

PROGRAM FOR STRENGTHENING AN INDEPENDENT UKRAINIAN  
AGRICULTURAL COMMODITY EXCHANGE

FINAL REPORT

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## ACRONYMS

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BSCE	Black Sea Commodity Exchange
CAE	Collective Agroindustrial Enterprises
CNFA	Citizen's Network of Foreign Affairs
COP	Chief of party
ETS	Electronic trading system
GOU	Government of Ukraine
IBRD	International Bank for Reconstruction and Development
IMCAR	Inter-Ministerial Council on Agricultural Reform
KU	Khlib Ukrainy (Bread of Ukraine)
LOE	Level of effort
MAIC	Ministry of the Agroindustrial Complex
MOU	Memorandum of understanding
NAS	USAID's new agricultural strategy
NEAU	National Exchange Association of Ukraine
NGA	National Grain Association
PFA	Private Farmers Association
SRO	Self-regulating organization
SSSEC	State Securities and Stock Exchange Commission
TACIS	Technical Assistance to the Commonwealth of Independent States
UACE	Ukrainian Agricultural Commodities Exchange
UGA	Ukrainian Grain Association
ULEAC	Ukrainian League of Entrepreneurs of the Agroindustrial Complex
UME	Ukrainian Mercantile Exchange
USDA	United States Department of Agriculture
USG	United States Government

## EXECUTIVE SUMMARY

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Responsiveness to a changing environment best characterizes USAID's Ukrainian Agricultural Commodities Exchange project (UACE) implemented by Chemonics International. Since its inception in 1997, UACE has modified its scope of work three times to meet the changing needs of the Ukrainian agroindustrial community, particularly private commodity exchanges.

UACE's initial objective was to augment the financial and technical assistance to private exchanges initiated under the USAID Ukrainian Mercantile Exchange project, begun when political and economic conditions were favorable to the development of private commodity exchanges. In 1997, however, these conditions reversed as changes in the world grain markets and Ukrainian government policy thwarted commodity exchange development. UACE's original strategy included monitoring Ukrainian agricultural policy and the cultivation of exchange associations to improve the economic and political environment, in addition to other forms of technical assistance such as training and outreach programs.

After UACE's first year, it became apparent to USAID that there were significant constraints to the development and growth of exchanges in Ukraine. Traditional technical assistance and Western know-how were not sufficient. A program with a bottom-up approach to addressing these constraints was necessary. Constraints included excessive risk, an inadequate agricultural marketing system, and anti-market government policy. Phase 2 of UACE focused on training and pilot projects to develop forward trading of commodities, grain marketing agreements such as throughput agreements, and a financial guarantees operation that involved a study of a warehouse receipt program. Further emphasis was put on grain associations and policy monitoring, including a weekly newsletter tracking government performance in agricultural policy.

Toward the end of 1998, at the request of USAID, UACE reconfigured its work plan to include USAID's "new agricultural strategy" for Ukraine. Chemonics International, along with other contractors implementing activities in Ukraine involving agricultural policy, devoted its resources to survey and market strategy support to help shape the new strategy. These survey activities in target oblasts replaced previous deliverables in exchange development, although benchmarks in training, promotion, association development, and government and policy monitoring continued.

After several shifts in strategy and implementation, Chemonics completed all benchmarks (excluding those waived to adopt the new strategies) and brought UACE to a close with significant lessons learned. It is important that information dissemination on external factors affecting agroindustrial growth continue after USAID funding ends. The newsletter initiated under UACE, the *AIC Partner*, should and will continue to exist under one of the UACE-assisted associations, the Ukrainian League of Entrepreneurs of the Agroindustrial Complex. Other organizations strengthened through UACE's efforts were provided with recommendations to continue coalition building with the Ukrainian government. Information gathered and reports prepared on forwarding trading and marketing surveys for the new agricultural strategy have provided a wealth of information for USAID as it finalizes its policy objectives for Ukrainian agriculture. Furthermore, the thousands of individuals touched by the outreach programs will be able to draw from this knowledge base as the agriculture community continues to redefine itself amid government intervention and world market realities.

This report documents the accomplishments of UACE. Section I discusses the project's history, performance, and evolution. Section II describes Chemonics' implementation strategy to achieve project results. Sections III through VI report activities undertaken by Chemonics for each of 16 tasks contained in the project task order issued June 1997.



## **SECTION I**

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### **Introduction**

## SECTION I

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### Introduction

#### A. Background

State control and management of the agroindustrial sector have been prevalent features of Ukrainian agriculture during most of its recent history. In Soviet times, the state dictated nearly all decisions affecting the production, processing, marketing, and distribution of basic agricultural goods and products. This was particularly so in the strategic grains sector.

Since the collapse of the USSR in 1991, efforts to introduce a greater element of private ownership and control of Ukraine's agriculture have gradually taken root. The results of this process of privatization may not have been as rapid, deep, or wide, as many may have predicted or preferred. Nevertheless some promising signs exist.

The U.S. government has promoted the privatization of Ukraine's heavily state-dominated grain sector since 1995 through attention to, among other things, the establishment, development and strengthening of the country's private agricultural commodity exchanges.

A program of support for these exchanges — the Ukrainian Mercantile Exchange project (UME), phase 1 — was initiated by USAID and its contractor Chemonics International Inc. in November 1995. The program's objective was to foster privatization of the agroindustrial complex through establishment of fully independent agricultural commodity exchanges offering cash spot- and forward-contract trading in basic commodities, with results of such trades to be announced and transparent in the wider market.

#### A1. Early Ukrainian Private Exchange Development

UME began at a time and in an environment particularly favorable to the rapid development of private exchanges and exchange trading. A law passed in 1991 forbade government control of or membership in private commodity exchanges. As a result, new private exchanges rapidly emerged in cities throughout the country.

Few of these new exchanges traded agricultural commodities exclusively. All were qualified to legally register private property transactions for a fee. Private property sale and registration was the mainstay of most exchanges. Their property registration business was brisk and reliable. For example, many exchanges were also engaged in trade in used cars, apartments, oil and gas, and scrap and precious metals.

The exchanges' rapid entry into agricultural commodity markets can be attributed to a single action: a December 1995 decision by the Government of Ukraine (GOU) to grant private exchanges sole licensing rights for the export of agricultural commodities. World supplies favored Ukraine at this time. Demand for Ukrainian grain and oilseeds was great. As a result of the December 1995 action, private exchange trading in basic agricultural commodities boomed.

The principal objective of UME in 1995 had been to support the establishment of a single agricultural commodity exchange. Now in the midst of the grain boom, nine "pilot" exchanges were chosen for participation in the project by competitive tender.<sup>1</sup> These exchanges needed help with simple issues

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<sup>1</sup> UME, as originally designed in June 1995, was intended to develop a single national agricultural commodity exchange. Subsequent changes in the attitude of the Ukrainian government in late 1995 required the expansion of assistance under UME to include (potentially) all present and prospective private exchanges trading in agricultural commodities.

including exchange rules, management, operations, and services (such as information and public relations). But they also needed basic education and training in more complex areas including standardized agricultural commodity contracts, spot and forward contracts, futures contracts, grain storage, transportation and marketing, grain exports, and financing forward grain contracts.

A small team of Chemonics experts provided such assistance to the “pilot exchanges.” Other components of the UME program were: (1) equipment procurement for the “pilots”; (2) the development and dissemination of basic exchange education and information materials; (3) training (including overseas training) programs; and (4) a limited outreach and public promotion activity. Phase 1 of UME was concluded in June 1997.

## **A2. Implementation of UACE**

UME’s successor, the Ukrainian Agricultural Commodity Exchange project (UACE), was implemented by USAID and Chemonics International beginning in July 1997. An initial objective was to widen and deepen technical and financial assistance to exchanges and the private exchange community begun under UME. However, by mid-1997, circumstances affecting exchanges (and agricultural exchanges in particular) had radically changed.

In particular, changes in world grain markets and Ukrainian government policy beginning in the summer of 1996 signaled a re-examination of the government’s commitment to free and open trading of agricultural commodities.<sup>2</sup> Conditions existing in July 1997 (which were absent in November 1995) included:

- Vastly expanded (and often illegal) Ukrainian national, regional, and local government intervention in grain markets
- A rapid deterioration in the economic state of the cash-based grain complex
- Unmet expectations (and lingering doubts) about the capability of the exchanges to act as a vehicle for trade or for reform

A new approach was needed. Memoranda of understanding (MOU) made by the Governments of Ukraine and the United States in 1995 and 1996 compelled continuation under UACE of many UME activities, including exchange organization and development and basic contract training as well as exchange outreach and promotion. On the one hand, it was clear that greater attention

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<sup>2</sup> By 1997, back-to-back poor harvests, poor general economic conditions, and resurgent power exercised by statal and parastatal entities caused the pendulum of Ukrainian government support to radically reverse. The result was a de facto cancellation of previous commitments and a virtual collapse of exchange markets. In 1996/97, citing “food security” reasons, national, regional, and local authorities imposed grain embargoes on grain movements, cutting supplies available to exchange markets. A glut of grain on world markets lowered prices achievable from grain exports. Debt accumulated by the government impelled grain seizures for the settlement of outstanding cash accounts. A poor investment climate favored barter over cash terms for grain.

would have to be paid by UACE to Ukrainian government policy and its potentially adverse impact on agricultural commodity exchange growth.

Specifically, UACE was forced to adapt from the beginning to much less favorable political and economic conditions for private agricultural commodity exchanges than that anticipated by UME. The UACE project design refined and retooled some basic UME activities. But new components were also necessary to boost the project's effectiveness to address changing political and economic conditions. These included:

- *Ukrainian Government Policy Monitoring and Reporting*: a new requirement for enhanced project monitoring and reporting of Ukrainian government policy affecting exchange trade and trade in grain, including regular reporting on Government of Ukraine compliance with World Bank (IBRD) conditionalities.
- *Exchange Association Development*: a new emphasis on development of the National Exchange Association of Ukraine (NEAU)<sup>3</sup> as a principal partner in the delivery of UACE technical assistance, education, training, and outreach and promotion activities; and for purposes of enhancing political advocacy favoring open and transparent markets for basic agricultural commodities.
- *Price Dissemination*: an expanded program to provide timely reporting of prices bid, offered, and accepted at Ukrainian agricultural exchanges to improve price transparency and for purposes of providing reference for private users of grain.
- *Grain Contracts and Grain Marketing Development*: a new emphasis on the development of linkages between exchanges and private grain markets (involving, for example, throughout agreements, forward contract insurance and financing, and the possible introduction of a national warehouse receipts program).
- *Electronic Trading*: provision for \$500,000 to support the development and implementation of a technologically appropriate electronic trading system (ETS) integrating Ukrainian exchanges on a national basis.

