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**WESTERN UKRAINE
INITIATIVE**

**Accelerated Private Agricultural
Sector Growth in Western Ukraine**

**USAID CA# EPE-A-00-96-90021-00
(formerly EPE-0006-A-00-6021-00)**

FINAL REPORT

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UKRAINE
Accelerated Private Agricultural Sector Growth in Western Ukraine --
Expanded Business Linkages with Poland and the Region

USAID CA# EPE-A-00-96-90021-00

LAND O'LAKES, INC.

FINAL REPORT
and Quarterly Report for 10/99 – 1/00

I. INTRODUCTION

Dates of project: September 24, 1996 – January 31, 2000

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The Western Ukraine Initiative (WUI) began as a three-year program and was extended for an additional four months following the completion of the three-year period. The project was funded by USAID at a level of \$3,434,720. The objective of the WUI was to develop the Ukrainian domestic agricultural sector by increasing the profitability of participating businesses, to increase the availability of rural credit, and to develop support organizations for private agricultural businesses. The program also worked to increase trade linkages between western Ukraine and neighboring countries, particularly Poland and Hungary. A combination of long-term technical assistance provided by U.S. expatriates, short-term consultants from Poland, and third-country training in Poland and Hungary was used to accomplish these program objectives. The project was implemented by Land O'Lakes, Inc., and ACDI/VOCA.

Over the three and a half years of the program, despite a lack of sweeping agricultural reforms at the national level, and economic stagnation overall, a great many project objectives were not only met, but exceeded. Major project accomplishments included the creation of independent organizations to represent and promote the interests of private farmers and independent agricultural consultants, respectively, as well as the creation of a self-sustaining credit fund that will make affordable rural credit available into the future. Trade ties between agricultural businesses in western Ukraine and Poland have been expanded, and a wide range of seminars, study trips, internships and other assistance have given local producers and processors tools with which many have increased profitability. These accomplishments of project partners are

especially noteworthy when one considers that many agricultural operations have gone out of business in recent years.

This report is meant to convey information about the project's methodology, implementation strategies, accomplishments and lessons learned. While there are indeed many positive results of the project's work, however, not all efforts have been successful. Thus, this report includes details on some of the project's disappointments as well, in order to both highlight the great challenges faced by private agriculture in Ukraine and to suggest how future assistance projects may be improved. Section II focuses on the strategies the program used to provide assistance to Ukraine's private agricultural sector. In lieu of a separate report on the period from October 1999 through January 2000, Section III is a report on project activities and accomplishments over this four-month extension period. Section IV is an examination of lessons learned by the project, both about the local agricultural environment and about what makes for effective assistance in the given environment. Finally, whereas the above sections convey a broad picture of the project, Section V contains a number of appendices with more specific information. It includes appendices with reports on individual project partners, translations of project-related articles and broadcasts from the Ukrainian media, and other detailed descriptions of WUI activities and impact.

The final report for the ACDI/VOCA Rural Credit Expansion Project is included as Appendix D.

II. PROGRAM STRATEGIES

A. GEOGRAPHIC FOCUS

Initially, Land O'Lakes targeted two specific regions in western Ukraine: the oblasts of Lviv and Transcarpathia, both of which border on Central European countries: Lviv on Poland, and Hungary on Poland, Hungary and Slovakia. This was done because of the project's objective to utilize resources from Poland and Hungary, including project offices in Budapest and Warsaw, in order to facilitate information transfer from countries with histories similar to Ukraine's that had already reformed their economies and agriculture to a significant extent. By focusing on only two oblasts, the project was able to concentrate resources in order to maximize impact. In 1998, as USAID developed a regional strategy to agriculture in Ukraine, and Lviv was selected as one of the target oblasts, project activities shifted away from Transcarpathia in order to concentrate more thoroughly on Lviv oblast.

B. PARTNER SELECTION

There were three major types of recipients that the project worked with: agricultural producers and processors, agricultural consultants, and financial lending institutions. For each of the first two years of the project, a group of 20 agricultural producers and processors was identified. Initially, a group of 12 agricultural consultants-in-training was selected and in 1999 it was supplemented with 12 additional members. Finally, the credit component of the project identified local financial institutions, such as banks and credit unions, to which training was provided and an opportunity extended to access funds from the WUI loan fund to extend to rural borrowers. A separate approach was utilized to identify partners for each of these recipient groups.

C. PARTNER SELECTION -- PRODUCERS AND PROCESSORS

In order to identify a group of 20 agricultural producers and processors initially, a large effort was made to work with the Lviv and Transcarpathian offices of the Ukrainian Association of Farmers, as well as with branch offices at the local level, and the Transcarpathian State Fund for Private Farm Support. These resources were somewhat helpful, but a general lack of confidence in this national organization on the part of private farmers, in part because of its close ties to the government, limited the number of progressive producers and processors that the Association was able to introduce to the project. Cooperation with the Land O'Lakes Farmer-to-Farmer project was crucial in identifying a number of important partners. In addition, the project began to intensify its work with truly independent local organizations such as the Agribusiness and Marketing Development Organization and the Lviv League of Private Dairy Processors. Promotion efforts in the local press also yielded some project partners. Finally, Land O'Lakes increased its cooperation with international projects, including CIME, Ronco, CNFA, and the Peace Corps to utilize the resources of each to better serve the needs of their local partners.

Each of these producers and processors was evaluated for potential participation in the program in a number of ways. Each applicant filled out an application form requesting information of that operation's activities and financial state. A WUI representative also visited each operation to

evaluate its progressiveness and interviewed each applicant in order to understand the applicant's interest in participating in the WUI project. Finally, each applicant was required to guarantee access to certain financial data in the future in order that the project be better able to assess the results achieved through participation in project activities and training.

One thing that Land O'Lakes looked for in potential partners was some sort of processing or retailing operations in addition to production. Not only did larger operations afford the project a greater potential scope for impact, but in order to survive in Ukraine's volatile agricultural environment, processing and marketing are two of the best ways to reach the market. This is important because it is one of the few ways to provide oneself with a steady cash flow. Because access to financial resources is a significant obstacle for many businesses, especially in the agricultural sector, many processors pay for raw materials several months after delivery or deal primarily in barter. Unfortunately, this leads to a self-perpetual cycle of indebtedness between enterprises. In addition, the barter pricing system is usually inflated against the producer and tends to not reflect the goods' actual market value. Thus, having one's own processing and retail operations is extremely important to producers, and nearly all of the producers selected to participate in WUI partners have at least processing or retail operations as part of their businesses, if not both.

D. PARTNER SELECTION -- AGRICULTURAL CONSULTANTS

Initially, Land O'Lakes selected 12 agricultural consultants to receive training from the project and provide consulting services to the aforementioned group of producers and processors. In the fall of 1999, 12 additional consultants were identified to help expand the group and turn it into an independent, legally registered organization. In selecting consultants, Land O'Lakes attempted to put together a group of different specialists whose skills could complement those of the other consultants. Therefore, the consultant group included individuals from as diverse fields as agriculture, law, business, banking and education. Consultants were selected through cooperation with local institutions of higher learning such as Lviv State Agricultural University and Lviv Veterinary Academy, as well as through other local contacts.

E. PARTNER SELECTION -- CREDIT TRAINEES

Please see the ACDI/VOCA report in Appendix D for information on the selection of financial lending institutions for the loan fund it helped to create. For more on the issue of partner selection, refer to the Lessons Learned section later in this report.

F. PROGRAM ACTIVITIES

The Western Ukraine Initiative was designed to take advantage of several characteristics of western Ukraine itself, as well as its agriculture. First of all, as one of the most progressive regions in the country, Lviv and Transcarpathia oblasts gave birth to some of Ukraine's very first private farmers since the nation gained independence in 1991. Not only was this a reflection of the relatively progressive character of the local governmental leadership, but it also gave local private farmers a head start in establishing and developing their operations. Second, because the region not only borders on Poland, Hungary and other central European countries, but also

includes many Ukrainian citizens with close ethnic and cultural ties to those nations, this area was perfectly suited to increasing economic links with those countries. Because of the similar histories and the wealth of experience in reforming agriculture that those countries had already gained, the project intended to take advantage of this geographic proximity in a number of ways.

G. CROSS-BORDER TRAINING

Western Ukraine's geographic proximity to Poland and Hungary was taken advantage of by the project in a number of ways. Within the region comprising Western Ukraine, Poland and Hungary, there was and is enormous unmet need for business information and resources. Paradoxically, there exists among the same countries the ability to satisfy those needs, although the potential is rarely realized. The WUI worked to link the needs with the solutions through group training and one-on-one consultancies to build effective business relationships, and by facilitating regional trade promotion.

Feedback from Ukrainian clients regarding the utility of these interventions emphasized the importance of trade opportunities, fact-finding tours and internships, and business consulting services. The project transformed these broadly expressed areas of interest into actual programs and activities that are meeting the needs of the agribusiness sector in Western Ukraine. In so doing, the project has:

- organized and held trade fairs, expositions and symposia in Poland, Hungary and Romania, and sponsored Ukrainian participation in them;
- linked associations from neighboring countries to share in joint activities;
- trained senior and mid-level bank managers in credit analysis loan preparation and other instrumental processes in sound banking management. This has led to a sale of stock by the Western Ukraine Credit Bank to the Polish Kredyt Bank; and,
- conducted training, technical assistance and internship programs linking Ukrainians with companies, institutions and entrepreneurs in Poland, Hungary and Lithuania.

Description of Project Experience

Training: The Ukrainian agribusiness managers and farmers that worked with the project often lacked the context for even the most basic discussions of business principles. This was attributable not only to a lack of knowledge of business principles, but also to the historical and cultural conditions that shaped the western Ukraine business environment. While Land O'Lakes had anticipated this and initially focused the training on basic business principles, it rapidly became clear that information and methodologies being presented were not resonating among the target audience.

Consequently, shifts in training methodology were instituted, including increased use of trainers from the region -- Poles, Lithuanians, Romanians, and Hungarians. During the project operations, fifteen training sessions were been conducted for the project's Ukrainian agribusiness clients presented by Polish and Lithuanian instructors. The credit training programs also utilized four Polish bank trainers with prior experience in the Cooperative Bank Development Project in

Poland. Furthermore, the project conducted third country training and other exchange activities in the region. This reliance on trainers with greater commonality of experience greatly improved the connection between trainers and participants, and subsequently, the acceptance of information and skills.

Trade Promotion: In spite of the challenging macro and micro-economic conditions, interest in trade between Western Ukraine and Poland is very high -- in fact, inquiries at the Land O'Lakes' offices in Lviv and Warsaw proved to be too numerous for the project staff to effectively handle. To meet this need, the project organized and staged two annual trade fairs in Lviv featuring Polish firms so that the Ukrainians could contact potential suppliers and customers directly. The project engaged a Warsaw exhibition management firm to handle logistics and border crossing. The Land O'Lakes Warsaw office recruited the exhibitors, many known to Land O'Lakes from its prior project experience in Poland. The Lviv office publicized the events with press releases, promotional efforts and personal contacts.

As an incentive to the exhibitors, the project has covered part of the exhibitors' costs for renting the facility and transportation. Land O'Lakes paid 75% of these costs for the first fair in 1997. This declined to 67% in 1998, while attendance rose.

Industry-Specific Trips (ISTs): This activity combined training and trade promotion. It enabled Ukrainian clients with clearly defined, common commercial interests to spend time with similar businesses in Poland or Hungary. While the project facilitated and supported these ISTs, much of the responsibility for the planning and implementation was left to the participants, thus increasing the value of the exercise and serving as a learning opportunity. Approximately 110 trips for Ukrainians were targeted to Poland and another 45 IST slots were filled on trips to Hungary.

IST's frequently expanded into internship programs, under which the Ukrainian participant worked at a Polish processor or company for a period of two weeks to three months, under a cost-sharing arrangement. About 15 Ukrainians participated in this internship program.

Credit and Finance: In October 1998, the results of the project's work with the Western Ukrainian Credit Bank (WUCB) became apparent. For the previous six months, the Polish Kredyt Bank had expressed interest in negotiating a stock purchase of 30-35 percent of WUCB shares. Early in this process, the Kredyt Bank established performance requirements for the WUCB to meet its criteria for the purchase, including training for mid-level managers in financial planning and human resource management. Successful completion of the project-sponsored credit training program contributed to the subsequent sale of a significant percentage of WUCB shares to Polish Kredyt Bank (approved by the shareholders of WUCB Jan. 11, 1999).

Professional linkages: One of the more evident results of these activities was the fostering of long-term relationships among cohort groups on both sides of the border. The project trained a corps of Ukrainian agribusiness consultants who benefited from mentoring relationships with Polish consultants. In addition, the project organized gatherings of farmers and association leaders from both Poland and Ukraine to provide opportunities for relationship building. Through these meetings, progress toward creating market-based solutions for Ukraine's many

agribusiness problems emerged. Also, a number of cross-border association linkages were formed in an effort to restore trade and information flow among the agribusiness interests in the region.

Trade research: As part of its efforts to promote cross-border trade, the WUI was also involved in several research projects devoted to developing a clear picture of the trade flows actually taking place between Poland and Ukraine. Both Ukrainian and American consultants conducted research by interviewing trade specialists in Kyiv and Lviv, discussing import/export restrictions limiting trade with Ukrainian farmers who do business with Polish partners, actual monitoring of the various border crossings in Lviv oblast, and examining the relevant legislation. Some of the information they gathered is contained in Appendix C.

H. ASSOCIATION DEVELOPMENT

One of the fundamental objectives of the project was to encourage and support the creation of independent Ukrainian organizations to represent the interests of private agriculture and processing and to provide services to this growing sector. Although a national private farmer's association already existed, many farmers felt that it did not truly represent their interests and found its close ties to the government troubling. Thus, efforts were made to initiate the creation of a small, informal organization through which farmers could share experiences and contacts. To help raise the profile of the organization and make its voice heard more widely, as well as to increase the chances of the organization remaining active following the completion of the WUI project, efforts were initiated in 1999 to legally register the organization and elect its leadership. In December of that year, registration of the organization, called the Western Ukrainian Farmer's Union (WUFU), was completed. This official status increased the attention paid to the association's views on agricultural issues by the media and government alike. See the results report on WUFU in Appendix A of this report for more details.

A second association that the project encouraged and supported the creation of is the Business Consulting Association (BCA). Like the WUFU, it began as an informal group of project partners -- in this case, of its agricultural consultants-in-training. As the consultants gained new skills and insights into the services they could offer to agricultural producers, it became increasingly clear that those consultants that intended to earn a living through this kind of work needed a professional organization both to support their work and to provide a mechanism through which they could be legally paid for their services. Thus, after a great deal of preparatory work, in January of 2000 the Association was legally registered with significant Land O'Lakes' assistance. See Section J below for details of consultant projects pursued by this group's members. See the results report on BCA in Appendix A of this report for details on members' accomplishments.

The WUI project supported the creation and operations of these organizations in several ways. For example, it introduced the members of the informal farmers' association to members of the Lublin Agricultural Chamber in Poland in order to start a dialogue on the role of these types of organizations. Also, the project organized a study trip to the Chamber itself, as well as a study trip for the Business Consultants' Association to an analogous organization in Sandomierz,

Poland. Finally, training in group leadership and team building was provided to the officers of each association through an NGO in Lviv.

I. COOPERATIVE DEVELOPMENT

As a cooperative itself, Land O'Lakes is in a good position to fully appreciate the advantages that this type of organization brings to producers and consumers alike. It also proved capable of conveying these benefits to Ukrainian producers and processors through a variety of activities. Both American and Ukrainian trainers led seminars in cooperative principles and study trips to existing cooperatives in Hungary and Poland showed Ukrainians firsthand the results that cooperation can bring about. In addition, the project worked closely with the Agency for Marketing and Agribusiness Development, an independent NGO in Lviv involved in both advocating for the creation of cooperatives and legally registering them. As a result, over a dozen cooperatives were created that provide various services to their members, from securing low-priced inputs to jointly marketing production. See the numerous results reports in Appendix A of this report for more details about the creation of individual coops.

J. AGRICULTURAL CONSULTANTS

The Western Ukraine Initiative Consulting Group is a group of 24 agricultural consultant trainees who received training from Land O'Lakes (LOL) in various professional areas in preparation to pursue the provision of independent fee-based services to farming and agribusiness customers. Twelve consultant trainees were identified by the Western Ukraine Initiative in 1996, and this group grew to 15 members by the fall of 1999. Each consultant was paired with one or more Land O'Lakes agricultural partners engaged in agricultural production or processing to gain practical experience in utilizing one's skills to improve the workings of local agricultural operations. This group also completed a number of projects directly for the Western Ukraine Initiative.

The long-term goal of this activity, however, was to encourage the consultants to recruit their own clients and pursue this activity on their own. Therefore, the consultants began to solicit business on their own terms. They initiated efforts to register their consulting group as an independent legal entity and succeeded in doing so in December of 1999, following an October general meeting at which they approved the by-laws and elected leadership. They decided to name the organization the Business Consultants' Association. Since then, another 12 members joined BCA and BCA's Agricultural Extension Service was formed in cooperation with the Lviv State Agricultural University.

In late 1998, one of the consultants, Lesia Drabyk, was appointed as the Western Ukraine Initiative's (WUI) senior consultant. For one year, her work involved both coordinating and documenting the work of the remaining consultants-in-training, as well as working on various individual projects. Below is a summary of the accomplishments of the consultants over this period.

✓ Consulting Activities

Lesia developed standard formats for the reports and projects assigned to the WUI consultants, including:

- Partner Assessment
- Financial Statement
- Multipurpose Business Plan
- Project Development Plan
- Annual Farm Calendar
- Business Plan for a Farming Business)
- Farm Management Improvement (Advice for farmers)
- Marketing Plan for a Successful Farm Operation
- Seminar on Cooperative Accounting and Taxation (for cooperative leaders and other consultants)

✓ Computer-Based Management and Accounting Training

A project was initiated to help agricultural producers improve their financial planning and business analysis both through the use of computer software developed especially for agribusinesses from the former Soviet Union and by means of record keeping based on Western Accounting Principles.

✓ English - Ukrainian Dictionary for Agricultural Producers Published

Because of the ever-increasing interaction between Western agricultural experts and Ukrainian producers and processors, as well as increased access to Western agricultural input and machinery companies, there was a perceived need for a practical, illustrated English-Ukrainian dictionary of agricultural terms. Therefore, a dictionary was compiled with the use of various Ukrainian and Western reference publications. A thousand copies were printed and distributed of the 31-section dictionary, 1500-word dictionary. The illustrations help the reader visualize each term and a transcription to every word is given in Cyrillic to make the dictionary useful for Ukrainian specialists who are not fluent in English.

✓ Farm Financial Statements

Each LOL consultant prepared a financial statement for an LOL partner for the past years. In all, balance sheets and profit and loss statements were produced for eleven LOL partners (agricultural producers) according to a standardized format developed by the WUI senior consultant. The main goals of this activity were to study in detail the financial situation on each farm, to analyze what contributed to the success of those operations that had a positive financial performance, and what could be improved in those operations showing a loss.

✓ Fee-based Training Activities

Two consultants have made initial steps in conducting fee-based seminars for agribusinesses. Consultant Lesya Drabyk has conducted a seminar on Cooperative Accounting and Taxation in a form of discussion of key issues and problems. She collected payment from 8 participants. Consultant Yuriy Kuzmyk initiated and coordinated a seminar on the Principles of Crediting and SME Financial Analysis which was sponsored by Transcarpathia Agency for Regional Development.

✓ Partner Assessments

Partner assessments were completed for eight LOL partners according to a standardized format. This project was pursued to gather additional information about partners interested in developing business plans for their farms, and to help determine whether or not these operations had the potential to become creditworthy borrowers.

✓ Rayon Assessments

Rayon assessments were developed by the consultants for each of L'viv oblast's 20 raions. The purpose of this activity was to create a database of information highlighting details of economic and, in particular, agricultural structure and performance for each part of the oblast. This information will be invaluable in that it will provide both background for consultants in their business plans for agricultural operations throughout the oblast, and specific information for those producers and processors hoping to target specific regions for various production or marketing purposes.

✓ Business Plan Development

LOL consultants developed twenty business plans and loan applications for agricultural producers seeking to receive credit. At the time of this writing, 10 loans had already been granted by various sources. Finally, senior consultant Lesia Drabyk investigated several local financial institutions to explore potential rural credit sources, and has drawn up a list of institutions based on her findings.

K. BASIC TRAINING

Although the major focus of the project was on assisting private agribusiness, one activity involved work with collective farms. At USAID's request, Land O'Lakes developed a basic training program for employees of collective farms soon to be restructured with assistance from Ronco, a USAID contractor. This training was designed to help collective workers better understand what being a private farmer entails in order to prepare them to make the impending decision of whether to take one's land from the collective to start a private operation or to remain with the collective on a voluntary basis.

USAID made this training a priority when it discovered that only a very small number of collective workers were choosing to leave the collectives. Despite having been granted the first opportunity in over half a century to go into private farming in Ukraine, not to mention the miserable state that most collectives are presently in, collective workers still wary of striking out on their own. Because of the lack of private farming and the collective system reigning in Ukraine over the 50 years prior to 1991, there was and is great fear of the difficulties that going it alone might entail. Collective workers are specialists, not generalists, and thus it is understandable that the task of being responsible for all aspects of an entire private operation was and is daunting to many collective workers. This is especially true when one realizes that these potential new farmers would have to start their operations -- often without modern farming equipment -- in an economic environment where the chances of obtaining credit for such purchases are slim. Nevertheless, this basic training aimed to show collective members that succeeding in private agriculture is not an insurmountable challenge and thus help convince

some collective employees to join the true private sector. The management of collectives in Lviv oblast were not cooperative, however, despite promises to summon entire collective staffs to attend the basic training seminars. Because of a desire to hold onto their power, directors of collectives in several cases discouraged or even forbid their employees to attend the Land O'Lakes' training sessions.

L. INFORMATION RESOURCE DEVELOPMENT

As part of its efforts, the project also pursued several initiatives designed to expand the information resources providing valuable market and technical information to those in the private agricultural sector. This was done in two major ways. First of all, the project supported local NGO Prosvita to revive publication of Agrosvit, a newspaper that that NGO had previously published. This publication has become a forum for information on agricultural issues in western Ukraine. Although with the close of the project Agrosvit no longer receives LOL assistance, the newspaper has been able to generate a sufficient customer and advertising base to continue publishing self-sufficiently. Circulation has increased 50% to 1,500 and its periodicity from once to twice monthly. Advertising revenue is now about \$500 per month.

The second effort to increase the private agricultural sector's access to news and information is a website that the project created. This website contains a wide variety of agricultural information in both Ukrainian and English that the WUI has generated over the course of its three and a half years of work. It also contains links to other sites providing market and technical information, agricultural news, agricultural organizations. This site will be used in the future to promote the Western Ukrainian Farmer's Union, which will be responsible for maintaining the page and updating its content. This page can be found at: www.geocities.com/ukraineaglinks/home.html.

M. COLLABORATION WITH USAID MISSION STRATEGIES

Right from the very start of the program, Land O'Lakes worked in close contact with the Kyiv Mission of USAID. Regular meetings with representatives of the Mission responsible for agricultural programs combined with frequent phone discussions helped to coordinate the work of the program and ensure that it adapted to meet the changing concerns and objectives of the Mission.

For example, the trade research noted above that the project conducted was pursued at the express request of the Mission. In addition, Land O'Lakes Project Manager Jon Thiele was closely involved with the Mission in developing the agriculture regional strategy that became the blueprint for the design of USAID's agricultural programs in Ukraine. In addition, subsequent Land O'Lakes Project Manager David Blood provided input on the development of a document USAID submitted to the IMF outlining agricultural reforms that needed to be enacted in order to remain eligible for continued IMF funds.

Always eager to improve methods of implementation of the program, Land O'Lakes welcomed site visits to its Ukrainian partners by Mission officials, as well as the U.S. Ambassador. Such visits helped in the verification of the reported results as well as in steering the program in accordance with the specific problems of agriculture in Ukraine.

III. QUARTERLY REPORT (OCTOBER 1999 – JANUARY 2000)

FINAL QUARTER OVERVIEW

Through its final quarter, the Western Ukraine initiative pursued an ambitious slate of activities. These efforts not only continued to provide valuable training and services to local agribusiness producers, processors, associations, educational institutions, and consultants, but also were pursued to establish self-sustaining organizations to provide agricultural resources to Ukrainian farmers into the future. While decreased funding over the four-month extension period necessitated various cost-cutting measures, program activity levels remained high and the long-term partnership between Land O'Lakes, ACDI/VOCA, and their local partners continued to yield substantial impact.

Not only have project partners received credits, made capital investment in their operations and utilized modern technologies to improve their production practices, but their eagerness to band together for mutual benefit may have an even longer-lasting effect. Cooperatives have been formed, and independent farmers', agricultural consulting, and credit-granting organizations have been legally registered and have begun to promote the interests of the private farm sector. That these positive developments occurred at a time when there has been great uncertainty over the nation's economic future is especially heartening. Indeed, during this difficult period, not only have many local agribusinesses managed to survive, but some have even been slowly expanded. They may make even more significant progress if the recent indications that the national government is ready to pursue more rigorous reform signify serious intent.

This section of the report describes this past quarter's project activities, highlights the achievements of the project's partners, and describes the activities of the newly registered Western Ukraine Farmer's Union, Business Consultant's Association, and Ukraine Agricultural Finance Development Foundation.

PROGRESS ON EXPECTED RESULTS

Below are the objectives of the four-month extension as stated in the work plan and the progress to date. Land O'Lakes has primary responsibility for objectives 1 through 9 and ACDI/VOCA has primary responsibility for objectives 10 through 13.

A. Associations as Mechanisms of Development

1. Establish progressive producers' organization and organize three field days that will provide opportunities for information exchange and educational programs at partner operations.

Status: The Western Ukrainian Farmer's Union (WUFU) was legally registered in early December. This alternative to the national farmer's association aims to represent the interests of progressive private farmers in western Ukraine by remaining completely separate from national and local government, and thus free from their vested interests.

Based in Lviv, the Union also has branch offices in Volyn and Zakarpattya oblasts, and already boasts a membership of 30 individuals. Roman Hayduchok, who owns a grain processing businesses in Lviv, was elected President of the Union. See the article in Appendix B for more information on Hayduchok.

The Union was involved in a wide number of activities over the quarter. WUFU helped Land O'Lakes to organize the second and third "Farmers' Forums," which were held, respectively, at Lviv State Agricultural University and at the farm of member Myroslav Horachek in Chermkhiv, Radekhiv raion. The first field day was profiled in the previous report. Ten people attended the field day in Chermekhiv in order to both become acquainted with Horachek's operation and develop a strategy for the work of the Union. One of the meeting's accomplishments was the signing of a memorandum of understanding with Lviv Credit Union to create a loan guarantee fund. The fund will make credit more readily available to local farmers by providing guarantees in the case of loan defaults. Earlier in the month, the Union's leadership had visited the Lublin Agricultural Chamber in Poland in order to learn from that organization's experiences in promoting the interests of private farmers.

One of the most important activities of the organization has been in informing the public of the importance of private farming to Ukraine's future, and of the valuable role that USAID activities play in supporting the sector. The WUFU has, therefore, utilized the national and local media to spread its message, as indicated by the article and transcript in Appendix B.

B. Capacity Building

2. *The Lviv Oblast Association of Agribusiness Consultants will be organized and registered as a legal entity. Land O'Lakes will identify a cadre of additional consultants for credit training programs during the extension.*

Status: The long-term efforts to formalize the project's group of agricultural consultants finally paid off this quarter as the Business Consultants' Association was officially registered. Now there will be a legal mechanism through which both WUI and non-WUI agricultural and business consultants can legally provide fee-based services to clients.

Though only in its first months of its formal existence, the Business Consultants' Association had a very busy period of training both for and by members of the association. The intensive efforts of Land O'Lakes helped identify 11 new consultants for membership in the association, three of whom participated in an intensive ACDI/VOCA training course on the Fundamentals of Crediting. Also, in December, Senior Consultant Lesya Drabyk attended a seminar in Kyiv on accounting issues for cooperatives. She shared the information she learned at a seminar of her own in Lviv for heads of local coops.

3. *Six consultants, who are economists at Lviv Agricultural University, will participate in a short course training session on market information systems held at Krakow or Olsztyn University.*

Status: As part of its training efforts for members of the association, a group of 7 consultants participated in a training program in late January in Sandomierz, Poland, at the Center for Promotion and Support of Agricultural Enterprise. Budgetary constraints made it unfeasible to organize more expensive training in Krakow or Olsztyn, but the Center in Sandomierz, itself a former recipient of USAID-funded LOL assistance, was well-qualified to conduct the training. Its training program focussed on strategies for funding the BCA and ways that the association may be transformed into an extension-type service to serve the needs of private farmers. In addition, in mid-December, a group of consultants and officers of the WUFU participated in a training session in Lviv aimed at developing the leadership skills and teamwork.

4. *Consultants in training will complete 8 business plans for project partners and help them obtain a minimum of 4 loans.*

Status: While the uncertainty that the fall presidential elections in Ukraine cast on economic confidence reduced demand for credit, nevertheless this target was nearly met. Consultants completed 8 business plans and loan applications in an effort to obtain credit from the credit unions involved in WUI's newly active loan program, as well as from other financial institutions. The Carpathian Area Fund for Private Farm Support recently approved a \$5,000 loan to project partner Petro Lozynskiy for the renovation of a grain truck to haul grain more efficiently and for working capital for his swine operation. Lozynskiy also has been approved for a \$20,000 from Lviv Credit Union. For more information, see the results report in the appendix on Yuriy Kuzmyk, the LOL Consultant who helped Lozynskiy apply for these loans. Finally, Volodymyr Nehela, the head of Rava Ruska Butter Plant, recently received a \$2,000 loan that he used to purchase packaging equipment for his enterprise's new line of yogurts.

C. Entrepreneurship

Efforts to promote trade and business development continued to yield results over this past quarter. Nine project partners have reported a minimum 10% increase in profits or 25% increase in production over last year, many of them thanks to identifying premium-paying potato buyers in eastern Ukraine. This group includes Olha Sliusar, Volodymyr Prima, Karl Shosh, Vasyl Malashenko, Petro Lozynsky, Petro Fedyna, Haiduchok, Ihor Bas, and Yaroslav Shakalo.

5. *At least three ISTs or internships will be arranged for WUI partners*

Status: The increased profits noted above have, in turn, financed the adoption of new technologies or the purchase of products to which the project has introduced its partners. Three industry specific trips (ISTs) to Poland have been held. The first two focussed on the purchase of agricultural machinery and packaging equipment. The third was

dedicated to modern varieties of vegetable seeds and related inputs. In all, the IST's have led to over \$20,000 in purchases by Ukrainian partners, some of which is detailed below.

For example, Petro Fedyna, as a result of an IST to Poland, invested \$5,000 in the purchase of a digger, cultivator, and seeder. Petro Lozynskiy, during an internship with a Polish hog raiser, received advice in the construction of his swine facility that will save him several thousand hryvnias (5 hryvnia = \$1). Also, Roman Hayduchok spent \$11,000 on a cereal processing line and packaging equipment for his grain processing operation. In addition, partners Hirny, Malashivsky and Sliusar each spent \$3,000 to \$5,000 modernizing their operations. Finally, Shosh purchased a small bakery operation for \$3,000.

Two partners, Shosh and Prima, have also purchased additional land recently. While Shosh modestly increased his land holdings by buying 40 hectares, Volodymyr Prima has obtained 1500 hectares and founded an entire association of vegetable and fruit growers. The new entity, called Lvivsad, will jointly produce and market their production. Another partner, Stepan Hirniy, has set up a joint venture with a British farmer to produce and market milk. The project aims to increase Hirny's herd up to 200 cows and to produce high-quality feed for the herd.

