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MARKET-ORIENTED FARM SUPPORT ACTIVITY (MOFSA)
VOLOGDA OBLAST

FINAL REPORT

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TABLE OF CONTENTS

		Page
	EXECUTIVE SUMMARY	1
SECTION I	INTRODUCTION	I-1
	A Conditions in the Agricultural Economy	I-1
	B Contract Specifications	I-1
	C Phase I Diagnostic Analysis and Work Plan Development	I-3
	D Creating a Results-Oriented Work Plan	I-4
	E Pilot Raion Selection	I-5
	F Findings of the Diagnostic Analysis and Their Application to the Work Plan	I-9
	G Training Model	I-13
	H Phase II Implementation	I-14
	I Phase III Roll-out	I-15
SECTION II	PROJECT COMPONENTS	II-1
	A Social Services	II-1
	B Agribusiness	II-4
	C Agricultural Credit	II-13
SECTION III	LESSONS LEARNED	III-1
Exhibit I-1	MOFSA Results Framework - Social Services Component	I-6
Exhibit I-2	MOFSA Results Framework - Agribusiness Component	I-7
Exhibit I-3	MOFSA Results Framework - Agricultural Credit & Finance Component	I-8
Table II-1	Results of Social Services Component	II-4
Table II-2a	Distribution of Technical Assistance to Reorganized Farms, Non-Reorganized Farms, and Agribusiness Firms	II-8
Table II-2b	Agribusiness Strengthening Results	II-12
Table II-3	Results of Agricultural Credit Component	II-15

EXECUTIVE SUMMARY

In March 1996, Chemonics International Inc signed a contract with the U S Agency for International Development (USAID) to provide technical services to carry out the Market-Oriented Farm Support Activity (MOFSA) project in Vologda, Russia Under the direction of USAID/Russia and in cooperation with the Government of the Russian Federation, Chemonics fulfilled the terms of the contract to assist farms and agribusiness firms in two raions of Vologda Oblast in becoming viable private enterprises Assistance was provided to farms reorganized under the FARMS I and II projects and other privatized farms

MOFSA's approach was to transfer market-oriented skills to farms and agribusiness firms to enable them to adjust to changing market conditions and facilitate the development of a vibrant agrarian market economy The project provided technical assistance and training to key market catalysts to develop market systems and foster sustainable market-oriented behavior Models were developed to create and strengthen private farm enterprises, agribusiness firms, and new forms of agricultural credit delivery The models were designed to be replicated throughout Russia by Russians trained under MOFSA

This report highlights MOFSA achievements after 20 months of activity in Cherepovets and Gryazovets raions of Vologda Oblast Using the USAID results framework (see Exhibits 1, 2, and 3 in Section I), it reviews the three MOFSA objectives to improve the effectiveness of selected social benefits and services, accelerate the development and growth of private agribusiness enterprises, and establish a robust financial sector in Vologda The results are described narratively and summarized in four tables that correspond to the objectives (see Section II) Lessons learned from the project are summarized in Section III

Overall, MOFSA exceeded its targets in key areas of strengthening farms and agribusiness firms, including developing management and operation models and providing technical assistance in loan applications Although much of the improved profitability in the agriculture sector is due to changes in market conditions, many MOFSA activities contributed directly to improvements in farms and agribusinesses and the long-term profitability of agriculture in the oblast Moreover, the project's ability to successfully refocus resources to take advantage of changing conditions resulted in the introduction of an array of market-based systems for social services as well as farms and agribusiness firms that will support economic stability in all sectors of the oblast

The MOFSA training model is another sustainable contribution of the project The model begins with an examination of specific problems identified by Russians and U S advisors, then generalizes the solutions and lessons learned into a broader context Farm and agribusiness managers learned new technologies, concepts, and analytic tools to adapt to changing market conditions Moreover, as a result of the training process, Russians developed their own solutions to problems they themselves identified

To maintain the momentum of privatization, both policy and technical assistance programs are needed MOFSA has shown that technical assistance should be focused on strong farms and agribusiness firms where it can leverage existing resources and serve as an example to weaker organizations

SECTION I INTRODUCTION

A Conditions in the Agricultural Economy

Since the breakup of the Soviet Union in 1989, the agricultural sector in Russia has been in steady decline as it has suffered from the difficulties inherent in the transition to a market-driven economy. In Vologda Oblast, 92 percent of the agricultural enterprises operated at a loss in 1996, according to official oblast statistics. In many areas of the oblast, farm production fell more than 40 percent. Despite indications that Moscow would no longer subsidize agriculture—especially in high-risk land-use zones such as Vologda Oblast—agricultural enterprises continued to wait for handouts from the state. At the same time, financial institutions in the oblast remained hesitant to make loans to these firms, finding higher returns in government-issued securities and in loans to other sectors of the economy.

Vologda's traditional agricultural products—dairy, meat, and flax—remained unprofitable for the majority of producers. Faced with the high costs of fuel and feed and lacking both technology and political know-how, dairy farmers in many areas of the oblast struggled to survive financially. (However, conditions in other dairy industries were improving. Milk processors began penetrating markets outside Vologda and in several cases cultivated close relationships with producers to ensure the steady supply of milk needed to compete with imported dairy products.) The local meat industry failed to reverse its decline. Output in 1996 dropped 14 percent from 1995 levels. Meat processors faced heavy competition even in local markets from processors outside the oblast. For example, Moscow's massive Cherkizovskiy Plant opened stores in Vologda. Until recently, the backbone of Vologda's agriculture was timber and flax. Although foreign investment offers prospects for revitalizing the timber industry, the linen industry has languished for five years. Flax production in 1996 was only 2,000 tons, compared to 5,000 tons in the previous year. A new federal program has been created to revitalize flax production.

Despite the general decline in agriculture, Vologda shows signs of economic stability such as a leveling of the inflation rate, positive indicators of industrial growth, and even a turnaround in some agribusiness industries. Although milk production declined 35 percent from 1990 to 1995, it increased 12 percent during the first six months of 1997, compared to the same period in the previous year. The current stabilization and indications of a turnaround may indicate progress in other areas as well.

B Contract Specifications

B1 Goals and Objectives

In March 1996, Chemonics International Inc. signed a contract with the U.S. Agency for International Development (USAID) to provide technical services to carry out the Market-Oriented Farm Support Activity (MOFSA) project in Vologda Oblast. Under the direction of USAID/Russia and in cooperation with the Government of the Russian Federation, Chemonics fulfilled the terms of the contract to assist farms and agribusiness firms in two raions of Vologda Oblast in becoming viable private enterprises. Assistance was provided to farms reorganized under the FARMS I and II projects and other privatized farms.

MOFSA's approach was to transfer market-oriented skills to farms and agribusiness firms to enable them to adjust to changing market conditions and facilitate the development of a vibrant agrarian market economy. The project provided technical assistance and training to key market catalysts to develop market systems and foster sustainable market-oriented behavior. Models were developed to create and strengthen private farm enterprises, agribusiness firms, and new forms of agricultural credit delivery. The models were designed to be replicated throughout Russia by Russians trained under MOFSA.

According to the contract, the goal of MOFSA "is to produce workable systems which result in significant numbers of rationally sized, productive and profitable private farms and agribusinesses in the pilot regions and a cadre of trained Russians who will replicate the models in other areas" (p. 7). The contract also provided that implementation "be responsive to the particular needs of specific reform-oriented local authorities and farm managers [and] is designed to be flexible in the kinds of interventions undertaken with individual farms and local governments."

The contract defined general, activity-wide task areas as well as specific tasks for each of MOFSA's three components:

Social services Select government departments and social service organizations to support and strengthen, develop alternative approaches to finance and deliver social services, create a cost-effective social services delivery system, develop cooperative and community-based service programs, and promote the privatization of the social services infrastructure.

Agribusiness Develop a model for financial planning, develop and implement plans for financing at least 15 agribusiness firms, and train trainers to teach in appropriate Russian institutions.

Agricultural credit Select credit institutions to assist, develop lending programs for agricultural enterprises, and develop a standardized set of documents for lending programs.

In addition, Chemonics was tasked with designing a total of 52 training courses.

The contract specified "three classes of outputs," which may be summarized as (1) concrete activities, (2) models for replication, and (3) trained personnel:

"(1) the direct results—restructured, sustainable delivery systems for rural social services, expanded numbers of viable farms and agribusinesses, and foundations for new agricultural credit support systems,

(2) the basis for replication—successful models and procedures in the above areas for further application within original and new oblasts, and

(3) the human resources—trained Russian personnel" (contract, p. 7).

MOFSA was designed to be implemented in three phases: Phase I (two months), diagnostic analysis and work plan development; Phase II (twelve months), the initial implementation period in pilot raions; Phase III (six months), roll-out in non-pilot raions with new clients to duplicate the lessons learned in the initial implementation phase.

To operationalize this scope of work, we developed a statement of purpose and a definition of the target groups, as follows

The purpose of the project is to change the incentive structure within which farms and agribusiness firms operate, and to induce the break-up and transformation of formerly state-owned enterprises into market-oriented firms in the medium to long term. Changing incentive structures involves ensuring the delivery of social services, availability of agricultural inputs and support services, and access to markets for agricultural products and sources of credit. Based on this, and the RFP's list of target groups (agricultural producers, private companies and credit providers), we posited that the primary beneficiaries of MOFSA are social service providers, agribusiness firms, and financial institutions and the secondary beneficiaries are agricultural producers.

C Phase I Diagnostic Analysis and Work Plan Development

In Phase I, we conducted a diagnostic analysis of MOFSA's three components and developed a traditional work plan. Later in Phase I, we reformulated this work plan at the request of USAID/Moscow to place it in the context of USAID's evolving results framework. Based on the diagnostic analysis, we identified the organizations and businesses to be assisted, determined the technical assistance to be provided, and specified the outputs and expected impacts of MOFSA activities. This process resulted in an improved understanding of the oblast market system, stimulated stakeholder buy-in and involvement, and identified points in the system where interventions could have the greatest catalytic effect. These findings are described by MOFSA component in subsection D below.