### **A3. Evolution in the Technical Scope of Work**

From the beginning, UACE experts and task implementors were much less confident about the prospects for rapid development of Ukrainian exchanges in agricultural futures trading than their UME counterparts had been. Project managers recognized that there were important impediments to development of exchanges in Ukraine. Among these, the most salient were:

- Punitive tax policy and the problem of tax avoidance.
- Lack of liquidity financing and credit as well as the prevalence of barter.
- Underdevelopment of the agricultural marketing sector in general.
- Illegal (fraudulent) or unfair competition.
- Absence of a “contract culture.”
- Anti-market government intervention and state control.
- Indifferent GOU support for open markets.
- Inadequate exchange organization and the inefficiency of exchange marketing.
- Incentives to non-agricultural trading on the exchanges.

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<sup>3</sup> Elsewhere identified as the Ukrainian Commodity Exchange Association (UCEA).

- Ineffectual political power exercised by exchanges relative to other forces in the agricultural economy.

Analysis of these impediments reveals that there are actually three major factors inhibiting growth in the private agricultural exchange sector:

- Excessive risk.
- Inadequate development of the agricultural marketing system (including exchanges).
- Anti-market government policy.

The UACE task order stated that “an ultimate goal of Phase 2<sup>4</sup> is to foster the development of a futures market in agricultural commodities in Ukraine.” However, the present conditions (particularly in the underlying cash grain markets) did not seem to support achievement of this goal.

A new emphasis in the new task order was later placed on the development of cash markets for grains and other agricultural products “as a necessary precondition to a successful futures market.” Forward trading of commodities was to be facilitated by the gradual development and introduction of grain marketing agreements (such as throughput agreements) and the application of financial guarantees backing forward trades (including a study of a warehouse receipt program).

Also altered from UME was UACE’s relative absence of direct technical support of the nine “pilot exchanges.” Instead, a majority of project support to individual exchanges was to be provided through the National Exchange Association of Ukraine (NEAU) to encourage its evolution into a non-governmental self-regulating organization (SRO).

Specific task or work areas designated in the UACE task order were:

- Legal, regulatory and policy constraints on exchange activity and effectiveness.
- Development of a professional association.
- Tax incentives or disincentives to trading on a commodity exchange.
- Exchange operations.
- Banking services supporting exchange operations.
- Grain availability (storage and transportation).
- Warehouse receipt system.
- Equipment and information technology.
- Training.
- Price dissemination.
- Assistance to “other” (non-pilot) commodity exchanges.
- Promotional activities.
- Futures trading.
- Facilitation of export trade.
- Government sales and purchases of agricultural commodities.
- Monitoring compliance with World Bank conditionalities.

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<sup>4</sup>Phase 2 of UME is here referred to as UACE

#### A4. UACE Task Order Modifications

UACE operated without substantial variation from its original work plan until June 1998. At that time, following an extensive April 1998 review of the project's results, the project was again reconfigured to include greater attention to promotion of specific grain trade instruments (such as an insured forward contracting) at new "pilot" exchanges. The thrust of UACE's Year 2 Work Plan changes was to promote more hands-on application by exchanges of trading concepts, contracts, and the expertise of the UACE team to achieve actual trading results, with lesser emphasis placed on general or pro forma training and education.

The UACE task order was further modified in January 1999 to allow greater provision of project resources to support USAID's development of a new agricultural strategy for Ukraine. At the same time, remaining funds to be received by the project were reduced by approximately one-half, resulting in the elimination of some activities proposed in the Year 2 Work Plan.

During its final months, considerable resources were devoted to "target oblast" survey and market strategy support for development of USAID's new agricultural strategy, which replaced previous deliverables in areas including individual exchange development, training, outreach and promotion, and a new activity begun in July 1998 designed to support the use of an insured forward contract developed by Chemonics and promoted on the Black Sea Commodity Exchange (BSCE). All tasks and benchmarks for year 2, as modified and/or amended were successfully completed.

In general, shifts in the scope of work during UACE's two years of operation reflected a good (and rapid) appreciation of prevailing or changing conditions in Ukrainian grain and exchange markets. Other changes resulted from the introduction of new USAID priorities (including the decision to move to a new agricultural strategy). The important changes were:

- A lessened emphasis on futures trading and greater emphasis on simple spot and forward exchange contracts for grain (year 1).
- Gradual expansion of UACE association development activities to include support for the Ukrainian Grain Association (UGA), Ukrainian League of Entrepreneurs of the Agro-Industrial Complex (ULEAC), and the development of the *AIC Partner* newsletter's Information Platform Program (year 2).
- Concentration of resources to support promotion of an insured forward contract at the Black Sea Commodity Exchange (year 2).
- Reconfiguration of the project's objectives to serve survey and market strategy needs of USAID's new agricultural strategy (year 2).

## **A5. UACE Performance on Benchmarks**

Chemonics satisfactorily met all UACE year 1 and 2 benchmarks, with the exception of three<sup>5</sup> waived by USAID based on an August 26, 1997, understanding that specific exchange volume benchmarks were to be interpreted as “goals” and not as deliverables under the contract. USAID/Kyiv confirmed in writing waiver of these benchmarks in December 1997, at or near the deadline for the second volume benchmark for year 1.

## **B. Statement of Objectives**

### **B1. Project Purpose and Objective**

The project’s purpose (as stated in the task order) was to foster the privatization of the agroindustrial sector in Ukraine by bringing free-market trading mechanisms to bear on the country’s grain trade to achieve the following objectives:

- Establishment of an independent agricultural commodities exchange sector.
- Evolution of a sufficient number of exchanges with full capacity to offer cash and cash-forward trading, with prices arrived at openly and communicated throughout the country.
- Futures trading viability for one exchange in 1998 and actual trading in futures contracts by one exchange in 1999.
- Technical and financial support to the National Exchange Association of Ukraine (NEAU) to widely expand the delivery of project assistance, with additional assistance given to individual exchanges and other phases of the grain-marketing complex.

These objectives were largely achieved. In fact, in 1998 and 1999 one exchange (the Resources Exchange of Kyiv) tried trading agricultural futures. Although the exchange failed to become successful in its new endeavor, the reason was its inadequate financial condition rather than inability or lack of knowledge. At the time, the general director of the exchange was a former employee of UACE. All other basic objectives of the UACE task order were met.

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<sup>5</sup> The three waived benchmarks are as follows:

- By July 20, 1997, “the volume of spot and forward trading on exchanges belonging to the Exchange Association will be at least \$6 million per week, with at least 10 percent of the volume being the Standard Forward Contract for wheat.”
- By December 20, 1997, “the volume of spot and forward trading on exchanges belonging to the Exchange Association will be at least \$9 million per week, with a significant (at least 25 percent) of the volume being the Standard forward contract.”
- By April 20, 1998, “the volume of spot and forward trading on exchanges belonging to the Exchange Association will be at least \$18 million per week, with one-half of the volume being the Standard Forward Contract.”

## **SECTION II**

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### **Project Implementation Strategy**

## SECTION II

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### Project Implementation Strategy

#### A. Attaining Project Goals

Four long-term expatriate advisors working with up to 16 full-time professional Ukrainian employees provided technical assistance under UACE for most of the project. Professional staff were supported by an administrative and office staff of up to eight persons. The chief of party and other long-term advisors identified needs for more highly specialized advisory services and training, which was then provided by short-term experts.

#### B. Staffing, Organizational Structure, and Responsibilities

The original project implementation design allocated work responsibility on the basis of 16 tasks contained in the task order, with overall coordination and administrative control exercised by the chief of party. In March 1998, the project implementation design was revised to create five technical groups corresponding to tasks in the task order:

- Government policy monitoring and analysis.
- Grain and exchange market analysis and development.
- Training and outreach and promotion.
- Association management support.
- Project Management

A long-term advisor managed each of the technical groups with support from appropriate local staff. Each long-term advisor was held responsible for the performance of tasks and benchmarks under his direct management control. The overall system was directly coordinated and managed by the chief of party.

The work program of employees in each technical group was organized and managed by the long-term advisor appointed to lead it. General project work plans and assignments (including the allocation of resources) were determined by the chief of party. Long-term advisors and local professional employees maintained liaison and worked directly with designated counterparts in various associations, exchanges, media, government and parliamentary bodies, private sector grain companies, and donor organizations. Ongoing liaison with USAID/Kyiv was coordinated and conducted by the chief of party and/or his designees.

Basic functions to be performed to achieve project goals and objectives and meet designated tasks were:

- Government agricultural policy monitoring, study and analysis, and reporting; and exchange policy development and analysis.
- Macroeconomic monitoring, study and analysis, and reporting; and exchange price data collection and dissemination.
- General exchange and grain market monitoring, study and analysis, and reporting; and development of exchange and grain market instruments and programs.

- Technical and financial assistance to associations, including management counseling and monitoring, equipment procurement, lobby and member services development, and training and promotion and outreach assistance.
- Technical assistance to individual exchanges, including management counseling and monitoring, equipment procurement and financial subsidy, lobby and member services development, training, and promotion and outreach.
- Basic project management and administration.

Technical groups were organized by tasks under subsequent work plans and work plan modifications as follows:

- *Government policy monitoring and reporting*
  - Task 1. Legal, regulatory and policy constraints
  - Task 2. Development of a professional association
  - Task 3. Tax incentives and disincentives to exchange trading
  - Task 15. Government Sales and purchases of agricultural commodities
  - Task 16. GOU compliance with IBRD conditionalities
- *Grain and exchange market analysis and development*
  - Task 4. Exchange operations
  - Task 5. Banking services
  - Task 6. Grain availability, storage and transportation
  - Task 7. Warehouse receipts program
  - Task 8. Equipment and information technology
  - Task 13. Futures trading
  - Task 14. Export trade
- *Training and outreach and promotion*
  - Task 9. Training
  - Task 10. Price dissemination
  - Task 11. Assistance to “other” commodity exchanges
  - Task 12. Promotional activities

The task order and a subsequent Year 2 Work Plan Modification also required study, reporting, and possible implementation of an electronic trading system (task 8) and “target oblast” survey and marketing strategy activities (work plan modification) associated with USAID’s implementation of the new agricultural strategy.

Regarding ETS, the task (if it had been implemented in full) would have required a specialized operational unit. In fact, funding for the total activity (\$500,000) was not approved by USAID, and tasks associated with study and reporting of its feasibility were assigned to the project management unit’s computer specialist with assistance from short-term experts.

Staff assigned to survey and marketing strategy work under the new agricultural strategy were drawn widely from staff assigned to operational technical groups assigned above. Survey and marketing strategy work was placed under the supervision of a senior long-term advisor or local staff member, who organized the work and product of the team for each of three target oblasts.

A project management support unit consisting of the chief of party, senior advisors, and support staff

(including financial management personnel and computer specialists) provided support for all operational units. The chief of party also acted as manager of the association management component of the project.