6. *Five swine feed products manufactured in Poland will be registered for sale in Ukraine. Local distributors for these products will be identified.*

Status: Unfortunately, efforts to assist Land O'Lakes' Polish subsidiary, LOL Limited, to register premixes for sale in Ukraine have run into some difficulties. Despite previously agreeing to payment terms, the Ukrainian agency responsible for certifying feeds and premixes for sale in Ukraine reneged on its original agreement by raising the requested fee prohibitively. Rather than reward this all-too-familiar tactic of Ukrainian bureaucracy, LOL Ltd. decided to refocus its efforts. Instead of expending its energy to certify the premixes in Ukraine, LOL Ltd. designed a study trip to Poland for those Ukrainians interested in becoming dealers for LOL Ltd. in Ukraine.

In mid-January, a group of 12 Ukrainian farmers spent two days in Poland learning about the use of these premixes and purchase terms. Because of the great interest displayed by the Ukrainians, Land O'Lakes Limited decided to finance the certification of three of the premixes, despite the high cost. Customs and distribution issues, however, will be left to the farmers themselves.

D. Information Services

7. *A database of Ukraine-specific agricultural materials will be developed and provided to the university, as well as made available on the Internet.*

Status: A website has been designed that will provide free access to a wide range of Ukraine-specific agricultural materials. Materials generated by the project, as well as information from other sources have been included and can be accessed on the Internet at:

www.geocities.com/ukraineaglinks/home.html. Following the closeout of the project, the Western Ukrainian Farmer's Union will take over and maintain the webpage as a tool to not only help others but to market the organization itself. Already, Land O'Lakes has worked with the Union to publicize its own activities through the webpage by incorporating information about WUFU, its activities, and its members on the website.

8. *Information on rapeseed production, processing and its use in livestock feeds will be transferred for use by faculty, students and consultants at the Lviv Agricultural University. Brochures will be prepared, printed and distributed to farmers.*

Status: This information was been incorporated into the above website as well. Brochures have been printed and distributed by the Western Ukrainian Farmer's Union.

9. *Organization and registration of a growers' cooperative in Transcarpathia or Lviv Oblast. The cooperative will finalize at least one supply procurement or marketing agreement.*

Status: Land O'Lakes assistance has helped Karl Shosh form the Berehovo Fruit and Vegetable Procurement and Marketing Cooperative in Kidiosh, Transcarpathia. It also introduced the co-op to a Kyiv-based potato-chip manufacturer. While no procurement agreement has been signed yet, the co-op recently received a certificate enabling it to import up to 150 tons of potatoes for use as seed on recently-obtained land.

E. Credit Training Activities

10. *Establish lending program and develop interim contractual agreements between ACDI/VOCA and selected local financing entities to provide medium term funding of the overall private agriculture-lending program.*

Status: In the reporting period, a Joint Lending Activity Agreement was signed with NADIA Credit Union from Mykolaiv, Lviv Oblast. The Credit Union was an active participant in ACDI/VOCA-Foundation credit training in September and October, and in November it applied to the Program with two loan applications. The Foundation's growth continues into other potential regions, including Zhovkva rayon of Lviv oblast.

Euro-Center Bank has become another good partner. Registered in 1993 in Lviv, it gained the status of an independent bank by the year 1997, and has since expanded to Ternopil and Khmenlytskiy. Many founding companies and clients of the bank operate in agricultural business. Ternopil Academy of Banking is one of the founders and is the largest university in Ukraine training banking specialists. Graduates of this university include Prime Minister V. Yushchenko and many other prominent bankers of Ukraine. The Bank is capable and willing to expand its agricultural lending, and is ready to begin making agriculture loans with the program.

11. Within the framework of the permanent credit funding mechanism, implement up to three types of lending programs: a) processor/producer on-lending program; b) business operation-loan program; c) capital investment program.

Status: Since agreements with the bank and credit unions were signed, lending activities have had good potential. Training programs have revealed the need for closer cooperation with credit unions in making pilot loans. Unlike consumer loans, which have been the main focus of credit unions, agricultural loans require a new approach to loan evaluation and administration, as has been made clear by the loan applications submitted by credit unions so far. To give an idea of the demand for the program, below are summaries of some loan applications currently being reviewed.

1) A loan application from Zakhidny Cooperative in Rivne was one of the first we reviewed and made a verbal commitment to fund. Nine local farmers created the cooperative in 1999, and their initial request was for 3 years and UAH 90,000 (45,000 for milling equipment, 45,000 for working capital). Southern States Cooperatives provided the equipment, while ACDI/VOCA committed to funding the purchase of feed ingredients and supplements. At present, the cooperative is re-evaluating the funds actually needed and will revise its loan application accordingly.

2) Vygoda CU presented two loan applications. One is a bakery in Dolyna, Ivano-Frankivsk oblast that requested UAH 36,000 to buy new baking equipment and flour from local private mills. The second is a production loan for meat and meat products from a businessman in Striy, Lviv oblast. The proprietor has been in business for 6 years and requested UAH 12,000 for working capital and expansion.

Many other loan applications have come in, including one from a potato grower in Ternopil oblast and two from Anisia CU. Ronco consultants are preparing the loan application for the borrower's loans in meat and honey production.

Although lenders were not originally required to develop new loan formats, because of the wide disparities in loan applications, ACDI/VOCA found it was spending exorbitant time on gathering all requisite information and analyzing it. Thus, this past quarter it developed a unified loan application package that helps the inexperienced lender collect necessary data from borrowers and thus expedite the development and processing of loan applications.

12. Continue 'Expanded' agricultural credit training at financial intermediary institutions.

Status: To date, ACDI/VOCA has conducted 55 training and technical assistance seminars and workshops to various member financial institutions. Thirty-six of these seminars were in extensive management, planning and credit training to private commercial banks. The others were Fundamentals of Credit, SME Financial analysis and Credit Administration Standards training courses delivered to credit unions.

Over the past quarter, extensive credit union training was provided. In October, ten (10) Ukrainian credit unions, at the request of the Canadian Program for Development of Credit Unions, received ACDI/VOCA training in SME the fundamentals of credit and financial analysis. Both seminars proved to be big successes. ACDI/VOCA received a letter of gratitude from Petro Makovskiy, senior officer of the Canadian Program, requesting the training series be expanded. In October, a request for training in these areas from USAID was also granted and training provided for project consultants from Ronco, CNFA, the Meta Center, and Land O'Lakes.

On-on-one credit training sessions continued with six officers from Electron Bank. Polish trainer Barbara Lewicka again worked with the same participants but this time in advanced situations with real loan applications from the bank. As part of the training plan, every other month the trainees and the instructor visit and conduct practical on-site credit sessions using actual examples from the bank's operations.

Financial Planning Model training started in the Electron bank in November with the first seminar being on Asset/Liability Management. All five senior executive officers of the bank attended. A/L Management training covered functions and goals of the banking system, impact of the nation's economic policy, structure of a bank's balance sheet and profit and loss account and risk relating to the structure weaknesses, managing credit and investment portfolios, concepts of liquidity, interest rate and currency risk management, and basic indicators for evaluating a bank's performance. The Strategic Planning section of the course was well in match with the expectations of the bank as trainers, OPCJA Consultants (Poland), were in a regular contact through the ACDI/VOCA office with the bank's management in refining the details of their presentation.

In early December, 16 employees of Euro-Center Bank, including the president, senior executive officer and loan officers and branch managers equally representing all three branches, attended a Fundamentals of Credit seminar presented by ACDI/VOCA. During the training, Kenneth Smith briefly touched on credit-related, human resource management principles. This subject began to answer many questions the bank had on management, credit administration and personnel development and was considered a significant benefit to the bank. We have been asked to provide the bank with a more in-depth training on these issues if possible.

Finally, twenty individuals participated in a workshop held in December in Rakhiv, Zakarpattia oblast. The training was requested by Yuriy Kuzmyk, who had attended the aforementioned USAID training as a Land O'Lakes Consultant, and was coordinated by his former employer, the Carpathian Regional Development Fund. The Fund implements a number of small business support programs sponsored primarily by the Eurasia Foundation. The ACDI/VOCA training focused on Fundamentals of Credit and was geared toward the banker/borrower relationship and the borrower's understanding of the loan process.

13. Design and establish a permanent fund, trust, foundation or other like entity (credit funding mechanism) for the long-term, ongoing disbursement of proceeds in support of the project goals, objectives and requirements.

Status: The Foundation received has been officially registered and written notification of this has been received from the Tax Administration. Also, the Foundation bylaws were approved at the Foundation Founders meeting in December. In addition, ACDI/VOCA completed an application to Euro-Center Bank to open a primary bank account for the Foundation. The application was submitted in January.

The following five individuals were elected Directors of the UAFDF Board as a result of an extensive evaluation and interview process:

- Tomych, Ivan—Chairman, National Farmer Association of Ukraine
- Dudziani, Bohdan— Head of the Lviv Oblast Dairy Association
- Cherevko, Heorhiy—Dean of Marketing at Dubliany Agricultural Academy.
- Hirniy, Stepan—Ukrainian private farmer from Didyliv, Lviv Oblast.
- Hvozdiyov, Sergey—Director of Academic Programs at Lviv Institute of Management.

Two associate directors (non-voting) were also selected to provide banking expertise and information to the principle directors in making Foundation decisions:

- Kryvko, Igor—Electron Bank, Manager, Hard Currency dept.
- Khoma, Taras—WUCB, Manager, Correspondent Bank relations dept.

Two other individuals, who are willing to contribute to the Foundation's development are currently being considered for directorships. If selected, the final two positions of the Board will be filled:

1. Roman Shmidt—Ukraine Parliament Member
2. Yaroslav Soltys—Deputy Governor of the National Bank of Ukraine

On October 27, 1999, Anatoliy Pokhodziaev, Ukrainian banking and legal advisor of ACDI/VOCA in Lviv, was appointed by Foundation founders as an interim manager of the Foundation for the term until all positions of the Board of Directors are filled. All assets of the Program continue under the authority and administration of ACDI/VOCA as called for in the Program's MOU.

During the reported period, the repayment of proceeds from the Kuteinikovo Bread Factory continued irregularly without any concrete schedule. Between October 1 and December 31, UAH 111,257.00 were received, boosting the total, as of December 31, 1999, transferred since February 9, to UAH 599,760.00, or US \$152,971.67, according to the NBU rate on the dates of payments.

On September 15, 1999, the President of Ukraine issued decree #1-14/1233, where he instructed the Ukraine Cabinet of Ministers to ensure that the repayment schedule for the Kuteinikovo Bread factory in Donetsk oblast be brought current. In answering the above decree, the Cabinet of Ministers issued a relating decree, #21577/2 dated September 30, 1999, to the JSC "DAC Khlib Ukrainy" (manager I.M.Rishniak), Ukraine Ministry of

Agri-Industrial Complex (First Deputy Minister Yu.Ya.Luzan), and NAUREI (chairman R.V.Shpek). This information was made available in this quarter.

COORDINATION WITH OTHER DEVELOPMENT ORGANIZATIONS

Over the past quarter, Land O'Lakes joined Ronco and CNFA to take part in a recent organizational meeting for a dairy cooperative that is being formed in Sambir with the assistance of Lviv's Agency for Agribusiness and Marketing Development.

IV. IMPACT ASSESSMENT

A. OVERVIEW

In general terms, the project has met or exceeded most of its targets. A vast number of training seminars, study trips, and internships have been conducted, resulting in expanded knowledge and trade links with Hungary and Poland, increased profitability of most of the project's partners and expanded operations. Business plans and credit applications have been developed and loans have been granted to project partners. Furthermore, new support organizations have been founded and new resources have been created, such as Agrosvit agricultural newspaper and the Ukraine Agricultural Resources website.

In quantitative terms, documented impact has been identified in the following amounts. Technical assistance and training has been provided to over 4,000 Ukrainians. Twenty-two (22) partners have increased profitability by 15% or more per year or production by 25%. Some of these partners have shown these increases several years running. Over \$800,000 in cross-border trade with Poland and Hungary has been facilitated. Over \$80,000 in loans have been secured for project partners. In addition, over \$800,000 in match has been generated by project partners, much of it in improvements to their own operations. Six associations have been created or strengthened by the project, while WUI has assisted with the creation of 7 new agricultural cooperatives. Together, these cooperatives and associations provide over \$400,000 in services to their members.

In order to summarize the numerous cross-border activities that the project has conducted, the following table was generated:

Western Ukraine Initiative Cross Border Accomplishments				
Quantitative Indicators: The following table provides a summary of outputs and results to date:	Ukrainian participants	Polish/Hungarian/Lithuanian Participants	Value of commerce resulting	Comments
I. Fairs				
A. 1997 Lviv Trade Fair	700 visitors to fair	23 Polish companies	Over \$300,000	Most sales go unreported
B. 1998 Lviv Trade Fair	1,000 visitors	32 Polish firms, 1 Hungarian	Over \$200,000 outpacing results at similar time in 1998	Recent changes in customs and banking laws may hinder trade.
C. Trade fairs in Poland and Hungary	60 Ukrainians to Poland and 20 Ukrainians to Hungary	100's of food processing, equipment, input suppliers from throughout Europe	Approximately \$20,000 reported	Again, business contacts are made, but transactions can be difficult to attribute.
II. Industry Specific Tours	Approximately 150 Ukrainians to Poland and 50 Ukrainians to Hungary	50 to 60 Polish and Hungarian firms	Can't measure, although in one instance there was a transaction for \$313,000 worth of equipment	These trips served as a means of establishing business connections and providing training in modern agribusiness practices
III. Training	100 Ukrainian participants	15 training sessions conducted by Poles and Lithuanian instructors	Each participating Ukrainian company has obtained practical business education to effect cost efficiencies	Agribusiness topics presented include business management, cost accounting, banking and consulting.
IV. Technical Assistance	24 Ukrainian consultants	3 Polish consultants mentoring the Ukrainian consultants	Establishment of independent consultants and an association of consultants	Provided sustainable agribusiness advisory capacity to 100's of Ukrainian agribusinesses
V. Internships	15 Ukrainian agribusiness persons served as interns	4 Polish companies	Application of education obtained has allowed Ukrainian firms to modernize and engage in trade	Complete immersion in the operations of dairies, meat processors, and bakeries.

	Ukrainian participants	Polish/Hungarian/Lithuanian Participants	Value of commerce resulting	Comments
VI. Banking (Senior management)	7 senior management officers (Ukrainians)	5 Polish banks	Training conducted was necessary for Western Ukraine Credit Bank to be eligible to sell shares to Polish bank	Methodologies successfully applied and sale of stock approved in January 1999
VII. Banking (Middle Managers)	5 mid-level banking managers	6 Polish banking institutions	Training integral to bank rating	Increased the marketability of bank's shares.
VIII. Credit Unions	5 Ukrainian credit union managers	2 Polish credit unions and 3 Polish banks	Training of credit union personnel is ongoing	Crucial information in helping these institutions establish sound practices.
IX. Information Exchange Institutions	Lviv Institute of Management	Zamosc Agricultural Institute	Economic benefits not yet realized, has potentially far reaching impacts	Agreed to open a democracy center in Lviv to facilitate cross border information exchange
X. Associations	Agricultural Chamber of Lviv	Polish Association of Butchers and Sausage Producers	Great potential	Information exchanges
	Western Union of Farmers	Lublin Agricultural Chamber	Great potential	Information exchange, organization of ISTs
	Business Consultant Association	Agribusiness Support and Promotion Center in Sandomierz	Joint grant application potential	Information exchange, cross-border trade consulting

The statistics and aggregate totals noted above, however, tell little about private farming and agribusiness in Ukraine. In order to understand the nature and context of each of these impacts, it is necessary to examine them in more detail. Appendix A contains over a dozen results reports, each of which focuses on an individual partner's operation and how it has developed thanks to WUI assistance.

The most lasting impacts of the Western Ukraine Initiative, however, are not likely to be those that can be quantified. In addition to the fact that it is impossible to document every sales agreement, business partnership or loan that comes about as a result of assistance activities, what may be most valuable is actually a change in mentality. Exposure to new ideas and new technologies can change the entire worldview of an individual and inspire that person to modify one's goals or to persevere in an effort having realized that it is truly attainable. It is clear that Ukraine's economy, which depends heavily on its agricultural sector, will not make a full recovery, much less meet its ultimate potential, until such a widespread change in mentality takes place. However, the WUI and programs like it are providing the ideas and experiences that have started this process in many individuals who may turn out to be tomorrow's leaders in Ukraine.

B. IMPACT COLLECTION STRATEGIES

Evaluation of program accomplishments is one of the most challenging parts of administering enterprise-level, technical assistance projects. Not only is progress often difficult to measure, but also because of tax concerns, clients are usually reluctant to discuss financial details with anyone, much less an outsider. In addition, it is simply human nature that entrepreneurs are reluctant to attribute positive developments to outside assistance and prefer to take credit themselves for any successes. In order to address these difficulties, WUI took the following approaches over the course of the project to improve its evaluation methodology:

- 1) Whereas expatriate staff had initially been used to conduct follow-up, there was a subsequent switch toward utilizing local staff for this purpose. This was helpful, first of all, because the local staff members who worked most closely with Ukrainian farmers and processors was clearly the most qualified to pursue follow-up. He or she already was best acquainted with what the operation was like prior to participation in the project and knew what to look for in terms of impact;
- 2) Whereas an American had initially performed follow-up, the increased use of local staff enabled the establishment of more continuity in Land O'Lakes' relationships with its host clients. Also, the fact that locals were involved in this relationship simplified communication and made host clients more comfortable dealing with them. As a result, host clients felt more free to be forthcoming about developments in their own businesses and about their true impressions -- positive and negative -- of the project activity;
- 3) Training was provided to local staff to emphasize some strategies for collecting follow-up. These included, for example, asking fewer direct questions about impact from given activities and asking more broad questions about the health of an operation and the direction it was moving in. This strategy is used to show the listener that one is truly interested in the operation's success, and not just the perceived success of the project's activities. In addition, hosts often are hard-pressed to identify positive impacts immediately. In reality, many impacts are subtle and they may be missed if the person conducting follow up limits the discussion to expected outcomes from specific project activities.

In addition, to meet the challenges associated with results-oriented reporting, Land O'Lakes developed a system for gathering information. A folder was kept for each partner and in it were kept the partner's original application to join the project, a financial statement, and a record of the partner's participation in each project activity. Impact assessments were also added to this file.

V. LESSONS LEARNED

A. *PARTNER SELECTION CRITERIA*

In terms of selection criteria for Ukrainian partners, there were several changes in focus. Through the project's work, it had become clear that the most successful impact had occurred with partners that not only had a willingness to listen to outside evaluations and accept the limitations of their own expertise, but who also had the resources to implement changes in their operations. Land O'Lakes also discovered that many of the successful private agribusinesses it encountered in Ukraine (and which fit the aforementioned criteria) were integrated, multi-sector enterprises, or farm-to-market systems. There are several major reasons for the prevalence and success of these types of operations:

- a) In an environment where processing and storage is controlled so extensively by the state, having one's own processing and/or retail creates the ability to market one's own produce without being dependent on state structures;
- b) Added value remains in the producer's hands when it has its own processing and retail operations;
- c) Diversification throughout various sectors and links in the farm-to-market chain reduces risks to agribusinesses in Ukraine's unstable and unpredictable economic and regulatory environments;
- d) Incomplete land reform and the difficulty of obtaining additional land makes diversification beyond production a more feasible way to expand one's operations;
- e) Retail and processing operations provide steady, year-round cash flow for cyclical farm businesses.

Land O'Lakes chose to focus on working with or helping to create these systems for a number of reasons:

- a) First of all, the very fact that integrated farm-to-market systems have been able to grow from simpler production, processing or retail operations is an indication that the businesses have been successful, and that the ownership is committed to investing profits in its own operations. Furthermore, this economic success translates into an increased ability to generate resources needed to implement volunteer recommendations.
- b) Working with larger operations, and not just small, family farmers, made it possible to effect larger changes and have a spread effect on a wider group of beneficiaries, both in terms of more employees of a given enterprise and more external enterprises that were linked to a given host operation.
- c) Private processing creates new alternatives to state processors for producers, thereby potentially benefiting an entire community.

As part of this emphasis on integrated, multi-sector operations, assistance was increasingly targeted away from technical, production-based focuses and toward downstream aspects of these enterprises. Financial management, strategic planning, sales and marketing were emphasized via a number of activities.

There were some aspects of partner selection that could have been improved, however. The expectations of some management staff that attendance was required at certain events in order for those partners to be included in subsequent activities may have been too rigid. The farmers and agribusiness entrepreneurs that made up the core of the project's client base have busy schedules that do not allow participation in every two-day seminar or three-day study trip. Allowing partners more choice to pick and choose which activities were of most use to them perhaps would have allowed them to allocate their time more effectively and derive more impact from the project. Because of the low if not negligible marginal cost of adding additional participants to an existing seminar or study trip, this need not have unduly increased project expenditures.

Overall, Land O'Lakes was quite successful in selecting partners from throughout western Ukraine and from various branches of the agribusiness sector. The somewhat arbitrary number of 20 partners selected in each of the first two years of the program, however, did not leave room for other potentially productive members that were identified subsequently. The partner list could have been significantly increased by having the best partners recommend their acquaintances to the project. Also, more intensive cooperation with other projects and Ukrainian agricultural organizations could have benefited local producers and processors. Unfortunately, the competitive nature of USAID funding and attempts to maximize project impact tend to encourage a lack of trust among competing implementers.

Project experience also determined some additional characteristics that seem to be common to successful agribusiness entrepreneurs, such as histories of community leadership, close ties with local government, international experience, participation in public NGOs, oratory skills and training skills.

B. IN-COUNTRY TRAINING

Land O'Lakes' training experience demonstrated that Ukrainians tend to listen more attentively and better absorb information from Ukrainians. While one of the reasons for the existence of this program, admittedly, is the shortage of Ukrainians truly qualified to convey Western agribusiness principles and experience, nevertheless Ukrainian trainers should be used where possible. Not only does the act of interpreting foreigners' lectures take a great deal of time and limit the speed at which information can be conveyed, but much can be lost in the translation.

Nevertheless, foreign trainers were an important and irreplaceable part of the project. They could have been used more effectively by pairing them with local specialists in their field for several days prior to their leading the training for which they had come to Ukraine. Not only would this better prepare the foreigner trainer to discuss material that is relevant and at the appropriate level, but it would also help train local specialists and expand Ukraine's own training capacity. The WUI's own consultant training activities, of course, sought to do just this, but the project still

could have integrated the training of its Ukrainian consultants and foreign trainers more intensively.

Also, in addition to the training that the project provided to progressive producers and processors throughout the oblast, the project could have utilized these partners to train entire village communities and thus transfer the skills and experience they had gained both through their own business experience and through participation in the WUI project. An important component of this training could be updating local villagers on the latest changes to the ever-changing Ukrainian legislation governing agricultural activities.

C. CROSS-BORDER TRAINING

Industry-Specific Trips (IST's) were one of the most popular and successful kinds of cross-border training. In the future, USAID could consider the establishment of a cross-border information center which would provide services to neighboring countries in identifying mutual interests, provide market information, legal services in international laws and standards, and so forth. With all of the information that various USAID projects generate, it would be worthwhile to share it more readily not only among implementers in a given country, but across entire regions as well.

D. EVALUATION

This activity, while important to gauging a project's accomplishments, is challenging and involves a lot of cumbersome work. As noted in the Project Impact section of this report, the use of Ukrainian nationals to gather this information greatly improved the quantity and quality of impact information obtained. In addition, it can be recommended that assistance projects like the WUI, which implement various activities with numerous personnel, stay in touch with clients on a regular basis to keep informed of the latest developments in each operation. This not only may facilitate more complete compiling of partner data, but can also help project staff identify potential areas of mutual interest between partners and other contacts. To collect and organize this data, a central file could be kept on each client and notes from each phone call or site visit with that partner could be recorded and included in that file.

Finally, one cannot help but mention the problematic fact that implementers themselves are the most frequent reporters of their own project's impact. Clearly, there is a conflict of interest in this activity. Whether this suggests that USAID or another neutral third party would be preferable for impact collection is hard to say, but the conclusion could be made that such a system would provide a more objective assessment of project activities.

E. COLLABORATION WITH OTHER AID PROVIDERS

Working together with other organizations, including farmers' associations, local governments, and development organizations further increased the impact the program was able to achieve. Among these organizations were Peace Corps, TACIS, Ronco, CIME and Chemonics. Through this cooperation we were able to expand our client base and both Land O'Lakes and our partnering organization were able to expand the services offered to clients. This was important

because, as previously noted, at times official government structures proved to be more of a hindrance to WUI than a help.

That said, despite Land O'Lakes' serious efforts to initiate an inter-project working group, there was little follow-through on the part of local projects. Because of the competitive nature of project funding, projects (and not just those that are USAID-funded, incidentally) can be reluctant to work too closely together. Realistically, it seems to me that the job of a USAID regional coordinator should be precisely to provide for this kind of cooperation between different projects. Unless USAID is directly organizing this cooperation, it remains likely that the Mission's vague directives for more cooperation will not be pursued to their full potential.

F. PUBLIC RELATIONS

In the fall of 1999 the Kyiv Mission articulated a concern that the Ukrainian public knew too little about USAID's activities in Ukraine. The Western Ukraine Initiative, however, has worked intensively to promote its activities in the press in order to explain the needs for agricultural reform and dispel the misconceptions of many people about private farming. The project has discovered that the local and national media are very interested in international assistance programs and more than willing to provide coverage. Indeed, in addition to providing their own newspaper, radio and television coverage of WUI events, media outlets in western Ukraine were very open to printing articles written by project staff. For land reform to be successful in Ukraine, public support must be garnered in favor of this change and the media is the quickest way to reach the masses. For a sampling of some of the coverage of the WUI project in the Ukrainian media, please see Appendix B.

In addition, although local and oblast-level governments were not nearly as cooperative with the project as one would have hoped, nevertheless it is important to keep them informed about project activities. Not only does a project risk alienating if not offending local officials if they do not hear of activities directly from the implementor, but one never knows when the cooperation of those in power might be helpful. In no way is this meant to suggest that one allow local bureaucracies to dictate the way in which a project is implemented, nor does it mean that one share more information than is necessary. During a meeting with an oblast agricultural official, for example, the WUI project was told that he needed information on each of WUI's local partners. It seemed clear to project staff that this official wanted to take advantage of those successful farmers receiving assistance from the project, and so the project did not release this information to him. Nevertheless, regular contact with government authorities about the general scope of project activities can benefit not only the project but the sector it serves as well.

G. PROGRAM ADMINISTRATION

Over the course of the implementation of the project, increasing freedom and responsibility was given to local staff to manage the organization and the implementation of training programs. In addition to helping to increase local skill levels, this facilitated more effective communication between partners and project staff. Local staff organized innovative training seminars that adapted the best of Western training techniques while tailoring them to a Ukrainian audience. This partnership between Ukrainian and expatriate staff, and the latitude the project allowed local

staff to experiment with training methodologies and content, resulted in significant impact and a reorientation of training programs. While project seminars initially focussed primarily on business and management theory, it was soon discovered that this content was not at an appropriate level for most trainees and that they got more out of more practical seminars devoted to specific technical areas. This is not to say that Western business and management strategies were abandoned in WUI training, but that these topics were integrated into practical training sessions of special interest to trainees.

Program administration was aided by working closely with Farmer-to-Farmer (FTF), a USAID-funded program in Ukraine also administered by Land O'Lakes, to maximize the impact of both programs. Through its experience in Ukraine, the Farmer-to-Farmer program provided a foundation for the Land O'Lakes Western Ukraine Initiative Program. Many recipients of WUI assistance were introduced to the project by FTF. The two programs also shared resources, which saved expenses and helped them both to successfully implement their respective programs.

H. BASIC TRAINING

Due to USAID's concern that insufficient numbers of collective farm workers were taking advantage of the opportunity to become private farmers when their collectives were restructured, the project initiated training together with Ronco Consulting Corporation designed to give potential private farmers an introduction to what private farming entails. This basic training aimed to show collective members that succeeding in private agriculture is not an insurmountable challenge and thus help convince some collective employees to join the true private sector.

The management of collectives in Lviv oblast was not cooperative, however, despite promises to summon entire collective staffs to attend the basic training seminars. Because of a desire to hold onto their power, directors of collectives in several cases discouraged or even forbid their employees to attend the Land O'Lakes' training sessions. As a result, Land O'Lakes abandoned this effort. Because the collective directors are used to running their collectives as their own little fiefdoms, the restructuring process is a large threat to their old ways of doing business. But without the directors' approval, many collective farmers are too afraid to even attend meetings with Western organizations, not to mention leaving the collective. Without the strong support of the local government and the understanding of the collective director that Ukrainian agriculture as a whole is better with the strong, talented farmers going their own way, basic training such as this was doomed to fail. See the results report on Progress Collective Farm in Appendix A for more detailed information on this subject.

APPENDIX A

RESULTS REPORTS

- Business Consultants' Association
- Horachek Agribusiness
- Leshko Bakery
- Lider Cooperative
- Lozynskiy Agribusiness
- Lviv Credit Union
- Lviv Oblast Dairy Processors League
- Lviv Trade Fairs
- Lyskanych Farm
- Malashivsky Farm and Mostyska Area Farmers
- Progress Collective Farm
- Rava Ruska Butter Plant
- Rosan Capital
- Shosh Agribusiness
- Slyusar Farm
- Stremilche Agribusiness
- Western Ukrainian Farmer's Union
- Yavir Agribusiness
- Yuriy Kuzmyk, Consultant

WESTERN UKRAINE INITIATIVE
Land O'Lakes, Inc.

RESULTS REPORT

BUSINESS CONSULTANTS' ASSOCIATION
Dubliany, L'vivs'ka oblast

Facts in Brief:

President: Georgiy Cherevko
Vice President: Serhiy Kiral
Membership: 25 professional consultants,
owners of other consulting firms, professors,
agribusiness professionals from Lviv,
Zakarpattya and Ternopil oblasts.
Official Date of Registration: December 16, 1999

It is hard to imagine American agriculture without the extension system. The wide number of services, such as soil analysis, crop recommendations, and practical research and education programs offered by extension bureaus throughout the U.S., have helped make American agriculture the efficient sector that it is today. Thanks to this assistance, independent farmers have been able to take advantage of many resources that otherwise would be impossible to access or prohibitively expensive. Because of the lack of an extension system in Ukraine, and a growing lack of collaboration between its private farmers' movement and agricultural educational institutions, the Western Ukraine Initiative, starting in 1997, sought to help fill this gap by helping to identify and train a group of independent agricultural consultants.

For the first few years of its activities, the group focussed on providing business plans for WUI partner farmers to help the latter improve their financial planning and management, and assessments of Lviv oblast's raions in order to map out the economic flows prevailing in different areas of the region. When the project's loan fund became operational, the consultants began to work with WUI partner farmers to develop loan applications for submission to the loan fund and other sources of rural credit throughout the oblast. Already, over 20 business plans and 15 credit applications have been completed, resulting in 11 loans, totaling nearly \$80,000, being obtained by 10 different farmers.

