copy left in Kiev differs in two respects from this version. In addition to minor edits, a hiatus between April 15 to 30 was programmed into the schedule. This option was strongly supported by Institute leaders.

The Study begins on March 13th with the arrival of the first PIP team member. Following the methodology described in the Scope of Work, the first of four Working Groups convene on March 27th for a period of two weeks. The second and third Working Groups begin deliberations on April 1 for two weeks.

The fourth Working Group, the Management Review Team, does not convene until May 1, leaving a two week period between the third and fourth groups. This is the period when staff are engaged in planting of potatoes. U.S. experts will focus on (a) review of the first three reports; (b) review of the state of market reform in Ukraine with special attention on likely impact on operations of the Potato Institute; (c) examinations of related agricultural development initiatives in Ukraine.

On May 1st, the fourth Working Group, the Management Review Group convenes. This group will review the information prepared by the first three Working Groups in the context of current political and economic guidelines of the Government and the Academy for Agrarian Sciences. Decisions will be made on the future organizational and policy structure of the Institute.

A formal presentation to AID would complete the final step.

Part II Scope of Work: Re-organization of the Ukrainian Institute for Potato Research

A. Overview

Support from the Agency for International Development will enable the Postharvest Institute for Perishables of the University of Idaho to assist the Potato Institute under the Academy of Agrarian Sciences to develop a Re-organization Plan to increase responsiveness to private farmers. The first step of that task is preparation of a detailed work plan.

B. Background for Study

The Potato Institute and Academy of Agrarian Sciences are considering several important changes in the operation of the Institute. The adoption of market oriented economic policies by the government have a profound effect on operation of science

institutions. Administration and management of scientific programs in market oriented economies is different. Until the consequences of the changes in government economic policies are fully determined, short term reduction of government support for research programs is expected. These reductions in government support is stimulating consideration of new approaches to finance the necessary operations of the Potato Institute.

The importance of the potato in the Ukrainian diet cannot be overstated. Known as the "second bread" of Ukraine, an estimated 80 percent of potatoes are produced privately in "backyard" plots of about a tenth of a hectare and larger, newly emerging farmers. Yields are low. High quality seed is an important and critical input which is lacking for these producer/consumers.

There are assets which the Institute can use to produce revenue; these are land, equipment, professional staff but very little working capital. Additionally, the economic and social environment in Ukraine must lead to changes in research priorities, day-to-day operations, dissemination of research results, and sources of revenue.

C. Purpose of Study

The re-organization study will produce a Plan to make best use of the resources (land, equipment, and most importantly, people) to serve the needs of potato producers in Ukraine. The desired outcome is to improve the quality of potatoes grown and consumed through identification of means to improve seed quality and health; identify and promote use of productive technologies; test new processing technologies to increase storage, shelf-life, and value added to potatoes; and improve marketing efficiency of seed potatoes to private farmers.

Support from the government is expected to continue but in decreasing amounts. It is critical, therefore, to identify potential sources of new revenue from the sale of products and services produced by the Institute.

Some steps have already been taken. A Business Center (Small Farmer Center) has been established to market seed potatoes (and potentially other products). This Center will have exclusive rights to market products and services of the Institute. It is a joint venture between private parties and the Institute. Ownership of the Institute itself may also be examined. Government policy is evolving on the issue of privatization of science and educational institutions. Ownership of the Institute will be one of the topics discussed

D. Organization of Study

The study is conducted under the authority and leadership of the Director of the Potato Institute. Problem specification and identification of possible solutions (not just "more money is needed") is best addressed by professional staff.

Four Working Groups will be established from nominated Institute staff and joined by outside experts. The first three technical Working Groups will number two to three Institute staff and an outside expert. Working Groups are organized to examine specific segments of the role and function of the Institute, make recommendations on how the efficiency of that segment can be increased, identify linkages between Working Groups in order to improve overall management of the Institute, and report those findings to the other members of the re-organization study team. The scope of operation will be:

1. Research on Varieties and Plant Health

This group will examine and confirm research priorities consistent with the needs of potato growers, especially private producers, and revenue goals of the Institute. This review is expected to take no more than two weeks. A report will be prepared which includes a description of current research activities, recommendations for modifications, if any, equipment requirements, and a budget estimate.