### **C. Linkages with Outside Groups**

The project's implementation also depended on the commitment, participation, and cooperation of private sector exchanges, association, local and national government agencies and entities, and other parties. Particularly close working relationships were required with association and government and political leaders. Necessary liaison with USAID was maintained through a regular schedule of project meetings, augmented by telephone and email contacts and monthly and quarterly reports.

Coordination with other donor projects was another important part of the project. Chemonics worked closely with RONCO, CNFA, USDA, TACIS, Iowa State University, and Price Waterhouse throughout the project. Joint programs and training sessions involving one or several participants above was common. These links and relationships helped prevent duplication of effort, allowed the team to benefit from others' experience and knowledge, and ensured continuity.

## **SECTION III**

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### **Government Policy Monitoring and Reporting**

## **SECTION III**

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### **Government Policy Monitoring and Reporting**

#### **A. Background**

The pace of development of Ukrainian agriculture still remains determined by action or inaction of the GOU. Before independence, all functions of the agroindustrial complex — including production, processing, distribution, and marketing of agricultural goods and products — were centrally organized and directed.

After independence, the GOU signaled its desire to privatize key portions of the state-controlled sector (including by promotion of private exchanges). This objective was strongly supported by the United States and other donor countries and institutions. New state entities such as the GOU Commission on Agrarian Reform were established to organize the transition from state control to private ownership and management. This process, too, was strongly supported by the donor community.

However, change often brings conflict and confusion. New laws and regulations require codification and enactment and old laws and regulations require removal from the books.

Attitudes can be even harder to change. The case for reform has to be effectively argued and new policies and programs developed, often within a very short time frame. Vested interests can oppose change or attempt to direct change to their advantage without respect to the national interest. Recidivism and legal “twists and tangles” frustrate efforts to achieve timely reform results. It is in just such an environment that Ukraine today moves gradually toward reform of its agroindustrial sector.

In 1997 the GOU economic and agricultural policy was generally unfriendly to open markets, nevertheless served potential future agricultural exchange development in three critical areas: (1) business taxation; (2) securities regulation; and (3) grain elevator privatization.

Profit taxes applied to commodity transactions were reduced from 70 percent to 30 percent, reducing relative disincentives to commodity trades (although tax avoidance remains an important problem discouraging trades in the open market).

In 1997 and 1998 activities of the State Securities and Stock Exchange Commission (SSSEC) promise future progressive regulation and protection of agricultural commodity exchanges (in areas including exchange certification, clearing houses, contract compliance, and warehouse receipts), supporting basic and necessary commodity exchange development objectives.

Privatization of grain elevators and other facilities owned by Klib Ukrainy (KU), begun in late 1997, promises an expansion of grain available for trade in private channels, including exchanges, and reduction in the State’s ability to manipulate grain markets.

Exchanges were quick to see the potential benefits of elevator privatization and made foundation efforts to ally their marketing strategies with elevators. The President of Ukraine also announced in March 1998 a plan to implement uniform taxation of agricultural enterprises linked to past tax and debt forgiveness which, if implemented, could significantly expand liquidity in commodity markets and increase incentives to trade in open markets.

#### **B. Strategy and Objectives**

Chemonics based its policy program on a comprehensive monitoring program of GOU, Parliament,

oblast government and trade activity. The monitoring information was systematically compiled, analyzed and then widely dispersed among public and private participants with a stake in the development of an open agricultural market in Ukraine. At the same time Chemonics consulted on a continuing basis with the exchanges, individual traders and consultants identified policy bottlenecks constraining open market development. Consensual solutions to the bottlenecks were developed at meetings, conferences, teleconferences and through other forums. The proposed measures were submitted by the NEAU to the GOU for adoption and provided by Chemonics to USAID. Chemonics and USAID jointly forwarded select policy initiatives to the Gore Kuchma commission and to the World Bank. Chemonics also undertook direct consultations with the GOU as was warranted to develop and implement policy initiatives. In addition to direct ongoing involvement of full time project personnel, Chemonics also employed a number of expatriate consultants to analyze and provide specific policy advice in the fields of taxation, and international trade.

The strategy adopted to achieve purposes and objectives above was to:

- Identify and appropriately utilize all pertinent sources of information regarding GOU policy in the agroindustrial complex, particularly those pertaining to exchanges.
- Identify factions supporting and opposing (or obstructing) reform and provide support to pro-reform factions.
- Maintain a permanent capacity to provide timely information regarding GOU policy developments to the U.S. government and other interested parties.
- Maintain a permanent capacity to provide timely advice and counsel to exchanges, NEAU and other associations regarding the drafting and promotion of new regulations and laws.

The objectives of this activity were to:

- Monitor the basic status and evolution of GOU policy supporting, opposing or obstructing reform, particularly as regards the private exchanges.
- Provide timely reporting of GOU policy developments to the U.S. government and other interested parties.
- Advise and support pro-reform factions in the GOU, private industry and elsewhere regarding the status and evolution of GOU policy; and maintain a permanent research and advisory capacity for their use.
- Advise and support exchanges and the NEAU on the status and evolution of GOU policy, including support as necessary in the drafting of new laws and regulations, and the promotion of the same.
- Monitor GOU compliance with IBRD (and, later, IMF) conditionalities applied to structural adjustment programs and loans.

Chemonics identified key GOU personnel, business organizations, and other sources capable of providing accurate information on GOU market interventions. We compared the information from multiple sources against the conditionalities required by USAID, Gore Kuchma and the World Bank and presented our findings on a monthly basis, or as needed, to USAID. Upon review with USAID of the findings we would then translate the consensus regarding performance or non performance to

appropriate government and industry leaders. In addition to direct one-on-one meetings with GOU personnel, Chemonics took every opportunity to provide through its training programs, through the exchanges, and through the media accurate information to all interested parties about GOU international commitments, the impact of GOU market interventions and the actual execution of GOU commitments.

### **C. Tasks, Benchmarks, and Results**

The task order identified the following key tasks to be performed by Chemonics within the scope of this activity (see attached task order):

- Legal, regulatory and policy constraints on exchange activity (task 1).
- Tax incentives and disincentives to exchange trading (task 3).
- Government sales and purchases of agricultural commodities (task 15).
- GOU Bank compliance with IBRD conditionalities.

#### *Results:*

- Monthly, weekly, and as-needed reports and papers to USAID on GOU state purchases, and other interventions in the agricultural marketplace.
- Regular meetings with officials from the Cabinet of Ministers, the Ministry of the Agricultural Industrial Complex, and officials from 20 oblasts to gather information, inform them of the impact of GOU marketplace interventions, and to show them the benefits of an unencumbered marketplace.
- Development and distribution of training and media materials and activities to show the benefit of a free marketplace, and the negative impact of GOU renegeing on International conditionalities.
- Inclusion of fair and open purchase provisions by the GOU in World Bank conditionalities.
- Production and distribution in Ukrainian and English of a weekly newsletter consisting of political and market information. There are 94 English language recipients, and 45 Ukrainian language recipients of the newsletter. Approximately half of the recipients occupy direct policy-making positions.
- Preparation and adoption of Cabinet of Ministers Resolution # 848, August 1997; Cabinet of Ministers Resolution #1417, December 1997; implementation orders for CoM resolution #1417 in Volyn and Mykolaiv oblasts in March 1998; and amendments to the ruling of the State Securities and Stock Market Commission defining derivatives in January 1998.
- Preparation of a blocking vote in Parliament that would have raised government taxes on exchange contracts from 0.1 percent of the value of the contract to 5 percent of the value, thereby ensuring the existence of an exchange revenue stream.
- Preparation of a Presidential Decree on the Development of Exchanges (not adopted), a Presidential Decree on Clearing Houses, a Presidential Decree on Exchange Warehouses, a Cabinet of Ministers Resolution on Certifying Exchanges, a Cabinet of Minister Resolution on Certifying Brokers, and a Cabinet of Ministers Resolution to implement Resolution #1417.

- Development of working relations with the Ministry of the Agricultural Industrial Complex, Ministry of Economics, Ministry of Finance, the State Commission on the further Development of the Agricultural Commodity Exchange Market, and the State Securities and Stock Exchange Commission (SSSEC).

#### **D. Issues and Comments**

The tremendous work load demanded of the government policy activity required the establishment of a four-person unit to maintain continuous monitoring and reporting capacity. The unit was headed by a full-time advisor.

The work load also required keeping a regular schedule of reporting and fashioning specialized reporting materials. These evolved, in time, into a series of reports provided in hard copy and email as follows:

- Weekly report (wide distribution).
- Monthly report (USAID only).
- Quarterly report (USAID only).

The weekly report was provided in both Ukrainian and English language versions. Its popularity required that a successively greater amount of attention and resources be allocated to its preparation, production and distribution. In addition, the weekly report was expanded in April 1998 to provide greater reporting of economic issues. This responded to USAID's request for better information in this area.

The weekly report was re-formatted in April 1998 to enhance its acceptability by users and to comply with higher journalistic standards. This expanded the range of its use and impact for a wider audience in Ukraine and abroad.

Reports and resources available to the project as a result of this activity were provided to the NEAU and other associations for distribution to their membership and to assist their own publications activity. This enhanced the associations' visibility as a reliable resource for information and opinion.

The weekly report was provided to senior Ukrainian agroindustry and government representatives. This expanded the reach and impact of the project's policy advocacy function.

The weekly report was terminated in May 1999, in advance of the project's closing. All other reports or activities required by the task order were performed by the unit, with specialized assistance provided by short-term advisors. These reports were submitted as required by benchmarks or by agreement or request of USAID.

## E. Recommendations

UACE has since 1996 been in direct policy dialogue with the National Exchange Association of Ukraine (NEAU), Ukrainian Grain Association (UGA), Ukrainian League of Entrepreneurs of the Agroindustrial Complex (ULEAC) and Inter-Ministerial Council on Agricultural Reform (IMCAR).

*National Exchange Association of Ukraine (NEAU).* Chemonics was instrumental in the creation and development of this association and recommends the association:

- Cease dedicating the bulk of its efforts to trying to influence the government to adopt positive attitudes toward open markets and/or dedicate government programs and resources to greater utilization of commodity exchanges. Instead, NEAU should focus its efforts on building a stronger coalition of supporters in government, the Verkhovna Rada and in the oblasts. The primary focus of this lobby should be defensive and to prevent the adoption of poor laws and government policies.
- Focus greater effort on using the trading instruments developed by Chemonics and by the exchanges themselves to insure that they are being implemented by all exchanges. This would provide a unified trading environment across the entire country.
- Continue to maintain a regular price information service since this activity is the single most valuable contribution that the association can make to its members and the agricultural community.
- Continue to support the development of a coalition of market-oriented agricultural associations to ensure there is a strong lobby against negative laws and policies.