Although these activities are still a large part of the consultants' mission, in late 1999 the group began work on two important new projects: registering the group as a legal nonprofit association and expanding its mission. The group, called the Business Consultants' Association (BCA), is now in a position to provide a mechanism for its members to legally receive payment for

- ✓ Private Farmers and Extension Services new to modern-day Ukraine
- ✓ Group of Ukrainian consultants prepared 20 business plans resulting in 11 loans obtained
- ✓ Informal consultant group legalized as the Business Consultant Association

the services they provide. At the same time, the Association has gradually expanded both its scope of activities as well as its membership, having added 11 new consultants to its original core group of 13. It is worth noting that 80% of the new consultants are people under 40 years old, and thus in a better position to understand the importance of private farming to the future of Ukrainian agriculture and better able to the practical implications of the new economic reality around them. The Association has also extended its activities from providing individual consultations to farmers to exploring and advocating ways that private agriculturalists can work together for mutual gain through cooperatives and other innovative business arrangements.

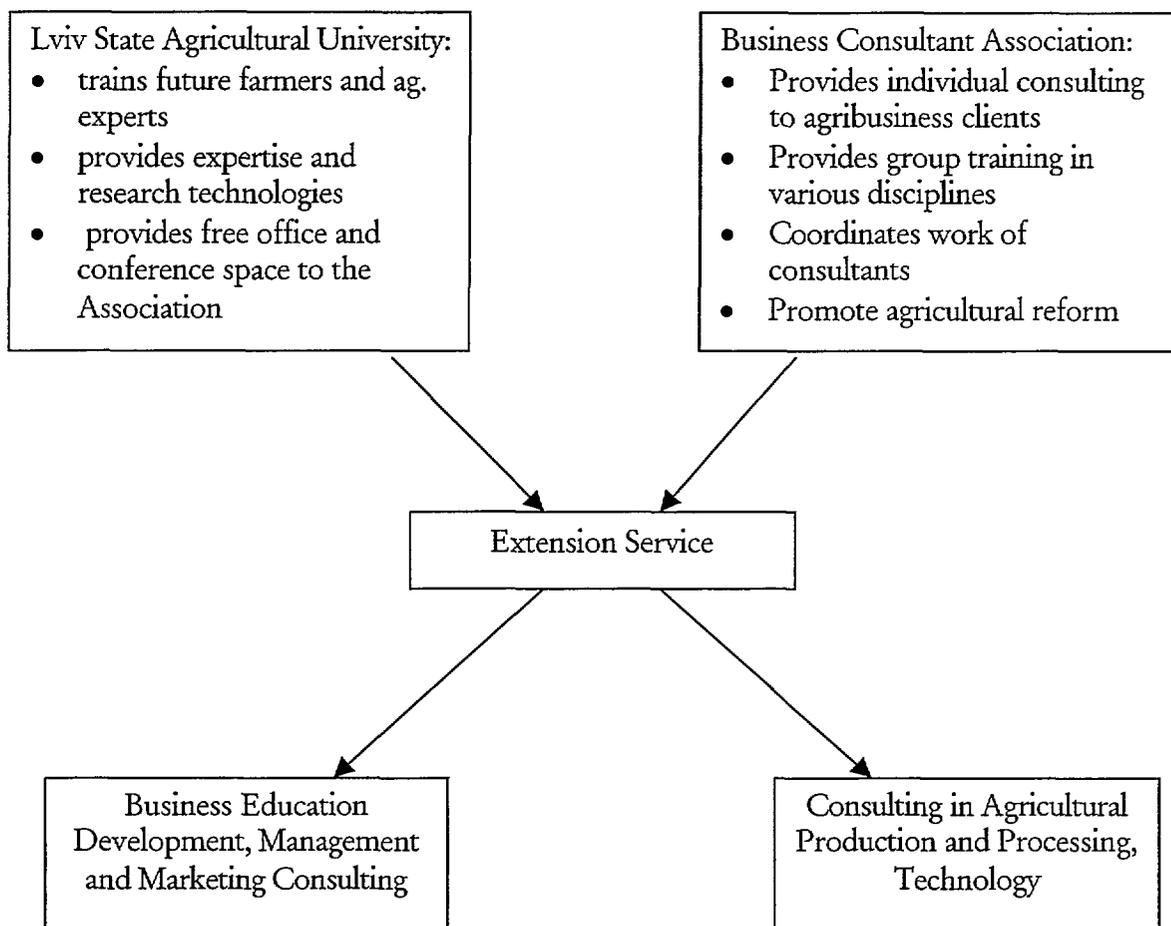
In fact, the Association itself is now acting in accordance with this belief that various entities working together can accomplish more than they can working alone. Following the completion of the registration process, BCA decided to affiliate itself with Lviv Agricultural University. This arrangement will not only allow the Association to take advantage of that institution's vast resources and infrastructure, and thus better facilitate the provision of extension-type services to local agribusiness, but it will also enable the BCA to help bridge the gap between the ivory tower of Ukrainian agricultural institutions and the real practical issues affecting producers and processors. A final important role of this collaboration will be to speak out on the important issues of agricultural reform. The large profile that the two organizations command together will ensure that their views will be more likely to be taken into account, and help ensure that their expertise will have the effect of not only defending the interests of their own clients, but of private agriculture in general.

For a better understanding of the relationships between the Association, its consultants, and Lviv State Agricultural University, see the diagram on the next page.

✓ 11 new consultants join the Association

✓ BCA and Lviv Ag University work together to provide innovative consulting and vast resources

Scheme 1. Structure of Business Consultant Association with Its Goals and Objectives



It was clear to all involved that a talented, well-connected individual was needed to direct the activities of this ambitious organization. Thus, it was no accident when the consultants voted Georgiy Cherevko, a Vice Dean of Lviv Agricultural University, to be President of the Business Consultants' Association. In addition to his administrative duties at the University, Dr. Cherevko heads the Economics Department.

The fact that Cherevko, who is only in his late thirties, has already risen to the position of Vice Dean of the University is one indication of the Professor's boundless initiative. In the beginning of the 90s, Mr. Cherevko had a chance to visit the United States and meet with agricultural specialists from all across the U.S. He brought back an understanding of how essential reduced government control and increased private ownership of land – and private farming in general – would be to saving Ukrainian agriculture. This understanding, together with his intimate knowledge of the practical

✓ Dr. Georgiy Cherevko, a Vice Dean of Lviv Ag University was elected BCA's President

✓ Dr. Cherevko becomes a true defender of private farmership after a trip to the U.S.

realities of agriculture as it is practiced in Ukraine, and his close connections with many players in the sector, has made Cherevko an invaluable partner of Land O'Lakes' from the very beginning of its work here.

How he has found time for this collaboration is a mystery. At the University, Mr. Cherevko founded the Department of International Relations and is now working to establish an Agribusiness Support Center. He has also attended myriad national and international conferences, and spoken at many of them. Despite this full slate of activities, upon being elected President of the association he spent much of the next few months organizing its leadership structure and getting it legally registered. He also focused on increasing membership. As previously mentioned, 11 new consultants joined the association over the past quarter. As shown below, they joined during an especially active period for the Association. Recent activities included:

- A number of consultants worked closely with project partners to prepare business plans and draft loan applications. Yuriy Kuzmyk succeeded in getting two loans approved for Petro Lozynskiy totalling \$25,000.
- BCA Board member Lesya Drabyk participated in a seminar in Kyiv organized by TACIS on cooperative accounting and taxation. After returning to Lviv, Ms. Drabyk led a fee-based training seminar on the practical matters of cooperative accounting both to other BCA consultants, and to Land O'Lakes partners who head cooperatives.
- Mr. Yuriy Kuzmyk, Volodymyr Lubchuk and Yaroslav Hrynchshyn, new BCA consultants, participated in seminars led by ACIDI/VOCA on the fundamentals of credit and on financial analysis of SMEs. Using Ms. Drabyk's seminar as a model, Mr. Kuzmyk had the initiative to organize a seminar on these issues at the Carpathian Regional Development Agency in Rakhiv in order to pass on the information he gained to partners and consultants of the aforementioned agency. At the end of the event, it was suggested that the Rakhiv beekeepers form a cooperative to pursue an agricultural loan. In addition, ACIDI/VOCA representatives expressed an intention to develop a list of suggestions for further cooperation with the Agency, including joint research on local lending institutions in an effort to find an establishment to be supported in lending to farmers. Although the seminar and materials were delivered free of charge by ACIDI/VOCA, the Agency contributed about \$170 in transportation and lodging to make it happen.

✓ Just recently elected president rolls up his sleeves to organize BCA's structure

✓ Younger generation of consultants are taking on more initiative in organizing BCA's activities

✓ 26-year old business planning consultant Yuriy Kuzmyk initiates a seminar in principles of crediting 250 km south of Lviv

- BCA officers took part in a leadership skills seminar conducted by the Meta Center, a Lviv NGO, and designed in conjunction with Land O'Lakes.
- Ten consultants took part in a training program on practical aspects of agricultural consulting and NGO fundraising at the Agency for Agricultural Marketing and Promotion in Sandomierz, Poland. The Agency previously benefited from RAAPS, a USAID-funded Land O'Lakes program in Poland.

In the future, the Association hopes to expand its activities as well as its geographical focus. In order to make this possible, it plans to increase its collaboration with other international projects and local NGOs, as well as to apply to a number of foreign organizations for grants to support its activities. Finally, it hopes to take advantage of international exchange programs in order to continue to learn from the experiences of other countries. While the Association may have a long way to go to rival the American extension system, it is making a real difference in the operations of individual farmers. Perhaps more important, these modest successes in a difficult agricultural climate may well show the Government the rewards that providing basic consulting and technical services to the private farm sector can bring.

✓ BCA is learning Polish experience in sustainability issues

✓ BCA's ultimate goal is expand from independent consulting into a permanent model for extension services nationwide

HORACHEK AGRIBUSINESS

Myroslav Horachek
Cheremkhiv, L'vivs'ka oblast

Horachek Farm is a small private farm and retail store in the Zhydachiv district of Lvivska oblast. The store was founded in 1988 when Myroslav Horachek received a government grant for cooperative development. In the early 1990s Horachek privatized the store and expanded his operations by establishing a farm on the land parcel of 15 hectares that he had been granted by the state. At present, he has 36 hectares of land and is engaged in grain, vegetable, dairy and pork production. Much of the farm's produce, including all of its milk, is sold in the store. In early 1997, because of the local community's excess demand for milk, Mr. Horachek decided that he wanted to investigate ways of increasing his own milk production, as well as the size of his herd. Because Mr. Horachek had been involved primarily in trade prior to receiving his land share, he had received no formal training in agriculture. Therefore, he expressed great interest in receiving consulting services from specialists through the Farmer to Farmer and Western Ukraine Initiative Programs.

In September of 1997, a FTF volunteer visited Horachek Farm in order to help increase milk production per cow and to investigate the most effective means of increasing the herd to twenty head. As a result of the new information and the rations provided by the volunteer, milk production increased by 15%.

In his final report on this assignment, the FTF specialist, who had previously spent several years in the NIS on various assignments, called Horachek Farm "probably the best private family farm I have ever seen either in Ukraine or in Russia." In accordance with this assessment, Horachek continues to expand. In addition to the improvements noted above, last year the farm rented an additional 60 hectares in order to increase grain and vegetable production.

His hog-raising operations will be expanded as well. After his participation in Western Ukraine Initiative's study trip to Polish hog farmers, Horachek and two of his other fellow farmers decided to form a procurement/marketing cooperative with a special focus on pig production. In addition, Land O'Lakes has recommended Horachek to Southern States Cooperative, which will make him and his partners a component of their upcoming cooperative development and feed improvement project. Therefore, Myroslav will not only be assisted in finalizing the registration of the cooperative, but will also obtain additional specific technical expertise in grain processing and gain access to American feed milling equipment.

- ✓ Retail store founded in 1988; farm founded on 15 hectares three years later
- ✓ Land expanded to 36 hectares two years later
- ✓ FTF volunteer in dairy management works to develop strategy to increase herd size
- ✓ Participates in LOL-sponsored swine study trip to Poland
- ✓ Farmer now in first stages of developing cooperative

HORACHEK AGRIBUSINESS (Continued)

L'vivs'ka oblast, UKRAINE

At present, Myroslav is already buying well-balanced dry feeds from Rivne Cooperative, another Southern States' partner supplied with feed milling equipment and is very satisfied with the effects it has on animals. It is clear now that Myroslav's group will duplicate the Rivne experience and is now working on securing sources of feed supplements to use in feed manufacturing after the similar feed milling equipment is supplied to them as well. With this purpose, Myroslav participated in the recently study tour to Poland on new feed manufacturing technologies and distribution organized jointly with Land O'Lakes/Poland. As a result, Myroslav Horachek learned that good-quality vitamin and mineral supplements - premixes - are needed for formulating good-quality feed rations and, thus, decided to become a customer to use premixes in his cooperative feed production and a distributor of Land O'Lakes premixes with full ration in his area.

Roy Chapin, WUI consultant in animal production, has also given Myroslav specific recommendations on how he could make traditionally protein-deficient feed more nutritious by better balancing it and adding a small amount of canola meal.

During a short farm visit this summer, Roy also emphasized the importance of cooperation with other farmers in the area in order to reduce the cost of inputs and better market their produce – a subject area that Mr. Chapin is familiar with from his long-term work on the USDA Cooperative Development Project in Ukraine in 1997.

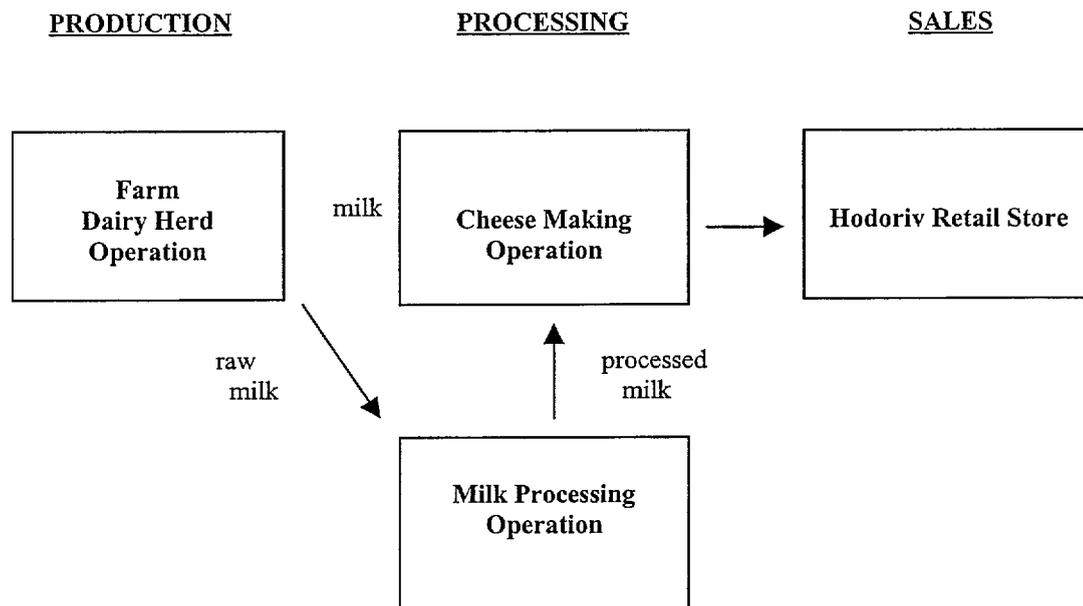
Finally, Land O'Lakes supported the establishment of the Western Ukraine Farmer's Union (WUFU), a public NGO, which aims to become an organization for farmers (not bureaucrats and businessmen) that will protect their interest and rights. Being one of the most politically active individuals (Myroslav is a deputy to his local raion council), there is nothing strange in the fact that he was elected to serve as WUFU Board member. In December, his farm hosted a Field Day combined with a regular WUFU Board meeting. The Field Day was meant to demonstrate a typical Western-style private farm, which is not yet typical for Ukraine, as well as to serve as a forum for participants to exchange animal husbandry practices. Participants also discussed Presidential decrees on reforms in agriculture, including their plusses and minuses, and decided to compose an "open letter" representing the WUFU's official views. One of the results of the meeting was the approval of a cooperative agreement between WUFU and Lviv Credit Union which establishes a Credit and Guarantee Foundation for WUFU members.

On the following page is a schematic of the Horachek agribusiness's farm-to-market system.

- ✓ Myroslav studies new feed manufacturing technologies and feed distribution business principles
- ✓ Roy Chapin stresses the importance of using canola meal as an inexpensive source of protein
- ✓ Politically active Horachek elected for WUFU Board member
- ✓ Myroslav hosts WUFU Board meeting and Field Day where farmers decide to form their own credit foundation

HORACHEK AGRIBUSINESS (Continued)
L'vivs'ka oblast, UKRAINE

HORACHEK AGRIBUSINESS



CLOSED FARM-TO-MARKET SYSTEM STRENGTHENED WITH LAND O'LAKES ASSISTANCE

WESTERN UKRAINE INITIATIVE
Land O'Lakes, Inc.

RESULTS REPORT

LESHKO BAKERY

Yuriy Leshko
Zakarpattia Oblast, Ukraine

Leshko Bakery is a good example of the great impact that a small group can have when it bands together for the sake of the entire community. One of the most valuable things that the Soviet Union deprived its citizens of was a sense of mutual trust, and this has resulted in the widespread reluctance of many businesspeople during this transition period to share resources and to focus on anything other than short-term personal gain. The close relationship between the Baptist Church and the Leshko Bakery, however, provides a model for how this trust can be restored in a small community and used for the common good.

Leshko Bakery is a bakery and retail operation that produces and sells bread, baked goods, and pasta in the southwestern Ukrainian town of Velyki Luchky. Its close ties with the local Baptist community go back to its very founding six years ago. When a Baptist group offered the community two used baking ovens in 1992, Yuri Leshko stepped forward and built a large facility and obtained the necessary remaining equipment to open the bakery. This new business provides not only jobs for 23 of the local Baptist community's 150 members, but also demonstrates a new way of doing business. Leshko contributes 30% of his income to the church, and the bakery's activities are making it possible to construct a new church for the local congregation right next door to the bakery. The church, in turn, has a daycare facility that provides the town's working parents, including several bakery employees, with a safe, reliable childcare option. In accordance with their religious beliefs, the bakery does not have any locks on its doors. Not only has this not led to any thefts, but Leshko himself believes that the business has not been approached by the ever-present protection racket because of the bakery's religious connections.

Initially, Leshko competed with the state-owned bread producer in Velyki Luchki, so it had to produce a better product and/or provide it at a lower price in order to be successful. Therefore, when Leshko approached Land O'Lakes with a request to receive consulting assistance, he wanted to focus on these two issues: increasing the quality of bread produced and reducing the cost of production. Over the course of the week he spent at Leshko Bakery in June 1997, Trevis Gleason discovered several problems with its bread-making process and provided useful advice for

- ✓ Distrust as a result of Soviet era
- ✓ Church as a peacemaker
- ✓ Yuriy built a facility for the used equipment received from the Baptist Church
- ✓ 30% of Yuriy's business are donated for the new church construction
- ✓ Religious connections - an instrument to fight racket
- ✓ Leshko requested Land O'Lakes assistance in order to win with the competition

correcting them. For example, as per the volunteer's suggestions, the yeast is now mixed in water, which both eliminates the unpleasant yeast smell that otherwise results, and helps the dough to start rising more quickly. In addition, salt is now added only at the end of the dough-preparation process, which allows the gluten to form more quickly and the dough to rise more fully. As a result of these and other changes, the quality of bread produced has increased significantly. This increase in quality has been appreciated by consumers, as is reflected by a 15% growth in sales, which amounts to an annual increase of over \$33,000 in revenues.

The size of the operation's ovens is the major limiting factor in its production cycle, and makes it difficult to satisfy demand for fresh bread at peak times. In addition, frequent scheduled power outages (every other day for five hours at a time), compound these difficulties. When the volunteer arrived, the bakery already was working around the clock in two shifts in order to maximize production. Nevertheless, during peak times, this still was not sufficient to meet demand. In order to deal with this difficulty, the volunteer introduced the bakery's employees to a more efficient technique of bread placement in the ovens. This method has increased total oven capacity from 90 to 150 loaves. Not only does this increase production capacity, but it also saves energy. Since the required baking time has not increased, the same amount of electricity that was previously required to bake 90 loaves now is sufficient to bake 150 loaves. Increased capacity, superior quality and low prices have not only increased profitability, but the competition provided by the bakery also played no small role in leading to the permanent closure of the nearby state bakery in late 1997.

During his stay in Ukraine, the specialist also accompanied Mr. Leshko on a trip to Kyiv to attend a baking-equipment trade fair and provide advice on what equipment would be worth purchasing. Through contacts established at the trade fair, Mr. Leshko recently purchased a flour mill. It began operating in April 1998, and now produces 32,000 kilograms of flour monthly from Leshko's own wheat yields (he is such a respected grain farmer that he was recognized as one of the four best in the Oblast in 1997). This flour is used in the bakery and sold in the store, and has a retail value that amounts to over \$120,000 per year. An additional 32,000 kilograms of flour is produced each month for other grain producers. Thanks to the newly acquired mill, Leshko has taken a step toward self-sufficiency in the production cycle: he now has a guaranteed market for his grain and can help ensure the supply and quality of flour for his baking operations.

- ✓ American specialists solves some the bread-flavoring problems
- ✓ 15% growth in sales - a result of American assistance
- ✓ Increased bread placement capacity fights problems with electricity outages
- ✓ Visit to a trade fair results in a grain mill procurement
- ✓ Leshko is recognized as one of the oblast's best grain producers in 1997

Leshko is open to cooperation with processors from other areas of Ukraine. He is a good friend and business partner for Roman Haiduchok, a head of the Western Ukraine Union of Farmers, who is also involved in grain processing and baking operations. Having gotten acquainted through their participation in Land O'Lakes programs, these two prominent Ukrainian processors now exchange information, share experiences and take joint business trips.

- ✓ Yuriy Leshko becomes a member of the Western Ukrainian Farmer's Union

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

LIDER COOPERATIVE

Petro Fedyna

Artasiv, L'vivsk'a oblast

While cooperatives are a powerful means of providing valuable services to agricultural producers in the West, in present-day Ukraine they represent but a tiny, fledgling part of the agribusiness sector. Although myriad reform projects and associations actively promote and assist the creation of agricultural co-ops, even with this support it is a challenge to convince farmers of the benefits of cooperation. Freed from the yoke of the state for the first time in their nation's history, Ukrainian farmers are protective of their independence and suspicious of those that suggest cooperative efforts to improve their operations. Not only did the Soviet experience taint the words "collective" and "cooperative" through less-than-democratic manifestations of these structures, but the entire atmosphere in the USSR deprived many people of one essential ingredient in a cooperative: mutual trust. One Lviv oblast farmer, however, has proved that despite these and other obstacles, collectives not only can be created here, but they can also prosper.

Petro Fedyna, a farmer from Zhovkva raion, had big plans when he purchased Zorepad Ltd. in 1994. This vegetable processing enterprise has a million-jar-per-year capacity, and had 45 people on staff and 10 hectares of land. However, Fedyna could not foresee the tremendous economic changes and market fluctuations that soon made it necessary for him to amend the development of his business.

The year of 1994 was one of the most difficult for the economy during Ukraine's independence, as it was for Petro's business. Hyperinflation, together with dwindling supply networks and sales markets, reduced his profits year after year until 1997, when the company was left without any working capital whatsoever. In order to survive, Fedyna produced only on a pre-ordered basis, sold his products on credit, and was forced to reduce his staff by nearly half. By 1998, the company started to recover, and was able to expand its product line by developing 27 new types of canned vegetables. But the fallout from the Russian economic collapse had an effect on Ukraine as well, lowering customer demand and resulting in many companies not being able to provide payment for their purchases. As a result, at present only 50% of the products Zorepad supplied last year have been paid for, and the remaining accounts receivable (about 15,000 UAH) are gradually losing value due to inflation.

- ✓ It is a challenge to convince Ukrainian farmers of the benefits of cooperatives
- ✓ Atmosphere of mutual distrust in the former USSR
- ✓ In 1994, Fedyna founded Zorepad company
- ✓ The year of 1994 was catastrophic for business development
- ✓ The 1998 crisis led to mounting accounts receivable to the operation

LIDER COOPERATIVE (Continued)

L'vivsk'a oblast, UKRAINE

As disheartening as the aforementioned scenario is, this story is far from unique in Ukraine today. What is noteworthy is the approach that Fedyna has taken to address his business' difficulties. Given the continually changing dynamics of the Ukrainian marketplace, traits such as flexibility, responsiveness to changed conditions, and the ability to utilize new experiences and knowledge have become necessary for successful entrepreneurs in Ukraine. Fedyna could be considered one. Like many of Land O'Lakes' partners, Petro has taken advantage of many opportunities to learn from American and Polish agricultural and business experts over the past two years. What has set him apart from others, however, is his application of the experiences he has been exposed to and the knowledge he has gained.

During a Land O'Lakes-sponsored study trip to Kvoliko Cooperative in Hungary in 1998, Fedyna visited a successfully operating supply and service agricultural cooperative, democratically managed for the benefit of all its members. Petro was impressed with the well-run structure, incorporating all farmers within a 150-square kilometer area. The co-op allowed each member to receive inexpensive, high-quality inputs on a timely basis and to sell produce on favorable terms.

Immediately following the trip, Petro began to promote the cooperative idea to fellow farmers in his area by organizing meetings with them, and initiating cooperation with the Agency for Agribusiness and Marketing Development, which specializes in co-op registration. By March 1999, Lider Cooperative was formed and registered, encompassing 12 farmers with the common goal of growing, processing and selling vegetables under a single umbrella. The biggest challenge, Petro admits, was not the paperwork required to get the co-op registered, but convincing the members that each of them was responsible for fulfilling certain duties in order to make the cooperative successful.

Even though the 1999 harvest was only the first for the cooperative, it is already possible to call the venture a success. While a poor market for canned vegetables caused the members to opt to centrally market their products fresh, the co-op still provided benefits to its members. Whereas the members had previously marketed their fresh produce individually, this time joint marketing efforts increased their bargaining leverage. Because of their significantly larger produce volumes, they were in a position to negotiate a fully prepaid agreement with the Ukrainian Ministry of Defense, a traditional

- ✓ Flexibility, responsiveness to changes and ability to learn make Petro's and other Land O'Lakes' partners' approaches a success
- ✓ A visit to a Hungarian cooperative during a WUI-sponsored trip in 1998 convinced Fedyna of the potential for cooperatives in Ukraine
- ✓ Petro begins to promote the cooperative idea
- ✓ In March 1999, Lider Cooperative formed
- ✓ Cooperative provides an advantage of improved marketing

LIDER COOPERATIVE (Continued)

L'vivsk'a oblast, UKRAINE

customer for approximately 80% of members' produce. In the past, the Ministry's payments were often delayed for weeks, if not months. The co-op's remaining 20% of produce was sold wholesale to local companies and other oblasts. Fedyna's profits increased by over 10% over the previous year thanks to his identifying a market for his potato production in south-central Ukraine where prices were triple those in Lviv.

Secondly, in order to add more value to his vegetables and increase profits for co-op members, Land O'Lakes helped Petro get in touch with several Polish agribusinesses that operate in similar market niches. Petro Fedyna has big hopes for one particular potential Polish partner, Agromill, a vegetable processor with a Europe-wide marketing network. It is currently offering to set up a joint venture with Lider, modernize its processing equipment, initiative joint production of canned vegetables, market them through its well-developed sales network, and share the profit. While the offer seems to be very attractive, some more analysis needs to be done to it, according to Fedyna. And this is the way Petro Fedyna usually works - never in a hurry to change direction, but always persistent and industrious in his chosen business.

Finally, Fedyna is actively supporting the idea, first suggested by Land O'Lakes, of organizing a regional farmers' organization -- a fully independent, non-profit entity that would allow farmers to share experiences and protect one another's interests. This idea was first openly discussed during an open house held in September at Fedyna's farm attended by Polish farmers and agricultural officials, as well as most Western Ukraine Initiative partners. Discussions during this event suggested that Ukraine's private farmers are ready to start working together in order to resolve common problems in such an organization, because they do not feel that their voices are heard by the national farmers' organization. On October 23, 1999, the potential members gathered to discuss the by-laws and elect the leadership.

As a result of the meeting, the farmers not only founded the Western Ukraine Farmer's Union, a public NGO, but elected Petro Fedyna to become its deputy head in charge of crop issues. He immediately began to gather and process information about sources of machinery for vegetable cultivation and seed suppliers in Poland and Ukraine. Land O'Lakes also provided WUFU with a business proposal from a Kyiv-based affiliate of America's Kraft Foods, which was seeking potato growers to supply raw materials for its processing

- ✓ Fedyna's profits increased 10% thanks to identifying potato buyers paying triple going rate in Lviv in south central Ukraine
- ✓ Land O'Lakes helps the coop to reach foreign partners
- ✓ A joint venture is under way with Agromill, Polish vegetable processor and distributor
- ✓ Petro Fedyna is one of the leaders of a new regional farmer organization
- ✓ The Western Ukrainian Farmer's Union elected Petro its deputy head responsible for crop sector issues

LIDER COOPERATIVE (Continued)

L'vivsk'a oblast, UKRAINE

operations. Petro looked for potato seed suppliers, and will share the results of his research at the next meeting of WUFU's Board, which is regularly held on the third Thursday of each month.

Having gotten used to working with Lider cooperative members, Petro is now trying to display his leadership in a larger circle of farmers. Those who attend WUFU's regular meetings have noticed that Petro has become a respected authority among Union members, who eagerly shares with them his expertise in business development, for example, in cooperative development and land privatization issues. It was these qualities that convinced Lviv's Business Consultant Association to invite him to become a member and lead its cooperative development activities. Petro has already received requests for assistance from two groups of producers, one from the free economic zone of Yavoriv in Lviv oblast and the other from a cooperative in Zakarpattya. One would like to wish Petro luck in these endeavors.

✓ Mr. Fedyna is making first steps as an agribusiness consultant

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

LOZYNSKIY AGRIBUSINESS

Petro Lozynskiy

L'vivsk'a oblast, Ukraine

One of the greatest challenges to reforming agriculture in Ukraine is how to turn former collective and state farms into profitable enterprises. In the USSR, Communist doctrine dictated that agriculture should be organized like heavy industry, and therefore huge state-run operations were created. Heavily subsidized by the government, collectives had little incentive to try to turn a profit. Indeed, often the opposite was the case: the more money a collective could be shown to have lost, the greater the chances would be of receiving greater subsidies in the future, a significant portion of which, be it in cash or produce, was illicitly diverted into the pockets of managers and employees.

When the Soviet Union fell apart, funding for these enterprises dropped dramatically, leading to high indebtedness between agricultural producers, processors, retailers, and input producers. Consequently, these cash-strapped enterprises began paying employee salaries late, if at all, further reducing the incentives of workers to work diligently and leading to an increase in employee (and management) theft. Cash shortages also forced farms to start skimping on the use of fertilizers, pesticides, herbicides, and to cease nearly all capital improvements, leading to further decreased yields. The increasingly inefficient collectives were thus driven even deeper into an endless cycle of indebtedness. Finding a way out is especially difficult because, while the government has shown little interest in providing financial support to help these enterprises, these unprofitable and indebted former collectives also hold little interest for most private investors. However, as the experience of several Land O'Lakes partners indicates, one approach to this problem is proving to be utilized increasingly often -- and successfully. The specifics of how one Land O'Lakes partner has worked to reform a former collective is detailed below.

Petro Lozynskiy, a private farmer from southwest Lviv oblast, has been farming for over 9 years. He founded Kremin Farm on 50 hectares in 1990. A year ago, he was approached by the raion administration and, because of his experience as a successful private farmer, he was offered the opportunity to take over the local collective farm. This entailed not only taking over the collective's three animal facilities, 350 hectares of land and an abundance of obsolete machinery, but the collective's 60,000 UAH debt as well.