C1 Background

Even before MOFSA activities began, Chemonics had detailed information on agricultural conditions and local support for market-oriented activities in Vologda. Because of our experience in FARMS I and II, we understood the dynamics of the Vologda agribusiness system and the need for an integrated market system. Even though privatization had taken hold, it would begin to flourish only when the complex network of roles, relationships, and networks that comprise a market system was actively functioning. We adopted an integrated systems approach to ensure that MOFSA's activities would be mutually reinforcing. With the data from our diagnostic analysis, we identified the institutions and roles that are central to a market system in Vologda and formulated the interventions necessary to catalyze broad changes in the market system.

C2 Conducting the Diagnostic Analysis

Phase I of MOFSA was carried out from April-June 1996 as specified in the Chemonics technical approach, including a "rapid diagnostic analysis leading to a detailed first-year work plan, over eight weeks" (Technical Approach, page 1.6). The permanent full-time expatriates and Russian counterparts were assembled, as well as short-term technical assistance advisors, including significant participation by subcontractors National Cooperative Business Association (NCBA) and ADB & Associates.

From the earliest stage, the cooperation of all levels of the local government was outstanding. The oblast governor circulated a letter to oblast and raion government agencies and private firms formally requesting cooperation. This facilitated early contacts with the oblast

leadership in the Russian State Commission on Property (GKI) and the Department of Agriculture, which had been named signatory parties to the project

Chemonics developed a three-tiered advisory structure to provide guidance and feedback on each of MOFSA's components. The Technical Advisory Council, comprised of MOFSA professional staff (expatriate and local counterparts), advised on day-to-day technical issues. The Project Advisory Council, comprised of agricultural leaders, bankers, and municipal social service department directors, provided guidance and feedback on implementation initiatives. The Vologda Oblast Supervisory Council, comprised of major oblast government entities such as GKI and the Department of Agriculture, advised on and evaluated raion-level work, in particular regarding the potential of the various models to be rolled out.

The diagnostic analysis covered the following topics

- Status of social services and financing options
- Structure and viability of agricultural production units and agribusinesses
- Availability and accessibility of agricultural credit
- Capability to manage credit programs
- Status and potential for cooperatively-owned businesses
- Capability and resources for training and training institutions
- Status of existing associations and potential for growth and/or development

We carried out the diagnostics using the following process

- Interviews with individual stakeholders
- Meetings with groups of stakeholders
- Definition of the most promising interventions

The work plan was reviewed at the oblast level by the supervisory council and, through distribution by USAID/Moscow, at the federal level by the GKI and Department of Agriculture

D Creating a Results-Oriented Work Plan

After the original work plan was submitted for approval, USAID requested a revised version using the Results Framework. The process of reengineering the work plan took place over a two-week period and involved meetings and collaboration among MOFSA staff, the Chemonics home office, USAID/Moscow, GKI, and the Russian Ministry of Agriculture. Chemonics used a two-stage process. First, strategic objectives were identified by MOFSA, USAID, GKI, and the Russian Ministry of Agriculture. Second, other changes that must occur to realize the strategic objectives were identified, these changes are the intermediate results, which directly contribute to the primary results specified by USAID. The intermediate results were related to each other in a logical cause and effect arrangement. Activities were designed to ensure the achievement of the intermediate results.

The revised work plan was based on the following development hypotheses

- Market-oriented skills, roles, and relationships will facilitate the development of a vibrant agrarian market economy

- Strategic interventions targeted to key market catalysts in the agrarian sector will facilitate the development of market systems
- Strategic technical assistance and training to key market catalysts will foster sustainable market-oriented behavior

The links between MOFSA activities and USAID's expected results are illustrated in Exhibits I-1, I-2, and I-3 on the following pages. For example, MOFSA designed and tested new approaches to social service delivery by integrating housing and utility services and improving their efficiency. These activities contributed to USAID's objective of adopting new approaches to social service delivery and improving the effectiveness of selected social benefits and services. Similarly, MOFSA's analysis of the costs of social services contributed to the objectives of identifying alternative sources of financing and adopting new approaches to resource allocation and alternative financing.

In the agribusiness sphere, MOFSA's efforts to promote business development organizations were designed to increase the capacity of key market catalysts to compete in a market economy, this contributed to the objective of replicating successful models and modern management systems and accelerating the growth and development of private enterprises. In the agricultural credit and finance sphere, MOFSA activities improved the ability of financial markets to meet the future needs of market participants, contributing to the objective of developing a robust and market-supportive financial structure.

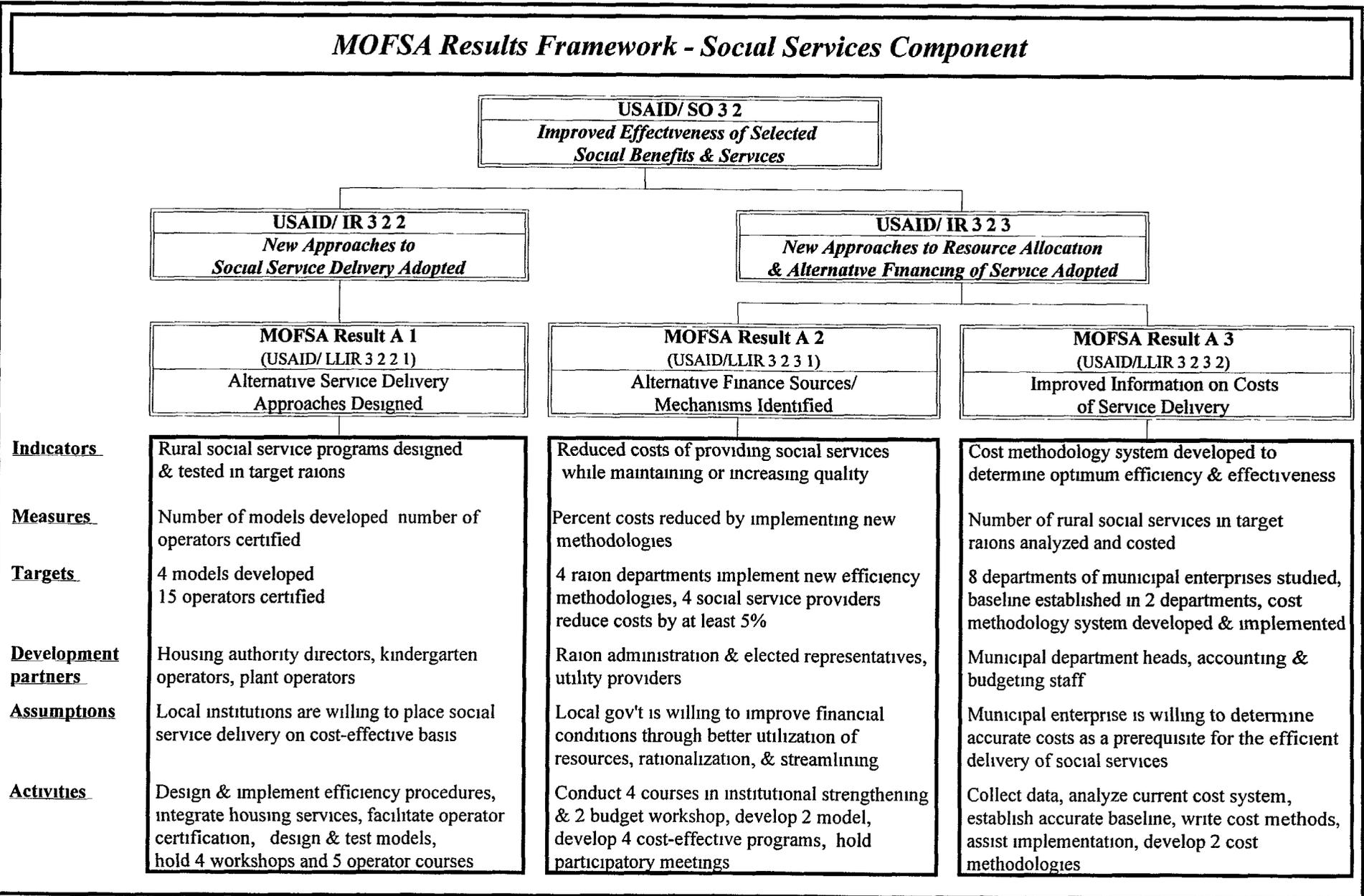
E Pilot Raion Selection

The selection of pilot raions began immediately, in collaboration with the oblast advisory and supervisory councils. We based our assessments primarily on each raion's ability to promote efficient market relationships, using clearly specified criteria (e.g., proximity, number of reorganized farms, population, etc.). Details are presented in our original work plan, section B, p. 10. Since a primary purpose of MOFSA activities was to promote agrarian reform by creating smaller, more flexible and demand-driven components of a market economy, we focused on areas in which market-orientation at the farm or enterprise levels was already occurring.

Russian partner institutions conducted a formal assessment of the market-orientation of raion government administrations and potential impact of MOFSA activities. In addition, they conducted an informal assessment of needs in raions where farms reorganized by the FARMS projects were located, where technical assistance could effectively leverage reorganized farm resources. Cherepovets raion was the first choice as a pilot raion because it provided conditions in which MOFSA could make the greatest impact. Vologda and Gryazovets raions were the second and third choices, respectively. Ultimately, Gryazovets was chosen as the second pilot raion because it contains more farms reorganized with the assistance of the FARMS projects than does Vologda. Since MOFSA's office was located in Vologda raion, it was the site of many MOFSA activities, including technical assistance to agribusiness firms and to farms reorganized by the FARMS projects (Nadezhda, Rus, Sidorovskoe, and Schukin farms).