*Ukrainian Grain Association (UGA).* UGA (as NEAU) should not invest resources in developing and implementing policy proposals since this activity has been non-productive. UGA should instead focus on policy activity that inhibits the adoption of negative laws and work on dismantling the system of administrative control in the marketplace as follows:

- Focus on the development of fair commodity-trading practices of its members.
- Help create a transparent market, rather than barter trade. Outside of government, UGA members constitute the single largest group of barter traders in the country.
- Continue to develop member services and cooperation with other associations to provide information to the Ukrainian market.

*Ukrainian League of Entrepreneurs of the Agroindustrial Complex (ULEAC).* UACE has cooperated closely with this association and strongly supported its development. ULEAC should:

- Work with its sister organizations and associations to ensure that its strength of experience and competence, particularly in public relations and publications, better serve all associations and the agroindustrial complex in general.
- Continue to be accorded a leadership role in matters pertaining to agroindustrial policy and coalition-building affecting government policy.
- Avoid using resources on trying to develop and implement policy proposals for the government.

It should instead focus on policy activity that inhibits the adoption of negative laws and work on dismantling the system of administrative control in the marketplace.

*Inter-Ministerial Council on Agricultural Reform (IMCAR)*. IMCAR should take a more active role in networking with agricultural associations and the broader agricultural community on policy development in the government as follows:

- Take a more activist stance in organizing working groups to deal with agricultural policy issues.
- Serve as the focal point for USAID/Kyiv in developing positive agricultural policy reform initiatives.

## **SECTION IV**

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### **Grain and Exchange Market Analysis and Development**

## SECTION IV

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### Grain and Exchange Market Analysis and Development

#### A. Background

The operation of Ukrainian private agricultural exchanges may be considered a recent phenomenon. Grain exchanges did exist in Ukraine in the century before the creation of the USSR. However, during the period of Soviet rule, the exchanges were disbanded and their institutional legacy was lost.

Private exchanges established after Ukrainian independence in 1991 lacked basic modern tools for performing price discovery and market facilitation functions. On the whole, they were auction markets for a wide range of commodities, products, and services, including agricultural commodities.

The recognition of the importance of agriculture production and marketing, particularly of grain and oilseeds, to the Ukrainian economy after independence spurred new interest in exchanges as a medium for expanded commerce and wealth for the country. The use of exchanges by the government as sole licensees of grain and oilseeds exports in 1995-1996 demonstrated their potential institutional capacity, and encouraged entrepreneurial interest in their further establishment.

However, these new exchanges lacked important features necessary to successfully function as vehicles for price discovery and trade. Structural impediments to exchange trading included:

- Inadequate exchange organization, management, and capitalization.
- Inadequate or inappropriate exchange trading rules.
- Absence of standardized contracts for basic commodities.
- Absence of necessary settlement, clearing, and performance structures and mechanisms.
- Absence of tried brokers and exchange management officials fluent with modern exchange practices and conventions.

Since 1995 appropriate private exchange development in Ukraine has also been impeded by:

- Indifferent government policy favoring the development of exchanges and exchange markets.
- The relative absence of a private cash market for basic commodities.
- General underdevelopment of the grains and agroindustrial complex.

As discussed in the previous sections, UME was designed to address many of these impediments. The project was designed to provide technical assistance to nine pilot exchanges to increase their institutional capacity and knowledge base; and to integrate them effectively into the Ukrainian and world markets for grains and other basic commodities. Advancements that took place since UME ended are discussed below.

*Exchange development.* The Ukrainian commodity exchange industry made important strides in 1997 and 1998 toward cooperation and the eventual goal of a unified exchange market in Ukraine. In the interim, multiple exchanges serve the objective of promoting price discovery and open markets in rural areas separated by a discontinuous and inefficient national private commodity marketing system.

Exchanges cooperated in the NEAU, regional and factional marketing coalitions, and the development of an integrated electronic trading system (ETS). All these efforts are designed to strengthen and grow commodity markets. In addition, exchanges engaged in local marketing, promotion, and training and education activities supported by NEAU and UACE. This increased the audience for the concepts of open markets and exchange trading among potential exchange users unfamiliar with these concepts, including standardized contract development, arbitration, and forward trade.

USAID's concerns in these areas are merited, even though UACE benchmarks for total trading volume and forward contracts trading were waived in July and December 1997. Weekly targets for total volume and forward trading were not uniformly met. GOU agricultural policy in 1997 was characterized by retrenchment, as well as some elements of reform. Commodity exchanges, as a whole, did not fully achieve their potential as catalysts for change. NEAU growth was hard-won; and important opportunities for institutional development were lost in a preoccupation with politics and the Parliamentary elections.

Despite these constraints, Chemonics believes satisfactory progress was made in each area of primary concern to USAID. All relevant benchmarks were met. The positive development of exchanges as agents for open markets in 1997 and 1998 — a period of complicated economic and political strife — clearly shows the value of U.S. assistance. The examples below detail this progress.

*Trading volume.* Trade volume on the exchanges during 1997, if less than hoped for, was sufficient to serve the purpose of significantly improved price discovery (a requirement for open market development). Wheat prices traded on the exchange demonstrated a substantial (30 percent) narrowing of 1996 differences between Ukrainian and world prices, averaging a coefficient of 0.9; and exchange prices for wheat and other commodities were used as a principal reference for private trades throughout the country.

Bids and offer activity reached record levels, exceeding \$2.2 billion (the grain equivalent of 2.2 mt of wheat). This demonstrated the viability of exchanges as markets. More traders used the exchanges more often, if only to conduct off-exchange transactions and establish their price benchmarks.

*Forward contracts.* The 1997 percentage of forward to spot trades often exceeded on a weekly and monthly basis targets set in the task order. From June through December 1997, forward trades constituted 31.3 percent of total trade volume. Total forward trades exceeded spot trades on 7 of 31 trading days (or 22.5 percent of the time) during the same period. Many exchanges explored or experimented with insurance schemes designed to reduce the risk inherent in forward contracting. Exchanges began a process of negotiating marketing and throughput agreements with local grain elevators to reduce grain handling costs and provide a greater assurance of sanctity of contract. Forward grain trades on the exchanges were conducted through a set of uniform contracts, again lessening risk and cost.

## **B. Strategy and Objectives**

The strategy adopted to achieve these purposes and objectives was to:

1. Through NEAU, promote nation-wide and standardized exchange registration procedures and requirements affecting: exchange organization and management (including minimum capitalization); exchange rules; exchange contracts; exchange settlement, clearing and performance functions (including arbitration).
2. Study and progressively introduce on a pilot basis (or, utilizing NEAU, on a nation-wide basis)

new programs and instruments to promote exchange trading including: banking and insurance guarantees on performance; through-put arrangements; warehouse receipts.

3. Support the institutional capacity of industry associations to achieve strategy objectives above (see also sections on Association Development, Training and Outreach and Promotion).

The objectives of this activity were to:

1. Build on achievements of and lessons learned by UME in critical areas affecting exchange development toward the objective of a functioning commodities futures market, including: exchange organization and management; exchange rules; exchange contracts; exchange settlement, clearing and performance structures and mechanisms (including arbitration structures).
2. Facilitate further development of exchanges as effective participants in a private commodities market through: continued technical assistance in areas above; and study and introduction of new instruments and programs designed to expand and develop exchange trading of grains, including financial and banking services supporting exchange functions, through-put agreements facilitating grain availability to private markets, and a warehouse receipts program
3. Technical assistance to exchanges was to be provided by Chemonics through the NEAU to strengthen its capacity to develop into a self-regulatory organization (SRO) governing trade in private markets.

### **C. Tasks, Benchmarks, and Results**

The task order identified the following key tasks to be performed by Chemonics:

- Exchange operations (task 4).
- Banking services (task 5).
- Grain availability, storage, and transportation (task 6).
- Warehouse receipts program (task 7).
- Futures trading (task 13).
- Export trade (task 14).
- Equipment and information technology (task 8).

Activities and benchmarks were established by three work plans governing the periods: (1) July 1, 1997-June 30, 1998 (work plan 1); (2) July 1, 1998-June 30, 1999 (work plan 2); and (3) January 1-June 30, 1999 (modifications to work plan 2).

*Goal #1.* Work with exchanges and the agricultural commodity trading and processing industry to provide relevant business and operational services to exchanges and the trading industry. The development of exchange services will attract the industry to use exchanges for price discovery which will in turn lead to transparency in the Ukrainian agricultural marketplace.

Chemonics adopted a new strategy in task order 2 to assist exchanges in developing business and operational services that will attract business activity to the exchanges. During task order 1 Chemonics worked on the development of business services jointly with nine pilot exchanges. The strategy changed to the development of business services through the NEAU, and also directly with industry participants. To implement the new strategy the task order called for the employment of a number of short-term experts, rather than relying mainly on full time staff, to develop specific proposals for improved exchange services. After the specific service proposals were developed they were presented to all exchanges through the NEAU. Simultaneously Chemonics expanded the scope of direct industry communications which led to the introduction of trading and organizational ideas to the industry.

*Results:* Short-term consultants, together with permanent staff worked to produce general and specific proposals for review and or adoption on the following:

- Coordination with the over the counter stock trading project.
- Barter trade on exchanges.
- Qualification and licensing of brokers.
- Certification of exchanges.
- Insurance of forward contracts.
- Harmonization of standards.
- Use of standard contracts.
- A code of ethical conduct for brokers.
- An arbitration mechanism to resolve disputes.
- Reliable and affordable grain storage.

The NEAU adopted resolutions giving itself the authority to certify brokers and exchanges, and a code of ethics. The NEAU also took under consideration a proposed inter exchange arbitration system. A final decision on the adoption of this system is pending. Exchange members of the NEAU adopted a standard spot and forward contract developed by Chemonics for all commodities they trade. As a result of the standard work that has begun on adopting common reporting standards on bids, offers, contracts, and commodity grades. Two exchanges entered into elevator through-put agreements to insure that there is safe and reliable grain storage available through the exchange. Two other exchanges have entered into agreements with owners of lesser quality, but still long-term flat storage spaces. All exchanges have begun serious discussions with elevators and other enterprises that are leaving Khlib Ukrainy. Chemonics negotiated with two insurance companies and two exchanges to provide buyer insurance on forward contracts.

*Goal # 2.* Assist in the development of standardized, streamlined, and uniform financial settlement and clearing at exchanges by providing support and programs to link exchanges with banks.

Chemonics worked with and through the NEAU and with individual exchanges, financial institutions and the National Bank to propose the establishment and operation of clearing houses. Chemonics also pursued two alternative strategies to create a capital asset base for a national insurance fund for

forward contracts.

*Results:*

- Development and adoption by the NEAU of a draft Cabinet of Ministers resolution outlining the scope and functions of a national clearing house to serve commodity exchanges. The resolution was vetted by the National Bank of Ukraine, but not adopted by the CofM.
- Assisting the Dnipropetrovsk Agrarian Exchange and Privatbank to adopt and implement clearing and insurance operations, and procedures at the exchange.
- Assisting the Inter-Metal syndicate of exchanges to develop clearing and operations procedures for an inter-exchange electronic trading system.
- Assisting the Ukrainian Resource Exchange, a new exchange which intends to trade futures contracts, with the development of clearing operations and procedures.