- ✓ The larger the loss shown by a collective, the greater subsidies it would receive

- ✓ After the Soviet Union broke up, collectives were driven into an endless cycle of indebtedness

- ✓ Land O'Lakes partners found an approach to reform collectives

- ✓ Petro Lozynskiy founded a private farm in 1990

- ✓ Local administration talked the farmer into taking over a collective farm with debts

LOZYNSKIY AGRIBUSINESS (Continued)

L'vivsk'a oblast, UKRAINE

Confident that he could apply his approach to management of his own farm to that of the former collective, Lozynskiy spent most of his profits last year to repay the latter's debt.

Now, Lozynskiy is in a position to obtain credit for his operations. In order to purchase a tractor to help him cope with the demands of cultivating his increased land, Lozynskiy approached Land O'Lakes to request Farmer to Farmer assistance in order to develop a business plan and apply for credit. Larry Jensen, a Peace Corps volunteer working with the Odessa Cooperative Extension Service, came to Lviv to help Lozynskiy develop a business plan, as well as to provide practical training in business planning to Land O'Lakes' agricultural consultants in training. His assignment also was successful: at the end of August, Petro Lozynskiy's loan application for 11,000 UAH was approved by the State Fund for Private Farm Support. The loan was granted on very favorable terms with repayment over two years at a 6% interest rate -- but a tenth of the going rate through commercial banks.

Having finished most of his harvesting, Lozynskiy worked hard at improving his swine operation. Participation in a Land O'Lakes-sponsored field day devoted to swine production, as well as a number of Land O'Lakes study trips, informed Lozynskiy of the increased production that modern swine management practices, including the use of dry feeds, make possible. Petro currently finished renovating the former collective's swine facility to allow him to increase his hog operation to 350 animals by investing most of his earnings made from sales of his 1999 harvest.

Having learned some of the latest animal nutrition technologies from Land O'Lakes, he began to purchase specially formulated premixes from Eho, a local feed company, on credit for very flexible terms. However, having been tempted by such favorable terms, Petro overlooked feed quality concerns, which led to a loss of animals after Eho's feeds were used. After that incident, the farmer decided to only work with more well-known feed companies with more years of experience. For farmers in western Ukraine, which has no good, reputable premix manufacturers, Poland is the only alternative.

Thanks to his passion for animal husbandry and aggressive approach in seeking out the best possible animal management practices, feed suppliers and breeds, Petro was elected to become the Board member responsible for the livestock sector for the Western Ukrainian Farmer's Union. He has recently established contact with

- ✓ Larry Jensen, PCV and LOL volunteer, developed a business plan for the farmer
- ✓ Lozynskiy's loan application approved for 11,000 UAH with favorable terms
- ✓ Petro is learning of modern swine production practices thanks to LOL assistance
- ✓ "Cheaper products are not necessarily of good quality" -- a lesson that Petro learned through his experiences with premixes
- ✓ Petro elected for WUFU's Board member responsible for animal sector

LOZYNSKIY AGRIBUSINESS (continued)

L'vivsk'a oblast, UKRAINE

Land O'Lakes Poland, which manufactures high-quality swine premixes, and has supported the organization of a study tour for others to go to Poland to learn about contemporary feed manufacturing technology, the basics of the distribution business, and to conduct business negotiations with Land O'Lakes management. As a result, Land O'Lakes Poland was finally convinced to invest in the registration of some of its products in Ukraine. After new feeding methods are used and results produced, Mr. Lozynskiy plans to make his farm a model to demonstrate the benefits to others.

The Western Ukraine Initiative has also recently provided Kremin Farm with a used computer to help him formulate feed rations by installing special software for this purpose. Such computer-based methods are used all over the world and help farmers save time and resources by allowing them to quickly formulate rations from available ingredients.

Furthermore, Lviv Credit Union recently gave tentative approval to a credit application he recently developed together with Ukrainian agribusiness consultant Oksana Semeniuk. He plans to borrow \$20,000 to improve the genetic material of his swine herd, thereby improving his production figures even more dramatically.

Just as important as Petro's individual success is the effect that his operations will have on the former collective he took over. Whereas the collective farm was basically laying idle a year ago due to its poor management and indebtedness, Petro is already investing resources into the swine operation and will soon start cultivating the operation's arable land. Because the operation is no longer in debt to the state, Petro will now be in control of the farm's production, and no longer obligated to sell it to the state for artificially low prices. Just as importantly, the operation is in a better position to receive credit for the inputs needed to increase production and make it more efficient. While many obstacles remain on the path to making the former collective profitable, a great deal has already been accomplished, and a reasonable solution to the dilemma facing former collectives has been identified. After all, **who can better to turn a former collective into a thriving private operation than a successful private farmer?**

- ✓ Mr. Lozynskiy's efforts in boosting cross-border trade yielded results
- ✓ Petro will become one of the few Ukrainian farmers able to formulate feed rations with the help of a computer
- ✓ L'viv Credit Union has given preliminary approval to farmer's \$20,000 loan application developed with LOL consultant
- ✓ Petro Lozynskiy is revitalizing the stagnating collective recently taken over
- ✓ Private farmers such as Petro Lozynskiy should lead a collective farm restructuring process

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

LVIV CREDIT UNION

Oksana Semeniuk
L'vivsk'a oblast, Ukraine

As part of the Lviv Credit Union was founded in 1994 by Oksana Semeniuk and other members of the NGO *Prosvita*. The Credit Union has distinguished itself with after-tax returns on deposits 10% higher than banks offer, flexible, simplified procedures for applying for credit, various types of accounts, and an emphasis on customer service. Since the Credit Union's inception, Oksana has served as president and the head of its board of directors. In March, 1997 she became one of the Western Ukraine Initiative's (WUK) ten consultant trainees.

As a participant in the consultant trainee program, Oksana has participated in a series of seminars designed to prepare specialists in various fields to serve as consultants to farmers and agribusinesses. She has found training sessions on accounting, business planning, marketing and negotiating especially useful in her work at the Credit Union. Many of these courses were taught by Polish experts and academics, some of whom were trained by LOL via the RAAPS program.

Oksana is also using the knowledge and experience she is gaining to serve as a consultant to one of WUK's partners, Petro Lupyvovk, in order to improve his farm's financial planning. She has helped him receive credit to support his operations, and now the Credit Union is specifically targeting agricultural borrowers. Since Credit Union members overall are more interested in depositing money than in taking out loans at present, Oksana looks at loaning to farmers as an important way to achieve more equilibrium between deposits and loans. Oksana also has been working with WUK partners to stress the importance of crop insurance, and to help them obtain it.

In September, 1997, Lviv Credit Union took part in LOL's agricultural trade fair in Lviv. This enabled the Credit Union to generate a great deal of publicity about its services.

A year later, WUK helped finance a three-week internship in Rotterdam, Holland at Rabo bank. As part of this trip, Oksana also studied how cooperation is utilized in the Netherlands at several different agricultural cooperatives. This provided useful information on lending, accounting procedures, and co-ops, and enabled Oksana to establish many useful contacts. As a result, she plans to establish a Dutch-Ukrainian business club at the Credit Union.

✓ Participants in USAID training are now trainers

✓ Credit Union begins granting farm loans

✓ Project helps finance internship in Netherlands for Semeniuk

LVIV CREDIT UNION (Continued)

L'vivsk'a oblast, UKRAINE

At present, Oksana is working with the WUK credit team in order to provide joint lending to rural businesses. It is envisioned that WUK will provide capital for agricultural loans that will be granted and administered by Lviv Credit Union. As part of this effort, Oksana will accompany the WUK credit team on an upcoming trip to Poland to study several financial institutions there.

Finally, because of the limited resources in the WUK fund, and the high risks associated with agricultural lending, Lviv Credit Union has begun to pursue the creation of a loan guarantee fund. Working together with the Western Ukrainian Farmer's Union, with whom LCU recently signed a memorandum of understanding, Semeniuk envisions using the financial guarantees of its member farmers to reduce the risks of these lending activities and further increase their access to credit.

Membership in Lviv Credit Union continues to expand dramatically. By the end of 1997, it had grown to 600 from the original 50 members who had joined at its inception just over three years earlier, and it is expected that membership will double over the course of 1998. This success has resulted in the Credit Union being recognized as the 13th largest of 300 credit unions in Ukraine by the newspaper *Dilo*, and by the World Council of Credit Unions as one of Ukraine's leaders in the field.

✓ Joint credit line opened with the WUK project

✓ Lviv Credit Union begins organizing loan guarantee fund together with Western Ukrainian Farmer's Union

✓ Membership expands from 50 to 600

✓ Recognized by World Council of Credit Union as leader in the field

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

LVIV OBLAST DAIRY PROCESSORS LEAGUE

Lvivs'ka oblast, UKRAINE

The concept of healthy competition is one that has been difficult for many to grasp in the post-Communist world. While the idea that a market works to improve quality and lower prices through competition is clear to many, what is less well understood is that there are occasions when it makes sense to cooperate with other businesses – sometimes even with one's competitors. Indeed, precisely because businesses in the same field have similar interests, there often are benefits to their working together. It was this realization that led several of the largest dairy processors in Lviv Oblast to join forces to try to save their industry.

It must be admitted from the beginning that this story does not have a happy ending. Despite the allocation of significant project time and effort in support of the Lviv Oblast Dairy Processors League, and much apparent progress, in fact, the League no longer exists. Instead, it was liquidated by its new leadership in 1999, and in its place a new organization, LVIVMOLOKO, was established. The controlling hand of the Lviv Oblast Government clearly played a guiding role in this transition. However disappointing this result may be to producers and agricultural reformers, it might be productive to look at the project's activities over the past three years to better understand what happened.

Dairy processing has been in crisis since Ukraine gained its independence eight years ago. Previously, its two major inputs – raw milk supplies and electricity – were subsidized. When processors began having to pay market prices for these items, as well as compete with imported dairy products, it quickly became apparent how inefficient and uncompetitive the Soviet-made equipment – and the industry as a whole – really was. Furthermore, lack of affordable credit and the balance-of-payments crisis made it nearly impossible to finance the purchase of modern equipment. And this payment crisis resulted in increased delays of payment for raw milk supplies, making the untaxed, if illegal, option of selling raw milk directly to consumers at retail markets especially attractive to producers. Because of these difficulties, many managers became nostalgic for the state support that their enterprises used to enjoy,

- ✓ Dairy processing industry in crisis
- ✓ Old Soviet processing equipment inefficient and unprofitable without state subsidies
- ✓ Lviv Oblast Association of Milk Processors founded in 1995

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

alternately blaming the state for neglecting agriculture, and trying to curry favor with state officials in order to obtain subsidies and handouts. In 1995, however, several directors of dairy plants in Lviv oblast began to work together to try to answer the challenges ahead.

Originally founded in 1995, the Lviv Oblast Association of Milk Processors was created through the former coordinating body for the state dairy industry. This link to state bureaucracy, however, made it difficult to operate as an independent association, and led to dissatisfaction among its members. Thus, in 1996 the Association was restructured in an effort to make it better address, above all, the members' own needs. The fact that members believed in the importance of having an independent organization is evidenced by their willingness to go it alone and fund it themselves. In the eyes of outsiders, however, the belief that the Association was still closely linked to the state had not changed. To counter this perception, in April 1997 the Association was renamed the Lviv Oblast League of Private Dairy Processors.

Over the course of the past two years, the League initiated and participated in a number of activities designed to help revitalize the industry. It began collaborating with Land O'Lakes in October 1997, when Bohdan Dudzyany, the League's General Director, and Volodymyr Nehela, the director of Rava Ruska Dairy Plant, were invited to international conferences in dairy management and association development in Romania. Over the course of these Land O'Lakes-sponsored activities, issues such as those of running an association, lobbying, and marketing were addressed. Participants shared their experiences from managing associations in different countries of Eastern Europe and, as a result, the League developed a lobbying program including proposed measures to help solve some of the major problems facing the industry. The League lobbied for a reworking of the value-added tax to better facilitate capital investment, and in the spring of 1998 a new law was passed that allowed food-processing enterprises to discontinue sending VAT payments to the state budget, and instead utilize them for capital investment in their own enterprises.

In the fall of that year, the League turned to an American specialist in dairy marketing for assistance. Michael Straus, a Farmer to Farmer volunteer, worked with League members to

✓ Association renamed Dairy League

✓ Dairy League leadership attends seminars in Romania in dairy processing and association development in 1997

✓ League develops lobbying program

✓ In 1998 Ukrainian Government adopts changes in VAT law sought by League

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

increase their awareness of how to allocate both marketing and production resources in a more rational manner. Straus discovered over the course of his assignment that some processors were marketing their products in the same exact packaging as other processors, thereby unintentionally subsidizing the competition's marketing efforts. This meant that processors were risking their quality reputation with the public, because they had no control over the quality of the products made by the competition. In this situation, when the public is unable to distinguish one's product from that of the competition, there is little incentive to improve quality. By working on branding, therefore, the specialist helped sales and marketing departments think about how they could better differentiate their products, thereby enabling their marketing efforts to achieve their full potential.

At the same time, many marketing directors were introduced to a wide range of ways of selling their products that are significantly less expensive – and more effective – than advertising. Straus discovered that marketing departments relied heavily on advertising, which is one of the most expensive kinds of marketing. He helped processors think about a number of less expensive and even free strategies to promote their products and bring attention to their brands. For example, a number of the plants he worked with have their own company-owned stores. However, few if any of them were being utilized to market and emphasize their own dairy brands, despite the plants having complete freedom to do so. Finally, the specialist identified a number of opportunities for co-packing arrangements between processors seeking new packaging equipment and those with excess capacity.

Two additional Farmer to Farmer volunteers worked with the League to help its members discover ways to assist farmers to boost raw milk production. Lee and Judy Stadnyk developed a ration-balancing computer program aimed at increasing the nutritional value of feed for local dairy herds and thus, their production. This software was provided to the League, as well as to local dairy producers, and a seminar was conducted on its use.

In the autumn of 1999, Dudzyany and Nehela again attended the conferences in Romania and discussed the progress they had achieved over the last year and new ideas they had

- ✓ In fall of 1998 FTF volunteer Michael Straus conducts marketing assignment
- ✓ FTF volunteer discovers that various processors are utilizing the same packaging, and thus unintentionally subsidizing competition
- ✓ Specialist works on brand development with several processors
- ✓ Volunteer helps processors choose more effective – and lower-cost – marketing methods
- ✓ FTF specialist links processors with potential for copacking
- ✓ Volunteers develop computer program for balancing rations for dairy herds

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

developed, including utilizing new milk-collection equipment and systems to improve raw milk quality and supplies. While working on its plans, the League's management came up with a new idea as well. Because many enterprises in the food industry face nearly identical problems with legislation, taxation, and competition from imports, the League realized it could broaden its base by working together with other branches of the food industry. This idea was discussed with other food industry representatives, including the directors of the Lviv Oblast Bread Producers Association and Lviv Brewery, and a decision was made to form an industry-wide coalition for all of western Ukraine.

Because only two League representatives were able to attend the conferences in Romania, the League decided to organize a similar seminar just outside Lviv for the rest of the oblast's private dairy processors. Thirty participants, including both League members and non-members, attended the 3-day conference, which featured industry specialists from the United States. Many discussions centered around questions of how the League could best work to facilitate cooperation between members.

At a time when most of the League's activities have been aimed at improving how producers, processors and government work and interact with one another, one project focused squarely on consumers. The Milk Tasting Fair that was held in Lviv in the summer of 1999 was patterned after an exhibition Land O'Lakes held in Romania. Eight dairy plants from Lviv oblast (Lviv [two plants], Stryi, Sambir, Rava-Ruska, Zolochiv, Zhydachiv and Komarno) presented their products in seven categories: kefir, butter, sour cream, hard cheese, cottage cheese, yogurt and *riazhanka*. About 720 people tried those samples and determined winners in all categories. In the same building there also were stalls where processors could sell their products. "We did not know that our products are so popular – in half an hour we sold more than 15 kilos of our cheese and some other products," said one of the saleswomen from Rava-Ruska Butter Plant. This event not just raised the profile of the local dairy industry in the oblast as a whole (indeed, the event was covered by both local and national media), but accompanying taste-test competitions provided recognition and a seal of quality to its best processors, as well as an added incentive for the rest to improve the quality of

✓ Milk collection strategies a focus of 2nd dairy conference in Romania

✓ Food industry-wide coalition planned for all of western Ukraine

✓ League organizes conference in Lviv oblast

✓ Milk Tasting Fair held in Lviv

✓ Taste-test competition provided recognition and a seal of quality to its best processors

✓ Tremendous success of fair leads League to decide to hold it every year

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

their own production. Further evidence of the Fair's success was the fact that it was decided to make this Milk Tasting Fair a tradition and hold it every year.

Through events like this, the League hoped to develop the dairy processing industry and continue to dispel the notions that competitors are not only to be feared and that competition is a zero-sum game.

It was not to be, however. When Bohdan Dudzyany, exhausted by his struggles to keep the regional government's hands off the dairy industry, left the League, it was quickly disbanded and the aforementioned LVIVMOLOKO took its place. The new association is led by Mr. Tretyak, who was previously in charge of the similar organization for meat processors. It has about 14 members -- about 70% of the dairy plants in Lviv oblast. In addition, the Information and Resource Center of Lviv Agricultural Complex and Lviv Refrigeration, Inc., shadowy local-government enterprises in all but name, have joined the association on equal terms.

The association is said to be a step backward to the times when all specific industry enterprises were united under one administrative umbrella which commanded their development and operational policies. This association operates similarly, playing the role of implementer of governmental directives, rather than representing the true interests of private processing. The association's strategy has been to divide the market for raw milk between its members and prohibit milk to be sold outside of these administrative regions. The "logic" has been that this will keep prices for raw milk low and guarantee local processors sufficient raw milk supplies.

While this attempt to monopolize the milk processing industry in the oblast has kept prices artificially low, to the delight of the processors that belong to the new "association," it has also led to an ever greater drop in milk production. The low prices simply do not encourage production or investment. However, some private processors who do not belong to the "association" have not taken this situation lying down. For example, Agro, which does not belong to the new "association," continues to be profitable -- it may well be the most profitable processor in the oblast now -- by procuring its raw milk supplies from neighboring Ternopil oblast.

- ✓ League liquidated to give place for more government-controlled organization
- ✓ 70% of all dairies become its members, including non-milk processing companies
- ✓ LVIVMOLOKO uses coercive administrative functions to implement government wishes rather than democratic principles to defend member interests
- ✓ Coercive state measures having opposite of intended effect
- ✓ Most profitable processor in oblast -- and one most able to pay farmers promptly for raw milk deliveries -- now sourcing supplies in Ternopil oblast

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

Unfortunately, while Agro has found a way out, it appears that things will only get worse for other producers and processors alike before they get better. While it is disappointing that the first Lviv Dairy League did not survive to fight for the true, long-term interests of the dairy industry, its former members are already seeing what they have lost. One can only hope that they will succeed in escaping the State yoke sooner or later and use this better lesson to work together in a more productive fashion.

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

LVIV TRADE FAIRS

L'vivsk'a oblast, Ukraine

Ukraine's borders with Central European countries such as Poland, Hungary and Slovakia are resources that can help expedite this country's economic reforms. In fact, the very rationale of the Western Ukraine Initiative is to increase Ukraine's ties and trade with these nations through a wide range of cross-border activities, such as study tours, internships, and training using foreign expertise. To facilitate these and other efforts, this project had an office in Warsaw. There, two Polish staffers also offered assistance in finding customers and input suppliers to Ukrainian agricultural processors and farmers. After only a few months' work, however, it became clear that the needs of the project participants were greater than expected. To create a forum for the Ukrainians to make their own contacts, we decided to stage a trade fair in Lviv.

In August, 1997, twenty-three Polish firms exhibited their products. They were chosen from among the participants in the recently completed USAID-funded RAAPS and ACMI projects, and they contributed over 63% of the cost of the fair. The exhibitors presented packaging equipment, ovens, boilers, and other products of interest to agricultural businesses. This was a business-to-business exhibition, and over 775 people attended the fair over its three-day run.

Several large sales were made. Spomaz, a maker of hard candy blenders, sold over \$57,000 worth of equipment. Ultratech Bis, a packing machine manufacturer, sold a \$50,000 labeler. A few more sales brought the total of large orders to over \$170,000. More typical, though, were the smaller investments. Josyf Valiovka, a Partner in our project, bought \$13,000 worth of packaging material for his yogurt business, and later visited a Polish firm's plant in Bochnia to buy a refrigeration unit. This was the true impact of the trade fair.

Like Mr. Valiovka, other Ukrainian managers of private businesses have followed up on contacts made at the fair. With the stimulus provided by USAID's investment, they are making their own contacts and entering into negotiations with Polish firms -- themselves beneficiaries of LOL's USAID programs.

- ✓ Over \$36,000 of Trade Fair cost was contributed by participants
- ✓ Nearly 800 people attended the three-day exhibition
- ✓ Total sales at first fair estimated in excess of \$300,000
- ✓ Firms assisted by LOL's programs in Poland contribute to the operation of the program in Ukraine

LVIV TRADE FAIRS (Continued)

L'vivsk'a oblast, UKRAINE

No sooner had the first trade fair ended than many of the Polish exhibitors began registering for the next fair, even though the project reduced its subsidy of the exhibition. This effort to transfer the fair to local hands is designed to help make the trade fair a self-sustaining contributor to the area's economy.

The second Trade Fair was also a success, although the misfortune of the Russian economic crisis that took place just a month before the exhibition did hamper sales somewhat. The numbers of both attendees and exhibitors increased, and this time companies from both Poland and Hungary exhibited their products. Despite the economic difficulties caused by the events in Russia, over \$200,000 in business contracts were signed as a result of the fair.

As mentioned above, the subsidy provided to exhibitors by LOL for the second trade fair was reduced in order to encourage increased self-sufficiency of the event. There is reason to believe that this effort succeeded. Although the LOL project has now been completed, its mission to foster trade through exhibitions such as these looks to be continued by the private sector. Indeed, after the second fair, the Polish company Voytex, together with the Ukrainian company GAL-EXPO, which specializes in organizing trade fairs in Ukraine and Russia, decided to continue staging this type of trade fair on their own in the future under the same name: Food Production and Processing Trade Fairs.

- ✓ Satisfaction with first fair evidenced by efforts to register early for second annual event
- ✓ Increased participation in second fair, including new exhibitors from Hungary and Ukraine
- ✓ Over \$200,000 in signed agreements as result of fair
- ✓ Polish and Ukrainian businesses so impressed with trade fairs that they decide to continue staging them without LOL assistance

LYSKANYCH FARM

Roman Lyskanych
L'vivs'ka oblast

It is no secret that the government is far from supportive of the private farmer movement in Ukraine. While, to a great extent, this is a reflection of the reluctance of those in power to devolve their authority, it would be unfair to characterize this lack of enthusiasm for private farming as purely a matter of self-interest. Because private farms in Ukraine typically consist of only a few dozen hectares of land, farmers are not able to take advantage of the economies of scale that help drive private agriculture in the West. For example, whereas collective farms were often intensely mechanized, fledgling private farms often were founded with little or no machinery. Furthermore, their small production volumes make the purchase of machinery expensive and the capacity of such equipment often exceeds the needs of a small operation. In addition, many government officials like to stress the expertise of the various professionals who staffed collectives, versus the single individual or small family commonly responsible for all of a private farm's operations.

What this view does not take into account, however, is how private farms -- and farmers -- are changing in Ukraine today. Not only are farms slowly growing in size, but they also are increasingly benefiting from farmers working together in order to reap the benefits of their combined buying power and production volumes. That these farms have not been able to grow more rapidly is, in large part, a reflection of the State's lack of interest in their future, but this limited rate of growth should in no way be interpreted as a sign that private farming can not be successful here. Concerning farmers themselves, it certainly has been a challenge for many of them to learn all of the skills needed to run one's own operation. While many current farmers had experience in either business or farming when they founded their operations, few had expertise in both of these essential areas. But many have managed to gain this vital knowledge over the past few years, and technical assistance offered both by domestic and international organizations are helping to make this possible.

One operation that exemplifies many of the changes now taking place in Ukraine's private farms is Lyskanych Farm. The owner, Roman Lyskanych, had been a computer systems operator before he decided to go into farming three years ago. With no

- ✓ Private farming movement neglected by Ukrainian government
- ✓ Private farms increasing in size and production volumes, even if official statistics do not always reflect this dynamic
- ✓ Private farmers gaining important expertise both through independent study and taking part in technical assistance activities

LYSKANYCH FARM (Continued)

L'vivs'ka oblast, UKRAINE

agricultural experience at all, he decided to participate in Land O'Lakes training activities, seminars and study trips. All of these efforts have helped him to develop his own approach to the farm business. None of his decisions are made without making an in-depth analysis of the potential risks and benefits. While this has entailed his being more cautious toward certain opportunities than many other farmers, this is only to his credit, considering Ukraine's unstable and unpredictable environment. The single fact that his farm is still in operation, not to mention expanding, at a time when the vast majority of Ukrainian agriculture is unprofitable, suggests that Lyskanych's caution is a virtue. But let's examine some specifics.

Last year, Lyskanych used profits from his harvest to purchase a used German combine. This allowed him to save 10,000 UAH in one year alone that custom harvesting of their land would have cost. Lyskanych also bartered the use of his own combine to a neighboring farmer in exchange for certain necessary farm services. The combine would have been able to bring in cash for additional custom work, but Roman decided against this. While farmers often buy used machinery to save money, they never have any guarantees that the machinery will perform well long into the future, so Roman decided to play it safe and not overtax the combine in its first year.

Roman's cautious approach was also evident when he weighed whether or not to go into rapeseed and swine production following participation in seminars organized with Farmer to Farmer volunteer assistance on these two production areas. Because of the risks involved in raising rapeseed without being in close proximity to harvesting and drying equipment, the family decided to put off expansion into this sector, despite its great potential profitability. As it turned out, this was probably the right decision, since this summer's stormy weather caused significant losses for several producers in the oblast, despite their having immediate access to harvesting and drying equipment.

However, Lyskanych did not decide to pass up the opportunity to go into swine production. While he, like many farmers, already had a few pigs he raised informally, a Land O'Lakes seminar in May convinced him of the benefits of expanding this part of his operation and starting to manage it for profit. He purchased an old pig facility, dismantled it for transport, and is now reassembling it on his farm, together with newly bought pens. Four workers have been hired to finish the construction as soon as possible. Through participation in Land O'Lakes-sponsored study trips, Roman learned

✓ Lyskanych starts farm three years ago with no agricultural experience

✓ Purchased used German combine with profits from 1998 harvest, saving 10,000 hryvnias in custom harvesting costs, in addition to making it possible to custom harvest for additional gain

LYSKANYCH FARM (Continued)

L'vivs'ka oblast, UKRAINE

a lot from Polish farmers on swine nutrition and has purchased premises that he will use for his own pigs. Overall, he has invested about \$4000 in the new swine operation to date. He also has built an adjoining machinery shelter, which cost him about \$700 in labor and materials, and has taken part in a berry production internship in Poland. In the near future he hopes to be able to utilize this expertise he is gaining to expand into berry production.

Nevertheless, Lyskanych Farm remains a relatively small operation. That it has steadily grown over its three years of operation, however, seems indicative of what is to come for private farms across Ukraine if the Government allows them to continue to expand, not to mention if long overdue legislation on land reform and other vital topics is passed.

- ✓ Participation in LOL swine raising seminar convinces farmer to buy swine facility, invest \$4,000 into making Western-style operation
- ✓ Participates in berry production internship in Poland

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

MALASHIVSKY FARM & MOSTYSKA AREA FARMERS

Mostiska, Lvivs'ka oblast

The maxim that the only thing permanent is change could not be more apt than when it is applied to today's economic situation in Ukraine. Unpredictable prices, an unstable currency, ever-changing state regulations and inconsistent enforcement, as well as constant changes to tax codes, all challenge even the most skillful entrepreneur. This is especially true in agriculture, where the lack of true land reform, the breakdown of old supply networks, and a dearth of affordable credit compound these difficulties. In such an environment, agribusiness professionals must remain highly flexible in order to adapt to changing conditions. The experience of Bohdan Malashivsky, a farmer and businessman from Lviv oblast, demonstrates both the difficulties and the potential rewards that can be gained by entrepreneurs able to shake off the inertia of the past and display the flexibility to react to changing market realities.

Malashivsky began building his operation shortly after Ukraine gained its independence in 1991. He began growing grain on 25 hectares he had gained from the state and soon thereafter added swine production to his activities. By 1995, after receiving additional land from the neighboring collective farm and purchasing its milling and sausage-making facilities, he had created a farm-to-market system for his swine operations. Because of his limited experience in meat processing, Bohdan approached Land O'Lakes with a request for Farmer to Farmer assistance first.

In 1997, Joe Block came to Ukraine and helped the operation to improve sausage quality, introduce some new varieties, and to upgrade its management practices.

The awareness of the importance of monitoring profitability was something that Malashivsky learned in part through his work with marketing expert Terry Bell during his assignment in May 1998. Both in Ukraine and in the USA, where Terry met up with Bohdan during his participation in the Cochran Fellowship Program later that summer, their discussions centered around the Western, profit-driven approach to business and the

✓ Farm founded in 1992; mill and sausage-making operation acquired in 1995

✓ FTF volunteer assistance helped improve sausage quality, and introduce new varieties

✓ Volunteer Terry Bell stresses maximizing profit by sector

MALASHIVSKY FARM & MOSTYSKA AREA FARMERS

(Continued)

Lvivs'ka oblast, UKRAINE

necessity of constantly seeking out new opportunities. Having come to understand that Ukraine's critical shortage of raw meat supplies – and of pork in particular – was preventing him from taking full advantage of his processing facility's capacity, Malashivsky realized that he could improve profitability by concentrating purely on pork production. In addition, after attending Land O'Lakes' interactive seminar on rapeseed, Bohdan decided that rapeseed production could provide a high return as well as supplement his pork operations by providing an inexpensive, high-quality protein source.

As a result, Malashivsky took the bold step of selling his sausage-making operation in order to generate capital to fund these two endeavors, as well as to help his son – a dentist – create his own dental practice. Finally, he passed ownership of the grain mill on to his son-in-law. This way he freed his energies to focus on rapeseed and meat production. As noted above, Land O'Lakes not only organized the seminar that provided the impetus for this move into rape cultivation, but also provided critical information and contacts for Malashivsky and others like him who did not have experience growing this crop.

Malashivsky convinced 12 other farmers in Mostysky raion to go into rapeseed production with him as well. Since he initially was the only representative of the raion in Striysky Cooperative, he was concerned about the costs of transporting inputs and harvested rapeseeds to and from Striy on his own. Having shared his knowledge of the prospects for rape production and the mutual advantages of sharing transportation costs, however, Malashivsky convinced the farmers to join Striysky Cooperative as well, and now together they receive seeds, chemicals and fertilizers as trade credit. The 12 farmers seeded about 500 hectares of land overall this year and produced at least 750 tons of rapeseed, which is worth \$127,500 at the cooperative's guaranteed price.