Exhibit I-1

MOFSA Results Framework - Social Services Component



9-1

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MOFSA - Result Framework - Agribusiness Component

USAID/ SO 1 3
Accelerated Development & Growth of Private Enterprises

USAID/ IR 1 3 3
Successful Models & Modern Management Widely Replicated

MOFSA Result B 1
(USAID/ LLIR 1 3 3 1)
Workable Models for New & Restructured Firms to Compete in Market Economy are Created

Indicators
Models articulated and tested for agribusiness assistance loan preparation training institutes TA & curricula, BDO formation & operations
Measures.
Demonstrated benefit as shown through testing
Targets.
Seven models developed
Development partners.
Training institutes BDOs & agribusiness
Assumptions.
Sufficient success in Phase I to identify models & find new partners to test
Activities.
Initial identification, further refinement, & testing in other raions (Phase 3)

MOFSA Intermediate Result B 1 1
Capacity of key market catalysts developed to support model creation

	Agribusiness (reorganized farms processors allied firms input suppliers)	Training Institutes (Agricultural Training Institute & Polytechnical Institute)	Business Development Organizations (BDOs) (associations cooperatively owned businesses)
Indicators.	Enterprises reach break even or make profit	Institutes collect fees which support training	BDOs collect fees & have membership charter
Measures.	Income statement at break-even or profit	MOFSA sponsored training as part of institute budget reaches break even or makes profit	Paid in membership fees Registration of charter
Targets.	15 agribusinesses/enterprises	2 training institutes	2 BDOs
Development partners.	Agribusiness Training Institutes & BDOs	Training institutes Agribusiness & BDOs	BDOs & Agribusiness
Assumptions	Willingness to collaborate Identify key-players	Willingness & capacity to collaborate	Political support for BDOs Beneficial impacts of BDOs accepted
Activities.	Assist 15 with agribusiness strengthening (includes business plans) assist 7 8 of those to secure financing, 3 4 participant trainees	Broaden capacity to deliver training of indigenous training institutions hold 18 courses	Initiate & support of key BDOs

MOFSA - Result Framework - Agricultural Credit & Finance Component

USAID/ SO 1 4
Robust and Market-supportive Financial Sector

USAID/ IR 1 4 3
Efficiently Operating Financial Market Meet the Needs of Market Participants

USAID/LLIR 1 4 3 1
Models of New Financial Products Replicated

MOFSA Result C 1
 Workable Models for Viable Financial Products are Abstracted and Applied

Indicators
 Models for financial products articulated and tested
Measures.
 Invitations for financial product application are issued in 3 new raions
Targets.
 Models tested in 3 new raions
Development partners.
 Agribusiness, financial institutions
Assumptions
 Loan models developed in IR C 1 1 led to viable financial products
Activities.
 Refinement of models, extension of models to at least 3 new raions

MOFSA Intermediate Result C 1 1
 Institutional capacity developed to support development of models

Indicators
 Agribusiness are obtaining credit in assisted raions
Measures.
 Increase in number of new financial products provided to agribusiness (e g , equity finance, supplier credit, traditional loans etc)
Targets.
 8 financial products delivered to agribusiness
Development partners
 Banks, insurance companies, agribusiness, leasing institutions, & BDOs
Assumptions
 Inflation remains under control, investments become more attractive w/in Russia as a result of political stability
Activities
 Development of staff, facilities, & procedures for supplier credit, equity investment, & guarantor foundation, 18 training courses developed & delivered, 3-4 participant trainees

F Findings of the Diagnostic Analysis and Their Application to the Work Plan

F1 Social Services Component

As originally envisioned in the MOFSA RFP, one of the early project activities was to assist collective farms in divesting themselves of social assets by transferring ownership to various municipal departments. However, by the time MOFSA started in April 1996, the collective farms had already largely accomplished this, thereby shifting MOFSA's starting point from the divestiture process to working directly with municipal departments that provide social services.

For the social services diagnostic, numerous meetings were held with administrators, deputies, directors, and operators of social services. Surveys to assess needs and financial and social assets were conducted with rural administrators, village representatives, budget directors, and financial managers. Visits were made to farms, villages, kindergartens, utility facilities, health clinics, and other sites throughout the raions. These activities provided essential background information on existing social services, demographics, and government structure and interrelationships. Since the social service sphere touches every citizen daily, providing comfort, education, health, welfare, recreation, and a sense of security, intervention decisions were especially sensitive. Many factors were taken into consideration in selecting interventions, including the limitations of technical assistance and time, wishes and interests of the participating raions, impact on quality of life, sustainability, capabilities and resources of the participants, and possibilities for roll-out to other raions.

F1a Findings

The major findings for the social services component included

- Sources of revenue to finance social services are constrained. Municipal departments have few opportunities to tax directly, federal budget allocations are highly inadequate, and other avenues for raising municipal finance hold little promise, especially in the MOFSA timeframe.
- Social service administrative processes and cost recovery methods are poor.
- Social service delivery systems need to be reorganized and made more efficient.
- Social service delivery personnel need certified training programs to implement procedural changes.

F1b Implementation Focus

MOFSA selected housing, kindergartens, and utilities to be supported. Our diagnostic revealed that municipalities were very interested in efficient energy use because of the high cost of energy and the significant portion of municipal budgets devoted to utilities. We found that, by working with municipalities on energy-efficient utilities, MOFSA could establish valuable political goodwill among officials of target municipalities, which would help ensure the sustainability of MOFSA's efforts.

We considered the following key issues in developing the social services work plan

Efficient use of resources and cost recovery The lack of sufficient revenues and tax base severely hampered the delivery of social services. Housing and utility user fees are capped by federal legislation at 40 percent of actual costs, and local taxes are similarly limited by federal legislation. Farms are exempt from profit tax and turnover tax, both of which are designed to assist local governments in providing social services, though these savings are rarely fully transferred to address these costs. The options available to municipal authorities to fund social services include recovering costs through user fees, streamlining operations, rationalizing services, and using government subsidies. MOFSA focused on developing cost-effective programs through such interventions as encouraging public participation in a water conservation campaign and developing and adopting efficient methodologies for boiler operations. In this way, MOFSA sought to assist municipalities in recovering funds for reallocation to other needed services.

Rationalization of social service delivery The availability of quality child care services was identified as a major concern by working parents and raion officials and especially by women who worked on the oblast dairy farms. MOFSA planners recognized the need to develop a more rational organizational model for the provision of lower-cost, reliable child care services that would be widely available.

Need for qualified personnel Only a small percentage of operators of boiler plants and water production facilities are certified as required. Certification, which involves developing the skills and know-how to implement sound operating procedures, would help increase efficiency in energy generation. MOFSA coordinated a training program leading to certification for operators and also introduced methods to improve efficient management. Service quality and dependability as well as efficiency were enhanced.

F2 Agribusiness Component

At the onset of the MOFSA project, the agricultural sector in Vologda was stagnant. Oblast officials and directors of farms and agribusinesses were not optimistic about the prospects for economic growth in the region. The almost total lack of business knowledge did not bode well for future market-oriented business practices. MOFSA quickly recognized that the transfer of appropriate business knowledge must be a key element of the MOFSA plan.

F2a Findings

The major findings of the agribusiness component diagnostic included

- Existing cooperatives and associations were not private or market-oriented and were not considered to be viable development partners
- Agribusinesses were not effectively marketing their products. Market analysis, strategy development, and corporate support for marketing programs did not exist
- Internal business and operational efficiency was poor, despite relatively good technical (production) knowledge

- Most farms and agribusinesses expressed a serious need for credit, yet few knew where to locate or gain access to a credit facility

F2b Implementation Focus

MOFSA recognized that, to “create and strengthen private farm enterprises and agribusiness” (page 6, section C of Contract), we needed to adopt an integrated approach to implementation. Integration ensures that each segment of the agricultural marketing chain receives the support necessary to survive and thrive in a market economy. MOFSA support to reorganized and other privatized farms, agribusinesses, and allied industries was provided through direct technical assistance and training, emphasizing market demand-pull at the processing industry level.

Cooperatives and associations The Phase I diagnostics revealed that agribusiness cooperatives in Vologda were still state-owned entities unlikely to evolve into institutions resembling (or capable of generating the benefits of) privately owned cooperatives. Therefore, instead of working with existing state-owned cooperatives, MOFSA directed its resources to the formation of business development organizations which would have better prospects for performing the functions of cooperatives and other farm and agribusiness support institutions. MOFSA tested this business development organization concept by developing models of farm associations and cooperatives and by promoting the formation of a dairy marketing association.

Increased marketing effectiveness Our diagnostic work further demonstrated that markets beyond the oblast level offered a real opportunity to increase demand for Vologda dairy products. Assistance in the area of marketing would produce a positive ripple effect down the production-processing chain by stimulating an increased demand for finished products, which would translate directly into increased demand for raw milk at the producer level. With such opportunities in mind, MOFSA planners focused on the development of marketing tools and techniques to explore, evaluate, and capture such markets. Assisting agribusinesses in developing their effectiveness in marketing products therefore became an important component of MOFSA’s integrated approach.

Increased business efficiency MOFSA planners recognized at an early stage that, while farm and agribusiness decision-makers understood the application of technology to the production process, they lacked a fundamental understanding of production efficiency and the optimization of resources. Increases in operational efficiency achieved through sound business decision-making could greatly strengthen the ability of enterprises to compete in the emerging market economy. Interventions to develop skills in the areas of business planning, marketing, organizational development, financial management, and operational management were therefore given the highest priority.

MOFSA planners further recognized that managers would also have to improve their ability to access and analyze information, including both internal business information and external market information, if they were to become more efficient. Techniques for analyzing business information and access to a reliable market news reporting system would help managers increase their operational efficiency by enabling them to make informed and timely business decisions.

Increased access to credit The development of business tools to evaluate risk for both borrowers and lenders was considered an essential first step to help managers access credit. For example, agribusiness decision-makers needed to develop strategic and business plans and

understand and use enterprise budgets to make effective product development decisions. Such a planning process would help managers meet loan application requirements and defend requests for credit.

The MOFSA approach for agribusiness development in Vologda focused on increasing efficiency and effectiveness of agribusinesses and farms, as well as increasing their access to credit. Given its limited resources, MOFSA could not hope to provide intensive intervention and support throughout the entire agricultural marketing chain and therefore chose to target its resources to agribusiness processors, a critical constraint point of the agribusiness system. In this way, MOFSA could provide a demand-pull that assisted processors financially and created growth at the producer level through increased sales.