*Goal # 3.* To assist in the development of a viable futures markets in Ukraine trading agricultural futures contracts. Chemonics has continuously provided literature and training about futures exchanges. Its other activities in developing a transparent spot and forward market have laid the basis for a futures exchange.

*Results:* The training and literature provided by Chemonics has served as the intellectual basis for the development of the Ukrainian Resources Exchange. The exchange has modified the programmatic and exchange service proposals developed by Chemonics and adopted them to the Ukrainian market and regulatory environment.

#### **D. Issues and Comments**

This activity commanded a considerable share of total resources available to the project (particularly short-term level of effort).

The activity was progressively re-tooled during 1997 to provide the basis for greater leadership and promotion by NEAU of (a) exchange organization and management (through introduction of a mandatory exchange registration process; (b) exchange rules (through introduction of a broker certification process); and (c) exchange contracts (through adoption by most exchanges of uniform or standardized contracts for trade in grains).

This freed Chemonics to undertake new activities in areas including: (a) study, development, and promotion of a pilot throughput agreement; (b) study, development, and promotion of a pilot insured forward contract; and (c) study of a pilot warehouse receipts program (as required by the task order).

Results of the pilot activities were mixed (see benchmark reports) but form a basis for future work in all of these areas.

The basic underdevelopment of the Ukrainian exchange and grain marketing sectors prevented greater substantial progress toward meeting other purposes and objectives of the activity. In particular, the management of exchanges often appeared indifferent to change, preferring, as an alternative, reliance on government edict to promote exchange marketing.

Progressive exchanges (and those primarily trading agricultural contracts) were the strongest supporters

and advocates of uniform procedures and instruments proposed by the project. Other exchanges (including those trading primarily non-agricultural commodities, products and services) neither opposed nor participated significantly in programs undertaken under this activity.

Most exchanges in Ukraine are financially unfeasible or trade a limited range of commodities and products (such as non-agricultural products and services) outside of the scope of the assistance provided by the project. Most exchanges are oriented to local markets and may operate under the direct or indirect influence or control of local administrations and authorities.

Exchanges trading primarily agricultural commodities did participate enthusiastically in the programs undertaken under this activity. Such exchanges were also, typically, more enthusiastic supporters of NEAU and supporters, in general, of uniform registration, rules and sanctions applied to exchange trading in agricultural commodities.

As a result of the activity, nationally standardized contracts for grain and oilseeds have been introduced at most exchanges. An NEAU exchange registration process is underway that ensures greater future uniformity with respect to conditions governing exchange organization and management, and exchange trading rules. This process may also ensure that financially unfeasible exchanges or those trading primarily non-agricultural products and services will cease to influence agricultural exchange markets as they have in the past, through indifference, or lack of standards promoted by more progressive exchanges.

## **SECTION V**

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### **Training and Public Outreach**

## SECTION V

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### Training and Public Outreach

#### A. Background

As noted earlier, the knowledge base of exchanges — and of their member brokers and management — was extremely narrow at the time of their establishment and proliferation in the early 1990s.

Most exchanges operated as simple auction markets. Few exchange managers or member brokers had real experience of or exposure to Western systems of exchange management, rules, contracts or trades. Those that did acquired their knowledge independently. Consequently, the knowledge base of the exchange community at large was eclectic and spotty; and in many cases based on impressions (often false impressions) of significantly different models of exchange market organization and trade.

The impediment to exchange development created by exchanges' inadequate knowledge and experience was made even more critical by a virtual absence of information about exchanges available to potential users and the public. For most, exchanges represented a new, mysterious and even threatening presence. Mistrust of exchanges as “middlemen” was common.

The government's decision in December 1995 to require exchange purchase licensing of grain exports confounded an already serious problem. The confusion of the sudden introduction of a new “player” in the export market created new demand for information about exchanges and their appropriate function. Also added was renewed mistrust and hostility of exchanges for obvious reasons, sentiments which Ukrainian government pronouncements and declarations did not sufficiently satisfy or assuage.

UME introduced into Ukraine for the first time the possibility of a more organized and uniform knowledge base of modern Western exchange practices and procedures. Training and public outreach and promotion were important components of the project.

Recipients of training included local exchange brokers, bankers, potential exchange users and financial writers. For these target groups, training consisted of a formal or informal introduction to principles of modern Western exchange trading and operations. Specialized groups, such as bankers, were exposed to specialized information designed to more completely integrate them into an exchange trading regime.

Training was provided both on-the-job and in formal visits and courses. The project did not conduct training activities at the producer level; this was left to the exchanges, brokers and others with an economic interest in attracting producer's business. Instead, it provided producer-level training for exchanges, brokers and potential trainers.

UME's program of training emphasized the institution building benefits of training of exchange trainers. UME long- and short-term advisors trained local UME and exchange staff about basic principles of exchange trading and organization, but also increased their awareness of their own potential role in the dispersal of such knowledge through practical demonstration of training and promotion, public awareness and outreach techniques.

Exchanges participated enthusiastically in UME's training activity. Exchange managements understood quickly the potential dividends to them associated with better public awareness of exchanges. They also quickly grasped the importance of outreach and promotion as a function of their role as businesses and “public utilities” providing a market place for the purchase or sale of basic agricultural commodities.

Promotion and outreach activities undertaken by UME to support exchanges consisted of: a training video, a pilot televised talk show, advertising video, a radio series, radio public awareness spots, and exchange price reporting on radio and television. A documentary project was also initiated to provide more basic knowledge about exchanges to a wider public audience.

An Exchange Information Center was also established at the project containing materials about exchange trading principles and organization. The Center produced new materials, most translated into Ukrainian, and archived other relevant information, including information about Ukraine exchange law, which was widely disseminated to exchanges for their own use and available to the general public upon request.

The design of the UACE training and outreach and promotion activities were built on the foundation of experience and resources created and established under UME.

## **B. Strategy and Objectives**

The strategy adopted to achieve the purposes and objectives above was to:

- Continue or enhance ongoing training and outreach activities initiated under UME but tailored to new task order instructions.
- Increase NEAU visibility and information capability through initiation of an NEAU newsletter and maintenance of a price dissemination activity in the project providing weekly reporting of prices bid, offered and accepted at NEAU exchanges for wide dissemination to exchanges, exchanges users, the media and other interested parties.
- Maintain and expand use of the NEAU Web site to provide a new avenue for outreach and promotion functions of the association.

With respect to this activity, the objectives of this activity were to:

- Provide a substantial program of exchange training, primarily geared to brokers and other users of grain exchanges.
- Provide a substantial program of exchange outreach and promotion, primarily geared to participants of the agroindustrial complex.
- Gradually transfer (as feasible) management of training and outreach and promotion activities from the project to the NEAU.

### C. Tasks, Benchmarks, and Results

The task order identified the following key tasks to be performed by Chemonics:

- Training (task 9).
- Price dissemination (task 10).
- Promotional activities (task 12).

Activities and benchmarks were as contained in three work plans governing the periods: 1) July 1, 1997-June 30, 1998 (work plan 1); 2) July 1, 1998-June 30, 1999 (work plan 2); and 3) January 1-June 30, 1999 (modifications to work plan 2) and in separate annual work plans for training and outreach and promotion submitted to USAID.

*Goal #1.* Build sustainable capacity within the NEAU to conduct Broker Certification and Licensing Training.

The NEAU conducted two Broker Certification Seminars in year 1 of the task order. It is anticipated that two additional NEAU broker certification seminars will be funded by the project in year 2 of the task order. Chemonics worked with the training staff of the NEAU to develop a comprehensive two day seminar agenda focusing on the technical skills necessary to engage in effective commodity trading on Ukrainian exchanges as well key issues impacting the development of a successful commodity exchange industry in Ukraine. In addition, a thorough certification exam was developed and approved by the Executive Committee of the NEAU.

*Results:*

- Twenty-nine individuals participated in the first seminar held in Kyiv on November 24-25, 1997. Twenty-four brokers passed the exam.
- Thirty-one individuals participated in the second seminar held in Kyiv on March 16-17, 1998. Twenty-four individuals passed the exam.
- For the remainder of year 2 of the task order, an additional 84 traders and investors were trained throughout Ukraine.
- Participant feedback gathered at both seminars was highly complimentary. The importance of the creation of a cadre of qualified and systematically certified brokers was universally recognized within the exchange community. The emergence of a network of highly trained and qualified brokers was instrumental in the continuing effort to promote Ukrainian exchanges as efficient and cost affective venues in which to trade agricultural commodities.

*Goal #2.* Develop an indigenous capacity within the NEAU and Ukrainian exchanges to train brokers and other exchange participants in skills that will foster participation on the exchanges by buyers and sellers of agricultural commodities.

The NEAU/Chemonics training plan has focused extensively on the development of an institutional capacity to conduct training among Chemonics local staff, the NEAU and member exchanges. Early on in the task order, training of trainers and promotion/ outreach seminars were attended by key NEAU staff and members of the training and marketing departments of 12 exchanges. Following these seminars, the NEAU proceeded to conduct six UACE funded workshops. Chemonics staff designed and implemented the additional six workshop detailed in the training plan. In addition, support was

continually provided to individual member exchanges as they developed their own training plans and promotion/outreach strategies.

*Results:*

- The NEAU has successfully developed and implemented six training workshops, including two highly successful broker certification seminars. The Chemonics training team has worked closely with the NEAU training department throughout this process and has successfully transmitted the skills necessary to insure that the association has the informational and logistical resources necessary to implement a successful institutional development training programs on behalf of its member.
- Chemonics local staff, NEAU staff and select exchange personnel have participated extensively in the development of the Syllabuses for each of the 14 training seminars organized by Chemonics and the NEAU. Numerous lectures were delivered by Ukrainian experts who had received extensive technical training in year 1 of the project and had actively participated in Chemonics Training of Trainers program in year 2.
- Fifteen exchanges have independently conducted training sessions utilizing NEAU/Chemonics materials and methodology. Recipients of independent exchange training have included brokers, exchange members, CAE directors, traders, and members of the financial community.
- Four exchanges regularly delivered training of trainers workshops in conjunction with oblast government-sponsored professional training institutions and report that Chemonics materials and methodologies have been extremely useful.

*Goal # 3.* Increase the awareness of potential exchange users as to the benefits associated with trading on an exchange and provide them with the information necessary to confidently utilize exchange services. Upgrade skills of existing brokers and provide training for potential new brokers.