2. Application of Research: Production Technology

This working group will examine the application of research to produce technologies appropriate to Ukrainian potato producers and identify the requirements for those technologies to be applied under existing economic conditions. Planting rates, fertilizer recommendations, disease control, and other topics will be examined. A primary focus of this group will be to review current practices (sites, generations, incidence and identification of primary diseases) of seed multiplication and make recommendations, if necessary, for modifications which preserve seed health at the lowest possible cost. Use of contract farmers for seed multiplication will be examined. Specific attention will be given to proper storage procedures for seed, in the new storage facility at Nemshaevo. Current practices will be described and recommendations for improvement, if any, identified. This group will coordinate with Group One, Research, to examine state of the art practices to produce and propagate basic seed and the means to move from the laboratory to commercial use in the least amount of time at the lowest cost. Seed certification procedures will be examined with a view toward a system which can enhance marketability and value of Ukrainian potato seed.

A budget will be produced by this group which covers anticipated costs of the functions deemed necessary to the Institute.

This Group will be comprised of two or three staff members from the Potato Institute and joined by outside reviewers and experts.

3. Marketing of Products and Services, i.e., Revenue Generation

This Group has the responsibility to identify and examine ways to market the products and services of the Potato Institute. Potato seed is the primary output of the Institute, the product which embodies the results of scientific research into plant varieties and diseases. Exclusive rights to market seed potato has been given to the Business Center (Small Farmer Center), a newly formed facility jointly owned by the public and private sectors.

With an estimated 80 percent of potato production in the hands of private producers, a new marketing distribution system will have to be developed to service this important market. Technical information on optimum growing practices is likely to be linked to marketing channels.

The Group will estimate potential demand for seed potato from all sources, organize a scheme to meet that demand, provide estimates of marketing costs, and calculate likely revenue flows. The result will be income projections for the Business Center based on estimates of sales and costs. One of the costs of the Business Center will be payment to the Institute for products and services. This payment will be used by the fourth Group in determining the overall financial picture of the Institute.

The Group will identify costs of operation of the Institute and produce a working budget and revenue projections. Staff from the Business Center and outside experts will form this Group.

4. Management Group: Synthesis of Finding and Preparation of Report

The final Group is comprised of the Director of the Potato Institute and other professionals from the Institute, outside experts, and other special nominees as determined by the Director. The Director's Group is concerned with strategic issues and formulation of long term policy. The reports from the first three Groups will consider terms of existing government policies and as a foundation for establishment of new policies to govern the re-organization and future management of the Institute. (The report could be part of a set of recommendations made by the Institute to the appropriate Ministries.) Their charge is to review the reports and recommendations of the first three working Groups, incorporate government policies related to management of various institutes of the Academy of Agrarian Sciences, and other pertinent information and prepare the final re-organization study.

The Study will include, among other topics:

- The Mission Statement of the Institute
- Organization charts of alternatives for re-organizing the Institute according to the Mission Statement

- Required staffing patterns for alternative organizational plans
- Alternative budget estimates for alternative plans
- Research priorities
- Recommendations for development of improved technologies
- Operational guidelines for the Business Center
- Recommendations on organizational models
- Projections of costs and revenues for one, two, and three years
- A proposed implementation schedule for the Plan

The final report, "The Action Plan for Potato Seed Improvement and Marketing," will be prepared and edited by this Group.

The Management Review Group may convene immediately following completion of the first three working Groups. However, the Management Group may have to delay until early May. The final date for completion will be determined by this schedule.

E. Calendar

The Study will begin on April 1 and be completed in final by the end of May. Preparatory work such as collection of basic information for the study will begin sooner by Institute and PIP staff.

F. Responsibilities of two parties to this study; Potato and Postharvest Institutes

1. The Potato Institute

- Assign between two and three key personnel to the first three Working Groups. During the period when the Working Groups are active, this shall be their primary assignment.
- The Management Review Working Group will be led by the Director of the Potato Institute; the number of additional professionals will be determined at a later date.
- Assign a working group leader with the authority to assign tasks of each Group. Timely completion of individual reports is critical. Responsibility for completion of Working Group reports lies with the Working Group Leader.
- Provide a place for the working groups to meet and conduct their business.
- Provide staff support for each working group, i.e., clerical assistance.

2. Responsibilities of PIP

- PIP will provide a team of U.S. specialists to join the Working Groups.
- Additional support to complement assistance provided by the Institute will be provided as needed, i.e., clerical support, translators, transport, report preparation, etc.
- PIP will provide a Study Team Leader.

3. Closing Statement

The Potato Institute of the Academy for Agrarian Sciences and the Postharvest Institute for Perishables of the University of Idaho have collaborated closely over the past two plus years. Based on that experience, and recognizing the needs of the Potato Institute, both parties wish to continue to collaborate. When the Potato Institute determines the course of action for its future programs, based in part on this study, it is expected that mutually beneficially programs can be developed.