Malashivsky's interests continue to expand. The proximity of his operation to the Polish border and the export opportunities it provides him with are far too tempting for him to ignore. Accordingly, Bohdan recently provided a sample of 20 tons of rapeseed to Bolmar, a Polish rapeseed processor, which agreed to buy the shipment at a price based on test results. This potential buyer was identified as a result of the recently signed

✓ Malashivsky takes part in Cochran Fellowship study tour of U.S. agriculture

✓ Malashivsky consolidates operations to focus on meat and rapeseed production

✓ FTF Partner convinces 12 fellow farmers to join cooperative and share transportation costs

✓ LOL assistance leads to 12 farmers being guaranteed \$170/ton for their rapeseed: a \$127,500 value

✓ Mostyska group is close to setting up exporting activities

MALASHIVSKY FARM & MOSTYSKA AREA FARMERS

(Continued)

Lvivs'ka oblast, UKRAINE

Memorandum of Cooperation between the Lublin Agrarian Chamber and the Western Ukrainian Farmer's Union. Since then, the Chamber has regularly provided WUFU with contacts of Polish agribusinesses interested in doing business with Ukrainians. Another business proposal from a WUFU member for the export of lumber has been recently sent and is awaiting a response.

In addition, Bohdan says that his son's dentistry business is starting to make a profit, which, combined with revenue from rapeseed sales, he plans to invest in swine and sheep production. Understanding the importance of feed component in this business, Bohdan also participated in the study tour on new feed technologies and feed distribution organized by Land O'Lakes Limited in Poland. After two days of visiting Polish farmers, feed distributors, manufacturing units, and negotiating with company management, Bohdan learned a lot about new feeding practices and their influence on the costs of production. He is convinced that using dry feeds is far more economical, and allows those in the industry to make a profit. Therefore, he is seriously considering getting involved in the feed distribution business due to lack of new modern feed supplements on the Ukrainian market.

✓ Closer cooperation with Polish farmer organization opens up new opportunities for Ukrainians

✓ Superior dry feeds are available right across the border

PROGRESS COLLECTIVE FARM

Brody, L'vivs'ka oblast

The following article appeared in the May 20, 1999, issue of the Kyiv Post:

The Third Serfdom

When a young man with virtually no experience assumes the directorship of a large enterprise, and when the hundreds of new shareholders vote unanimously to give him total control when that enterprise is later privatized, one could assume either that he is a man of rare ability or that there is something not quite cricket about it all.

Large collective farms in Ukraine are privatized by granting land titles to farm employees, residents, and retirees. Each receives one to three hectares of land according to a well-understood formula that most people consider fair. Typically, 95 percent of the new owners will lease their parcels to one director who will manage a restructured, commercial farming enterprise, and the remaining 5 percent or so will lease their land into smaller private farms of 10 to 50 hectares each.

The plan was simple. As part of the privatization process, the soon-to-be landowners should have the opportunity to learn something about operating a farm as a business. No longer would they operate a farm as a mechanism to feed the population. No, a farm is a business, we would explain, and before you sign over your piece to anyone, you should learn something about how a farming business works.

That was the plan. A fairly complete publicity effort was made, training materials printed, and the venue prepared. Out of a potential audience of 1,850 new landowners at the ironically named "Progress" farm in Brody, Lviv oblast, not one came to the seminar. Not even one person in this small town was even curious enough to stick his head in the door.

Either the abilities of the new director had inspired true awe and allegiance among the populace, or something was amiss. We asked around and were saddened but not surprised to learn that the director had made it known that no one was to participate in any training sessions. It was a deliberate effort to keep the people ignorant of knowledge that might be useful in improving their lives.

Confronted with specific cases in which direct efforts are made to derail reform, people deal with the frustration in different ways. An enraged scream can be useful. A resigned sigh is more common. This writer turns to an academic.

Feudalism as a system of social, economic, and political organization disappeared in England in the 16th century. On the continent, it finally ended in the 1700s and in Russia in 1860 or so. In a review of feudalism's late stages, Immanuel Wallerstein, in his famous

- ✓ Large collective farms in Ukraine are privatized by granting land titles to farm employees, residents, and retirees
- ✓ Typically, only 5 percent of them will turn their land into private farms
- ✓ Land O'Lakes basic training designed to help potential private farmers learn about farming as a business
- ✓ Extensive campaign undertaken to publicize the training
- ✓ Not a single one of the 1850 collective employees attends -- they were forbidden to do so by the Collective's director

series The Modern World System, labeled the holdouts a "second serfdom."

The term was co-opted for use in describing collective agriculture of the Soviet Union after Stalin's policy of forced collectivization had transformed the peasant into the *kolkhoznyk*. Ukraine is forming a third serfdom as it transforms the *kolkhoznyk* into a "land owner."

As we recall from our days at secondary school, feudalism is an intricate network of duties and obligations linking royalty, nobility, lesser gentry, free tenants, villeins, and serfs. The modern Ukrainian economy is an intricate network of duties and obligations linking the presidency, ministries, oblast and raion administrations, farm directors and land-title holders.

A few hundred years ago, serfs lived on and worked the lord's land and were allowed some land for themselves. In present-day Ukraine, peasants lease their parcels to the director and maintain household plots to grow enough food to keep themselves alive.

Serfs could not leave the estate. Now, of course, Ukrainians have some measure of mobility - providing they have an external passport, an internal passport and proper registration with the local OVIR office (Department of Visas and Registration).

Much has been said and written about Ukraine's new economy, and much of it parallels this from Webster's Encyclopedia:

"Feudal society was characterized by a hierarchy of authority, rights and power enforced by a complex legal system under which the monarchy allowed vassals to hold land, administer justice and levy taxes."

One could go on with the comparison - the economist P.T. Bauer, among others, argues that uncompensated labor is a form of taxation, for example - but 700 words is enough. The point is made. Now I'll think of something else, try to decide whether to scream or sigh, perhaps.

✓ Ukraine's current attempts at creating a class of private farmers instead leading to a "third serfdom"

✓ Many rural residents in modern-day Ukraine producing at subsistence levels

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

RAVA RUSKA BUTTER PLANT

Volodymyr Nehela
Zhovkva, Lviv Oblast

Not everything the Western Ukraine Initiative (WUI) does produces the results hoped for. While this article was originally going to be a results report noting a dairy plant's expanded product line, it has developed into an examination of obstacles beyond a business clients' control that can hold them back in spite of their best efforts.

This business is well managed. Its director, Volodymyr Nehela, has attended all of the project's workshops, gone on two study tours to dairy processors in southeast Poland, and participated in two Land O'Lakes/USAID-sponsored dairy association conferences in Romania. He has studied the new information provided and tried hard to apply what he learned, but a number of problems with the supply of raw milk have hampered his efforts to improve his business.

In Romania, he learned how to produce three products for people with digestive problems (acidophilus milk, kefir and cottage cheese), but in spite of successful test runs, production plans were shelved because the supply of milk is just too low and inconsistent to support steady production. And his plan to produce a harder cheese was put on hold because local milk supplies are so low in protein that the plant cannot efficiently make that product.

The Rava Ruska Butter Plant has been producing dairy products for over 70 years. While the plant has undergone many changes over this period, those of the past few years have been especially dramatic. Under Soviet rule, plant management was responsible primarily for ensuring satisfactory production levels. Procurement of inputs, determination of product lines and production levels, and sales and marketing for all production except milk were taken care of by external entities.

When Rava Ruska was reorganized as a joint stock company in 1994, management found itself in the new position of having to address procurement and sales issues on its own. This responsibility has proved to be particularly daunting during the summer, when production is highest. The increased amounts of butter are difficult to sell, and so a special effort is required to find a buyer.

One option was tried last summer—provide excess butter to several collective farms in exchange for a promise to regularly supply raw milk to the plant in the winter, when milk production decreases markedly. As of today, the collectives owe the plant nearly 105,000 hryvnias.

- ✓ Well managed plant with bad raw milk supply
- ✓ Nehela learns new production technologies during a trip to Romania
- ✓ Plans postponed due to inconsistent supply of low-protein milk
- ✓ New political and economic environment brings new business management traditions
- ✓ Creativity might allow operation to collect debts and pay off its own arrears

Consequently, the plant is unable to settle its accounts with milk producers—it owes them a total of 100,000 hryvnyas. This delay in payment has caused individual milk producers and farmers to turn to selling their raw milk directly at local markets, which reduces that amount available to process at the plant. These sales are prohibited because of the health risks posed by the consumption of unpasteurized raw milk, but this legislation is not strictly enforced.

To make matters worse, during the fall and winter there is not only a seasonal drop in milk production, but a drop in quality as well. This makes it impossible to produce dairy products that require a high protein level, such as yogurt and kefir.

At present, Rava Ruska is in operation only every other day, and only for three hours at a time. Every day the city turns off the electricity for several hours, which compounds the plant's difficult operating conditions. Because of these formidable obstacles, not to mention Ukraine's precarious economic state, turning the plant's fortunes around is a major challenge. Nonetheless, Mr. Nehela continues to develop new plans and identify opportunities to make Rava Ruska succeed.

In order to increase the quantity and quality of milk supplies, Rava Ruska began to work with the residents of two nearby villages to promote better dairy herd management practices. A veterinarian by trade, Nehela is aware both of the importance of factors such as nutrition and genetics to dairy production, and of the limited knowledge of these areas at the local level, where most villagers own only one or two cows each. By drawing on his own expertise and cooperating with contacts from the Lviv Veterinary Institute, Nehela hopes to utilize the institute's wealth of knowledge to address this gap in knowledge. In exchange for adopting new practices, villagers will receive a small premium for their raw milk sales to the plant.

If supply problems can be solved, then the Ukrainian business consultants trained by this project will assist in development of sales plans for the new products. Revenue from these new sales will allow the plant to purchase new packaging equipment. By selling its products in small plastic cups instead of the plastic bags currently used, they will be more competitive with more attractively and conveniently packaged imports. According to the latest information, Volodymyr has already made a purchase agreement for such packaging equipment.

It is all tied together. While the WUI project's contribution is valuable—Mr. Nehela will be the first to say so—there are other gaps in the system that can stymie progress. This project made a real effort to provide solutions, but it will be a long and difficult fight.

✓ By not making payments, processors encourage milk producers to sell directly to customers

✓ Low-protein milk and electricity outages challenge plant's successful operation

✓ Plant manager trains raw milk suppliers in various technical issues

✓ Nehela involves professionals from Vet Academy to help in his training endeavors

✓ New marketing strategies bring in modern packaging equipment

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

ROSAN CAPITAL

L'vivs'ka oblast, UKRAINE

Unlike in the West, the typical private farm in Ukraine is usually a small, family operation producing a combination of field crops, vegetables and perhaps a few heads of livestock. While this type of farm usually provides for most of the food products needed for a family to sustain itself, it is far from efficient, for it takes advantage of neither economies of scale nor the concentration of expertise that specialization makes possible. The swine-raising operation that Rosan Capital is developing in Lviv oblast, however, is far from typical. Thanks to its substantial financial resources, the company is in a position to build a modern, fully equipped operation. And thanks to its Western-style management, Rosan understands the importance of taking advantage of the many resources available in order to approach this project from a professional perspective.

An investment company with a highly diverse portfolio, Rosan Capital began investigating the possibility of going into meat processing in 1998. When management discovered the dire shortage of raw meat – and especially pork – hampering Ukrainian processors, however, it got the idea to go into livestock production. Having identified a potential facility to purchase and renovate, Rosan contacted Land O'Lakes for expert advice and help in designing a feeding system for the huge, 10,000-pig facility.

During the spring of 1999, Land O'Lakes twice helped to coordinate study trips to Poland to visit swine operations on a similar scale. Because they were paying their own way (\$300 per trip), Rosan staff were especially eager to take full advantage of the opportunity to gather valuable information and experience. Part of their aim was to work with farmers to develop a feeding program. Then, in April, animal nutritionist Roy Chapin arrived in Lviv to continue the cooperation. He began his work by reviewing the proposed feed rations and premix formulas for nutritional content and least-cost value, and also explained to Rosan some of the general principles of feed formulation, as well as how to avoid being cheated by feed companies. In addition, Chapin developed a swine production manual for Rosan addressing all aspects of renovating barns to create a state-of-the-art swine facility, as well as details on the future day-to-day management of the operation.

- ✓ Highly-diversified company decides to go into large-scale swine production
- ✓ WUI coordinates two study trips to Poland, while Rosan pays own expenses of \$300 per trip
- ✓ Roy Chapin reviews proposed feeding program for 10,000-hog operation for nutritional content and least-cost value
- ✓ Specialist produces swine production manual for the operation

ROSAN CAPITAL (Continued)

L'vivs'ka oblast, UKRAINE

Land O'Lakes also organized a meeting with Polish feed producer LOL Ltd. that led to negotiations regarding Rosan's desire to become a distributor of LOL Ltd. feeds and premixes in Ukraine.

Because of their deep satisfaction with their work with Chapin, during Rosan's final meeting with him, company management expressed its desire to involve him intensively in the swine project over its critical first year. Since the cost of a Western expert is significantly more than the project had budgeted, Rosan is exploring several options for financing this cost. If Rosan proves able to bring Roy on board, he will work not only formulate, monitor and control the feeding process, but also act as an overall manager of the operation, striving to economize resources. This would be done in part by utilizing modern practices to maximize employee performance and to minimize employee theft – a major problem for Ukrainian agribusinesses. Some of Rosan's American partners, including LOL Ltd, have indicated that relations with them would be enhanced and simplified by the presence of an American manager within the company.

At present, Rosan's swine project is being implemented in accordance with the developed plan. The swine facilities have been obtained and renovated, and now house about 120 sows. The number of hogs is being increased gradually in order to secure a continuous production cycle. A number of American and Canadian investors have contributed start-up capital, and it is expected that the facility will initially operate with 5000 pigs (or 50% of its projected capacity), before eventually reaching the permanent levels projected in their business plan the following spring.

✓ WUI sets up meeting with feed and premix producer LOL Ltd.

✓ Rosan expresses desire to continue work with the American consultant intensively over coming year and explores several financing options for this purpose

✓ Hog facility already renovated and heard is now 120 and growing

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

SHOSH AGRIBUSINESS

Karl and Zholt Shosh
Kidiovsh, Zakarpats'ka oblast

Having no background in agriculture whatsoever, Karl Shosh decided to establish a farm in 1990. A former cooperative store manager from a small town near the Hungarian border, Karl first focused on the opportunities for international trade when the borders opened up toward the end of the Soviet period. However, when presented with the option of renting 8 hectares of land from the local collective farm in 1990, he seized the opportunity to expand his business into a new field, and has been expanding it ever since. Now, just eight years later, he has nearly 100 hectares under cultivation, a bakery, a wine-making operation, and several retail stores and cafes where he markets some of his production. While there are few private farmers in Ukraine who have accomplished so much over so little time, the strategy through which Shosh has expanded his business to create a farm-to-market system is far from unique.

In fact, Shosh Agribusiness is a good example of one of the major trends in private agriculture in Ukraine today. At a time when agriculture in America increasingly is becoming more specialized, a great number of Ukrainian agribusinesses are becoming more diversified. Surprisingly, diversification is one of the most common -- and successful -- ways for farmers in Ukraine to expand their operations. While specialization elsewhere often enables operations to take advantage of economies of scale, in Ukraine's unpredictable economic state today, wherein the old input and distribution networks have broken down, and distrust of other private individuals and government is so prevalent, it is not surprising many agribusiness entrepreneurs are striving to establish the missing links in the producer-processor-retail chain on their own. Doing this not only provides producers with new markets and helps them capture added value, it also helps ensure that producers are paid in cash and on time, something unknown to those who sell to the state. Finally, these private farm-to-market systems often offer the local community alternatives to state-run processing and sales outlets.

In 1995, Shosh owned nearly 30 hectares of land and had already opened a small store and hotel complex near his farm. These operations provided Shosh with a steady revenue stream and retail outlets for some of his production.

- ✓ Former cooperative store owner established private farm in 1990
- ✓ In just 8 years the operation expanded from 8 to 100 hectares, and now includes a bakery, winery, cafes and stores
- ✓ Shosh Agribusiness reflects trend toward diversification in private agriculture in Ukraine
- ✓ Addition of store and small hotel added steady revenue stream

SHOSH AGRIBUSINESS(Continued)

Zakarpats'ka oblast, UKRAINE

Until the latest times, there were really only two options for expanding one's land holdings: renting small plots of land from other individuals, or forging close ties with the leadership of the local collective farm in order to lease land from the collective. More often than not, management of collectives are reluctant to lease much of their land, because their power is derived directly from it. Not surprisingly then, it wasn't until 1997 that Shosh was able to rent an additional 50 hectares. In the meantime, his expansion reflected the wider tendency of successful agriculturalists diversifying into sectors not requiring significant amounts of land.

This diversification was facilitated and, in part, inspired by Shosh's cooperation with Land O'Lakes, a relationship that began in early 1995 when he visited the United States on a three-week study tour of American farms and agribusinesses. It was during this trip that Karl realized the benefits that adding value to his operations through processing and retail could provide him with. As he has said, "Thanks to Land O'Lakes, when I returned home I decided to open a cafe and bakery." When these plans were carried out the following year, Shosh had succeeded in creating a new market for his grain and vegetables, while himself receiving the added value thereby created.

Farmer-to-Farmer volunteer assistance through Land O'Lakes played a large role in the development of many of these branches of Shosh Agribusiness. In 1995, specialist David Andrews first raised the idea of Shosh growing seed. When specialist Mark Rehder spent two weeks with Shosh in 1997, they focused intensively on vegetable seed production. In-depth discussions and handbooks provided by Mark provided Karl with the necessary technical information to start producing his own seeds. Now, not only does Karl use the seeds himself, but he also sells them to other farmers in his village. This new activity both decreases his expenditures on seeds and increases revenues, which together account for approximately \$5,000/year. The specialist's recommendations regarding greenhouse growing techniques have also increased tomato yields by nearly 20% and, just as importantly, have improved their quality. Mark also provided Shosh with over \$100 worth of seed varieties, including exotic miniature tomatoes that have attracted new customers to his store. Finally, Shosh was helped greatly by training in transplanting vegetable plugs and new onion-planting technologies. Thus, according to Shosh, "Thanks to Mark Rehder, I am now the area's number one vegetable producer!"

- ✓ Began leasing 50 additional hectares in 1997

- ✓ Shosh visited American farms during LOL study tour in 1995
- ✓ Thanks to experiences on Reverse Farmer-to-Farmer, Shosh opened cafe and bakery
- ✓ New market for grain and vegetables created

- ✓ Vegetable seed production added as a result of volunteer assistance
- ✓ Seed production adds \$5000/year to Shosh's cash flow
- ✓ Tomato yields increased by 20% thanks to volunteer recommendations
- ✓ Volunteer provides vegetable seeds worth \$100
- ✓ Specialist helps Shosh become area's premier vegetable producer

SHOSH AGRIBUSINESS (Continued)

Zakarpats'ka oblast, UKRAINE

Four years ago, Shosh added part of a former collective's vineyards to his holdings. As in the other sectors of his business, where he has added processing to add value and make it possible to sell the finished product through his own outlets, Shosh expanded this operation to include wine making. Since Shosh had no previous experience in viticulture, he welcomed the opportunity to work with specialist Jim Law in 1998 to improve the operations' growing techniques. A recommendation to reduce the canopy's density by removing the leaves was implemented immediately. This has already resulted in a higher yield, since sprays now can reach the grapes that had been covered by leaves, and has prevented much of the clustering that occurs when canopies are denser. It is estimated that the resulting larger, higher-quality yield will result in additional revenues of \$2,000 this year alone.

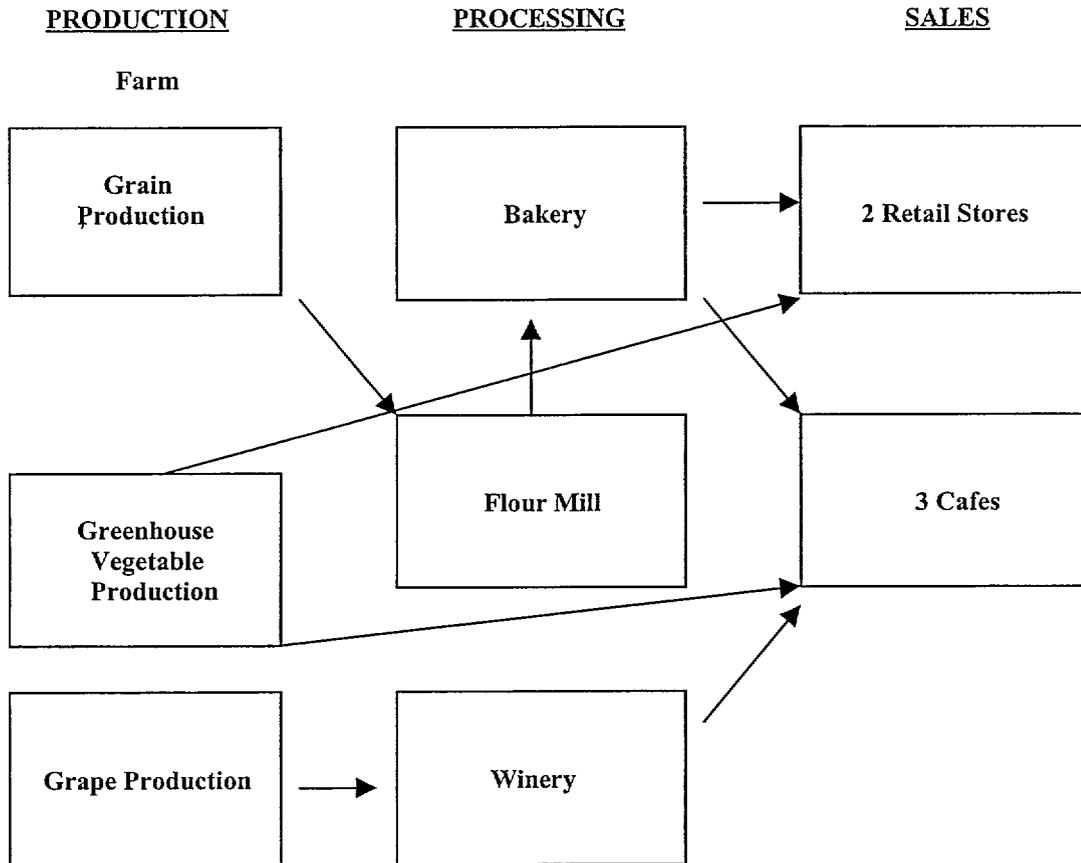
With all of this activity going on in his business, it is remarkable that Shosh finds time to head the local district's farmers' association as well. However, Shosh has managed to utilize this organization to support local farmers and encourage informal cooperation between them. He also has gathered association members to learn from visiting Farmer-to-Farmer volunteers, and to share his own experiences with the former group. In addition, he was investigating the possibility of forming a marketing co-op with other local residents. While Communism taught people to distrust one another, and the Soviet experience with co-ops discredited real even co-ops in the eyes of many Ukrainians, this tight-knit local community of Ukrainians of Hungarian descent views cooperation as something very positive and very possible. In addition, Shosh has gained a great deal of knowledge of marketing co-ops from Land O'Lakes-sponsored trips to analogous co-ops in Hungary, as well as his experiences in America.

After one such trip, Shosh began actively promoting cooperative development principles at the regular meetings with other farmers. A producer group finally was organized from 12 farmers. After a vegetable storage facility for the future cooperative was identified for sale in Berehovo for \$10,000, the group decided to register itself as Berehovo Vegetable Cooperative in order to coordinate all its production, storage and marketing activities. It is the first agricultural cooperative in Zakarpattia oblast. At present, together with his colleagues, Shosh is trying to find a lending institution to finance the procurement of the 2000-square-meter storage facility.

- ✓ Vineyard and winery added in 1996
- ✓ Volunteer advice on grape production results in \$2,000 annual increase in revenues
- ✓ Shosh head of district farmers' association
- ✓ Shosh and other local farmers, together with LOL, studying the possibility of creating marketing cooperative
- ✓ Vegetable production cooperative registered - the first in Zakarpattia
- ✓ Storage facility identified for the cooperative

SHOSH AGRIBUSINESS (Continued)
Zakarpats'ka oblast, UKRAINE

SHOSH AGRIBUSINESS



CLOSED FARM-TO-MARKET SYSTEM STRENGTHENED BY LAND O'LAKES ASSISTANCE

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

SLYUSAR FARM

Olha Slyusar

Lvivs'ka oblast, UKRAINE

One of the biggest challenges facing private farmers in Ukraine is a lack of broad practical knowledge. In fact, a great number of private farmers here had little to no experience in agriculture prior to receiving their land in the early 1990s. Even those who had worked in the field previously had a great deal to learn in order to make their new farms successful, since Soviet agriculture had consisted of huge collective farms on which each worker had a very specific and narrow area of specialization.

This was certainly the case with Olha Slyusar, a private farmer from the Lvivs'ka oblast village of Bobyatyn. Although Olha had worked at the local collective for over ten years before she decided to establish her own farm in 1993, her work had been as a bookkeeper, and thus she had no experience in the practical aspects of agricultural production. However, she did not let this obstacle, nor an utter lack of equipment, deter her from her goal. Amazingly, in only a couple of years she was able to obtain all of the equipment needed to cultivate 46 hectares, including tractors, cultivators, seed drills, and sprayers, much of which was built or rebuilt by Olha's husband, Stepan. In order to further this progress and increase her yields, in early 1998 Olha approached Land O'Lakes with a request for Farmer to Farmer volunteer assistance in the areas of fertilization and plant protection.

Over the course of the week he spent at Slyusar Farm in June 1998, FTF volunteer Lee McGuire discovered several problems and provided some useful recommendations to help solve them. He determined, for example, that her soil was low only in nitrogen. Now, instead of applying ammonia phosphate in large volumes – an expensive fertilizer containing nitrogen, phosphorus and potassium – she will apply a cheaper nitrogen-containing fertilizer and less ammonia phosphate. This will save her an estimated \$1000/year, without reducing the effectiveness of the applications. The specialist also discovered that she was using almost twice as much Roundup as would have been optimal. By decreasing the amount applied, she managed to save nearly \$400 worth of the herbicide.

- ✓ Compartmentalized specialization in Soviet agriculture resulted in lack of all-around agricultural specialists fluent in all aspects of farm management
- ✓ Slyusar Farm established in 1993
- ✓ Volunteer assisted with fertilization and plant protection
- ✓ Volunteer recommends using cheaper fertilizer, resulting in savings of \$1000/year
- ✓ Volunteer helps host determine optimal herbicide application amount, thereby reducing costs by \$400/year

SLYUSAR (Continued)
Lvivs'ka oblast, UKRAINE

In addition, Lee helped Olha to improve her crop rotation sequence. He also provided her with instructions on several inexpensive modifications to make her farm equipment operate more efficiently. Finally, in August, 1998, Olga built a large storage facility for both grain and farm machinery.

With Land O'Lakes assistance, Olha visited Poland on a number of study trips and to visit several agricultural trade fairs. A great deal of minor farm equipment and high-quality seeds were bought during those trips. They also helped her to better achieve her farm's potential through expansion. This spring she will buy several hazelnut transplants at a specialized farm in Poland and start producing hazelnuts. There is a large potential market for this product in western Ukraine.

Despite all of this progress, however, Olha envisions this as only the beginning. At present she plans to expand her operations by buying new equipment and starting a bakery. As part of her preparation for this latter venture, she will be working closely with other Land O'Lakes partners who have experience in baking. Because one of Olha's close business partners has a milling operation in the same village, she will be able to both provide her baking operations with sufficient flour supplies, and create a market for her own grain. As a result, the new bakery will enable Olha to create, essentially, a closed farm-to-market system.

In fact, Roman Haiduchok, a head of Land O'Lakes-registered Western Ukraine Farmer's Union is Olha's close business partner. Mr. Haiduchok owns a grain milling operation and has recently expanded into baking and cereal production. He buys most of his grain from private farmers, such as Olha as he is a strong and unchanged supporter of private forms of farming. After the 1999 harvest, Olha was able to increase her farm's profitability by 10%, largely because of a secured sales market for grain, most of which was purchased by Roman Haiduchok. This mutually lucrative collaboration made it possible for Olha to procure most of the inputs for the upcoming spring crop-seeding operations.

- ✓ Improved crop rotation sequence provided to farm
- ✓ Inexpensive modifications make machinery run more efficiently
- ✓ LOL study trip has made it possible for her to go into lucrative hazelnut production
- ✓ Cooperating with other LOL host partners in order to plan baking operations
- ✓ Farm-to-market system will be created
- ✓ Ms. Slyusar's cooperation with the Western Ukraine Union of Farmers improves her farm's profitability

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS STORY

STREMILCHE AGRIBUSINESS

Leonid Oliynyk

Lvivs'ka oblast, UKRAINE

At a time when in 1998 agricultural production has decreased in Ukraine by nearly 50% since the start of the decade, marketing might have seemed to be a curious focus for a technical assistance assignment. After all, as production decreased there was less and less to market. However, while low yields were one significant reason for increasingly small harvests, production difficulties alone were not responsible for the decline in Ukraine's agricultural output. Although problems such as deterioration of the old state-run input supply networks and the lack of affordable credit cause major difficulties for farmers, a problem just as fundamental is that there are major disincentives to boost production. Low prices, the widespread use of bartering for payments, changing government regulations, and unpredictable markets all foster a wait-and-see attitude on the part of many farmers, since they make it difficult to predict whether or not increased production will be profitable. As a result, there has been a sharp decline in cultivated land in a country that contains some of the finest soil in the world.

Despite all of the present difficulties, however, some enterprising agriculturalists have taken a more aggressive approach. While many farmers bemoan the low prices paid by the state or its unfavorable payment terms, others have realized that the days are over when the government will guarantee each producer a market, on-time payment, and a reasonable price. This latter group understands the necessity of seeking new customers to purchase their products, and is utilizing new methods in order to find them. It is with this aim that a private farmer from Lviv oblast turned to Land O'Lakes for marketing assistance in 1997, initiating a close partnership that continues to this day.

- ✓ In 1998 agricultural production decreased by 50% in Ukraine

- ✓ Lack of good marketing techniques as well as a number of other reasons caused a decline

- ✓ There are farmers who gave up on trying to get the older times back

- ✓ LOL partnership with Stremilche farm started with a marketing assignment in 1997

MARKETING, SALES AND VALUE-ADDED PROCESSING

Stremilche Farm is a private operation near Ukraine's border with Poland. Stremilche's operations include grain, vegetable, dairy and livestock production. The farm was restructured from collective ownership with assistance from USAID in 1997, and now leases its thousand hectares from both the state and former employees of the collective farm. Oliynyk had managed the local restructured collective prior to leasing 50 hectares from it in 1992 and starting his own operation growing grain and vegetables, and raising swine, dairy cows, and beef cattle. After leaving the collective, Oliynyk could not help but notice how it was decreasing its production volumes, acquiring debts, and paying its employees' salaries with greater and greater delays. He was not the only one. Raion government officials noted both these difficulties and the fact that there was a successful private farmer with the skills to help the village. In 1997 they talked him into becoming the manager of the farm once again. What sets him apart from many other former collective managers, however, is his willingness to try innovative new management approaches in order to better the financial condition of his farm and improve the lives of the thousand local residents whose livelihood depends on the farm's fortunes.

This cooperation began when marketing consultant Terry Bell arrived in Ukraine in late 1997 to provide sales and marketing assistance. One of the first things he did on his first visit was to provide Leonid with one-on-one training in sales techniques. They then met with a number of wholesalers, processors, and purchasing managers of hotels and restaurants in Lviv and proceeded to inquire about the possibility of providing them with fruits and vegetables.

Leonid was amazed by the concept of cold-calling, or making spontaneous visits to potential clients. Not only were people willing to meet with him, but they showed genuine interest in what he was selling. The restaurant managers expressed their dissatisfaction with having to rise early each morning to go to the market in search of fresh ingredients, while not even knowing in advance whether or not what they needed to purchase would be available on that day. Most significantly, they let it be known that they had never been contacted directly by producers before, which indicates how wide open this potential market will be for Oliynyk if he proves able to take advantage of this opportunity.