Six general exchange trading seminars were implemented by the NEAU and Chemonics. A syllabus was developed that took into account lessons learned in task order 1 and that utilized existing materials and Ukrainian expertise to the greatest extent possible. The seminars were geared towards upgrading and systematizing the skills of existing brokers, as well as introducing new trainees to the skills necessary to effectively trade agricultural commodities on an exchange and developing methods of attracting producers and other owners of agricultural commodities to trade on an exchange. In addition, the seminars have focused on providing a wide range of potential exchange users with the information necessary to successfully pursue trade on exchanges.

*Results:*

- A total of 228 individuals attended General Exchange Trading Seminars, including 75 brokers or broker trainees. Attendees of the General Exchange Trading seminars included many potential users of the exchanges including, input suppliers, elevators operators, private farmers, oblast administration officials, directors of CAEs, and members of the financial community.
- From 20 to 40 percent of potential exchange users who attended seminars were reported to have contacted corresponding exchanges seeking to trade commodities.
- Member exchanges have implemented numerous positive changes and/or additions to their operating procedures following Chemonics/NEAU seminars including, the provision of customs

support, implementation of internal grading and standards procedures, amendments to arbitration rules, and implementation of reasonable brokerage fees.

*Goal # 4.* Increase understanding among members of the financial community as to the role of commodity exchanges in establishing a market price that can be used as the basis for loans to producers of agricultural commodities. Increase awareness of the financial community of the potential to profitably facilitate the operations of commodity exchanges by providing efficient settlement services. Provide the knowledge and skills necessary to trade commodities on exchanges.

*Methodology.* Throughout year 1, a systematic effort was made to attract members of the financial community to NEAU/Chemonics General Exchange Trading training seminars. In addition, a seminar specifically geared towards providing individual exchanges with the ability to address the concerns of the financial community and facilitate the participation of this crucial sector was held in Dnipropetrovsk on December 9, 1997. Training and awareness building in the areas of contract insurance and clearing house development was conducted.

*Results:*

- Representatives of 16 financial institutions attended NEAU/Chemonics seminars in 12 oblasts. A plan to create a central clearing house was developed by Chemonics and disseminated among the NEAU members. Currently, most NEAU member exchanges are discussing clearing house issues with their respective financial institutions including Privatbank, Ukraina, Aval, Ukrsotsbank. Privatbank currently provides settlement services for the Dnipro Petrovsk exchange.
- Negotiations are under way with 2 large Ukrainian insurance companies, Oranta and Skid Vest, to develop a contract insurance mechanism.

*Goal #5.* Create an indigenous Ukrainian capability within the NEAU and member exchanges for the promotion of their activities. Provide training for journalists.

Chemonics conducted a Promotion/Outreach seminar designed to develop the indigenous capacity of the NEAU and member exchanges to promote their activities and market exchange services. The attendance of members of the local media at all training seminars implemented by Chemonics and the NEAU was insured. Chemonics conducted a training seminar specifically designed to instruct journalists as to the crucial functions of exchanges within the agricultural sector and to familiarize them with the promotion and outreach activities of the NEAU and exchanges

*Results:*

- Twenty-one journalists throughout Ukraine attended Chemonics' Journalist training seminar in Vinnitsa on October 17, 1997. Following the seminar, exchanges in 16 oblasts reported that 53 articles on exchange development issues appeared in local newspapers.
- Fifteen of the NEAU member exchange marketing departments attended Chemonics' Marketing seminar. Four exchanges conduct regular press conferences utilizing materials and methodology provided by Chemonics and six exchanges report that they are successfully utilizing press releases and other public information services.
- The NEAU possesses the institutional capacity to engage in promotional/outreach activities on behalf of its members. Chemonics has successfully transferred the UACE Exchange Information

Center to the NEAU. In addition, the association has begun independent publication of the exchange industry newsletter developed by Chemonics in the first year of the task order.

- A total of 48 representatives of the mass media attended training activities organized by the NEAU and Chemonics in 12 oblasts. Each seminar generated media interest and extensive coverage in local print and electronic media.

## **C1. Price Dissemination**

*Goal #1.* Provide accurate local and world price information to Ukrainian agricultural market operators on a timely basis.

Established the Ukrainian Commodity Exchange Information System. A comprehensive bulletin is distributed via email and fax on a weekly basis providing crucial world futures and cash price information as well as bids, offers and trades at all NEAU member exchanges. In addition, prices are distributed on the UACE Web site.

### *Results:*

- The Ukrainian Commodity Exchange Information System represents the first truly comprehensive and independent source of relevant agricultural market information in Ukraine and has provided a much needed counter point to often inaccurate government trade statistics.
- The activity made a major contribution to market transparency and price discovery on a national level. Even given the continued predominance of barter transactions, local prices discovered at exchanges have become benchmarks throughout the agricultural sector. The comprehensive dissemination of prices for Ukrainian agricultural products offered on exchanges has been a key factor in the current trend toward normalization with world prices.
- There are a total of 1,113 direct recipients of the information product, including all NEAU member exchanges, three news agencies and ten Ukrainian newspapers. Other recipients include brokerage firms, oblast administrations, local business information centers, and agricultural producers, processors and distributors. In addition, recent coordination with the Ukrainian Grain Association has provided greatly enhanced access to traders and processors of agricultural commodities.
- Surveys indicate that, on average, each direct recipient will forward the UACE price dissemination bulletin to 10-60 additional parties.
- The weekly number of hits on the UACE Web site continues to grow to approximately 1,000 hits per month. The information package presently displayed on the site is the natural precursor to a more comprehensive web based Electronic Trading System that will greatly enhance inter-exchange trading in Ukraine in the future. Chemonics and the NEAU are currently working with the exchange community to determine the cost efficient design for such a system.

## **D. Issues and Comments**

Training and outreach and promotion functions of this activity were, to the extent possible, performed in close collaboration with NEAU, the Ukrainian Grain Association (UGA) and individual exchanges, with progressive transfer of management responsibility for conduct of seminars and training sessions to NEAU and UGA.

## D1. Training

NEAU training was targeted to brokers, bankers, agricultural journalists and other exchange participants and users. Technical and financial assistance to facilitate the activity was provided according to an Annual Training Plan concluded between the project and NEAU. Technical assistance was provided largely in the form of meeting materials and provision of project long and short-term expert trainers. Training venues consisted largely of seminars and meetings called and organized by NEAU, utilizing, to the extent possible, already-existing materials (including materials produced by UME).

A single U.S. training tour was conducted under the activity in 1997, providing an opportunity for members of the GOU Anti-Monopoly Committee to visit Washington, D.C., and the Midwest to discuss matters pertaining to exchange and grain markets and government policy towards agriculture. Additional training tours to Poland and Hungary to review exchange market operations in those countries took place in 1997 and 1998, and replaced U.S. training tours suggested in the task order. These training tours included computer-based commodity trading simulation as recommended by the task order.

No long-term internship training in the United States was approved by USAID as a result of the decrease in funding. All training was conducted according to Annual Plans submitted to USAID for approval.

Technical and financial support for Ukrainian Grain Association (UGA) training functions was included in the training plan for year 2 and approved by USAID. UGA participated in four large training seminars at the end of 1998 through early 1999, a total of 530 individuals participated. Joint Project/UGA training seminars and meetings were organized and implemented under the same procedures as applied to NEAU training activities and to the extent possible included participation by NEAU. One association management training course was conducted by the project in 1998 for the benefit of NEAU, UGA, and the Ukrainian League of Entrepreneurs (ULEAC).

## D2. Outreach and Promotion

Outreach and promotion support of exchanges was provided in the form of regular radio and television spots featuring exchange issues and views. These were financially supported by the project but organized and implemented by NEAU according to an Annual Outreach and Promotion Plan jointly approved by the project and NEAU, using project technical experts. A single documentary video (initiated under UME) was completed under UACE and aired in 1997.

The project provided additional assistance to NEAU under this activity in the form of financial and technical support for the production of a monthly NEAU Newsletter beginning in Fall 1997. The newsletter was replaced, in September 1998, by a new publication *AIC Partner* magazine (produced in conjunction with the UGA and ULEAC), which was supported financially by the project with editorial content controlled jointly by the project and participating associations. The publication was scheduled for continuation by USAID, under arrangement with another contractor at the termination of the project.

The NEAU Web site continued to be administered and updated until March 1999, when project funding reductions required termination of certain project staff. The Web site has been transferred to NEAU for further administration in the future.

The project conducted a weekly exchange and price dissemination activity until June 1999, providing

price information gathered electronically and by fax to a wide audience of users. This function was also transferred to NEAU at the time of terminations of the contract.

## **D2a. Promotion/Outreach Component**

*Goal #1.* Utilize modern promotion/outreach techniques and multiple media outlets to build an understanding among Ukrainians as to the role of exchanges in the agricultural marketing sector and the benefits associated with trading on exchanges.

Project promotion/outreach products focused on providing members of the agroindustrial complex with information detailing the crucial role of effective commodity exchanges in the development of an efficient and transparent Ukrainian agricultural marketing sector. Efforts were also made to provide information to members of the general public as to the process of Ukrainian agricultural sector reform and commodity exchange development. USAID public information project resources were utilized to the extent possible.

Sought extensive coverage in the electronic and print media of all project training activities and facilitated contacts between the Ukrainian press and the exchange community.

Provided support to the NEAU and member exchanges in the development of an indigenous capacity to conduct promotion/outreach activities.

### *Results:*

- A 30-second television advertisement spot was produced for 18 NEAU member exchanges and aired locally in 12 oblasts from July 1997 through August 31, 1997. Three exchanges continue to utilize UACE produced advertising spots independently. Twelve exchanges have since produced and aired their own products.
- Three 30 minute films were produced and nationally aired on UT-2 from December 1997 through January 1998. The production contained elements of a narrative drama, as well as presentations and interviews by USAID officials, Chemonics' technical specialists, exchange directors, commodity traders, and representatives of the financial community. Copies of the films have been provided to the NEAU and all member exchanges for use in independent promotional and training activities.
- A series of 24 fifteen-minute radio programs were produced and broadcast nationally on UR-1. The series was aired on Saturdays at 6:30 a.m. in conjunction with "Kolos," a widely known weekly program dealing with agricultural issues that has maintained a wide audience since the mid 1960s. In addition to educational material focusing on Ukrainian exchange development, the program provided crucial price information gathered at Ukrainian exchanges. UR-1 is the only radio station with the capacity to reach every household in Ukraine.
- A 30-minute promotional video detailing the advantages associated with trading on agricultural commodity exchanges was produced and disseminated to all NEAU member exchanges. The video is used extensively by exchanges and the NEAU during promotional and training activities.
- A successful press club event was sponsored to highlight exchange issues. A total of 23 journalists attended in conjunction with USAID's Ukraine Market Reform Education project.