F3 Agricultural Credit Component

When MOFSA started, the status of Russia's agricultural credit system provided little hope for the recovery of the agricultural sector during the life of the project. The system that had existed under the former Soviet Union had been in steady decline for a number of years and was finally rendered inoperable in 1995 when centralized agricultural credits were discontinued entirely.

F3a Findings

The major findings of the diagnostic of the agricultural credit component included

- Bank services were severely limited by the traditional practice of banks acting solely as custodians and dispersers of funds and not as financial managers for their clients
- Lending to agricultural enterprises was greatly limited by the perception among commercial bankers that such lending involves high risk
- The inadequacy of bank credit analysis capacity contributes to banks' reluctance to lend to the agricultural sector
- A federal policy that makes lower-risk investment mechanisms (treasury bills) available at an artificially elevated rate effectively diverts funds to Moscow that might otherwise be invested in local agricultural enterprises

F3b Implementation Focus

Assisting private commercial banks in developing lending programs for agricultural enterprises called for a dual approach that would include altering traditional attitudes and practices related to lending to the agricultural sector and developing the technical skills to assess and mitigate lending risk. This analysis led us to select interventions designed to foster a market-orientation among bank managers and transfer to loan officers the techniques and skills necessary to increase lending in this new sector.

Credit analysis capability Traditional Russian accounting standards and conventions do not facilitate the production of meaningful financial reports. Such basic documents as balance sheets and income statements do not provide management with the information required to make strategic decisions. To better develop institutional capacity for supporting financial models for

agribusiness, training courses were developed in the following subjects: accounting and credit analysis, bank marketing, syndications, and portfolio management, loan documentation structure and pricing, loan classification and reserve policy, funding, liability management, foreign exchange, credit administration, loan review, loan workout, internal audit, management information systems, human resources

Lowering risk with new credit models MOFSA planners recognized an overwhelming need for a catalytic agent that could promote local bank lending to the agricultural sector and be the center for all other MOFSA credit activities. Planners believed a lending guarantee facility could be the agent to stimulate lending and a local assistance fund could ensure sustainability. The fund would have the following capacities: a clearinghouse for credit requests by local enterprises, a middleman between borrower and lender, an institution providing consulting services to both potential borrowers and lenders, including credit analysis, business plan preparations, feasibility analysis, and help with loan structure and documentation, and a sharer of lending risk.

G Training Model

MOFSA training courses and workshops were not intended as results in themselves, but as critical components required for achieving the results specified by USAID. For example, MOFSA training was required to test new models and approaches to delivering social services by integrating housing and utility services and improving their efficiency. Training activities contributed to USAID's objective of adopting new approaches to social service delivery and to improving the effectiveness of social services. MOFSA's management training courses were designed to reduce the costs of social services, thereby contributing to USAID's objective of adopting new approaches to resource allocation. In the agribusiness sphere, management training was conducted to increase the capacity of key market catalysts in adopting new methods of competing in a market economy, thereby contributing to USAID's objective of replicating successful models and modern management systems and accelerating growth and development of private enterprises. In the agricultural credit and finance sphere, MOFSA's banker training provided support for new financial products and contributed to USAID's objective of replicating new financial models and products, improving the efficiency of financial markets to meet the future needs of market participants, and developing a robust and market-supportive financial structure.

After evaluating the capabilities of local training institutions, the number of counterpart training institutions was reduced from five to two—the Business Training Center of the Vologda Polytechnic Institute and the Molochnoe Agricultural Retraining Institute. In Phase III, MOFSA worked with both institutions. Unfortunately, the Vologda Institute has since gone out of business.

MOFSA's model for developing training modules was designed during Phase I. The model involved technical interventions to address specific client problems, case studies based on these specific problems, and general recommendations providing the basis for training courses. MOFSA advisors worked with local partners to solve specific problems and develop training courses. Advisors acted first as trainers and later as backup resources when their Russian counterparts conducted training courses, ensuring that training was appropriate and could be duplicated.

H Phase II Implementation

The work plan specified the following methodologies for implementation

- Practical demonstrations, applications, and training by the long-term technical assistance team (Russian and expatriate)
- Development of models for replication
- Development of written procedures, processes, and curricula
- Formal training courses by short-term technical advisors (Russian and expatriate)
- Design for replication in Phase III

H1 Interdependence of MOFSA Components

Because MOFSA's social services, agribusiness, and credit activities were designed to be interdependent, the unanticipated transfer of social services expanded the opportunities available to MOFSA. Resources intended for the transfer of social services were used to improve management, identify alternative sources of financing, and develop new methods to reduce costs of providing these services. Plans for Phase II included developing a data collection system to improve the forecasting and budgeting abilities of social service administrators, matching administrative expenditures to actual revenues, improving the efficiency and equity of tax systems, identifying additional sources of financial support, establishing new mechanisms for rural finance including fee-for-service systems, and developing ways to measure the cost-effectiveness of social services.

Similarly, the absence of one of MOFSA's components—the credit component—affected the other components. During the life of MOFSA, the anticipated sources of agricultural credit and capital investment—the European Bank for Reconstruction and Development, Overseas Private Investment Corporation, International Bank for Reconstruction and Development, and the U S - Russian Commission for Agribusiness and Rural Development—did not develop. As a result, the opportunities for agribusiness development and agricultural credit were severely limited. Without sources of credit and capital investment, the establishment of private agribusiness and business development organizations was frustrated.

H2 Social Services

By the time detailed work plans were developed during Phase I, some of the planning assumptions had changed. All social services, including those tied to state and collective farms, had been transferred to local government administrations. The revised work plans were consistent with USAID's results-oriented framework, which allows for change as conditions change. However, it is important to consider these new circumstances in evaluating MOFSA's actual results against the expected results of the initial planning period.

H3 Farms Reorganized by FARMS I and II and Other Privatized Farms

MOFSA adopted an integrated approach to supporting farms reorganized with the assistance of FARMS I and II and other privatized farms. Assistance was provided to each segment of the marketing chain to increase demand for products and stimulate profits. Since consumer demand drives marketing of agricultural products, MOFSA focused on the development, manufacturing, and distribution of products. Pursuing this integrated approach,

MOFSA provided direct technical support and training to reorganized farms and indirect marketing assistance to the food processing industry

H4 Agricultural Credit

When the guarantee fund activity was eliminated, MOFSA shifted its focus to two related activities that contributed to the results specified by USAID. The first activity was to provide training to managers of local financial institutions in agricultural loan appraisal, credit policies, and other banking procedures that might eventually stimulate loans to farms and agribusiness firms. MOFSA also provided technical assistance on specific banking problems, training in marketing financial products, business planning, and financial management in general. Another MOFSA activity, undertaken at the end of 1997, was to establish a commission to promote an investment policy environment to facilitate access to another source of financial assistance, private capital from sources located outside the oblast. MOFSA helped develop a plan to make the local investment environment more attractive to potential U.S. and Russian investors.

I Phase III Roll-out

The final, six-month phase of MOFSA consisted of a roll-out of social services to other raions, the wrap-up of agribusiness technical assistance activities, and the roll-back of agricultural credit activities when the guarantee fund was eliminated. Social service activities included replicating selected management and technical training courses to non-pilot raions and developing a model for potable water supply. Agribusiness activities included a new round of planning that resulted in eight new business plans and training for a new group of business planners in management and entrepreneurship issues. Credit activities focused on presenting business plans to banks for funding.

SECTION II PROJECT COMPONENTS

A Social Services

A1 Summary

Although MOFSA was initially designed to assist in the divestiture of social assets—housing units, boilers, electricity, and water and sewers—by the time the project began operating in April 1996, most social services had been divested. As a result, MOFSA concentrated on reducing the costs and improving the efficiency of providing social services while also working to put farms and agribusiness firms on sound financial and management footing. Already strained municipal budgets were further stretched when the housing and utilities services, previously owned by state and collective farms, were transferred to administrations of the cities and towns in Vologda Oblast (Local government absorbed 60 percent of housing and utility costs.) Operating antiquated systems and maintaining deteriorated housing and utilities infrastructures became a huge drain on local and oblast budgets.

MOFSA developed models for reorganizing the management of housing and kindergartens. To support these models, MOFSA designed courses for improving the efficiency of delivering housing and utility services and offered technical training courses for utility operators. After conducting several technical assistance interventions and offering courses to improve the operating efficiency of Vologda's housing sector, MOFSA was invited by the oblast administration to assist in planning a reform program for the entire housing and utilities administration.

The results of the social services component exceeded the targets (see Table II-1, p. II-4) for management and operations models and raion management models. In addition, targets for reducing costs as a result of training were met, with costs reduced in housing, utilities, heating, and potable water.

A2 Background

To establish a basis for future management training, MOFSA offered basic training in budgeting, planning, and public administration principles, followed by projects in the pilot raions to create models for housing, utilities, and kindergarten management. To develop a cadre of trained operators, MOFSA assessed boiler plants to determine how to provide heat at lower costs and trained certified plant operators to operate the boiler plants more efficiently. Based on its improved understanding of the costs of social services delivery, MOFSA developed a decentralized approach to heat delivery. MOFSA found that installing decentralized heating plants would result in considerable savings over maintaining the existing, inefficient system.

The development of MOFSA's kindergarten management model began at a meeting in Gryazovets with the city's deputy mayor, chief accountant, and nine kindergarten directors to discuss the needs of city kindergartens. MOFSA analyzed how budgets for the city's nine kindergartens were prepared and how the revenues and expenditures were administered. A new kindergarten management and administration system was developed, including first-aid training for teachers, the establishment of a single nursing station, menus on a two-week rotating basis, and arrangements for centralized food procurement.

MOFSA developed a utilities management model based on a technical assessment of the costs of providing water and heat services. The model was tested on energy utilities in pilot raions and applied more widely to the budgeting and strategic planning procedures of housing and utilities departments. Courses were also offered in administrative budgeting.