- ✓ Collective farm re-structured with USAID help into a private farm

- ✓ Raion administration forcing the re-structured collective on to Leonid Oliynyk

- ✓ Terry Bell, FTF volunteer provides sales and marketing assistance to Stremilche Farm in late 1997

- ✓ Leonid amazed by a spontaneous-visit concept of product marketing

Within a month of the end of the assignment, Leonid was already utilizing the newly gained skills Terry had taught him in several areas. For example, Oliynyk found a customer for 47,000 ½-liter jars of peas that he had been unable to sell for months. This sale alone accounted for nearly \$23,000 in added revenues. Additional sales were made by utilizing the sales approaches that Leonid had learned, resulting in the sale of carrots, beets, and cabbage worth a total of \$7,500. Perhaps even more important, however, was the new approach that Leonid began to take to his business after his work with the specialist. As he himself indicated, "Now I work in a different way...I first look for my customers and THEN grow according to their needs."

Despite all of the progress that Stremilche Farm has made, however, it seemed clear that even more significant impacts would be forthcoming. As Leonid continued to adopt a more modern, western approach to sales and marketing, the different sectors of his business would become more market-responsive. Nationwide, many Ukrainian agribusinesses have yet to learn many of these important lessons, but only when they do will there be incentives to increase agricultural production in Ukraine. And only when that happens will Ukraine be in a position to fully take advantage of one of its most precious – and perhaps most underutilized – resources: its land.

In accordance with one of Terry's recommendations, on July 1, 1999, Leonid created a new marketing and sales position and appointed Dima, an employee who previously had been in charge of the farm's machinery maintenance, to the post. The sales manager will also have a support staff that will report to him on inventories sold and in storage. "Dima is young and aggressive, and I can see him fulfilling these duties successfully," says Oliynyk, who used to handle all sales responsibilities himself. Now he will be free to concentrate on operations and strategic management of the farm.

Another focus of Mr. Bell's work was on trying to increase overall farm profitability. One of the ways he suggested to increase profit margins without large investments was to have production marketed under Stremilche's own label. At first, Leonid chose to work together with a local vegetable processing plant, providing an exorbitant 65% of his product as payment for the processing services.

Now, however, Oliynyk has decided that he can increase profits by having Stremilche itself expand into vegetable processing. He has identified a small vegetable

✓ New sales strategy helped to yield over \$30,000 in revenue

✓ Oliynyk creates a position of a sales manager appointing a young aggressive individual

✓ Terry recommended Leonid to market under Stremilche's label

✓ Leonid is integrating with a local vegetable processor

✓ However, Leonid leased 49% of a small local cannery's stock in July 1999

plant 30 km from the farm that presently is standing idle, and leased a 49% share of the operation with an option to purchase for a five-year period. In order to reduce the initial capital investment, only minor renovations have been made to the plant's facility. Georgiy Cherevko, a Land O'Lakes consultant, President of Land O'Lakes-registered Business Consultant Association and chair of the Department of Economics at Lviv Agrarian University, conducted a feasibility analysis for this operation. A site visit to another vegetable plant and cooperative in the area, also run by a Land O'Lakes partner, provided valuable technical and market information for the Zhovkva area. In fact, Oliynyk and the Zhovkva processor are now investigating the potential for cooperation and, possibly, the creation of a cooperative encompassing both facilities.

At any rate, now we are able to see the farm's vegetables in jars with professional Stremilche Farm labels produced locally. The labels were designed together with specialists from Lviv Agrarian University and a label company from Lutsk, Volyn oblast, in accordance with recommendations from Terry Bell. During his assignment, Bell discussed at length with Oliynyk how establishing a brand can help increase sales by developing awareness of the distinctness of a product and a reputation for quality. Terry's emphasis on the importance of product labeling as vital to product presentation has already led to some positive changes. The label below, which Oliynyk recently developed, contains company information and design characteristics more typically found in the West:

- ✓ Agricultural University conducts a vegetable processing feasibility analysis
- ✓ Leonid contacts a vegetable cooperative in Zhovkva for potential collaboration
- ✓ Oliynyk develops a distinctive label for farm-grown and processed pickles



On the left, Stremilche's distinctive logo, as well as mailing address, are displayed. In the upper corners there are two mottoes: "nature's freshness" and "the taste of the sun." On the right side, there is information on the pickles, their variety,

nutritional values, and net weight. The label was produced by a label company in Lutsk, Volyn oblast, but it is a result of the ideas of Oliynyk and Terry Bell. The logo was developed in cooperation with Lviv Agricultural University, and has already helped in producing high customer recognition of Stremilche's products.

Strange as it may seem, this was not the first promotional event undertaken by Leonid Oliynyk to publicize his farm's produce. On May 2, in conjunction with Land O'Lakes, Stremilche organized a livestock field day. This activity gathered over 40 local producers and agribusiness professionals who came to see Oliynyk's improved swine operation, listen to specialists report on recent advances in livestock nutrition, and meet with representatives of the feed industry. That event also was widely publicized by local TV and newspapers, and afforded Oliynyk the opportunity to increase the profile of his products.

With much fanfare, on August 25 Stremilche Farm exhibited its farm-grown produce using techniques decidedly untraditional for Ukraine. The fact that various fresh vegetables, as well as canned corn, peas, and pickles, were taken to be sold at the central food market in Radekhiv, the local raion center, was nothing out of the ordinary. What was more usual was that these vegetables were promoted by each customer being given a game piece making it possible to win T-shirts and caps with the Stremilche logo on them, as well as various Stremilche food products. A total of 100 tickets were given away, 60% of which were winning tickets. The 500 people in attendance made over 400 hryvnias (UAH) in purchases from Stremilche, and the event was widely publicized in the print and broadcast media. The importance of publicity as a tool to help increase profits and expand sales markets had been emphasized by Terry Bell, who suggested that a taste test event be held to let potential customers see for themselves the quality and value of Stremilche products. While in the West the importance of many marketing areas, such as product presentation, advertising, and promotional activities is common knowledge, there is little awareness of the relevance of these activities for Ukrainian farmers. Indeed, marketing was not needed in Soviet times, when prices and markets were guaranteed by the State.

Just as important, the acquisition of a local vegetable cannery in summer of 1999 enabled Leonid to can his own vegetables and provided him with a more steady and reliable cash flow. Oliynyk has mostly sold about 20,000 jars of pickles to different buyers for 1.80 hryvnias per jar. Leonid

✓ Livestock Field Day on Stremilche Farm on May 2, 1999

✓ 500 people visiting the stand with 400 UAH in sales

has stated that even if prices remain low, he will still be able to make a minimum of 10,000 hryvnias in net profit from the 30,000 jars of pickles. Oliynyk may also add some other vegetables to his product line by supplying them from other farmers, such as WUI partner and deputy head of Land O'Lakes-registered Western Ukraine Union of Farmers Petro Fedyna, with whom he has already signed a purchase agreement.

FISH PRODUCTION

Time spent with a fish farming specialist in the fall of 1998 also is only now beginning to produce results. While aquaculture is now big business in western Ukraine, Leonid Oliynyk was not seeking profits when he built his first fish pond in 1994. Instead, Oliynyk was simply seeking to provide a source of fish for his own family and the employees of Stremilche.

Subsequent developments, however, convinced Leonid of the potential for this operation. In 1996 two additional ponds were created, increasing the total area under aquaculture to 11.6 hectares. Although the ponds were stocked with several hundred kilograms of carp and pike fingerlings, their growth rate did not meet Oliynyk's expectations. Because of his close cooperation with Land O'Lakes volunteers in the past on other projects, he decided to approach Land O'Lakes with a request for Farmer to Farmer assistance with his fish farming operation.

During the week she spent at Stremilche, volunteer Martha Rowan introduced Leonid to Western feeding and pond management practices. Martha provided Oliynyk with feed rations and schedules, as well as stocking directions and recommended ratios. She also helped Oliynyk make a secchi disk, a tool that is used to monitor water in ponds to show if fish are being overfed, as well as when and how much a pond needs to be fertilized. Finally, Martha performed two water analyses -- each worth \$50 -- at a laboratory at Auburn University and determined that the water quality is perfectly suitable for aquaculture.

As a result of these recommendations, Oliynyk is now taking a professional approach to his fish farming operations and the fish are growing much more rapidly. Production has increased by nearly 1800 kilograms per year, producing over \$1200 in additional annual profit, while utilizing feed, minerals and fertilizer already produced by the farm's various operations.

- ✓ Plans to further integrate with Petro Fedyna's vegetable cooperative

- ✓ American fish farming specialist visiting Stremilche farm in 1998

- ✓ Fish feeding and pond management techniques were taught to Oliynyk by Martha Rowan, a fish specialist

- ✓ Two water tests conducted in the U.S. were conducted by Martha Rowan for \$100

- ✓ Fish production increased by 1800 kg/year

RECORD KEEPING

But improvements in production and profits in some sectors are hard to measure and easily squandered in other parts of an operation if financial bookkeeping does not accurately reflect the revenues and expenditures of an entire business. When Roy Chapin, an animal nutritionist from Oregon, asked Leonid about production costs for his hay recently, for example, the latter had to think for quite a while before answering. Furthermore, figures provided by his accountant contradicted his own. To enable Oliynyk to better maintain his financial records, Roy suggested that Land O'Lakes help the farmer computerize its financial record-keeping.

Through a donor in the U.S., Land O'Lakes obtained used computers for Oliynyk and six other FTF partners. Then, using tables provided by the farm's accountant, project staff developed software for the farm's operations. All Stremilche's accountant needs to do now is to enter data on a monthly basis and the software provides a complete picture of production costs and revenues. This will not only save time (it will take only 10% of the time that previously had been spent), but will also help the manager of this diversified farm to better track developments in its various sectors and make timely decisions. This will also help to monitor inventories and thereby cut down on employee theft, a widespread phenomenon on large farms in Ukraine. In the coming months, the software will be modified and installed on computers of the other five FTF partners who received computers.

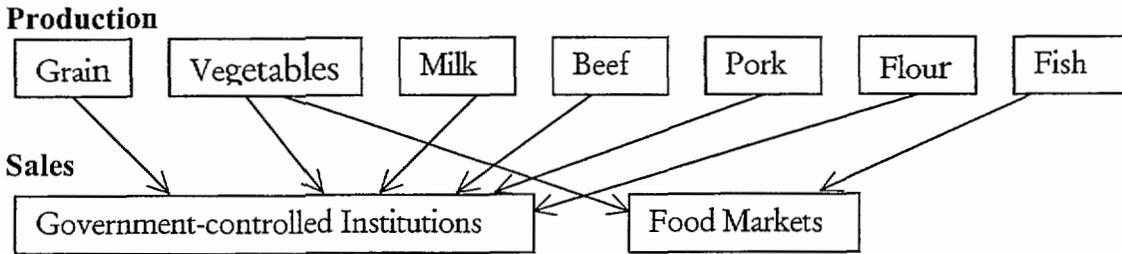
CONCLUSIONS

In order to summarize the dramatic changes that have taken place over the past several years with Land O'Lakes assistance, two charts are shown below: Stremilche's older, diversified operation and the present, increasingly specialized one incorporating vegetable processing and pig breeding.

Stremilche started in a more or less typical manner - as a highly diversified, cumbersome agricultural enterprise, as shown in Chart 1 below:

- ✓ Roy Chapin, an animal nutritionist from Oregon detects inaccuracy in production record-keeping system at the farm
- ✓ FTF donates used computers to Oliynyk and five other farmers for better and easier record keeping
- ✓ A new software saves 90% of time spent previously, and helps to better control inventories
- ✓ Stremilche tends to become more specialized in vegetables and pork

Chart 1. Farm Operational Layout

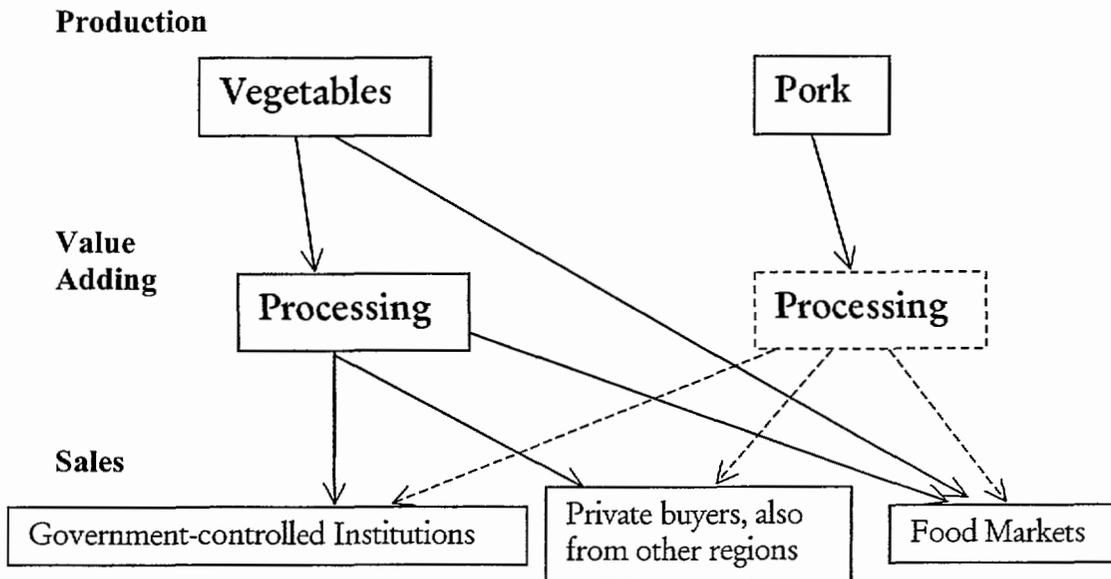


While most of products produced at the farm were marketed mainly to government-controlled institutions or wholesalers (such as military bases, hospitals, state-owned grain elevators and processing plants) and only a few were marketed directly to the consumer, there was practically no on-farm value-added processing, except for a flour mill providing for the needs of the village community.

Over two years of collaboration with Land O'Lakes, Stremilche Farm's greatest change was a shift in attitudes toward agribusiness in a free market environment. While still maintaining all of the operations in order to maintain social and economic stability in the community, the principle focus was made on two agricultural areas: vegetable production and processing, and swine production with further potential processing (which is currently being explored). This is shown in Chart 2 below:

✓ Stremilche Farm is now more market-oriented adding value to its raw product

Chart 2. Modified Farm Production Chain



Because of his expansion into the processing business, Oliynyk is confident in the future as never before. The cannery allows him to close the food chain, from growing raw materials to producing finished consumer products. Finally, he is establishing a partnership with a meat processor and mushroom producer which should yield additional raw materials for his cannery to process in between seasons, thereby allowing him to add value to these products as well.

RECENT NEWS

On January 21, 2000, Leonid Oliynyk participated in an official ceremony where the most prominent and advanced agribusinesses were honored with high governmental awards. He has been awarded an Honorary Agricultural Worker's Award, the highest recognition possible for the outstanding contribution into the development of Ukraine's agricultural sector. Shy as always, Leonid just mentioned then, that he "was simply fulfilling its obligation in front of the local community members trying to improve their living standards."

After a participation in the January 11-12 study tour in new feed technologies, Leonid brought back purchased 2.5% swine premixes, five different types for five different groups of pigs. He is continuing to experiment with new and more effective feeds and feeding technologies, and based on the results of the experiment, plan to not only switch to Land O'Lakes-produced premixes and become its distributor in his area.

Together with his partner, on January 20, 2000, at the regular Western Ukraine Union's of Farmers Board meeting, Leonid suggested a new concept of import/export operations which implies exporting and importing similar products in the same amounts making profit on price and quality differences in different countries. Presented to Mr. Stepan Senchuk, L'viv Oblast Governor, the concept will make its way through the establishment of a local store in L'viv - a store which will belong to the WUUF members and sell environmentally grown produce.

Leonid has responded to a business proposal received from a farmer and potato seed distributor from Holland with a suggestion that a mutual production of seed potatoes is started in Ukraine, and distributed among WUUF members first of all.

- ✓ Stremilche Farm has closed the food chain to a large extent
- ✓ Leonid Oliynyk - an Honorary Agricultural Worker of Ukraine
- ✓ Experiments with five types of top-quality premixes may lead to full utilization of new dry feeds in the whole farm
- ✓ Leonid's sales concept may make it possible for Ukrainian farmers export their produce
- ✓ L'viv Governor supported an idea of direct marketing through a store in L'viv
- ✓ Leonid and his Dutch partner may satisfy WUUF members' demand for seed potatoes

WESTERN UKRAINE INITIATIVE
Land O'Lakes, Inc.

RESULTS REPORT

WESTERN UKRAINIAN FARMERS' UNION
Lviv, Ukraine

Head – Roman Haiduchok
Deputy Head – Petro Fedyna
Members – 30 private farmers and processors from Lviv, Volyn, Zakarpatya and Ternopil oblasts.

The Western Ukrainian Farmers' Union (WUFU) is a public non-governmental organization created by farmers for farmers. It has been formed from the belief that the relatively limited number of private farmers in western Ukraine could be increased and promoted through regular farmer meetings, discussions and socializing. While implementing its activities, Land O'Lakes (LOL) soon noticed that it was during the coffee breaks when some of the most important work was done, for farmers feel most free and relaxed to share information, contacts and perspectives on political issues then. In deciding to support the registration of this organization, Land O'Lakes also took into consideration the great potential for impact from the group -- a potential that is already being realized. Now, over the month since it was officially registered, the WUFU leadership has emphasized promoting itself, studying other NGO experiences and integrating internally and externally.

It is clear that strong leadership is crucial to the success of an organization. Therefore, let's look at WUFU Head, Mr. Roman Haiduchok, a successful agribusinessman and politician. Mr. Haiduchok is the owner of Halinform Company, which is involved into agricultural processing business. It owns a grain mill and a number of grain combines which are located about 45-50 kilometers north from Lviv with a central office (which is also a WUFU's central office) based in Lviv City.

Halinform is growing and expanding. Between September to December of 1999, it completed the construction of a 15 x 9.5 meter cereal producing plant with brick walls for a total cost of 15,000 UAH. The facility has been equipped with the universal cereal production equipment worth 16,000 UAH. In addition, in the middle of January, 2000 Mr. Haiduchok was able to procure used baking equipment from an auction for another \$2000, with a capacity of 2 tons of bread per day, thus closing the food cycle twice and creating an opportunity to market directly cereals and bread products.

In order to better integrate the organization he is a head of, Mr. Haiduchok has set up business connections with four other WUFU members. He completed three grain procurement agreements

- ✓ The Western Ukraine Farmers' Union is the only private farmer organization in Ukraine initiated by farmers

- ✓ Land O'Lakes provides WUFU with NGO management expertise

- ✓ Roman Haiduchok, Halinform owner has been elected to head WUFU

- ✓ Roman expands his business into cereal production

- ✓ Bakery added for \$2000

with Olha Slusar (\$3000), Petro Novosad (\$1000) and Ivan Bas (\$1000), and provided services in processing 10 tons of grain for Petro Lozynskiy, charging \$150 for the whole lot (a special rate for WUFU members).

As stated above, being a WUFU leader, Mr. Haiduchok spent a lot of time and effort promoting the organization as well as promoting private ownership of land and property in general. Within the last three months, he gave two (one 30-minute and another 12-minute) radio interviews which were broadcast on national radio and one TV interview which was shown twice on a local Lviv channel. The transcripts can be found in this report's appendix.

He has also initiated, with LOL support, the development of a professional logo for WUFU which will be used for WUFU's correspondence, business cards, and other official purposes to promote the organization. See the website for more info.

In order to boost land and property reforms in collective farms, on December 12, Mr. Haiduchok conducted two village meetings with village inhabitants in Butyny and Prystan villages of Sokal raion (a location of Halinform production facilities). There he explained the true meaning of the Presidential decrees on land reform, and also explained a number of ways of conducting the above-mentioned reforms in these specific villages.

However, meetings and seminars like these are not all that Mr. Haiduchok provides for these villages. In 1999, for individual small household producers he shipped and marketed good-quality wheat varieties, organized a network for gathering raw milk and provided services in custom harvesting using two of his grain harvesters and, thus, fully resolved the issue of harvesting grains in these areas. Other of Haiduchok's initiatives in 1999 consisted of the following:

- Renovating a local school, culture house and library;
- Donating 5-10 kilograms of flour to 50 of the poorest villagers before the 1999 Easter holidays; other donations and charity were conducted due to fire or other accidents;
- Granting three scholarships to local village students;

For the year 2000, the following activities have been planned:

- Constructing a garage to store agricultural and other machinery;
- Improving and increasing the organize of production sites;
- Procuring a small bakery in Butyny village;
- Reopening and reorganizing the management of food and industrial stores in Butyny and Prystan villages.

It goes without saying, that it could be hard to find a better leader than Mr. Haiduchok not only to effectively manage and

- ✓ Haiduchok integrates WUFU by doing business with other members
- ✓ WUFU leader actively promotes private ownership on land as well as the organization he heads in local and national media
- ✓ WUFU logo developed
- ✓ Haiduchok applies efforts to increase a level of knowledge of local community members
- ✓ Roman improves villagers' living standards through organizing milk procurement schemes and helping to harvest their grain
- ✓ Community buildings repaired and renovated
- ✓ Charity donations for 50 poor villagers
- ✓ Scholarships for 4 school pupils

promote the Union, but to lead by example and thus change people's mentality and attitudes to certain contemporary issues. He represents a generation that is ready to take over the power in this country and put things to order, and the embodiment of this generation is Mr. Victor Yushchenko, recently appointed prime-minister of Ukraine. It is no coincidence that both these men are in the same political party; it is a matter of natural evolution and development.

Mr. Haiduchok has actively participated in defining and implementing many activities within the scope of the Western Ukraine Initiative described in this report. Among them, crucial to the future of the WUFU is a study tour to Poland, organized jointly with Lublin Agrarian Chamber, aimed to show the WUFU leadership the structure and performance criteria of Polish agrarian chambers, how they support farmers, and their prospects for future. A memorandum of understanding was signed with the Chamber in December and a follow-up visit made to Poland already. During that visit, business ties were established between WUFU and three Polish companies, two equipment traders and one rapeseed buyer. More importantly, connections were made with specific Polish vegetable producers. With one of them, WUFU deputy head Petro Fedyna has reached an agreement for the procurement of vegetable cultivating equipment.

Due to a recent change in Ukrainian import regulations, which make it possible to import grains on privileged terms, Mr. Haiduchok has come up with a new initiative to set up stable procurement channels for grain with Lublin Agrarian Chamber and its members. As a rule, grain processors in western Ukraine, such as WUFU members Roman Haiduchok, Yosyf Valiovka and Yuriy Leshko, have to ship top varieties of wheat from eastern Ukraine, entailing high transportation costs. Such varieties are available in Poland, at much shorter distances. There are plans to conduct negotiations regarding this possibility during a WUFU trip to Poland on January 30, 2000.

In addition, some mutual projects with Lviv Credit Union promise a significant change in the field of rural credit and the guaranteeing of collateral for private farmers and processors by means of a Credit Guarantee Fund and Memorandum.

To conclude, in WUFU Land O'Lakes has put in place an organization that will continue its reform mission. It has supported true rural community leaders which were selected in their initial stage of development, and assisted their growth to the point of when they are fully adjusted to free market rules and successfully operate for profit. There is no more logical conclusion to this assistance process than the establishment of a non-profit NGO with those progressive individuals who serve as role models and examples for others. The future will prove if they are up to this task.

✓ People like Haiduchok are future of Ukraine

✓ Roman's organization facilitates international cooperation

✓ Upcoming grain import agreement with a Polish supplier might solve grain shortage problem in western Ukraine

✓ Credit Fund established with L'viv Credit Union

✓ NGOs will soon help determine Ukraine's internal policy

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

YAVIR FARM

Stepan Hirniy
Didyliv, L'vivs'ka Oblast

Stepan Hirniy belongs to an elite group of farmers who started farming in the late '80s and early '90s, often after participation in an internship in the West helped them to become believers in private agriculture. For the over 10 years he's been engaged in farming, Stepan has not only been exposed to Western expertise and absorbed information from work with American specialists, volunteers and consultants, but he also has implemented much of it on his own farm. To wit, he has expanded into food service and meat processing, and now plans to open a store.

At the beginning of 1999, the local government talked Hirniy into taking over a large, but deeply indebted, local collective farm that had been "restructured" into a limited liability company. The collective was laden with significant debts, obsolete equipment and shoddy production facilities. Placing their hopes on Stepan to revitalize this operation, government officials intended to prevent a breakup of the previously flourishing collective, one that previously was used to demonstrate "progressive" Soviet agriculture to Western visitors.

Their hopes were misguided. After a year of futile efforts, Hirniy tired of wasting his time and money trying to recreate past glories, becoming convinced that large-scale, collectively-owned farms have no future in Ukraine. Rather, he discovered, they must be restructured and reformed into smaller, more flexible privately-owned operations. Furthermore, after a year of being completely preoccupied with reforming the Progress Collective Farm, Stepan realized that his own farm was suffering as a result of his inability to devote more time and energy to it.

Trying to make up for lost time, the farmer bought Czech-produced meat processing equipment for \$3000 and leased 200 hectares in addition to the 50 hectares he owns. Stepan joined the Western Ukrainian Farmer's Union and became one of its most active members. He has initiated the formation of a procurement and marketing cooperative in

- ✓ Stepan Hirniy - true member of contemporary agricultural elite of Ukraine
- ✓ Operation has continuously expanded
- ✓ Stepan discovered that collective farms have no future through his personal experience
- ✓ Farmer improves his meat processing operation and adds more land

YAVIR Farm (Continued)

Lvivs'ka oblast, UKRAINE

Kamyanka Buska raion. For this purpose, five farmers, who together work about 350 hectares of land, gathered for a general meeting on new technology.

In addition, Mr. Hirniy recently participated in a WUI-organized, distribution study tour to Poland. This trip gave Hirniy a chance to learn about the Polish feed business, feed distribution principles and establish business connections with the management of Land O'Lakes Limited in Poland. Thanks to these contacts, the cooperative's operations will include the procurement of LOL swine premixes for 800 pigs raised by the cooperative members and the distribution of top-quality feed supplements for formulating dry feed rations for various kinds of animals to other farmers in the area.

The Local Agency for Agribusiness and Marketing Development helped register the cooperative in late January and approve the by-laws and leadership of Fortuna Cooperative, as they decided to name it. This new cooperative will help farmers to reduce the cost of grain and meat production by making wholesale purchases of inputs, and increase profitability through joint marketing. Several available storage facilities have already been identified which will satisfy all of the members' needs.

And yet despite all of these efforts, the real challenges still lie ahead. Getting a cooperative registered is much easier than getting one to function effectively and, most importantly, profitably. In Ukraine's moribund agricultural sector, however, these efforts are at minimum a very promising start.

✓ Mr. Hirniy - a member of the Western Ukrainian Farmer' Union

✓ Fortuna Procurement and Marketing Cooperative was born thanks to Stepan's initiative

✓ After a Land O'Lakes industry-specific study trip, Hirniy decides to use dry feeds and distribute Western feed products

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

RESULTS REPORT

YURIY KUZMYK, a New Leader of a New Generation Consultant with the Business Consultant Association

Yuriy Kuzmyk, a 26-year-old individual from Rakhiv, Zakarpatya oblast, is one of a number of 7 new and younger consultants who have recently joined a Business Consultant Association (BCA), which was founded and registered within USAID's Western Ukraine Initiative Program. After graduation from Lviv Polytechnical Institute, department of construction engineering, he moved to Rakhiv to work in EU-funded Regional Development Agency, with which Land O'Lakes set up friendly ties about a year ago. It is this year that Yuriy entered Lviv branch of Academy of State Governance at the President of Ukraine, having received good references from Rakhiv Raion Administration.

At the same time, Yuriy was offered to join BCA and continue to improve his skills in business planning, sales and procurement consulting as well as other areas related to agribusiness consulting. With this purpose he undergone two training seminars organized and conducted by ACDI/VOCA, in Basics of Crediting and SME Financial Analysis, and received very good references from ACDI/VOCA Senior Consultant Kenneth Smith, who praised him for enthusiasm and excellent analytical thinking.

Soon after that, his desire to learn and study new unexplored areas found way in his participation in Leadership and Work in Small Groups Training conducted by MetaCenter and sponsored by Land O'Lakes, as well as in another seminar on Cooperative Taxation and Accounting organized by his colleague, another BCA consultant and Board member Ms. Lesya Drabyk.

It is a truism that theory without practice is worth for nothing. Therefore, simultaneously with all other activities, Yuriy took up his first serious consulting assignment – development of Petro Lozynskiy's business plan together with a loan application.

Petro Lozynskiy, one of the most active WUUF Board members responsible for animal section, one of the founders of a local branch of the Farmer Association of Ukraine, is a farmer with about 10-year farming experience. At the of 1980s, Petro was selected to go with a group of new private farmers, such as other WUUF members like Stepan Hirniy and Roman Tzan, to Canada to participate in the internship there. After this trip, he

✓ Land O'Lakes met Yuriy through its close cooperation with other projects

✓ Yuriy is open to new knowledge participating in ACDI/VOCA Train-the-Trainer seminars

✓ Yuriy continues to develop his leadership skills

✓ Business plan development for LOL partner Petro Lozynskiy is a chance to practice

became a true follower of private ownership on land fighting with local and oblast authorities defending his rights as a private farmer. He did not stop when he had to go to the national government and lobby his interests there. These years of permanent fight exhausted much of his business charisma but on the other hand hardened him off, and thus, made him adjust to upcoming free market realities better than others.

Petro is operating for profit. With this purpose he has developed a production plan for 350-swine operation. He has finished re-modeling two pig facilities on his own expense and in accordance with the up-to-date Polish experiences learned of within one of the Land O'Lakes-financed ISTs to Poland, and realized that he would not be able to purchase swine stock and feeds without external financial support. He decided to apply to Lviv Credit Union to obtain a loan within the ACDI/VOCA and LCU credit line for farmers. He also applied to Yuriy, who was already a BCA member at that time, to help him to prepare all financial documents for this purpose and write a business plan.

Yuriy was happy to take up an assignment and got down to work immediately, in the beginning of November. Since that time, he had conducted a series of meetings with Oksana Semenyuk, director of LCU, and Anatoliy Pokhodzyayev, representative of ACDI/VOCA in order to learn of all the specific requirements for potential borrowers. He has also spend a lot of time with Petro's accountant, who very often was giving him contradictory and incorrect numbers due to a still present double accounting among a lot of Ukrainian enterprises.

It is also worth mentioning that Petro Lozynskiy is currently the first potential borrower who was given a positive opinion as a result of a preliminary examination of his business by Lviv Credit Union experts, and was selected to become a first experimental loan recipient. It goes without saying, that it is always difficult to be the first, thus, a lot of time was spent by Yuriy and Petro to learn what is really needed among documents to be submitted.

At this time, Mr. Lozynskiy already knew that his other application to a government-sponsored foundation for a no-interest two-year long loan of 25,000 UAH principal was approved, and Yuriy had also contributed there as well. He simply helped Petro to fill out all applications as he was working on his business plan at that time.

Although the business plan evaluation process at LCU has not been finished yet, it is clear that Petro Lozynskiy had put significant efforts into his cooperation with a consultant Yuriy Kuzmyk, which has become the first only experience for both of them. It is also clear that consulting business as well as client-

✓ Mr. Lozynskiy is a real private farmer and lobbyist of farmer interests on all levels

✓ Petro's 350 swine operation will require a lot of good-quality feeds, probably, purchased from Land O'Lakes/Poland

✓ Yuriy volunteered to help and obtain a real business consultant's experience

✓ Petro might the first farmer whom the LCU will finance within the agreement with ACDI/VOCA

✓ Low-interest governmental loan obtained to add to Petro's working capital

consultant relations of this type has promising future in Ukraine, as it is commonly believed that farmers need to farm and not to waste time for paperwork.