- Three newsletters geared toward the exchange community were published and disseminated in the first year of the task order. Two-hundred copies of each edition of the newsletter have been provided to NEAU member exchanges, oblast administrations, agricultural producers, traders and processors and the media. Newsletter publication has been officially transferred to the NEAU and training continues for NEAU marketing staff in this area. It is anticipated that the publication of a high quality industry newsletter will generate considerable income for the association in the future.
- Responsibility for the Exchange Information Center, which had been maintained by Chemonics through the first year of the task order, was officially transferred to the NEAU in February 1998. From June 1996 through February 1998, approximately 14,550 copies of information center publications were distributed. In addition to producing many materials of a technical nature focusing largely on issues relevant to the exchange community, such as contract development, trading rules and legal regulation, the information center developed publications designed to educate potential buyers and sellers of commodities as to the advantages of trading on exchanges. Materials were disseminated regularly at Chemonics and NEAU sponsored training seminars, as well as to oblast administration officials, universities, and members of every segment of the agricultural sector.

## **D2b. CNFA/RONCO Outreach Program**

*Goal # 1.* Link NEAU member exchanges in select oblasts with local CNFA/RONCO enterprises and other commercial entities in a position to market agricultural commodities.

*Methodology.* Conduct focused training and promotional activities. Disseminate information detailing the benefits associated with exchange trading and facilitate contacts between local exchanges and potential buyers and sellers of agricultural commodities.

### *Results:*

- Met with 1,454 individuals in 12 oblasts, including representatives of collective agricultural enterprises, private farmers, elevator managers, processors, local officials, local wholesale traders and members of the financial community. Disseminated information about Chemonics and NEAU activities and contact information for all NEAU member exchanges. In addition, conducted numerous informational presentations promoting the services of exchanges and encouraging the utilization of critical price information disseminated by Chemonics and the NEAU.
- Increased NEAU Associate Memberships of producers, processors and other market participants by 30 percent.
- Disseminated 1,198 questionnaires designed to assess the level of knowledge among the agricultural community (particularly producers) of the services provided by exchanges and determine the role of various players in the marketing and distribution of agricultural commodities. In the Sumy and Lugansk oblasts, commercial enterprises and local government organizations in possession of large quantities of grain and other commodities have organized two new exchanges.
- These efforts have received considerable support from the Chemonics team and the exchange members who include, banks, CAEs, processors and grain elevators are developing progressive and efficient trading rules and organizational systems.

**SECTION VI**

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**Association Management Support**

## SECTION VI

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### Association Management Support

#### A. Background

As exchange markets, Ukrainian private agricultural trade associations are a relatively new phenomena. Agricultural trade and farmer associations did exist under Soviet rule. However, they were largely non-political professional associations with close ties and identification to the state and ruling Communist party. Their role in opposing state policy was absent or, at best, seriously circumscribed. Indeed, more often, they were a mere extension of state power.

Today's private agricultural associations emerged in the era of perestroika and the aftermath of independence in 1991. The first associations to organize on a private basis — so-called “entrepreneurial associations” — did so with the blessing of the state. They were viewed as valuable vehicles promoting change within a system still largely dominated by state power.

The Ukrainian League of Entrepreneurs of the Agroindustrial Complex (ULEAC) was among the first of such agricultural associations to organize in Ukraine. ULEAC initially maintained close ties to the state. Over time, however, it increasingly adopted an independent voice and presence in agricultural affairs. Its example demonstrated to others the important role independent private associations could play as advocates of private interests outside the state system.

The National Exchange Association of Ukraine (NEAU), as ULEAC, was also initially “established” (in 1996) as an entity with close ties to the Ministry of the Agroindustrial Complex (MAIC). Its further development as a strictly private association, in fact, owes much to the program of assistance to private agricultural commodity exchanges initiated by the U.S. government in 1995 (UME).

UME's 1996 task order modification originally required it to provide technical assistance to nine pilot exchanges. Support of a private association was not among the goals and objectives of the project. However, UME and USAID were quick to see the advantages that establishment of a truly independent private exchange association could offer, particularly as an extension of U.S. technical assistance.

UME worked during 1996 and 1997 to assist the re-establishment of NEAU as a strictly private association. The result was the eventual registration of the association as an independent private association under local law in 1997. NEAU's legal registration as a private independent entity gave USAID the opportunity to importantly integrate into the design of the UACE program, beginning in July 1997. Following UACE registration, in December 1997, another private association — the Ukrainian Grain Association (UGA) was established — which would also eventually play a role in delivery of U.S. financial and technical assistance under the UACE program.

*Association development.* The NEAU, for its part, made efforts to act as a political spokesman for the exchange community. Such efforts were hampered by the absence of an “association culture” and expertise on the part of NEAU's Board, Officers and Members. Nevertheless, the Association carried on its activities in the area of exchange promotion, public relations and lobbying. It maintained its membership and has strengthened its financial position relative to membership fees. Finally, the NEAU and newly formed National Grain Association (NGA) announced in March 1998 their close collaboration in programs promoting private agricultural enterprise on the national and regional levels, through co-location of NGA representative offices at the 26 NEAU exchanges located throughout Ukraine.

The objective of the NEAU-NGA coalition is to provide the agricultural private sector with a defense

against, and alternative to, state invention in the grain sector. This sets the stage for synergy between users and providers of exchange services in areas such as arbitration, contract standardization and grain handling, promising greater utilization of exchanges and potentially greater volumes on exchanges in years to come. It also provides a powerful political bulwark to the MAIC-led Grain Union and MAIC efforts in general to prevent or subvert the development of private enterprise in the agroindustrial sector.

## **B. Strategy and Objective**

The strategy adopted to achieve these purposes was to:

- Assist the legal formation and registration of NEAU as an independent private trade association under relevant Ukrainian law.
- Assist and encourage membership in the association by Ukrainian private exchanges.
- Assist in initial organization of the association, including the election of officers and drafting of by-laws.
- Assist in the establishment of an NEAU directorate and office with appropriate equipment, staff and financial resources to carry out the purposes and functions listed above.
- Provide financial assistance to support staff and office costs and costs of NEAU participation in project training and outreach and promotion activities under terms governed by a business plan and by annual training and promotion plans approved by USAID (see Section V).
- Provide general policy monitoring and analysis and lobby and regulatory assistance to NEAU to improve its capacity to advocate effectively for changes in laws and regulation benefiting exchanges (see Section III).
- Provide assistance to and encourage adoption by NEAU and NEAU members of standard exchange management and operations procedures, contracts and rules governing exchange trading (see Section IV) toward the objective of self regulating organization (SRO) status.
- Progressively transfer over time project property and capabilities in technical areas to ensure self-sustainability of NEAU at project termination.
- Phase financial contributions to support financial co-responsibility during a transition to self-sustainability.
- Assist in the establishment of UGA as an independent private association.
- Provide appropriate financial and technical assistance to UGA to strengthen its role in grain market training, outreach and promotion, and policy advocacy (see Sections IV through VI)
- Provide appropriate financial and technical assistance to ULEAC to strengthen its role in outreach and promotion and policy advocacy (see Sections V and VI)

The objectives of this activity were to:

- Provide direct financial and technical assistance to the NEAU toward a goal of establishing it as

a self-regulating organization (SRO), with SRO rights and functions established and protected by state decree

- Assist in the development of NEAU as a properly managed and self-sustainable organization with appropriate public affairs and service capabilities.
- Provide financial and technical assistance to other allied associations, including ULEAC and UGA to strengthen their capabilities and their ability to advocate appropriate policy.

### **C. Tasks, Benchmarks, and Results**

The task order identified the following key tasks to be performed by Chemonics within the scope of this activity:

#### **Development of professional association (task 2)**

Activities and benchmarks were as contained in three work plans governing the periods: (1) July 1, 1997-June 30, 1998 (work plan 1); (2) July 1, 1998-June 30, 1999 (work plan 2); and (3) January 1-June 30, 1999 (modifications to work plan 2) and in separate annual work plans for training and outreach and promotion submitted to USAID.

*Goal # 1.* To assist in the development and maintenance of a professional association of exchanges by providing it with business planning along with technical and material assistance.

UACE worked with the NEAU Executive Board and the full time staff to develop a business plan. The plan underwent three rewrites, and was reviewed by the executive board three times prior to being adopted by a meeting of the general membership. While developing the business plan UACE provided NEAU with an office, and then assisted NEAU to establish its own office. Once the office was established UACE then undertook a series of professional development activities with the NEAU and the exchanges. These activities resulted in the development of resolutions which were presented to the executive board. Once adopted these resolutions were implemented.

#### *Results:*

- UACE provided 75 percent of the costs for NEAU to an office, stock it with equipment, and continued to provide it with financial support for operations throughout the life of the project.
- NEAU and UACE developed a business plan, and the members have met their membership dues target.
- NEAU has adopted for implementation UACE developed recommendations on broker certification, inter-exchange arbitration, exchange certification, and a code of conduct.
- NEAU has developed with UACE support a monthly bulletin to communicate with the industry.
- UACE has trained NEAU staff to assist them to establish a training, public awareness and broker certification program.
- UACE has assisted the NEAU to develop a price monitoring and dissemination system.

### **D. Issues and Comments**

Basic comments regarding the development and current status of the associations are as contained in previous reports to USAID. Equipment transfers to each association are as indicated in the project's final inventory report to USAID.

## **E. Recommendations**

All associations currently supported by USAID/UACE are financially fragile. NEAU, which has received a significant share of direct financial assistance in the past two years, is currently self-sustainable, but not at the level of financial security anticipated by the originating task order and MOU providing support to the association in 1997.

The other associations UGA and ULEAC are also self-sustainable but at a level less than that which might be desired for programs that they might undertake which would benefit USAID's general program of promoting reform of the Ukrainian agroindustrial complex.

The common cause of funding deficiencies for all associations is the same: poor dues/fees payment by members. Economic circumstances have not been ideal for Ukrainian agribusinesses (including exchanges) in the past two years. Under the circumstances, Ukrainian agribusinesses are loath to dedicate scarce financial resources (no matter how small) to support of associations. The problem of collecting dues/fees is compounded for associations by provisions of tax law that require association members to pay dues/fees from pure profits after tax.

Tax-exempt status for dues/fees payments to Ukrainian associations (such as is the custom in the United States and other western countries) would go a long way toward solving the financial bottleneck encountered by these organizations. However, the prospect for tax relief is far off. The option for associations, in the meantime, is to control costs and expenditures, against a day when a more prosperous clientele may pay current or augmented dues/fees under a more optimistic economic scenario.

All associations supported by UACE have appropriately recognized and addressed the future financial difficulties they may face by a combination of cost-savings and program re-structuring. All have also considered ways in which association revenue might be expanded through provision of fee-based services to members (such as the sale of information), but the present outlook for actual financial gain from such schemes appears slight.

*Association summary.* National Exchange Association of Ukraine (NEAU): NEAU has been hardest hit by the down-turn in Ukrainian agriculture, which is a common feature of flagging member contributions among all agricultural associations in the last two years. Revenues received by the association, which (including USAID/UACE subsidies) exceeded \$100,000 in 1997/1998 have declined to a fraction of that amount (perhaps \$20,000) in the 1998/99 period. The cause of the decline in income has been two-fold: (1) a progressive reduction in USAID subsidy funding from 100 percent of costs (in 1997) to 40 percent of costs presently; and (2) a poor payment record among current members.