MOFSA investigated problems previously identified by local water technicians—high bacterial content, excessive chlorine, and hard water—and developed new solutions. While both local and MOFSA specialists agreed on the need to eliminate water leakage and improve filtration systems, local technicians recommended expensive new equipment and redesign of the entire water and wastewater system. MOFSA specialists recommended a low-cost two-tier approach involving relatively high technology methods for urban areas where land is scarce and methods for rural areas where land and labor are abundant. MOFSA's approach would be supported by training in water and wastewater facility management and construction skills to maintain water facilities.

The project's first social service workshop, "Budgeting and Financial Forecasting in the Social Sphere," grew out of its work with management of the Gryazovets social services administration. The workshop provided a model for forecasting the costs of the housing and utilities departments and computer simulations of the costs of heating plants and water supply facilities. A Land O'Lakes volunteer provided technical assistance by conducting energy audits of two buildings in Gryazovets raion and calculating the potential cost-savings associated with alternative strategies. This analysis was expanded to develop a methodology to determine the costs of managing the Housing and Utility Directorate of the Cherepovets raion and to identify opportunities to reduce the operating costs at the enterprise's utility plant in the village of Yaganova. MOFSA developed a housing management model for 16 housing authorities in Gryazovets. After evaluating the efficiency of operations of the Gryazovets housing and utility administration, MOFSA delivered a course on increasing the efficiency of social services delivery. The results of these investigations were formalized in a course on strategic planning for utility service administrators.

A3 Results

The results in the social services component were the design of alternative service delivery approaches, identification of alternative finance sources and mechanisms, and improved information on the costs of delivering social services. These are detailed below.

- **Design of Alternative Service Delivery Approaches**

Management restructuring and budget consolidation MOFSA's housing management model for 16 housing authorities in Gryazovets would save more than RR 700 million annually through management restructuring and a consolidated budget.

Centralizing and streamlining services MOFSA's kindergarten management and administration model would save more than RR 224 million annually by streamlining services, reallocating budgets, and recapturing resources.

Market-driven social services MOFSA's course "Understanding Public Administration in the Market Economy," covering such topics as duties and authority, offered tools for efficiently providing social services in a market economy.

Management training Personnel at all levels of the pilot raion administrations were trained in new management and operations methods, creating a core of Russian administrators with new tools for decision making

Training in operations management MOFSA offered a series of courses for water treatment plant operators in Cherepovets, at which 37 water, sewage treatment, and lift station operators from the housing authorities were certified

Water utilities model MOFSA developed a model to improve the efficiency of providing potable water and wastewater treatment to the residents of the oblast

Ties with U S Department of Energy MOFSA identified and investigated avenues of cooperation with the U S Department of Energy Center for Energy Efficiency in Moscow

Administrators network MOFSA offered a course on strategic planning to utility administrators from Cherepovets and Gryazovets One result of the seminar was that officials from different raions realized they could increase their political power by working together

- **Identification of Alternative Finance Sources and Mechanisms**

Leadership of commission to restructure oblast housing authority Responding to an invitation from the deputy governor, MOFSA provided leadership for a commission to restructure the oblast housing authority The commission, comprised of representatives of the economics, housing, and utilities departments, was tasked with developing a strategy to meet the new federal requirements to make Russia's massive housing sector more efficient and recover a larger portion of its costs

- **Improved Information on the Costs of Delivering Social Services**

Heat and water supply cost model The course "Budgeting and Financial Forecasting in the Social Sphere" provided a model for forecasting the costs of the housing and utilities departments, including computer models to analyze the costs of heating plants and water supply facilities

Analysis of energy costs The "Budgeting and Financial Forecasting for Energy Consumption" course conducted last summer provided tools and methods for assessing energy costs based on technical evaluations An assessment found that the savings from installing decentralized heating plants would exceed the cost of maintaining the existing, inefficient system Simply repairing the missing insulation on one percent of the exposed heat transmission pipe in the village of Yaganova, for example, would save more than RR 72 million per year in lost heat—the equivalent of 1 74 times the total annual salaries of all the workers in the village

Cost savings due to calibrating boiler plants The "Cost Reduction in Utilities" course was offered three times during the project In connection with this course, energy audits were conducted in boiler plants in Gryazovets Vologda, Velikiy Ustyug and Totma and cost-saving recommendations were made If the conditions found in boiler plants in the city of Gryazovets are indicative of conditions throughout the raion, the recommendations would reduce heating expenditures by \$1,710,000 a year Considering the 26 raions in Vologda Oblast, the potential savings identified by these audits would have a major impact on raion budgets Seven engineers

trained in four communities were certified and are expected to teach others the methods learned from MOFSA engineers

Table II 1 Results of Social Services Component

Tasks	Target	Actual	Activities
Management and Operations Models	4	4	Housing management Kindergarten management Potable water management Budgeting and cost forecasting
Management and Operations Workshops	2	2	Budgeting and financial forecasting Energy conservation and energy audit demonstration
Utility Plant Operator Courses	5	6	Certified lift station operators Water treatment plant operators (3 times) Sewage treatment plant operators Energy audit training program
Utility Plant Operators Certified	10	38	
Social Services Streamlining Courses	2	2	Efficiency of housing utilities (2 times)
Social Services Streamlining Workshops	2	1	Strategic planning
Models on Raion Department Management	2	3	Housing management Kindergarten management Commission on housing and utilities
Courses on Raion Department Management	4	2	Principles of public administration Budgeting and financial forecasting
Workshops on Raion Department Management	2	1	Integration of social services
Cost Reductions Due to Training	4	4	Housing cost reduction Utility cost reduction Heating cost reduction Potable water cost reduction
Municipal Enterprise Cost Baseline	2	1	Cost methodologies (Cherepovets)
Municipal Enterprise Costing Methodology	2	1	Cost methodologies (Cherepovets)

B Agribusiness

B1 Summary

MOFSA's efforts to promote agribusiness involved technical assistance to solve specific business problems, the development of models, training courses, and assistance to business development organizations. MOFSA provided technical assistance to six farms reorganized by FARMS I and II, nine other privatized farms, and seven agribusiness firms operating throughout the agribusiness system (Table II-2a, p II-8). Ten farms received technical assistance with loan applications, exceeding the target by two. A wide variety of activities took place to strengthen farms and agribusiness firms (Table II-2b, p II-12), exceeding the target of 15 by 7 activities. This technical assistance served as the basis for generalized models for other organizations. Activities on reorganized farms included the development of a computer model for managing farm operations and culling dairy herds and a model dairy farm plan for use in farm management training and attracting investment. Business plans were developed for a credit application for

sawmill, greenhouse, dairy and transport equipment, and other farm production inputs, and for expansion of production facilities and marketing programs

The profitability of several dairy farms improved after MOFSA activities began. Three farms receiving MOFSA technical assistance—Mayskoe, Vysokova, and reorganized farm Nadezhda—returned to profitability in 1997. MOFSA also helped food and fiber processors regain profitability. For example, profits increased at Voltri Knitwear in 1997 after it received technical assistance. Profits also increased at Ovochnoye and Fifty Years Anniversary of the USSR farms.

Much of the improved profitability is due to changes in market conditions. Nevertheless, gains in the agricultural sector validate MOFSA's original, results-oriented strategy. Many of the improvements in agribusiness processing and the secondary effects on agricultural producers are attributable, at least in part, to MOFSA training and direct assistance. Increased competition for raw milk supplies expanded the collection areas of Vologda milk processors, improved payment terms, and raised farmgate milk prices. Cherepovets Milk Plant, for example, purchased milk from dairies in an expanding radius that eventually grew to 200 km. Payment delays fell dramatically. Increases in farmgate milk prices were due to a combination of factors including rising milk production costs and increased competition for raw milk supplies.

B2 Background

MOFSA's activities to promote business development organizations have provided the necessary conditions for future agribusiness development organizations. MOFSA laid the foundation for growth by conducting market research, developing bylaws and other documentation required to establish an association, organizing support from the public sector, and establishing a marketing and distribution system.

The process began in July 1996, when MOFSA managers met with USAID project managers and Russian government officials. They agreed that the development of agricultural associations would provide significant benefits to the oblast. MOFSA drew up scopes of work for Western specialists to assist in developing a dairy processors' marketing association and created a work plan for developing the organization. In September, MOFSA met with the Vologda Oblast Committee for Agriculture and Food to discuss the potential of a dairy marketing association to take advantage of Vologda's national reputation for high quality butter. Technical assistance began in late October and groundwork for establishing the marketing association continued throughout the autumn. Data was collected on the product lines and capacity utilization of 23 milk processors in the oblast. MOFSA conducted market research to help local dairies penetrate large dairy product markets in major Russian cities.

MOFSA began organizing producers, meeting with the directors of four dairies at their own offices, outlining the goals and objectives of a marketing association, and describing the potential benefits of such an organization. The first meeting of the five principal local dairy processors was held in early November 1996. Also at the meeting was a former legal counsel for Land O'Lakes, who provided legal advice for five weeks as the association began to develop and investigated procedures required to found a marketing association under Russian law. Subsequent meetings with processors were held in late November. Association provisions and bylaws were drafted and amended with the approval of all potential members. These documents were finalized in early December and the Vologda Butter Makers' Association was formed. Five principal

Vologda dairy processors were the founding members. Selection of officers took place in mid-December.

Early in 1997, MOFSA began providing technical assistance to support sales efforts in lucrative Moscow markets. MOFSA conducted market research in 12 western-style food stores in Moscow to gauge the competitive environment. Prices were significantly higher than those of similar products in Vologda, indicating an opportunity to increase profits. MOFSA conducted a blind taste test comparing Vologda milk, kefir, sour cream, tvorog, and butter with imported products sold in high-end retail markets in Moscow. The test, which included 50 participants, indicated a preference for Vologda dairy products. MOFSA accompanied salesmen from the Cherepovets Dairy Plant and Zarya Farm on a trade mission to Moscow. They met with potential buyers and managers of retail markets, shared the results of the taste tests, and made sales pitches.