To see and learn how business consultants work in the West, Yuriy participated in a Land O'Lakes-sponsored training course with Sandomierz Center of Business Support and Promotion which was founded in 1991 within the USAID-funded project implemented by Technoserve. Another 7 consultants, most of whom have recently joined BCA, participated in the organized workshops in NGO management, consultant-client work, consultant fee definition, fund-raising and a series of meetings with similar non-profit centers in the south-eastern area of Poland. A lot of ideas, information and contacts brought from the trip will certainly generate new projects and activities within BCA workplan, and, perhaps, make some structural amendments too. Yuriy, for example, has set up contacts with Tarnobzheg Agency for Regional Development and Tarnobzheg Trade and Industry Chamber, and plans to follow up with the mutual project proposals.

This is just one of a number of other consultant work done by Land O'Lakes consultants, and the first example of BCA and WUUF cooperation. What is different here from the past experience, that is greater probability to show it as an example to others, both consultants and farmers, BCA and WUUF members. To prove this statement, two other WUUF members, Stepan Hirniy and Bohdan Malashivskiy, have applied to BCA for assistance in developing business plans for retail operation and sheep production, respectively, after having carefully observed the process of client-consultant work in the case of Petro Lozynskiy and Yuriy Kuzmyk. The results of this work and the details of this process will be further discussed on one of the regular internal meetings of BCA and WUUF Board members.

- ✓ Farmers will farm and consultants - consult

- ✓ 7 consultants participated in LOL-sponsored training course in Poland

- ✓ Yuriy's contacts made within the trip promise potential projects

- ✓ Two other WUUF members applied for business plan development

APPENDIX B

PRESS COVERAGE



Above: Heorhiy Cherveko, Land O'Lakes Agricultural Consultant and President of the Business Consultants' Association, gives an interview to Ukrainian National Radio on agricultural reform.

Below is a transcript of an interview with President of the Western Ukrainian Farmer's Union, Roman Hayduchok. It was aired during the December 27, 1999, broadcast of "Business Review," a weekly program on Ukraine's National Radio One:

The President's Decree Seen As Attack On Collective Ownership

Hayduchok: At the present time, in each oblast and in each rayon, farmers' associations already exist. Thus, the question may arise as to why it was necessary to create a new farmers' organization: the Western Ukrainian Farmer's Union.

Question: It is an alternative.

Hayduchok: It is an alternative, but the reasons for founding this organization are a little different. First of all, our organization was not founded by any state or government entities. It simply was created by a certain group of traditional, knowledgeable farmers who had been abroad many times and who collaborate with various international organizations that support private farming. This is a group that has had the opportunity to see how one should work the land and has taken these lessons to heart, particularly by using as models farms in Poland, Hungary, and even the United States. Over the course of this collaboration, our members began to understand the need for such an organization in order to formulate and express opinions on those processes now taking place in our country. That is the first goal of our organization. The second is that we wanted this organization to enable us to help one another create and support the development of the private farmer's movement. Since we know each other well, we are able to stand up for one another. Although our organization is not large, we have no plans for a large expansion.

Question: What do you mean by "not large"?

Hayduchok: Well, we now have about 30 members in the Union.

Question: But this is just the first step, the beginning.

Hayduchok: Yes. Legally, the organization is only one month old. We have regional offices in Volyn and Zakarpattya oblasts, but our headquarters are in Lviv oblast. Again I want to stress that the members of our organization are partners who have previously collaborated with Land O'Lakes, an American company, for the most part, although there are other members as well. And at the present time we are fully registered as a nonprofit, non-governmental organization, which operates with the goal of defending the interests of the private ownership of land, especially for farmers.

Question: How do you see your assistance to farmers and what do you have worth preserving?

Hayduchok: Well, you know, not long ago at all, we traveled to Poland to become acquainted with the work of the Izba Rolnicza in Lublin, which corresponds roughly to our agrarian chamber. In particular, we learned about those strategies that it utilizes to defend the interests of its agricultural producers. Well, we also noted other interesting things that we think will be of use to us in our work. In particular, they represent the interests of producers vis-à-vis the Government, and organize certain activities. One of the things that they deal with is the effect that agricultural imports from more developed, Western countries can have and they have already succeeded in obtaining a new tariff on certain kinds of these goods, which will protect the local -- that is, Polish -- producer.

And we see, first of all, that activities such as these are worth undertaking here in Ukraine as well. Second, the Poles have managed to get a law passed that provides for a Government reserve fund to purchase agricultural commodities if there is excess production at certain times, especially during the harvest. In such a manner, the Government supports certain agricultural prices. Moreover, the State already provides subsidies for production. Concerning wheat production in particular, this year every farmer received 7-9 zlotys (\$1.75-2.25) for each 100 kilograms of wheat sold in September or October. Our producers have no incentive to declare their entire harvest, because they are afraid of the additional taxes they will have to pay. As we see, in Poland the opposite is true: they have an interest in declaring as large a harvest as possible and selling their produce legally, and not on the black market, since they receive subsidies for each ton sold. So, we'd like to argue for similar legislation in Ukraine on a national level. But we have simpler goals as well: to help one another buy seeds, give technical advice, and to help each other manage their enterprises. At a meeting of the task force of our organization, we passed a resolution to create a fund to support farmers by means of loans from a local credit union. This fund will be generated by the contributions of members of the Farmer's Union themselves, that is, by us, together with a contribution from Lviv Credit Union, in order to provide short-term credits to individual farmers. We would like for Government organs to also help out. Instead of providing grants and subsidies to collectives, from which they won't see any returns, it would be far better if they would contribute to a transparent fund like ours, which is run by a credit union, in order to support private farmers through short-term assistance.

Question: What's your opinion-- is it realistic to think that Poland's experience is applicable to our country?

Hayduchok: Yes, I am certain that a great deal of what I've already mentioned, these specific examples, can indeed be used. In addition, a lot of things can be taken from the experiences of how Polish farms are run. The last time we were in Poland we saw how farms were organized, for example, how the cattle were maintained at one farm, and we were very impressed. Our farmers have borrowed new swine management practices, and already one of our farmers, Petro Lozynskiy, is building a swine operation using the Polish model, and this will be the first such swine operation in Ukraine.

Question: Mr. Hayduchok, nevertheless there are collective farms in our country that, as they say, have managed to stay afloat. People have gotten used to the collective form of ownership and are afraid of leaving their collectives.

Hayduchok: We must change that and get people to understand this decree as a battle against collective ownership of farms, not as a call to liquidate the farms themselves. If one is to seriously examine the President's decree, it does not discuss liquidation of the collectives. At least that specific term is not used. The decree provides for the restructuring of collectives, the changing of the ownership structure of these agricultural enterprises. And I would like people to understand that we don't just need to liquidate the collectives, but we need to keep our final goal in mind, which is to create agricultural production on the basis of new, private ownership. And it is important that this goal not be forgotten, that the collectives not just be liquidated and sold off in pieces, but that this property be kept intact and the ownership be truly privatized.

WESTERN UKRAINE INITIATIVE

Land O'Lakes, Inc.

In The Media

ROMAN HAYDUCHOK

President, Western Ukrainian Farmer's Union

Below is a transcript of an interview with President of the Western Ukrainian Farmer's Union, Roman Hayduchok. It was aired in September during "Business Review," a weekly program on Ukraine's National Radio One:

Question: Perhaps you wanted to be a true leader, that is, an owner, a master (when he went into private farming), right?

Hayduchok: Well, yes. As a Leo, I wanted to play a leading role, and not simply implement the ideas of others. And perhaps this is why I was moved to start my own business independently from other owners.

Question: You say that you started your business a little late, but already today you have accomplished so much. Well, at least since the time when you came to your compatriots and they said, "Roman, let's do something here in this village, on our land, will you help us out?" And how much time passed between then and when your mill and farm began operating?

Hayduchok: If you want to calculate how much time passed after I received information regarding about starting a milling operation, then it was only four or five months, no more. Time was spent searching for a loan to purchase the equipment, searching for the equipment itself, and on repairs to the old mill building, which had been standing idle on the collective's grounds for 22 years. At first, of course, I could not purchase the building, so I rented it. But then I saw that I would have to invest a lot of my own funds to adapt the building for my purposes, so I realized that the building should belong to me. And then, without any worries invest in repairs and improvements. Although I didn't purchase the building until quite a bit later, after the mill had already been tentatively put in place.

Question: Where did you obtain credit?

Hayduchok: Seeking credit is an extremely important task, especially for a young entrepreneur. This is because many people for some reason think that all they have to do is desire a loan and find someone eager to loan them money. That's not the case. There are no creditors who will simply give you money without thinking about how you will pay it back. In order to realize this and a lot of other simple truths that experienced businessmen know took me a month if not longer. I went to several banks, investigated the percentage rates and loan terms, and discovered that I, not having any initial capital nor any property, could not get a loan from a Ukrainian bank, since I had no collateral. Since I had heard that there are several American and German funds that assist small businesses, I approached them. I studied their loan terms and found the American fund's terms more appealing and more open to the Ukrainian investor. The key condition, which is positive to this day, was that the fund balanced its risk by giving equipment loans using the equipment itself as the collateral. Of course, the stipulation is that the

borrower should also contribute some of his own money, which is what I did. Although the interest rates charged by these foreign funds is not large, that is 20-25%, I would like to warn others that there is still a large risk tied to the instability of our national currency. When I took out my credit, the exchange rate was 1.90 hryvnya to the dollar. If the hryvnya had been stable then, I could have repaid the loan more quickly and the actual percentage rate would have been no more than 25%. However, now as I approach the end of repaying this two-year loan and compare how much I've paid...(considering inflation)...more than I might have paid to a Ukrainian bank. But again I repeat that the terms offered by the American fund are preferable, since the Americans are able to take a bigger risk than our Ukrainian financial institutions.

Question: One of the advantages of starting a small or medium-sized business in rural Ukraine is the lack of competition...but how do local villagers feel about you, a private entrepreneur?

Hayduchok: I know that problems with the milling of grain into flour existed for a long time in the very area where are now operating. And this exerted a heavy cost on local villagers, both financially and psychologically, because they had to sign up on waiting lists to sell their grain...

Question: And one had to pay a certain bribe...

Hayduchok: Well, as you know from our cultural heritage, a miller without a red nose is considered an anomaly. But in the beginning I forbid all bribery at my operation and introduced a no-alcohol policy. I remind our staff that they work for the villagers, not vice versa, and the villagers appreciate this and see that none of their grain is stolen, and that there are no problems with the flour supply. All of the grain that they provide us with they get back as flour. And moreover, even some people who live in villages where there are small mills bring their grain to us because of our high-quality mill.

Question: Your mill is probably cheaper, as well.

Hayduchok: Well, our prices are about the same, but I want to stress that those mills were purchased by the villages themselves, by the collectives, whereas I bought this mill myself and must pay back the loan for it. So, if I could just receive a collective's mill for free, I am certain that I could service the villagers there two times more cheaply. But the equipment is expensive and I am paid only the same rates as are charged by the state-owned mills, which were purchased with money, ultimately, from the villagers in those communities. But I'd like to believe that the mills in other villages, at some point in the future, will be forced to work like us...

Question: Are they capable of attaining your level?

Hayduchok: Yes. They have been harmed by the bribery, by not respecting their clients, and they feel that they need to start working in a decent manner to compete. And villagers will only benefit in this case.

Question: As I understand, you are expanding your operation, beginning to process grain meals and package flour in small, tidy sacks.

Hayduchok: Living here, I know the problems the village faces and I try to solve them. I know that there are problems such as grain meal production, and grain processing. I have purchased new equipment and it is now operating at a certain level, though I still am working on repairs and improvements so that I can place this equipment next to the mill so that I can produce good, cheap grain meals for the local population and for retail trade. I also have obtained packaging equipment so that I can package flour in a brand-name sack. I want to boast about this because many companies do this and now I have done it and no longer need be ashamed to sell my production in old-fashioned packaging. And it is sold in many stores in Lviv and other cities in the oblast.

Question: I see two combines in your yard. Can you tell us about why you have them?

Hayduchok: The thing is that collective farms, which previously harvested all the grain, have fallen apart. And the collectives' machinery is not in any condition to help the local populace harvest its grain. If people are able to plow, plant, and cultivate one's fields on their own, they still can't harvest them. So, three years ago I saw how many people could not harvest their crops and realized that the only solution to this problem was to help out. So I bought two used combines. And last year my combines worked so efficiently that by the time the collective's combines were ready to go, we had already harvested almost the entire private sector crops in my area. As a result, the collective's combine drivers have realized that they have competition and thus this year readied their machinery for the harvest much sooner and worked longer hours. This shows that competition is indeed good for the average villager.

Question: Roman, can one conclude that your business is something that you never even dreamed of pursuing?

Hayduchok: I'll tell you what -- I never thought about doing this. I saw myself as only a scientist, and worked in that field not for the money, but for personal satisfaction. I never imagined that another job would allow me to work so creatively...but now I can say that I get no less satisfaction out of business than I did out of science.

The following article appeared in the December 28, 1999, issue of the Lviv newspaper Moloda Halychyna:

Petro Fedyna:

We've Rendered the Presidential Decree on Land Obsolete

By Serhiy Kiral

In the consciousness of the average citizen of any Western nation, the word "cooperative" is inextricably linked with farmers and agriculture. There, this structure for uniting agricultural producers has long been considered an effective mechanism for regulating relations between the government and the individual farmer. This is indirect contrast to our country, where since the fall of the USSR only a small number of brave farmers have struggled in near isolation to overcome the many obstacles that have seemingly been erected deliberately by the Government.

At present, within the walls of Parliament, contradictory viewpoints are being debated regarding land, to whom it should belong, and who should work it. However, villagers continue to suffer from an uncertain future. They are still waiting for action. However, everything is not completely hopeless. The example of Petro Fedyna, an enterprising farmer from the Lviv area, testifies to the fact that a "cooperative" can be adapted to and produce good results on our rich soil.

He began in his native village of Zibovky, in Zhovkva district, as the owner of Zorepad Vegetable Processing Plant, an enterprise with 45 workers and a projected capacity of 1 million cans per year, and 10 hectares of his own vegetable production. However, 1994 ushered in the worst economic conditions since Ukrainian independence. Like most others, Petro did not escape difficulty. Constant inflation and a sharp decline in supply and demand deprived the entrepreneur of the opportunity to make a profit year after year until 1997, when the enterprise found itself nearly bankrupt and without a labor force.

In an effort to rescue his business, Petro Fedyna began to run the plant so that it would only initiate production once orders had been made. Also, between 1997 and 1998, Zorepad began to produce 27 new kinds of canned vegetables. However, the economic limitations of Zorepad's clients resulted in only 50% of its orders being paid for in cash, while the rest (worth nearly 15,000 UAH) was purchased on credit.

Today in Ukraine, stories like these surprise no one. In order to survive in the complicated socioeconomic and political conditions at present, Ukrainian producers must be flexible, able to adapt to various situations, to quickly react to and utilize new technologies and expertise from other nations. That is what Petro Fedyna did.

The opportunity to become acquainted with and compare Ukraine's agricultural situation with that of neighboring countries has provided to Petro by Land O'Lakes, Inc., a company with which he began to work two years ago. One of the company's training components as part of its Western Ukraine Initiative project is the organization of study trips to Poland and Hungary. These trips provide participants opportunities to exchange experiences and make new contacts with farmers from Central Europe and Ukraine.

During a visit to Hungary in 1998, Ukrainian farmers visited Kwalico, a cooperative that unites various smaller cooperatives located within a 150-kilometer radius. Its work system is well thought-out and the strict coordination of duties and responsibilities allows each member to purchase inexpensive, high-quality inputs and to sell one's own produce for a reasonable price.

Almost immediately after this visit, Petro was inspired to begin the complicated task of forming a similar cooperative in his own area. He gathered local farmers and explained the purpose of this type of organization together with specialists from the Agency for Agribusiness and Marketing Development in Lviv, which specializes in cooperative development. His persistence and belief in the success of this venture paid off. And finally, this past spring, a cooperative was formed with 12 founding members who agreed to jointly produce, process and market their vegetable crops.

The biggest difficulty, in Petro's opinion, was not even the bureaucratic hurdles he had to clear in order to register the new organization, but rather ideological barriers. It was essential that potential cooperative members were convinced that from the moment of joining that they understood each had an equal responsibility for making the cooperative prosper.

Petro Fedyna considers that "the President's edict on land, even if it is implemented in the near future, has little relevance for us, specifically. We've rendered it obsolete by at least half a year. We've divided our land into two categories: the best and the worst, which we've set aside for hay and pasture. Everyone received a hectare of tilled land and 2 hectares of meadow. I don't think anyone is dissatisfied. Each has a desire to work. I know that nobody is planning to sell their own land shares at present. In fact, many would buy additional land given the opportunity. According to the edict, we can proceed to the second stage: the distribution of property. Our area has a lot of vegetable production, and I think this sector shows a lot of promise. It is important that we find the most productive way of controlling this land. We created a cooperative, despite the fact that a 'Peasant Union' (that is, a former collective) is located in this area, and one that runs pretty well. So, villagers themselves must decide which form of ownership is right for them."

Despite the fact that Fedyna's cooperative has existed for only 7 months, it is already possible to draw some conclusions about its activities. First of all, having studied the currently uninviting market for canned goods, the farmers agreed unanimously to sell only fresh vegetables, which attests to their Western, scientific approach to the business. They have focussed on cabbage, carrots, onions, pepper, and beets.

Secondly, the cooperative members have changed the approach to marketing that they had used last year, when they were still completely individual farmers. Now, because of their significantly larger production volumes, members can dictate their own terms of

sale. For the first time, the farmers made their largest customer, Ukraine's Defense Ministry, which buys 80% of their production, prepay 100% of its orders. The remaining production was sold to local companies and in neighboring oblasts.

Thirdly, in order to introduce new, improved vegetable varieties and thereby maximize Petro Fedyna's profits, Land O'Lakes introduced Fedyna to several Polish entrepreneurs working in the corresponding fields. And although it is too early to speak of final results, it is possible that in the near future the cooperative will begin using seeds from Agromill, a large Polish producer that sells its production throughout Europe.

Despite the apparent attractiveness of this opportunity, Fedyna is convinced of the need for more detailed analysis of the potential impact. And this is reflected in his own personal motto: "Never hurry with new ideas and projects. Only having carefully considered all ramifications should one persistently move toward one's goal."

Today, Petro actively promotes the idea of creating a regional farmer's association, that is, a citizen's nonprofit union of farmers aimed at protecting the interests of private farmers. Various types of organizations were discussed at an international farmers' meeting in the spring of 1999 that was organized by Fedyna himself. Both Polish farmers and members of the Western Ukraine Initiative attended. That meeting made it clear that our farmers are ready to work together under the banner of the Western Ukrainian Farmer's Union. And time will tell if Petro Fedyna is prepared to lead that organization and take on the responsibility of helping his colleagues to achieve successes and overcome misfortunes.

P.S. As this material went to press, Petro Fedyna was elected Vice Chairman of the Western Ukrainian Farmer's Union.

APPENDIX C

TRADE RESEARCH

WESTERN UKRAINE INITIATIVE

USAID CA# EPE-A-00-96-90021-00

LAND O'LAKES, INC.

**CROSS BORDER TRADE AND RELATED ISSUES
PERTAINING TO THE
DEVELOPMENT OF THE AGRICULTURAL SECTOR IN
WESTERN UKRAINE**

Prepared by
Stanley W. Levers

Country of location: Ukraine
Dates of Assignment: March 16 to April 10, 1999

TASK ASSIGNMENT AND SCOPE OF WORK

1. In conjunction with the current phase of the Western Ukraine Initiative (WUI), Land O'Lakes engaged a short term consulting assignment to assess the current cross border trade issues between Ukraine and Poland/Hungary that may impact the further development of agriculture in the western region of Ukraine. The underlying purpose of this assignment was to provide USAID with a strategic reassessment of its approach toward agricultural reform in western Ukraine, policy issues which need to be addressed and changes that might warrant further consideration at the regional level to expand the agricultural sector in this geographic area.

2. Accordingly, the purpose of this memorandum is to summarize the observations made during this assignment, and provide comment and recommendations to LOL and USAID with respect to cross border trade and related issues which could positively impact the ongoing development of the agricultural sector in western Ukraine.

3. Meetings were held in Washington with LOL's Deputy Director of Operations, ACDI, USDA-FAS Multilateral Trade Negotiation Division, USAID Office of Enterprise Development for Europe/NIS, USDA Economic Research Service and USDA-FAS Deputy Director of Commodity of Analysis. In country travel in Poland consisted of meetings with local businesses, USDA Agricultural Attache in Warsaw, local/regional trade development organizations, and one regional agricultural chamber of commerce. In Ukraine, numerous meetings were held in L'Viv and the surrounding region with local private businesses, venture capital and banking representatives, regional farmer organizations, Honorary Counsel of the Netherlands, and staff representatives of LOL, ACDI and USAID. Final meetings were held in Kiev with international trade companies engaged in the export of agricultural products, the USDA Agricultural Counselor, The World Bank, a USAID supported agricultural input supplier, and one storage/processing company.

BACKGROUND

4. Cross border trade issues are only one of several inter-related factors that impact the effectiveness of the USAID program in western Ukraine. In addressing cross border trade it is important to view the development of agriculture in western Ukraine in a much broader context. While specific cross border trade issues are important and need to be addressed in order to develop a more transparent, commercially oriented marketplace, the review of the underlying business environment in western Ukraine, including government policy, market structure, rural finance, cultural issues and the reality of the current regional market structure, all have significant impact on the further development of the agricultural sector in western Ukraine. Each of these inter-related factors either directly or indirectly impact cross border trade issues, which in combination have an overall influence on the development of western Ukrainian agriculture.

5. Under the old system prior to 1939, agricultural production in western Ukraine was organized around a localized social structure that emanated from the involvement of

individuals at the village or community level. Even though there were large landowners that utilized local producers on an as-needed basis, community groups came together to pool their resources to create local production enterprises (cooperatives). These groups were the basis by which local producers operated as a cohesive economic unit. This provided a mechanism to raise capital, purchase necessary capital goods (which a single producer could neither afford nor justify on an individual basis), and market output, both locally as well as to more distant terminal markets. Under this structure, a linkage of trust and financial participation was in place which connected the small land owner/producer directly to the source of inputs as well as the marketing point for output production. The relationship was one of community participation and involvement, where the group monitored and influenced the performance and commitment of each individual member of the group. This form of operation was an efficient and effective means of providing local support as well as insuring the commitment and responsibility of each small producer to the overall benefit of the group.

6. World War II brought an entirely new structure into the marketplace. Contrary to the continuation of individual farm ownership in Poland, Ukrainian farmland was nationalized and converted into large state farms. Community involvement and individual responsibility to the group was no longer the driving force at the local level. Instead, orders came from the central government, as well as the supply of inputs, the decisions concerning what would be produced, and the destination of production output. Decisions were no longer made by the individual producer or their local group, but instead by the central government. This mentality of central, governmental control of enterprise management and decision making, and the resulting lack of individual responsibility and involvement, was the primary result of Soviet agricultural policy in Ukraine.

7. Another issue that is pertinent to the comparison of agriculture in Ukraine versus Poland is the identity of the people. Whereas Poland is made up primarily of families of Polish origin, where small farms have been held in the same family for many generations (even through the Soviet era), Ukraine is a melting pot of Ukrainians, Russians, Poles, Hungarians and other ethnic groups which migrated to Ukraine subsequent to the 1939 partition agreement reached between Hitler and Stalin. Although Ukraine does have a strong national heritage, the people of Ukraine do not have the same 'one country' image of themselves as is the case in Poland. Further, the recent privatization of state owned farm land has resulted in the creation of a large population of small scale subsistence farmers and non-farmer land owners. The majority of this group had no prior connection to the ownership of a specific parcel nor a long standing involvement with the local community as is the case in Poland. In L'Viv Oblast alone it is estimated that there are currently around 750,000 such small individual land owners and producers.

8. The economic policy initiated in Poland after the break-up of the Soviet Union allowed this country to rapidly adjust its infrastructure, legal system and marketplace toward a more progressive system of government and free enterprise. Although this has caused serious hardship in certain sectors, the results have been for the most part positive. Farmers,

food processors, marketing companies and related support enterprises are able to operate in the marketplace under a progressive rule of law, with the availability reasonably priced commercial credit and access to production inputs, machinery, etc. on a readily available basis. On the contrary, Ukraine's approach to post-Soviet economics has been slow, cautious, and not focused on the serious restructuring of the governmental agencies and policies, the financial sector, and legal structure. Even though the two countries share a common border and ethnic background, there is a marked difference between the two, including trade related regulations, attitude toward trade in general, the support of the government toward producer organizations (such as Polish farm unions), and the difference in governmental perspective toward expansion versus tight control of agricultural production. In Poland the government has taken the approach of encouraging production increases with subsidies and other supportive governmental policies, under the theory that higher production will provide the country (and the government) with lower prices and higher tax revenues in the long run. On the contrary, Ukraine has adopted an ever increasing regime of regulatory controls, obsessive taxes, and other governmental policies which stifle production and reduce incentive in the private sector to take business risks which in a free market economy would be weighed against the potential profits that could be earned by increasing output, starting new enterprises, recycling capital, etc.

9. With the break-up of the Soviet Union and the large flow of economic aid into this region from many foreign governments including the USA, there has been an emphasis toward supporting changes that will result in immediate economic and structural improvements. In certain countries, such as Poland and Hungary, which have strong feelings of national identity and closer ties to Western Europe, this aid has had significant positive impact. These results can be measured in the economic progress that has been made in these countries, as well as their comparatively rapid political evolution toward democratic, free market systems of government and commerce. On the other hand, in countries such as Ukraine where the agricultural sector was formerly organized as large, non-descript state owned farms and whose people are a mixture of many different nationalities and ethnic groups, foreign aid has had significantly poorer results. With the question constantly being asked "*what can we do different in Ukraine to get more meaningful results from our AID programs ?*", it should be noted that in this country one is dealing with a different (i.) social structure, (ii.) connection to the land, (iii.) relationship of individual to local community and government, and (iv.) the proximity as well as commercial access to western markets.

10. It is with the above background and context that the review of cross border issues was made. In addition to specific policies that were felt to be relevant to cross border trade between western Ukraine and Poland/Hungary, comment and recommendation have also been made concerning related factors that might warrant further evaluation by LOL and USAID in the next phase of the Western Ukraine Initiative.

CROSS BORDER TRADE - UNDERLYING CONSIDERATIONS

11. Several observations were made during this assignment that pertain to the issue of cross border trade as well as the more general development of agriculture in western Ukraine in conjunction with USAID's ongoing strategy. The combined interaction of these factors have a significant impact on the business climate in western Ukraine, which in turn impact the development of the agricultural sector.

12. Trade imbalance: It is important to note that there currently exists a major imbalance in the sale of agriculture products between Ukraine and Poland. Although similar statistics were not gathered for Hungary, it is suspected that the same situation exists there as well. The question was repeatedly asked concerning what agricultural products could be sold from Ukraine to Hungary and Poland. The trade of inputs and machinery from Poland/Hungary to Ukraine is limited only by available capital on the part of the Ukrainian buyer/importer. Except for regular regulatory and procedural issues which appear to be dealt with in the normal course of trade, shipment of these items into Ukraine do not appear to be a problem. On the other hand, shipment of almost any form of agricultural product from Ukraine into Poland or Hungary meets with serious regulations and other road blocks. Trade in small, individual automobile lots of consumer goods appears to be thriving, although large tonnage sales of meats, grains, oilseeds and dairy products are for the most part non-existent from east to west. Although statistics were not available for the 1998 calendar year, the following numbers reflect a significant trend in cross border trade and the corresponding trade policies that are currently in effect.

TOTAL AGRICULTURAL PRODUCTS – POLAND/UKRAINE

	<u>1995</u>	<u>1996</u>	<u>1997</u>
Poland to Ukraine	\$103	\$165	\$220
Ukraine to Poland	\$ 36	\$110	\$ 34

USD 000,000's

Source: USDA - FAS Global Agricultural Trade System

13. Central budget: Because Ukraine currently does not have a strongly structured national budget, each governmental agency relies to a large part on fee revenue generated by each such entity. This applies to the local and regional level, as well as at the national level. Such a structure encourages local decisions to be made which result in extra charges, changes in procedural requirements and a confusing mix of rules and regulations. While some Ukrainian importers indicated that this was not a serious issue and was dealt with as a normal part of doing business, the lack of a comprehensive national budget and the ability to fund agencies from general tax revenues encourage local bribery and spontaneous changes in rules and regulations.

14. Farm debt to the federal government: In many of the privatized enterprises, including former state farms as well as processing enterprises, old debt presumably owed to the government continues to be carried as an ongoing obligation. This has resulted in confiscation of production output, attachment of sales proceeds and similar collection procedures, which have a significant impact on the newly structured enterprise's ability to continue operations. The debt issue should be addressed at the federal level in such a way that provides buyers, lenders and marketing companies, as well as the producer who is carrying the debt, with a clearly defined means of determining what must be paid and at what time, through the life of a specific commercial transaction. Conversion of this debt to some other form of financial instrument should also be given consideration, as its continued existence will have ongoing negative impact on the enterprise's ability to secure financing, enter into sales contracts, and similar commercial activities.

15. Role of Government of Ukraine in the marketplace: Although not particularly significant for items such as fresh produce, dairy and meat products, there does occur from time to time governmental intervention into the marketplace with respect to the confiscation of certain products at below-market prices for national food security purposes. While such a policy is understandable and in certain instances justified, it has a negative impact on how foreign buyers as well as companies engaged in the export of these commodities view the reliability of sales being made from Ukraine into the international marketplace. Consideration should be given to some means of registering export transactions, which once so registered, would remain in effect and allow the transaction to move forward without interference. In the event the product from such a transaction was required to remain in country for national security reasons, a provision should be made whereby the corresponding export contract can be bought back from the overseas buyer which previously purchased this product, with the seller/exporter being compensated for difference between the price it ultimately received from the Ukrainian Government and the price established in the original transaction. Such a contract protection mechanism would enhance Ukraine's standing in the international marketplace, ultimately providing a stronger and more competitive domestic market where prices would more closely relate to world market conditions.

16. Ukrainian farmer's perception of government: As commented previously, the structure of the agricultural sector in Ukraine during the Soviet Union resulted in a heavy reliance on the 'government' toward all phases of agricultural production and marketing. Although many new farmers and entrepreneurs recognize that they are now independent and cannot rely on the government to supply inputs, make production decisions and provide marketing outlets, there still exists an expectation that government should be doing more to assist the agricultural sector. While in many countries, including the USA, governmental support (both financial and non-financial) has had many positive impacts to the agricultural sector, there appears to be widespread confusion on the part of many Ukrainian producers and processors over what the government should do, what it realistically can do, and what it should not do, in supporting Ukrainian agriculture. There are many conflicting and contradictory policies at the federal as well as regional and local level, which create a confused and often frustrating situation. For instance, the Information Research Center in L'Viv has been organized to provide production inputs, market output, create a marketing

center and eventually a commodity market, for the L'Viv Oblast. This quasi governmental organization, although created perhaps with the best of intentions, could potentially perpetuate the old central planning mentality, slowing the efforts of USAID toward the development of a profitable, competitive, transparent agricultural sector.