Arrearage is a major problem. Arrearage among NEAU members in August 1998 amounted to approximately Hry. 44,000 (\$21,000) or approximately 80 percent of the annual operating budget of the Association during its first year of full operation. Various schemes by the management of NEAU to recoup dues and fees in arrearage have met with limited success. The association has instituted a punitive program against members in arrearage involving full membership disqualification of negligent members pending settlement of their accounts. Some members in arrearage have been kept on the

membership roles as non-paying Associate members. But these policies invariably place NEAU in a “Catch 22” situation. Declining membership, no less than arrearage, starves the association of necessary funds.

During October-December 1998, NEAU began to withhold a portion of payment of salary to its staff to control costs. This policy (about which Chemonics was not pre-advised) was not supported by Chemonics on the grounds that salary and/or staff reductions rather than salary withholding represented a better long-term settlement of the issues.

*Solutions and remedies.* The result was a December 1998 agreement between UACE and NEAU requiring NEAU to pay all past due staff salaries by January 15, 1999, as a condition of receiving future UACE/USAID subsidy. Beginning in November 1998, Chemonics also encouraged NEAU to consider more conventional means to settle future financial issues. This involved reduction in costs through the elimination of and/or reduction in staff or compensation to staff; and economies in other areas including rent, transportation and meeting expenses.

The chief of party reported these matters to the NEAU Board at a meeting of the Board held in February 1999. Past due payments of salary to staff were made by NEAU as required by the December 1998 agreement (on or before January 15, 1999), enabling UACE to continue to advance subsidy funds to NEAU against receipts during January (covering December and January), February and March 1999. In March, 1999, NEAU also commenced a staff restructuring designed to bring the number of full time staff down from nine to four members.

During April-June, the second quarter of 1999 (and the final quarter of UACE), the project has worked successfully to provide full possible financial support to the association while also continuing to require disciplines on their part .

*SRO status/membership services.* NEAU continues to provide services to members to improve the conduct of exchange business. This includes training and certification of brokers in the direction of self-regulating status for the exchange community. Additional support from USAID for training and licensing of brokers would be welcomed.

Progress toward greater integration of the exchange market through progressive introduction of an electronic trading system (ETS) other than the price dissemination system developed by UACE was impossible in 1997/99, due to the absence of USAID funds to support such purposes.

*Long-term scenario.* NEAU now has all the basic tools and experience it needs to successfully address the fiscal challenges it will face in the future. It still requires donor assistance. A plan has been submitted by Chemonics laying out funding needed in the interim period until the implementation of the new agricultural strategy.

For the foreseeable future, NEAU will continue to suffer from the same fiscal and financial difficulties it did in 1998/99. However, the leadership of the Association now has the matter until greater supervision and control; necessary economies have been taken (and might be relied upon again to maintain operations); and membership loyalty (among remaining full paying members) remains high.

The major future danger to NEAU lies in a total or complete collapse of the commodity exchange community, which would obviate any need for maintenance of an association. The NEAU, itself (through its lobby effort), has been at the forefront of blunting the government’s exactions on exchanges and encouraging greater government support of exchange market growth. If its lobby efforts continue to be successful, as they have been, its members will find the means (however difficult) to

support the organization.

*Ukrainian Grain Association (UGA).* UGA's financial picture during 1998/99 has been significantly brighter than that of NEAU. Major factors favoring this outcome have been: (1) the foundation status of the organization; and (2) the stronger financial position of its members (including both domestic and international grain companies).

*Foundation status.* It is axiomatic that associations in a period of initial constitution (particularly if called upon to address a pressing issue or set of issues) enjoy a greater level of direct and in-kind support from their membership than do more mature organizations whose programs may appear less pressing to a current or prospective member. For example, dues and fees (including initiation fees) collected by NEAU in its first year of operation (1997/98) far exceeded those collected in 1998/99. The same fall-off in dues and fees paid by UGA may be expected in 1999/2000, as members (relying on a record of achievement) assess the present and future value of membership in the organization.

*Financial picture.* Nevertheless, the underlying financial fundamentals of UGA appear relatively strong at present. UGA has collected current dues and fees in 1999 totaling Hry. 110,000 (or \$27,500), a very respectable showing in the current environment. It has also benefited from a UACE/USAID supplement of about \$100/month during January - June 1999 and other indirect UACE/USAID services and support.

*Service to members.* Unlike NEAU, UGA has placed a significant share of its first year effort into providing direct technical services and support to its members in the form of training seminars and programs (including travel programs) designed to improve the professional capabilities of its membership. These seminars and programs have been supported by UACE/USAID, with remaining costs provided by attendance fees and other donor and in-kind contributions.

UGA, as NEAU, has also been very active in lobbying government in support of its industry. Major legislative victories were scored by the Association (in concert with NEAU and ULEAC) in areas including domestic (intra-oblast) and foreign export controls. UGA officers also serve as advisors to the Inter-Ministerial Commission on Agricultural Reform (IMCAR) process.

*Anticipated financial/organizational problems.* Future financial and/or related organizational problems faced by the association may result from a combination of the following factors: 1) lower than anticipated or late payment of dues and fees; 2) low salaries paid to current employees (which may require higher dues/fees, membership expansion or loss of valued employees); 3) near-term costs associated with the one time purchase of needed office equipment (such as computers); and 4) absence of funds necessary to conduct training and public information services for members.

*Solutions and remedies.* The UGA management has been very sensitive to these issues and imaginative in their solution. For example, recent training seminars held by UGA in areas including export trade, transportation and finance have relied on in-kind contributions made by international company members (i.e., Cargill, Inc., SGS, and Tradigrain, Inc.). This has compensated UGA for the loss of support previously provided by UACE/USAID that has resulted from the closeout of the UACE/USAID program.

UACE/USAID has also provided some new support to UGA in the closing months of the project through the donation of office equipment, reducing UGA's future burden in this area.

*Strong membership.* Ukraine's position as a potential world class exporter of grains should provide a basis for strong exporter support of UGA in the future. Related to this, the UGA membership acts as a

network for domestic and international companies engaged in the grain trade. These contacts will be increasingly important to traders in the future.

International grain companies, of course, possess the means continually support their UGA membership. This base of export companies provides UGA a cushion not available to other organizations and propels its acceptance as a credible organization beyond Ukraine into Europe and the rest of the world.

Few grain companies currently possess the influence or power to directly address issues affecting them that arise with the government or law. UGA's role as an intermediary with government is an additional incentive to membership. UGA's planned expansion of its offices to include field offices in 1999 in Kirovograd and Cherkassy/Kharkiv (with further offices to come) will expand its influence in the oblasts, providing further justification for new or continued membership of the association.

*Long-term scenario.* Despite its optimistic outlook for the future, UGA still requires some support from donor countries and organizations such as NEAU. A plan has been submitted by Chemonics laying out funding needed in the interim period until the implementation of the new agricultural strategy.

For the foreseeable future, UGA can be expected to continue its pattern of recent growth. The major future danger to UGA lies in an intervention by the national or by oblast governments favoring government-organized alternatives to UGA (such as the Grain Union of Ukraine). But such action by the government appears unlikely at present and, in any case, UGA's membership has proved adept in co-opting (where necessary) the government's hand.

*Ukrainian League of Entrepreneurs of the Agroindustrial Complex (ULEAC).* ULEAC's role as the first and currently pre-eminent association among private Ukrainian agricultural trade associations established in the last five years places it in a special category. The power and presence of ULEAC and its founding President Leonid Kozachenko is widely broadcast in the Ukrainian agroindustrial complex. On the other hand, its continued presence, and the emergence of new groups such as UGA and NEAU, has diminished the need by private companies to provide for its future support. Financially, it may be said, ULEAC has suffered from its own success.

*Membership and purpose.* ULEAC's members consist of the leading agroindustrial firms operating in Ukraine, the majority of which are drawn from the inputs (chemical and machinery) importing and distributing sectors. These companies constitute the largest private investors in Ukrainian agriculture and, through barter and sale arrangements, the largest private purchasers of grain and basic commodities as well.

The founding purpose of ULEAC (in 1993) was to provide a voice for private companies in the national debate on government policy towards agriculture. It was, and continues to be, unrivaled in this role, although its contribution these days is in conjunction with other associations (such as UGA and NEAU) with which it works in close collaboration.

*Associated organizations.* ULEAC was formed in 1993 as an offshoot of the larger and much more powerful Ukrainian League of Entrepreneurs (ULE), and as its predecessor, has spawned or assisted in the organization of a number of important agribusiness trade organizations since 1993. These include: the UGA, Ukrainian Crop Protection Association (UCPA), and the Ukrainian Agricultural Equipment Dealers Association (UAEDA). ULEAC also works in close association with private producer organizations such as the Private Farmers Association (PFA) and with appropriate respect for government-sponsored organizations, such as the Peasants Union, who remain powerful forces in the

current political climate.

ULEAC's basic program may best be expressed as a combination of experience, organization and synergy. ULEAC and its leadership galvanizes forces supporting private agriculture (including other associations) into coalitions generally favoring agricultural reform. Previously, it played a more prominent role in providing direct services to its members, including match-making services for Western investors, but this role has faded as other organizations (including those founded or supported by it) have gained greater prominence.

*Financial position.* ULEAC, as UGA and NEAU, is not financially strong and suffers from inadequate member dues and fee payments, flagging support, etc. Its principal funding industry, the Ukrainian input supply industry, enjoyed monumental profits from the import and sale of Western inputs in 1993-1996, a period which coincided with ULEAC's major recent growth. Since 1996, however, performance and profits by that sector have declined with a corresponding decline in ULEAC's financial security and strength.

ULEAC receives rather marginal current support from USAID in the form of staff support (CNFA) and occasional meeting and public relations subsidies (Chemonics/UACE and CNFA). It has also enjoyed similar support from other donor organizations, particularly TACIS, but the support provided has not enabled further growth of the association. Direct annual costs of maintaining the association (of approximately Hyr. 200,000 or \$50,000/annum) are provided out of membership fees and services provided to ULEAC members.

ULEAC's future financial needs are rather different than those of NEAU or UGA. Its program of annual and periodic agroindustrial Congresses, meetings, and press conferences benefits (and generally includes) all private players in the Ukrainian agricultural market. Its role as a senior statesman and advisor to other organizations in matters including political and organizational strategy cannot be underestimated. In addition, it has taken leadership of the *AIC Partner* Information program (a program funded by UACE/USAID through June 1999). In the absence of UACE/USAID funding after June 1999, the organization may tend to be diminished in its capabilities in all these areas. There is no question of its continuance; but a more aggressive support program for the association should be considered.