In March, MOFSA directed its assistance to organizing distribution systems. A Land O'Lakes volunteer developed a plan to deliver dairy products to Moscow. He visited trucking companies to inspect refrigerated trucks, found partners in Vologda to guarantee delivery at predetermined times and quantities, set up a delivery schedule, and found a trucking company to handle products inside the Moscow city limits. Another volunteer developed non-monetary means of motivating farmers to increase raw milk production.

MOFSA met again with the members of the Vologda Butter Makers' Association in February to create a common logo and label for all dairy products marketed under the Vologda name. Each of the five founding members were required to pay RR 10 million in start-up membership fees before the association could become an official body with the right to operate in Vologda. Two potential members, including the largest processor in the oblast, were reluctant to join. Awaiting their commitment, MOFSA met with the Oblast Committee for Agriculture and Food to brief officials on the formation of the association and its development activities. Officials offered to support the association.

Unfortunately, the association never developed. The two potential members declined, and the choice of president proved to be a poor one. Nevertheless, marketing of dairy products improved in anticipation of the association, generating significant benefits to dairy processors and milk producers and supporting MOFSA's original strategy of assisting food processors as critical catalysts for increasing the efficiency of the entire food and fiber system. Improved marketing of processed dairy products not only expanded product lines and increased milk processors' profits, but also increased farmgate prices and improved payment terms and the availability of credit to dairy farmers. (Vologda Milk Plant made payments in kind worth RR 1.4 billion to dairy suppliers, borrowed RR 3.3 billion, and reloaned it to its milk suppliers.) The groundwork for the association remains, the concept continues to be valid, and the potential benefits are still achievable.

In its training activities, MOFSA worked closely with two institutions in Vologda Oblast, the Vologda Agricultural Retraining Institute and the Vologda Polytechnic Institute, establishing a continuing education program at both institutes. MOFSA's agribusiness courses were taught by technical consultants working with Russian trainers, who continued to offer these courses after MOFSA ended. For example, MOFSA taught three seminars in agribusiness at the Vologda Agricultural Retraining Institute in November and December 1996. During the seven months after receiving training, two teachers from the institute trained 30 farm managers and 39 accountants at the institute and 50 economists and 75 accountants at the State Dairy Academy.

B3 Results

The results in the agribusiness components were the creation of workable models for new and reorganized agribusiness enterprises to compete in a market economy and the development of the capacity of key market catalysts to support the new models

- **Creation of Workable Models for New and Reorganized Agribusiness Enterprises to Compete in a Market Economy**

Technical assistance to farms MOFSA provided direct technical assistance to six reorganized farms, nine non-reorganized farms, and seven agribusiness processing firms (Table II-2a, page II-8) The term reorganized designates farms that undertook reorganization assisted by the FARMS I and II projects Non-reorganized farms are all former state and collective farms that were officially privatized and reorganized, at least nominally, but did not participate in the FARMS projects

Management records for dairy farms MOFSA provided technical assistance to Nadezhda farm to develop a dairy herd record system for culling less productive cows A volunteer from Land O'Lakes developed a set of accounting records at Nadezhda farm A computer model was developed to analyze the profitability of Nadezhda farm in particular and all Vologda dairy farms in general The model provided managers with greater control over their operations and an improved ability to plan operations and investment

Financial sensitivity analysis for meat processors MOFSA identified two problems with local meat processing operations a shortage of slaughter-weight hogs and an inability to use financial tools to control and manage operations In response to the shortcomings in existing tools for management analysis, MOFSA developed a sensitivity model to enable managers to measure profitability of key variables

Farm management training MOFSA offered more than 10 courses on financial management, business planning, loan applications, and other aspects of farm management

Improved marketing Both reorganized and non-reorganized farms benefited from the increased demand-pull created by MOFSA's activities to develop a dairy processors' marketing association

Model dairy farm Technical assistance to reorganized farm Pestova provided the basis for a model dairy farm

Business plans and loan applications MOFSA developed business plans and loan applications for three reorganized farms and five non-reorganized farms

Table II-2a Distribution of Technical Assistance to Reorganized Farms Non Reorganized Farms and Agribusiness Firms

Reorganized Farms	Activities
Nadezhda Dairy Farm	Dairy records and herd culling system Accounting financial analysis, and strategic planning Business plan and loan application
Rus Farm	Business plan for building a wholesale food market in Vologda
Sidorovskoe Farm	Business plan for expansion of sawmill operations
Schukin Dairy Farm	Business plan and loan application
Morotskoe Dairy Farm	Dairy production (Land O'Lakes volunteer)
Pestova	Basis for a model dairy farm
Non reorganized Farms	Activities
50 Years Anniversary of the USSR	Dairy production equipment
Ovoschnoe Farm	Business plan for computerized greenhouse ventilation equipment
Zarya Breeding Farm	Mastitis control methods
Mayskoe	Loan application for berry harvesting equipment
Sokirino Kolpakova Pig Farm	Business plan and loan application for new pork production operation
Segzda Dairy Farm	Loan application for transport equipment
Trudovik	Forming dairy farmer association Dairy herd record keeping system
Kabachino	Business plan and loan application
Vysokovo	
Agribusiness Firms	Activities
Vologda Milk Plant	Market share strategy
Cherepovets Milk Plant	Dairy product market research
Zarya Milk Plant	Penetration of Moscow dairy product markets
Cherepovets Chicken Plant	Business plan to seek outside investment
Voltri Linen Knitwear	Business plan for expansion to underutilized facilities in surrounding raions
Sokol-Leshen	Business plan to seek outside investment
Molochnoye Milk Plant	

Model for dairy processors' marketing associations Although MOFSA's original dairy marketing association never developed, the concept quickly reemerged from different sources. The association concept evolved through several stages, including a not-for-profit association of milk processors, a for-profit association of the principal owners of milk processing plants, contracts between individual milk processors and Moscow distributors, and an initiative to get Moscow-based distributors and multiple-outlet retailers to contact Vologda milk processors directly. MOFSA's marketing association concept may eventually come to life in another, more sustainable form. At the end of the project, the Vologda Oblast Department of Agriculture was attempting to organize its own milk processors' association. MOFSA's role in promoting the association concept is widely acknowledged.

Models for cooperatives and associations of agricultural producers As it developed a dairy marketing association, MOFSA also developed a model for forming associations of agricultural producers based on the founding documents of the marketing association. Producer organizations, including cooperatives of relatively small farms and associations of large farms, would provide a means for farms to act in unison to offset the increased market power of milk processors in the marketing association. The farmer association would enable members to take advantage of new market conditions in much the same way that the dairy association offered access to new urban markets. Milk producers could set up a united marketing and sales organization owned by the producers themselves and responsible to their needs given free market conditions. Membership in the association would reduce marketing costs for small- and mid-sized producers.

In March 1997, the Vologda Oblast Agricultural Committee approved the cooperative and association models and recommended their implementation on a trial basis in selected raions. Later in the year, the Oblast Department of Agriculture used MOFSA's farmers' association and cooperative models in its plan, Program of Social and Economic Development of Vologda Oblast Agribusiness for 1997-2000. At the end of the project, farmers in Totma, Kich-Gorodok, and Vologda raions were developing pilot farm associations and cooperatives.

- **Development of the Capacity of Key Market Catalysts to Support the New Models**

Increased farmgate milk prices In response to improved milk prices, dairy farmers increased milk production 10 percent and raised average yields 12 percent. Increases in production and yields were directly related to rising prices, particularly in MOFSA target areas—Vologda, Cherepovets, and Gryazovets raions—where prices increased faster than average prices in Vologda Oblast. During the first six months of 1997, when the average farmgate milk price in Cherepovets was RR 1,326 per liter, cattle herd size and milk production declined but average yields increased a modest 1 percent. In Gryazovets, where the average milk price was 10 percent higher than Cherepovets, herd size also declined slightly and total production increased 8 percent but average milk yields increased 15 percent. In Vologda raion, where the average milk price is RR 1,590 per liter, herd size increased 1 percent, total milk production increased 8 percent, and average yields increased 8 percent.

Improved efficiency, yields, and profits Mayskoe farm reported a profit of RR 90 million for the first six months in 1997, compared to a loss of RR 312 million for the same period in the previous year. Labor efficiency also increased during the same period, with the cost of labor as a percent of sales declining 5 percent. Cherepovets Milk Plant purchased milk from dairies in an expanding radius that eventually grew to 200 km. Cherepovets Milk Plant's average

payment delay declined from more than 100 days in 1996 to less than 45 days in 1997. The Vologda and Zarya Milk Plants paid farmers within 10 days in 1997.

Vysokova Farm in Vologda raion turned its business activities around during the first six months of 1997, after receiving MOFSA technical assistance. Vysokova produced a RR 63 million profit in 1997, compared to a RR 216 million loss in the same period in 1996. Average milk yields jumped by 43 percent during the same period.

Despite reductions in its labor force, Nadezhda farm increased average annual milk yields 78 percent to more than 3,000 liters per cow. Based on preliminary accounting figures, Nadezhda reduced its losses from RR 50 million to nearly break-even in the first 6 months of 1997, compared to the same period the previous year.

Vologda Milk Plant's sales in Moscow increased more than 30 percent due to MOFSA's work in developing the Vologda Dairy Association. Sales in Moscow continue to grow. During the first six months of 1997, total sales grew only 10 percent but profits increased 20 percent, compared to the same period in 1996. (The annual rate of inflation in 1996 was approximately 16 percent, based on the consumer price index compiled in Vologda.)

Zarya Dairy Farm in Gryazovets raion sells UHT milk in Moscow at a 59 percent markup, compared to 20 percent in Vologda Oblast. Zarya's February 1997 wholesale UHT price in Moscow was 38 percent higher than in Vologda. Zarya's Vologda price was RR 3,700, compared to RR 5,100 in Moscow, reflecting a price increase of nearly 38 percent. Average annual milk yield per cow increased 16 percent since last year to 6,015 liters. After U.S. training and technical assistance from MOFSA production and processing specialists, Zarya dairy plans a 50 percent production increase in average annual milk yields to 9,000 liters per cow. To achieve this production goal, Zarya plans to reconstruct and build new cow sheds and install a feed mill.