Results and Expectations

The Re-organization Study will serve not only the Potato Institute but also act as a vehicle for PIP to offer its services to other entities involved in Ukrainian agriculture. The contacts made by PIP during the course of implementation of the storage project, a difficult implementation, are important to successfully complete the re-organization study but also to understand the massive changes underway in Ukrainian agriculture. The changes are by no means complete and PIP can clearly be of service. In what way this service can be the most advantageous will be addressed by the team as they seek to understand changes and constraints faced in Ukraine.

During the two week period April 1 - 15, some team members will review and examine the state of change in Ukrainian agriculture. Because of their involvement over the past three years, PIP can identify critical areas suitable for potential support from PIP. Two specific areas are; management of agricultural science in a market economy (with the Academy for Agrarian Sciences) and rural service centers to provide mechanization, storage, and marketing services for private and collective farms (with Kharkov University staff). The team will examine both of these ideas.

At the completion of the study, the PIP Team is expected to complete the Re-organization Study of the Potato Institute and review, analyze, and make recommendations for two other proposals. The two proposed profiles will be as complete as time will allow and ready for discussions with AID and other donors.

Part III Potato Storage Opening Ceremony at Tula, Russia, for New Storage Facility

A ribbon cutting ceremony was arranged by the AID mission in Moscow for the new potato storage constructed at Tula, Russia.

The overnight train from Kiev put us into Moscow at the beginning of the business day, Tuesday, January 17th. We had an appointment with Cathy Norris, the AID Agricultural Advisor and Project Officer for PIP activities in Russia. Rick Jackson of Global Storage (AID supplier for the storage facilities) was also to be at the ceremony.

The Deputy Governor of the oblast was present at the ceremony as well as the Deputy AID Mission Director.

The ceremony went well with various presentations made by AID and Russian officials as well as the Farm Director.

Part IV Other Items

A. Discussions were held with Kharkov University on two subjects: Custom mechanical services for private farmers and schedules for PIP seminars and workshops.

1. I reviewed the proposal to provide custom tilling and harvesting to private farmers from Kharkov University. I couldn't see a role for the University which would be financially self-sustaining but it became clear that a purely private initiative was also under consideration. After some questions, I came to the conclusion that:

- a. it could produce a profit and
- b. investment money will be hard to find.

An investment figure of \$200,000 to \$300,000 was mentioned. The first step in attracting this kind of money is to prepare a business plan or feasibility study. I went through the requirements for such a study stressing the need to estimate costs as closely as possible.

I was not as concerned about the demand side; their arguments sounded strong. But costs have to be recovered in a very short harvest period, including the amortized cost of the machinery. Their experience to date has been with machinery rented from the University at rates, I suspect, lower than rates from new, capitalized machinery.

This could be the foundation for a project in the eastern region. Harvest services would be linked to storage and processing, filling related gaps in the agricultural system. Further work will have to wait for the team to be in Ukraine.

2. Invitations for the workshops were prepared while we were there and forwarded to PIP.

B. We were able to see the President of the Academy for Agrarian Sciences, Dr. Sozinov, on Saturday, January 28th, the day before we departed Kiev. We reviewed and left a copy of the draft Scope of Work prepared for the Potato Institute. He was interested and also relieved when I explained that PIP did not require additional funds to carry out the study, just cooperation.

He had just returned from successful negotiations with the World Bank on a seed loan. (Loan terms indicate that the funds are from IBRD, not the IDA fund.) Now he has to convince his own government.

The project funded under the proposed loan is very similar to the task addressed by the PIP team with the Potato Institute: how to finance the operation of seed production companies. The solution they are suggesting is to privatize old institutes into new, joint venture companies. But it sounds like only the seed-breeding departments of the institutes will be included in the new company.

The connection to PIP's efforts needs to be explored further. There may be an opportunity for PIP to provide some of the needed services for this project, if the government approves the loan. This could be the foundation for PIP to develop a program.

PROTOCOL

26 January 1995

During the period January 9th to January 27th, representatives of the Potato Institute of the Academy of Agrarian Sciences and the Postharvest Institute for Perishables of the University of Idaho met to discuss ways and means to continue the collaboration which has taken place over the past three years. It was agreed that in light of changes in economic policies of the Government of Ukraine, which affects budget support for the Institute, that a joint team of experts from the Institute and PIP would develop a Re-organization Plan for the Institute.

Agreement was reached on a draft Scope of Work for the Plan and a calendar of implementation. The work will commence on or about March 15th and be completed no later than May 20th. Final schedules will be determined by exchange of fax between the Director of the Institute and the Director of PIP.

Both parties are committed to the spirit of continued cooperation and seek the means to provide the needed financial resources for this cooperation.

[Space left for Russian translation]

For the Potato Institute

For the Postharvest Institute for
Perishables