Fifty Years Anniversary of the USSR increased milk yields by 8 percent for the first six months of 1997, compared to the same period in the previous year.

Restructured chicken plant After attending MOFSA's agribusiness training program in the U.S., Cherepovets Chicken began modernizing its production facilities to meet world standards and expanded distribution to major urban markets. It replaced its Russian genetic stock with high-yielding French ISA-Vedette birds, increased average weight gain 22 percent to 30 grams per day, and began seeking financing to build a mill to produce a reliable source of high-quality feed. MOFSA advised the Cherepovets Chicken management team by investigating new markets in Moscow and searching for potential investment partners in the U.S. MOFSA submitted an appeal to potential investors to the Business Information Service for the Newly Independent States (BISNIS). Cherepovets Chicken's development plans included a federation of grower-owned units modeled after production systems observed at the MOFSA training program in the United States. Cherepovets Chicken intends to provide independent growers with chicks, feed, equipment, buildings, and technical assistance; growers will share risks by supplying power, building maintenance, and production management. Restructuring incurred large financial losses, and Cherepovets Chicken filed for bankruptcy reorganization in early 1997.

Business plan for foreign investment MOFSA conducted an overview of operations at Sokol-Leshen, a wood products facility north of Vologda producing a variety of profile board, pressboard, and door products to European standards. Based on this assessment, MOFSA developed a business plan that the firm used to attract investment financing.

Market News Reporting Service MOFSA's Market News Reporting Service collected market data and wrote weekly reports on wholesale and retail food prices in eight oblasts in the northwestern portion of Russia—Vologda, Moscow, St. Petersburg, Archangel, Murmansk, Kirov, Kostroma, and Yaroslavl. Market news bulletins were delivered to public institutions and published in three newspapers—the Vologda News, the Mirror in Vologda, and Speech in Cherepovets—with a combined circulation of 76,000 readers. MOFSA market price summaries were broadcast by two local radio stations—Transmit and Premier—to 1.5 million potential listeners. This information provides market power to small farmers negotiating with large suppliers and buyers. USAID continued to fund the Market News Reporting Service in November while the Eurasia Foundation considers whether to fund the service in the long run.

Sustainable training The Oblast Commission on Agriculture and Food offered a course for directors of agricultural enterprises entitled "Methods for Stabilizing Enterprise Budgets and Determining their Effectiveness." Organized by MOFSA's partner institution Molochnoe, the course was based on material presented in MOFSA's agribusiness courses. More than 25 agribusiness directors from throughout the Oblast attended the course. The Vologda Agricultural Retraining Institute used MOFSA models to train farm managers. Adapting to significant reductions in public funds for agricultural training, the Vologda Agricultural Retraining Institute and the Vologda Oblast Department of Agriculture combined MOFSA's "Making Business Plans" and "Agricultural Finance" courses and presented the combined program to 270 farm leaders and raion agricultural specialists in three sessions in October-December 1996. MOFSA training programs were provided on a fee basis in three remote Vologda raions.

Model dairy farm MOFSA designed a model farm to be built using timber and other local materials, costing 30-40 percent less than conventional dairy facilities. In anticipation of increased quality standards required to transport Vologda dairy products to distant markets, cooling and refrigeration units using a combination of water and electrical power were included as standard equipment. Analytical tools to assist farmers in management decisions, including staffing, herd improvement, equipment needs and anticipated financial returns, were also included.

Increased knitwear sales Voltri, a quality knitwear manufacturer in Vologda, increased sales by 44.5 percent in the first six months in 1997, compared to the same period in the previous year. A loss of nearly RR 100 million changed to a profit of RR 14 million.

Table II 2b Agribusiness Strengthening Results

Task/Units	Target	Actual	Activities
Assisted 6 Farms Reorganized by FARMS I and II	15	22	Nadezhda Dairy Farm Rus Farm Sidorovskoe Farm Schukin Dairy Farm Morotskoe Dairy Farm Pestova
Assisted 9 Non Reorganized Farms			50 Years Anniversary of the USSR Ovoschnoe Farm Zarya Breeding Farm Mayskoe Sokirino Kolpakova Pig Farm Segzda Dairy Farm Trudovik Kabachino Vysokovo
Assisted 7 Agribusiness Firms			Vologda Milk Plant Cherepovets Milk Plant Zarya Milk Plant Cherepovets Chicken Plant Voltri Linen Knitwear Sokol Leshen Molochnoye Milk Plant
Technical Assistance on Loan Applications	8	10	Ovoschnoe Greenhouses Mayskoe Berry Farm 50 Years Anniversary Dairy Farm Voltri Linen Sokirino Kolpakova Hog Farm Nadezhda Dairy Farm Segzha Farm Rus Dairy Farm and Wholesale Market Sidorovskoe Farm Schukin Dairy Farm
Technical Assistance for Secured Financing	15	1	Nadezhda (from Vologda Milk Plant)
Loan Application Model	1	1	Vologda Guarantee Fund
Training Sessions	18	11	Making Business Plans (4 times) Agricultural Finance (4 times) Agribusiness Marketing Time Management Entrepreneurial Strategy
Training Institutions Strengthened	2	2	Vologda Agricultural Retraining Institute Vologda Polytechnic Institute
Business Development Organizations Strengthened	2	2	Vologda Butter Makers Association Farmer Associations and Cooperatives
Participants Trained in the U S	8	16	Iowa State and Land O Lakes

C Agricultural Credit

C1 Summary

MOFSA's agricultural credit program was designed for two purposes (1) long-term strengthening of financial and credit institutions and (2) an increase in the amount of agricultural credit disbursed to meet the needs of farms and agribusinesses firms. The first of these anticipated results was accomplished during Phase II by formal training courses, which improved the ability of financial lending institutions to determine the credit-worthiness of their clients and decide, on a case-by-case basis, what form of credit to provide. The second result was originally addressed by designing an agricultural credit guarantee fund and subsequently by leading a commission to increase access to private capital investment. To increase the institutional capacity of Vologda banks to support the Vologda Fund, MOFSA conducted eight training courses in which more than 125 middle- and senior-level bank managers were trained in various aspects of credit analysis and bank management.

Overall, the results of credit activities (Table II-3, page II-15) exceeded the targets for loan applications, training courses, and strengthening financial institutions, although the loan guarantee fund was not established.

C2 Background

The key component of MOFSA's credit program was the Vologda Fund, a loan guarantee facility for guaranteeing loans from local commercial banks to qualified farms and agribusiness firms in Vologda region. The fund would have served as the capital reserve from which valid guarantee claims could be filed when loans defaulted. The fund could have fostered relationships between the banking community and agribusiness firms by reducing lending risk during the period when banks were learning how to lend to the agricultural sector. Both the Agricultural Committee and local banks supported the fund concept. The fund, invested in U S -based financial institutions, would have provided income to cover operating expenses until it generated enough income to pay these expenses.

As an initial step in implementing the fund, MOFSA developed ten business plans and loan applications for farms and agribusiness firms in Cherepovets, Gryazovets, and Vologda raions. These applications were intended to be used by USAID in evaluating the initial response to the loan guarantee program and gauging the quality of agribusiness enterprises interested in participating in the program. The applications can be used by local financial institutions to evaluate the applicants' credit-worthiness.

In Phase III of the project, MOFSA specialists assisted local farms and agribusiness enterprises in Cherepovets, Gryazovets, and Vologda raions to prepare business plans to open credit lines. Nadezhda farm received a RR 100 million loan from the Vologda Milk Plant using a business plan developed by MOFSA. Five other farms applied for loans in anticipation of the Vologda Fund. To increase the institutional capacity of Vologda banks to support the Vologda Fund, MOFSA conducted eight training courses in which more than 125 middle- and senior-level bank managers were trained in various aspects of credit analysis and bank management.

In late July 1997, a meeting of U S agribusiness investors and agricultural experts and Russian officials was held in Chicago to inform U S companies about trade and investment opportunities in selected regions in Russia, including Vologda Oblast. In September, MOFSA

initiated an effort to follow up on the meeting by developing a strategic plan for promoting agribusiness investment in the oblast. MOFSA addressed the oblast administration's limited resources and skills in agribusiness investment by providing a model based on a strategic planning process. The model was an investment promotion plan to guide the oblast in competing for investment funds in a market economy, although it could be modified for use in attracting investment to other industries, both in Vologda and throughout Russia. The objectives of the plan focused on the following areas: investor services, legal environment, management skills, and information services.

C3 Results

In the agricultural credit component, MOFSA achieved the result of increasing the institutional capacity of Vologda banks to support the Vologda Fund.

- **Increased Institutional Capacity of Vologda Banks to Support the Vologda Fund**

Training for bankers Eight senior- and mid-level managers from commercial banks in Cherepovets—Agrokredbank, Metkombank, Savings Bank, and others— attended a three-week training course in the U S , where they met with Russian agribusiness managers as well as U S managers from agribusiness enterprises and financial institutions. More than 125 middle- and senior-level managers from financial institutions in Vologda Oblast also received training from MOFSA. Courses included credit analysis, loan structure and pricing, human resource management, management accounting and credit analysis, security and collateral, and managing credit portfolios.

After MOFSA training in managerial accounting and credit analysis, an employee of the Sokol Bank in Vologda developed a computerized system to evaluate credit-worthiness based on 67 indicators of productivity, profitability, and solvency. The employee was subsequently promoted to the position of credit department head.

New credit programs for dairy farmers With the approval of the raion Department of Agriculture, the Vologda Milk Plant made payments-in-kind, primarily in the form of spare parts worth RR 1.4 billion. Vologda Milk Plant also borrowed RR 3.3 billion from the Vologda Agroprom Bank and reloaned it to 16 dairy farms.

Use of MOFSA business plans to apply for equipment loans Mayskoe Farm, a diversified, limited liability partnership in Vologda raion producing dairy products, potatoes, seedlings, fruit, and black currants, used a business plan developed by MOFSA to apply for a RR 1.1 billion loan to purchase a berry harvester and other equipment.

In Cherepovets raion, Ovoschnoe Farm applied for a RR 850 million for climate control equipment for 37 hectares of greenhouses producing cucumbers and tomatoes.

Table II 3 Results of Agricultural Credit Component

Tasks	Target	Actual	Activities
Loan Applications	8	10	Ovoschnoe Greenhouses Mayskoe Dairy Farm 50 Years Anniversary Dairy Farm Voltri Linen Sokirino Kolpakova Hog Farm Nadezhda Dairy Farm Segzha Farm Rus Dairy Farm and Wholesale Market Sidorovskoe Farm Schukin Dairy Farm
Training Courses	6	8	Credit analysis Loan structures and pricing Human resources management Credit analysis and land structure Managerial Accounting Security and collateral Presenting your enterprise to a bank Managing credit portfolios
Participants Trained in the U S	6	8	Land O Lakes October 1996
Financial Institutions Strengthened	6	13	Agroprombank Agrocredbank Russian Central Bank Vologda Branch Kick Gorodetsky Bank Metkombank Sovetsky Bank Tradition Bank Vologzhanin Bank Sberbank Vologda Branch Skombank Sokolbank Sheksninsky Bank Vologda Investment Co
Financial Product Models	4	1	Vologda Guarantee Fund

SECTION III LESSONS LEARNED

This section provides insights and observations to contribute to the discussion of how to plan projects that achieve results and are sustainable. The following topics are addressed:

- Impact of economic conditions
- Work plan development phase
- Flexible project design
- Diverse project staff
- Measuring technical assistance projects
- Agribusiness development objectives
- Training models
- Flexible project management
- Agricultural credit
- Business development organizations
- Coordination with advisory committees
- Policy and technical assistance project sequencing

Impact of economic conditions MOFSA was designed to assist Russian farms and agribusiness firms to become viable private enterprises. Based on official statistics, agriculture is in desperate straits. Few farms or agribusiness firms are viable in the Western sense of solvency and profitability. Their problems include inadequate capital and other production inputs, lack of market access, increasing disparities between agricultural and non-agricultural prices, and budget cuts in agricultural support institutions.

However, this is only part of the story. The informal, "shadow" economy continues to be a major sector of the economy, perhaps even larger than the formal sector. Although the size of this sector is unknown, traffic jams and new stores opening in Moscow and other cities indicate that this sector is thriving. In the provinces, economic recovery is slower, but the economic decline after the elimination of price controls in 1992 was less severe than in the cities.

Due to the vitality of Vologda's steel industry and the economy's diversity, Vologda did not suffer as much as urban areas or other oblasts from the collapse of the military-industrial complex. In the first half of 1997, agricultural conditions in Vologda Oblast began to show signs of recovery. While the gross regional product declined 3 percent in the first quarter of 1997, compared to the first quarter of 1996, agricultural output increased 5 percent over the same period and shows signs of continued growth. Development objectives are changing from saving farms and agribusiness firms from extinction, to nurturing the survivors into viable enterprises.

Work plan development phase MOFSA's Phase I included the selection of target raions, definition of models to develop, and development of a detailed work plan. This planning phase provided an opportunity to determine which Russian institutions to work with and learn about farm cooperatives and associations, which did not operate like their Western counterparts but were based on government dictates. Scheduling an initial phase to develop detailed work plans, evaluate field conditions, and gather recommendations on project activities and staffing provided significant benefits in subsequent implementation phases.

Flexible project design MOFSA was designed with three components—social services, agribusiness, and credit. Conditions affecting two of these—social services and credit—changed before and during implementation. The flexible project design was a strength, allowing resources to be refocused on actual field conditions. The project's flexibility demonstrated that refocusing resources can be done with the involvement of senior managers of all parties involved.

In the case of social services, by the time MOFSA began operating in April 1996, most social services had been divested by collective farms and put in the hands of municipal, raion, and oblast governments. The project manager, with high-level administrators in Cherepovets, was able to assist local governments in developing new systems to provide housing and utility services.

The elimination of the credit component had the effect of removing credit as an incentive to change. The project modified its plan to investigate business opportunities, develop a large number of firms into viable businesses, and support to their business activities. Instead, MOFSA focused on working with viable firms that could provide a model for operating effectively in a market economy and could leverage project resources.

Despite rapidly changing conditions in Russian agriculture, the agribusiness component remained valid two years after it was designed, when implementation began, indicating that designers had identified basic, important issues affecting the agricultural economy.

Diverse project staff The MOFSA staff represented a wide range of ages and political orientations in the oblast, from a young financial consultant to a retired senior government official. The staff's diverse opinions were useful in assessing project activities. By the end of the project, even former Communist Party members on the staff were convinced of the efficiency of free market conditions. The process of winning their active support helped MOFSA develop tools to communicate with other constituencies in the business and government communities. The diversity also encouraged MOFSA to strengthen the balance of its technical assistance services. For example, when MOFSA attempted to organize an association of milk processors, one staff member insisted on developing an association for dairy farmers as well.

Measuring the success of technical assistance projects The essence of MOFSA is the transfer of knowledge and technology to the agricultural sector. Measuring the transfer of knowledge and technology is difficult, particularly in the short run. An ongoing monitoring program is needed to measure changes in recipients' attitudes and behaviors over time. Even a well designed and managed monitoring program is unlikely to judge a technical assistance project as wholly successful or unsuccessful, but will probably conclude that success lies somewhere between the two extremes.

Agribusiness development objectives The objective of the agribusiness component was to accelerate the establishment and development of rural-based, privately controlled agribusiness firms, including farm input supply, food and fiber processing, transportation, technical services, wholesale and retail distribution, and sales. MOFSA models were created to increase the financial viability, operational efficiency, and marketing skills of private farm enterprises and agribusiness firms at all levels of the agribusiness system. A major part of MOFSA's efforts focused on increasing the flow of financial inputs to farm production, including agricultural credit and capital investment. Farms have severely limited funds for traditional agricultural production inputs and much less for new technologies, until farms become solvent, banks will not make loans to them. MOFSA identified several food processors with viable businesses and provided technical

25

assistance to them to implement a central MOFSA concept that increasing the profitability of processing industries would result in increasing the demand-pull that would eventually increase farmgate prices

Training models The MOFSA training model is the most sustainable contribution of the project. It is distinguished from training typically provided in Russia, which provides proscriptive solutions that can be imitated with few alterations. The MOFSA model begins with an examination of specific problems, then generalizes the lessons learned into a broader context. Managers learned new technologies and were given conceptual and analytical tools to make choices and adapt to changing market conditions. At its best, MOFSA offered not only new information but also a new way of thinking about problems. The best MOFSA trainers did not only teach Russian managers what to do but also how to manage. They developed strategic plans to attract investment and also teach officials how to plan creatively despite resource constraints. They helped Russian managers determine which dairy cows to cull and how to calibrate boiler plants and also how to use production information to make management decisions and how to think about energy systems. No single project can change a cultural bias for ready-made solutions, but MOFSA's innovative training methods made progress in this respect.

Flexible project management MOFSA's social services component was designed to increase the efficiency and reduce the costs of housing and utilities. The social services component got a major boost from the government of Cherepovets raion when it advised MOFSA to direct its resources on housing and utilities. MOFSA's social services activities also coincided with major events in the macroeconomic environment, as the federal government issued mandates to recover an increasing portion of the costs of social services. MOFSA's work on budgeting and financial forecasting for heating and utilities, housing management, municipal planning, and kindergarten operations was a highlight of the project and provides evidence of the potential benefits of flexibility in project management. The success of this approach indicates that technical assistance should remain flexible to pursue opportunities as they emerge.

Agricultural credit MOFSA's training for bankers was designed to introduce credit analysis, portfolio management, and customer service skills to support the anticipated agricultural guarantee fund. Vologda banks, on the other hand, are oriented toward managing the purchase and sale of government-issued bonds and financing a few major, formerly state-owned industries. These banks do not seek new customers. They may not have been ready to take advantage of MOFSA's customer-oriented training. In the future, the banks that survive the current decline in interest rates on government bonds will be much more receptive to customer-oriented services.

Business development organizations Russian business firms are still adjusting to the demands of a competitive marketplace. To agribusiness managers, business development organizations, which are based on the concept of cooperating with one's competitors, may have seemed like a step backward into the cooperative marketing system of the Soviet period.

Coordination with advisory committees The original work plan stipulated project planning and evaluation with the Internal Technical Advisory Council, the External Advisory Council, the Vologda Oblast Supervisory Council, and Russian counterpart organizations, including the Department of Finance, Department of Agriculture, State Property Management Committee, AKKOR, raion administrative offices, the Agrarian Institute, and the Agrocoprognoz Scientific Center. The mandate for coordination may have been too broad or ambitious. In any case, the advisory councils did not provide significant guidance in project implementation.

Policy and technical assistance project sequencing The current economic environment in Russia severely reduces agribusiness development opportunities. Even where attractive opportunities exist, the policy environment discourages development. An agricultural policy project preceding MOFSA could have provided an institutional environment so that technical assistance in social services and agribusiness could have been even more effective. In addition, the scope of MOFSA could have been broadened to include a policy component. In retrospect, the policy component could have replaced the credit component and would have fit well into MOFSA's training program.

To maintain the momentum of privatization, development programs need to work in two spheres—one, farms and agribusiness firms and the other, policy—with several constituencies in each sphere. Technical assistance projects need to work with farms and the agribusiness firms supporting them. Under the current, adverse economic conditions, technical assistance should not be directed toward rescuing weak farms and agribusiness firms unless technical support can be sustained for at least five years. For projects of less than five years' duration, technical assistance should be focused on strong farms and agribusiness firms where it can leverage existing resources and serve as an example for weaker organizations.

In the policy sphere, development programs should assist officials in creating legislation to support the growth of agribusiness. In Russia, there is significant scope for useful policy work at the oblast level, where federal legislation on agricultural issues is sometimes lacking. There is also a need for coordinating with federal policy makers, providing lessons learned at the oblast level, and lobbying for new legislation and changes in existing legislation to provide opportunities for new programs at the oblast level.