17. Rule of law: The general commercial atmosphere in Ukraine, including existing laws, new regulations, control of crime, the collection of debt, and creditor priority in a judicial proceeding all inhibit the ability of commercial enterprises to function and prosper. Instead of supporting and providing encouragement to entrepreneurs to take risks, expand production, seek new markets, and reinvest earnings, the legal and regulatory structure in Ukraine act as major inhibitors toward the increase in production output and development of cross border trade.

18. Market liquidity and recognition of different market sectors: It should be noted that there are substantial differences in western Ukraine concerning how different agricultural products are marketed, who the primary buyers are, in what quantity increments these products are sold, and what impact these factors have in the sale of these various product categories to countries such as Poland and Hungary. Given the fact that most farms in western Ukraine are very small operations and in many cases operate on a quasi-subsistence basis, each of these operators are producing several products of varying quality and packaging, in very small quantities. For example, one farmer may be growing one hectare of potatoes, one hectare of sugar beets, one hectare of cabbage, two cows, six pigs, etc. This level of production results in the sale of small sale increments (individual automobile, wagon or truck loads), which are generally made on a cash or barter basis. This form of production and marketing does not lend itself toward the development of an established, transparent marketplace which allows for forward contracting, payment advances, firm, fixed prices for future delivery at the time of harvest, and uniform standards for quality and packaging. All of these factors are significant when considering the sale of Ukrainian agricultural products to other countries, as well as into the domestic marketplace. Emphasis should be given to the difference between such small scale production of many different items raised by one farming enterprise (with many of these products being perishable fruits and vegetables), as compared to more uniform, non-perishable items such as wheat, rapeseed, corn, barley, etc., that can be sold in larger quantities, forward contracted, organized for delivery in multi-truck or rail car lots, and handled much more efficiently by a marketing organization. All of the above factors impact market liquidity as well as the optimum market destination to which a producer should be selling.

19. Sale of farm-direct production versus processed goods: Further to the previous point of market liquidity, a distinction should be made between product which can and is being sold direct from the farm to the end customer versus sale to a processor, such as a meat company, cheese manufacturer, flour miller/baker, cannery, etc. The food processing sector in western Ukraine appears to be growing and there is evidence of significant interest from many companies and individuals in the organization and operation of processing enterprises. These processing units represent a secondary but important market level, as they create competition in the local market place, allow individual producers to sell their

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output in relatively small increments directly to the processor, and in many cases, convert the primary product which may be a perishable item or a live animal, into a form which can be held in storage and delivered over relatively long distances to other markets, either inside Ukraine or to other countries.

20. Terms of sale: Depending on the structure of a particular transaction, the product being bought and sold, the monetary value, terms and method of payment, relationship between buyer and seller, and whether the business is occurring on a local basis versus across international borders, there are different methods used to decrease or in some cases eliminate taxes, duties, fees and related charges. Many different scenarios were described by companies which utilize different methods to reduce import/export fees and taxes. Although no opinion or judgement is intended, it should be noted that payment terms vary significantly due to the above factors. Terms of sale can and do have a significant impact on the overall feasibility of profitable commerce, particularly when product is being imported into Ukraine from Poland and Hungary.

21. Russian financial crisis: The recent banking crisis in Russia has had both a direct and indirect impact on the market for Ukrainian agricultural products. In addition to Russia being the key market for agricultural products being sold directly from Ukraine, countries such as Poland and Hungary also relied heavily on Russia as a destination for large quantities of processed food items as well as basic food stuffs. The indirect result has been serious surpluses of agricultural products being accumulated in Poland and Hungary. In Poland for instance, the Agricultural Marketing Agency (ARR) is currently buying up surplus production of meat, butter and dried milk after the serious uprising by Polish farmer unions concerning the decline in market prices and overflowing inventories backing up in the Polish marketplace. These ARR stocks will not only create a strong resistance toward the sale of similar products from Ukraine into Poland (which at the present time is almost impossible to accomplish), but will likewise create competition in the Russian market by the sale of such ARR inventories which might otherwise be an outlet for Ukrainian production.

22. United States food aid to Russia: In addition to the surpluses being created in Poland as well as other countries such as Hungary, Czech Republic and others, the donation of food products from the USA to Russia creates an additional negative effect on the primary market for Ukrainian food products. This causes reverberations back to the local market in Ukraine for companies which in the past have sold to Russia, as well as the further backup of production in Poland and Hungary. This regional backup restricts the possible indirect sale of Ukrainian production to Russia via Polish and Hungarian processing companies and well as direct sales from Ukraine to Russia.

23. Role of multi-nationals: Although not evident in the L'viv Oblast, at least during this assignment, there has been significant activity in various regions of Ukraine by large multi-national companies. Such involvement has included (i.) the supply of inputs, both directly and through local distributors, on a credit basis with payment coming from production output at the time of harvest, (ii.) the creation of input packages, including seed, fertilizer, chemicals, equipment, and so forth, which is supplied on a coordinated basis through one

entity to a group of farmers or larger state owned farms, again with payment from production output, (iii.) the outright leasing of farmland by outside operators who provide inputs, management, markets, etc., with the land owner just leasing the land, with or without the supply of local labor, and (iv.) the establishment of local processing operations which contract with local producers to supply certain products on a contractual basis to the processing company. In many instances these types of operation have been successful and have provided Ukrainians with a model of how modern, efficient agricultural methods can be profitably utilized in Ukraine. However, such an approach often may not address the social issues of small scale, community based agriculture alluded to previously, particularly if the long term goal is to strengthen rural communities, create a economically sound population of small scale producers who have access to an open, user friendly marketplace. No opinion is intended by the above. The question that should perhaps be addressed is what long term outcome is intended by USAID, i.e. the development of a strong local rural sector or large, corporate multi-national farming and production enterprises.

24. Rural credit: Underlying the entire focus on development of a profitable agricultural sector is the need for credit at the producer level. The access to such credit has direct impact on cross border trade issues. For example, if local Ukrainian producers have access to credit and can purchase necessary inputs to produce a product that is needed by a Polish processing or marketing company, this will result in completely different transaction structure versus one which requires the Polish company to enter the market with inputs on open credit, taking the production risk until the time of harvest. The feasibility of effective rural credit should be analyzed from the following viewpoints:

- Direct credit being provided to each independent producer versus cooperative lending at the local, village level.
- The financing of basic, easily monitored, bulk, non-perishable products which can be forward contracted and that have a well defined, controllable cash stream for direct repayment of short term financing.
- The realities of providing production financing to farms in Ukraine, given the current legal structure, land title system, attitude of borrowers toward lenders and vice versa, farmer business (financial) knowledge and expertise, interest rate competitiveness and lender operating costs.
- The distinct differences between one crop, short term crop/production financing versus longer term credit for machinery and related fixed asset improvements.
- Whether a potential borrower is in need only of credit, or instead, expertise in structuring the overall business enterprise, including the optimum combination of short term borrowing, long term debt, equity capital, possible purchase advances from customers, and related advantages of contractual commitments which impact the credit worthiness of the borrower with respect to lender evaluation.

- A realistic evaluation by outside sources of credit (direct funding as well as secondary guarantees) concerning the needs of the Ukrainian market, the realities of lending money in this environment, and what is needed to create a commercially viable Ukrainian banking sector which is capable of and willing to support the credit needs of western Ukraine on a basis that allows for prudent, properly managed and profitable lending.

25. In summary, there is a wide difference between Poland and Ukraine in many areas. When taken in context, they have a significant impact on cross border trade as well as western Ukraine's ability to sustain and increase agricultural production for both domestic consumption as well as sale into the international marketplace.

CROSS BORDER TRADE ISSUES

26. In considering the particular issues that have possible impact on cross-border trade between Ukraine and Poland/Hungary, thought should be given to the true intention of the respective government in the regulation of such transactions. Particularly for Ukraine, are cross border regulations, duties, taxes and related charges intended to (i.) protect the public against inferior product quality, (ii.) insure uniformity and transparent quality guidelines for product being traded across international borders, (iii.) generate revenues at the federal level, albeit to the several different agencies which play various roles in licensing, inspection, clearance and approval of international transactions, and/or (iv.) a means of generating income at the regional, local and even individual level, using governmental regulations and involvement as a means of tolling the importer/exporter on a discretionary basis?

27. Simplification and coordination of import/export requirements: There is currently no central coordination evident in Ukraine, at least during this assignment, that has overall authority for import/export procedures, fee structure, and related activities. Certain border crossing points are noted as having relatively smooth, well established clearance policies, whereas others are considered as "running a gauntlet". However, it should be noted that in many instances if an importer is prepared to properly document their transaction, obtain pertinent pre-clearance documents, utilize a knowledgeable local customs broker, and pay established fees without attempting to doctor paperwork or bribe officials, border crossing is not an insurmountable obstacle. On the other hand, especially for smaller shipments such as consumer goods or retail packed food items in the trunk of an automobile, and where the operator is intent on minimizing customs fees, taxes, etc., there can be considerable variation in the fees charged and the difficulty encountered in crossing the border. Regardless of the border crossing point, the size of the transaction, and the intent of the shipper to adhere to versus circumvent regulations, there are numerous procedures and regulations that must be followed. Using the entry of products coming into Ukraine as an example, the following approvals and documents must be obtained, many of which come from separate governmental agencies. Depending on whether the importer has pre-cleared the shipment or intends to do this at the time of border crossing, fees can be paid after shipment following local inspection at destination in L'viv (for pre-cleared deliveries), versus inspection and payment of fees at the border for shipments which have not been pre-cleared.

- Import licensing
- Contract registration
- Certificate of Origin
- Certificate of Conformity with Ukrainian Standards
- Sanitary Certificate of Conformity with Ukrainian Standards (where applicable)
- SES Permission Certificate
- Phytosanitary Certificate (for plant materials)
- Veterinary Certificate (for livestock materials)
- Import duty
- Customs fees
- VAT tax
- Excise tax (where applicable)

28. Although the above list may not be complete, it is intended to show that there are numerous documents and procedures required to ship product from and into Ukraine. In addition, governmental import/export policy is established and updated at three levels; federal, regional and local office. Such a combination of different regulatory agencies, without central budget funding, operating on the basis of three levels of authority, often results in a confusing, time consuming and expensive process to ship goods across the borders of Poland and Hungary into Ukraine. A similar review was not made on the Polish and Hungarian side, but this should also be addressed in the overall clarification of cross border trade regulations.

29. Pre-clearing, special gates and designated crossing hours: As noted previously, all traffic, including passenger cars, small lorries, commercial trucks, etc., pass through the same gate at each border crossing. Even though trucks often have their own lane and crossing area, in most cases they must go through the same entry and exit point. Procedures should be considered to allow for pre-clearance of shipments, particularly for larger truckload or multi truckload shipments, where documentation, inspection and estimated border arrival time can be determined in advance. Perhaps a crossing period, such as midnight to early morning, for such pre-cleared shipments, would allow them to cross the border without having to pass through the same procedure as cars and trucks which have not gone through such pre-clearance procedures.

30. In-transit processing and duty drawback: Clarification and procedural details should be obtained to explore the possibility of shipping unprocessed products from Ukraine to processors in Poland and Hungary, for eventual sale to other countries such as Russia. In this instance, the processor/importer in Poland would be able to process and re-export Ukrainian origin products without having to pay import duties, customs, fees, etc., that would apply if the product was eventually sold into the Polish domestic market.

ISSUES RELATED TO TRADE AND MARKET DEVELOPMENT

31. For the foreseeable future it is not likely that changes will occur at the national level in Ukraine that will result in the strengthening of the rural agricultural sector, particularly for

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the small scale land owner and operator. Even though this support is needed and would presumably result in significant increases in production output as well as the financial well being of Ukrainian agriculture, change must come from the local level. Individual producers and processors, taking the entrepreneurial initiative to expand output, develop new enterprises, deal with market conditions as they exist today, are what is needed to move development forward. Given the lack of support at the national level in Ukraine, outside support from organizations such as USAID should continue to focus on exposing and linking Ukrainian operators to counterpart contacts in Poland and Hungary. Learning by doing is a key to the development of small scale, sustainable, profitable agriculture.

32. In conjunction with exposure to counterpart operations in Poland and Hungary, as well as corresponding technical support that can be provided from a variety of sources, another key factor that needs to be stressed in the development of the agricultural sector in Western Ukraine is the refinement of marketing strategies, small scale production financing, and workable methods of tying such financing to the marketing function.

RECOMMENDATIONS

33. It was evident during this consulting assignment that considerable effort has been made in exposing Ukrainian farmers and food processors to new methods of production, marketing and financial management. While this exposure is important and should be continued, other areas that pertain to the simplification of cross border trade procedures, production financing, marketing, and strengthening of local producer groups should also be considered as additional design features for the next phase of the Western Ukraine Initiative. The following recommendations are made accordingly:

34. Cross Border Technical And Cultural Exchange: The continuation of trade fairs, interchange between Ukrainian and counterpart entities in Poland and Hungary, and the ongoing development of commercial and cultural ties should be encouraged and continued by Land O'Lakes as a key component of the next phase of the Western Ukraine Initiative. As mentioned previously, it does not appear likely that support for the western Ukraine agricultural sector will come from the Ukrainian federal government. Providing foreign aid and political pressure at the federal level will not accomplish the changes in local expertise, investor confidence, community involvement and cross border support that are necessary to increase productivity in this region of Ukraine. This must come from local producers, investors and entrepreneurs, who over time can learn the necessary technical, marketing and financial skills that are key to the operation of a successful business enterprise.

35. Cross Border Trade Procedure Handbook: Given the myriad of regulations, agencies, procedures and related tasks that are involved in conducting cross border trade between Ukraine and Poland/Hungary, a comprehensive trade handbook produced for Ukrainian producers and processors would be a helpful tool in not only defining procedures, but also in the actual purchase and sale of products between these countries. Input for such a handbook should be sought from local and regional governmental agencies, customs brokers, transportation companies, etc., from both sides of the border, so that when

completed it will represent the contribution of the various interests involved with cross border trade. In addition to rules, regulations, procedures, fees, agencies, documents, and the like that are required for cross border trade, further detail should also be included which defines the different procedures for various product categories, size of transaction, pre-clearance of transactions versus clearance at the time of border crossing, differences in procedures for different border crossing points, and suggestions that would assist a Ukrainian company in conducting business with Poland and Hungary. Another area that might warrant inclusion in this document would be possible procedures that could be followed to arrange for bulk transfers of large quantities of product, perhaps through a specific border crossing point during particular hours, days, etc., which would facilitate border crossing for such transactions. In addition to Poland and Hungary, similar information might also be provided for other crossing points that would be utilized for delivery to destinations such as Russia, Belarus, and other NIS republics.

36. Trade Finance And Marketing Component: As mentioned earlier in this memorandum, there are many inter-related factors that impact the ability of producers and processors in Western Ukraine to make correct production decisions, obtain inputs, arrange for short term financing, gain access to machinery and equipment, and successfully market output. Resistance to the sale of certain products to adjacent countries such as Poland due to the large agricultural surpluses that currently exist in such neighbouring countries, governmental regulations, taxes, old debt, legal structure, optimum production mix from a marketing standpoint, focused marketing strategy and proper financial structuring are all factors that need to be incorporated in a successful production and marketing plan. This proposed new component of the Western Ukraine Initiative would provide Ukrainian farmers and processors with exposure to the following:

- It is proposed that a small number (two or three) producer and/or processor groups be identified for participation. A production and marketing plan would be developed and supervised for each such group, including the initial steps of crop/product planning/budget forecasting, financing, obtaining inputs, forward marketing, delivery of output, collection of sale proceeds and repayment of input costs and related production financing.
- The accumulation of capital and means of holding this capital in a form which is secure and not exposed to undue taxation and other methods of collection, should all also be covered in this component. Knowing that many Ukrainian producers currently prefer to deal in barter or small scale cash transactions in order to avoid high taxes and other governmental interference, a methodology should be developed to create a more secure commercial climate which encourages sound financial management, retention of capital, and repayment of short term operating debt, all of which are important to the ongoing development of the agricultural sector in Western Ukraine.
- The possible collaboration with counterpart Polish and Hungarian companies, perhaps utilizing the concept of in-bond or duty drawback processing of

unprocessed Ukrainian goods in Poland/Hungary for ultimate sale to the NIS and other markets, could be a added feature of this component. This structure could provide access to (i.) inputs advanced on credit, (ii.) other forms of short term production financing, (iii.) a creditworthy and knowledgeable trade partner outside of Ukraine, and (iv.) a well defined marketing outlet with secure sales revenues. Such a collaborative structure, involving actual transactions with Polish and Hungarian counterparts, would provide the Ukrainian participants with an excellent "learn by doing" environment, thus encouraging the development of the agricultural sector in Western Ukraine at the individual and community level.

APPENDIX D

**ACDI/VOCA
RURAL CREDIT EXPANSION PROGRAM
FINAL REPORT**

Western Ukraine Initiative ACDI/VOCA Rural Credit Expansion Project FINAL REPORT

I. INTRODUCTION

The Western Ukraine Initiative has been a three-year, nearly \$3 million, technical assistance project implemented by Land O'Lakes and its sub-recipient Agricultural Cooperative Development International (ACDI/VOCA). The goal of the activity has been to accelerate agricultural privatization, improve agricultural sector economic performance, and promote trade and cross-border relations with Poland and other regional trading partners. Extensive expertise in business management and agricultural credit of the ACDI/VOCA expatriate has provided technical assistance. In addition, Polish banking and business have extensively delivered management consultants who have been working with ACDI/VOCA for the past five years on similar projects in Poland on similar projects.

ACDI/VOCA as sub-recipient undertook one specific category of technical assistance under WUI—the Rural Credit Expansion through Area Financial institutions (RCE). Technical assistance here is defined as providing management and credit training to Ukrainian financial institutions that helped them become more profitable, cost efficient and growth oriented.

The declaration of independence by Ukraine brought about considerable changes in the operation of banks and agricultural lending practices. In lending to agriculture, banks formerly played the role of distribution centers and operated in accordance with the approved schedule for distribution of budget subsidies among agricultural companies. The only bank, which specialized in loans to the agricultural sector was the state-owned Agro Bank. Upon privatization, the owners reoriented the banks to finance profit-making lucrative sectors, like trade, intermediary financial transactions, etc. Agricultural lending, except in the unsuccessfully operating Agro Bank, was virtually non-existent due to:

- lack of experience in the banks for servicing agricultural businesses;
- high risk of dealing with agriculture;
- prevailing non-viability in the agricultural sector;
- lack of experience of agricultural entrepreneurs to operate in market economy and in finance management;
- previous negative experience of making loans to agriculture, as the majority of agricultural businesses in the past in most cases never repaid and the the government had to write off the loans at the expense of the state budget.

Some banks attempted to lend to agriculture, but most of these attempts were not successful due to the foregoing reasons. However, in the past few years, two new tendencies have emerged indicating the need for assistance in the development of agricultural lending system.

1. Banks began to view agriculture as a new market of their activity with the emerging financially sound borrowers.

2. Private owners in agriculture required additional money, and in view of that started to turn to the banks as the government did not and would not give such support in the near future.

For these basic reasons, the overall goal for ACDI/VOCA was to develop an agricultural lending program through which a reasonable amount of credit lending funds would be available to borrowers through local finance institutions. In addition, to render assistance to the banks and other financial institutions to improve policy and procedures of credit.

The technical assistance activities of the Project were accomplished in conjunction with the USDA monetization lending program. After the principal source of credit funds began to materialize, loans were made accessible through participating financial institutions to private agri-businesses, which met the appropriate lending criteria and credit conditions.

II. PROGRAM STRATEGIES

The Rural Credit Expansion Project was initiated to 1) provide an available secondary source of credit while at the same time to 2) implement this source of credit through the Ukrainian financial sector as a training model. The goal was accomplished in terms of extensive technical assistance and training provided to a number of banks, credit unions, groups of private entrepreneurs, project consultants while at the same time delivering credit options and funds to the agricultural entrepreneur.

The credit fund was available to market-oriented agricultural enterprises through the trained partner financial institutions. This has been mainly accomplished due to extensive professional development of the project staff and potential contractors and it is expected to naturally complement the achievements of previous training activities. The entity to run the credit fund after the Project finished is a self-sustainable Ukrainian successor organization – the Ukrainian Finance Development Foundation. The Foundation was established to continue on the same principles and ideas as developed in the WUI ACDI/VOCA Rural Credit Expansion project (the Project).

Strategically, the program had these objectives:

- 1) to assist private banks and credit unions in developing and expanding their technical ability to broaden credit services to the private agricultural sector
- 2) to train and prepare financial institutions and borrowers to operate as one sustainable system capable to continue after the technical assistance to Ukraine finally pulls out.
- 3) to establish a permanent Ukrainian entity to build on the principle of internationally accepted practices, who will preserve and further grow the initial credit fund established by the Project.

a) PROGRAM METHODOLOGIES

In pursuing the strategy goals and objectives, participating financial institutions, banks and credit unions, were trained by ACDI/VOCA in specialized agricultural lending techniques, which encouraged them to commit more of their capital resources to the agricultural sector. A number of regional banker-to-banker exchanges were implemented where six to ten officers from commercial banks, credit unions, and independent trainee consultants traveled to Poland each

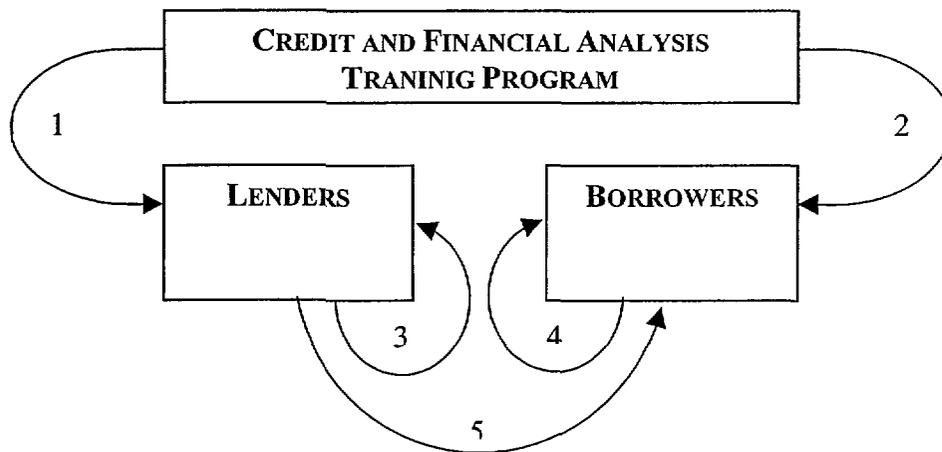
year to participate in week-long programs working with their counterparts in the Polish banking system.

Training for financial institutions was considered a major method in the overall program for improved and continuously developed lending mechanisms and was built around the providing to financial institutions technical and financial assistance. Its principal task was to get the participating lenders prepared to adequately perform in joint lending operations. Westernized approaches, standards and procedures were adopted and provided as purely Ukrainian-based manuals and successfully used in seminars and workshops. Since any commercial bank or contemporary financial institution is not one lending operation alone, training in other areas of banking and institutional development was made objective number two.

However, training was not a separate program by itself. Efforts were made to always have practical application of the newly acquired knowledge to overall bank's operations. Therefore, the next step was the assistance to banks in the transition for improved internal procedures and banking activities. During this stage, a comprehensive assistance in lending, financial management, planning and strategy development was provided. The assistance in solution to these issues was delivered by the participation in the financial institution's activities. The mechanism of joint activity of the Project and financial institutions in making loans out implied the joint activity on all stages of credit process as well as monitoring and control of the Project over the financial condition of the bank or credit union.

The Project built an extensive gradual training program that supported joint lending with Ukrainian financial institutions. The program grew over time as lessons and improvements of practical application of training were identified and incorporated into the program. It developed into a functioning model, well probated in Western Ukraine and replicable to other regions of Ukraine.

Having thoroughly studied the Ukraine lending sector, we found that the program should work best if it covers credit and management aspects in training to borrowers and banks at the same time. The below diagram shows how the program worked:



Lenders, trained in proper credit and financial techniques (1), adequately analyze borrower operations using newly acquired tools and methods. Borrowers, who also received fundamental training to be able to review their operations financially and communicate their creditworthiness

in the loan application (2), approach banks at the improved quality level. Now, that both banker and borrowers passed the training program, they know how to evaluate their businesses (3,4) for profitability, analyze balance sheet and supporting financial statements, and most of all, professionally work with each other in reaching a mutual goal – profits. Banks also may offer supplementary classes or train their new borrowers (5) upon completion of our training program e.g. what it takes for an operation to be bankable or creditworthy.

Approach. To summarize, the Project approached training and technical assistance in the following ways:

1. Assisted where needed by outside expertise (OPCJA, ACDI/VOCA-Poland), the Project developed and established an on-going Ukrainian replicable training program.
2. The training exposed Ukrainian businesses to international operating standards and experience, as well as to Polish small business and intermediaries.
3. The Project implanted techniques and procedures proven successful in Polish economy.
4. The Project trained managers and SME owners for practical application of newly acquired knowledge and skills to the overall business system.
5. Continuous development of existing Ukrainian lending mechanisms by providing financial institutions with adequate technical and financial assistance.

Course Content. Training consisted of a series of seminars on topics that ranged from fundamental information at the beginning seminars to in-depth discussions on the subject at subsequent seminars. The materials included training aids and manuals on each topic, examples, exercises, and training videos adapted and successfully implemented by the Foundation. Participants engaged in site visits, interactive exercises, lectures and case studies—used extensively and evaluated favorably by USAID during CBDP training courses in Poland and the USA, which had enjoyed great acceptance by trainees from Poland, Ukraine and Macedonia. The materials had both theoretical and practical application, and had been translated into Ukrainian and adapted to the Ukrainian business and legal environment.

Description of the completed training program. Target recipients of training can be divided in four major categories:

- Commercial Banks: WUCB, Electron Bank, Euro-Center bank
- Credit Unions: Striy, Lviv, Chortkiv, Anisia, etc.
- Agricultural consultants and specialists: Counterpart, CNFA, RONCO, Land O'Lakes
- Private entrepreneurs, small business owners, potential borrowers

Below, we provide a description of the training program completed by ACDI/VOCA in Ukraine with institutions from each category identified above. The training program consisted of several consistently built-in training courses. Each subsequent course was mainly built on the material of the previous course. In this way, trainees received a set of systemized theoretical information. Some of the courses provided fundamental information that covered principles and methodology of bank operations. For such courses, a large number of attendees was encouraged, where officers from various departments, branches and offices of a bank were invited. Others focused on detailed presentation of specific topics and such training was held with a limited number of trainees.

There were total four specific types of training to be distinguished:

- Credit: Fundamentals of Credit, SME Financial Analysis, Train-the-Trainer Credit program;
- Financial Planning and Management : Asset/Liability Management, Liquidity and Interest Rate Risk Management, Principles of Financial Planning Model;
- Human Resource Management: basic principles of handling various employee issues;
- Banking Exposure Tours: presentation of developed Polish banking infrastructure and exchange of experience.

Technical assistance involved foreign consultants to work with Ukrainian institutions, transfer knowledge on how to finance agriculture, train in the process of carrying actual activities. The level of development in the financial sector and experience of working in Ukraine required changes in approaches and methodology for financial institutions that needed to be established through training.

In October 1997, ACIDI/VOCA began its training activity program by providing six senior bankers from West-Ukrainian Commercial Bank (WUCB) a Polish banking tour. The intent of this trip was to give these members of the bank a chance to see how banks in Poland have progressed and developed in a market economy. It also helped the bank develop professional contacts with the Polish banks visited during the tour.

Before starting any actual training, ACIDI/VOCA did an assessment of a financial institution's training needs, strengths and weaknesses in four major areas of operations at the branch level: 1) HRM; 2) Credit; 3) Financial Planning; 4) Organizational Management. The assessment consisted of two segments: 1) training need analysis survey; 2) based on the survey, preparation of a summary report of findings and recommendations for various identified needed training programs at the bank.

Fundamentals of Credit seminars

The course was delivered at WUCB, Electron Bank of Lviv and Euro-Center Bank of Ternopil (see attachment #1). Three-day workshop usually was accompanied with a lot of interaction between the Project trainers and bank employees, which disclosed a great deal of information crucial for continued cooperation both in training and lending.

Basic material for the seminar was developed from the ACIDI CDBP in Warsaw, Poland and significant contribution was made by local Ukrainian staff to adapt it for the use in Ukraine. Upon course completion, the credit officer should be able to analyze loan applications from small and medium businesses, using a formal step-by-step evaluation process, commonly known as the "five factors of credit". Entry level training course intended for new and inexperienced loan officers. Loan officers found a systematic credit analysis approach useful for any size loan. Special reviews were received for the high quality textbook prepared to be a purely Ukrainian tool with adequate local terminology and text.

Train-the-Trainer Credit Program (one-on-one sessions)

One-on-one sessions were the follow-up training under the Train-the-Trainer Credit Program for selected credit officer of WUCB and Electron Bank employees. Upon completion of the Program, trainees will have sufficient skills and knowledge to do local training in credit with

their colleagues in bank branches. By plan, every other month the trainees and an instructor visit the branch of a trainee and conduct a practical on-site credit session using actual examples from the branch operations. The objective was to develop trainer availability (pool of trainers) for the bank. This objective accomplishment created a body of trainers that can be taken anywhere (to any branch) by the bank.

Fundamentals of Credit (credit unions)

A replication of Fundamentals of Credit seminar for banks after necessary adaptation by Ukrainian staff for credit union officers. Two major credit unions from Lviv area were identified and offered the adopted course from commercial banks in May of 1998. Three key personnel from these credit unions attended. Several months later, a bigger seminar on Fundamentals of Credit was held for larger number of credit unions, these two unions sending new officers included.

In September 1999, the Project held a "Fundamentals of Credit" seminar for a group of 10 Ukrainian credit unions. Participating credit unions were recommended and selected as potential lenders for the credit program. The seminar received extremely high reviews from the attendees. This workshop enjoyed a very good selection of qualified participants.

Small Medium Enterprise (SME) Financial Analysis

SME Financial Analysis course is based on material from ACDI CDBP Poland (adapted for Ukrainian use by Ukrainian specialists) and is a continuation of the Fundamentals of Credit course. The goal of the seminars was to train principles, methodology and types of financial analysis in small and medium enterprises, essential to any credit operation. This course is customizable for both commercial banks and credit unions.

The training offers a manual for use in loan analysis (agriculture) and making credit decisions to finance Ukrainian enterprises.

- 1.) Basic accounting -terms, concepts, and basic reporting;
- 2.) Financial Reporting – terminology, concepts, and analysis techniques;
- 3.) Cash Flow Analysis – terminology, concepts, and analysis techniques;
- 4.) Income Statement Analysis –terminology, concepts, and analysis techniques

As part of initial training package, SME Financial Analysis seminars in its original course format were held at all financial institutions that the Project had partnered with: in September 1998 with WUCB, October 1998 – selected credit unions from Eastern Ukraine, March of 1999 – Electron bank, and in January 2000 – Euro-center bank in Ternopil.

At the request from the Canadian Program for Development of Credit Unions in Ukraine, we conducted the courses for training of its 10 affiliated Ukrainian credit unions. The seminar was split into two segments held October 6-8 and 25-27, 1999 respectively. Trainers were the Project staff. The two-segment split was requested by credit unions asking to slow down the presentation and focus more on specific elements of the course that addressed specific weaknesses in credit union operations, such as building balance sheets, cash flow ratios, analyzing borrower capital and capacity factors, etc. Trainers made a special emphasis on developing skills for preparing written communication of loan officer's opinion and recommendations for loan committee. A crucial element was to teach loan officers how to collect reliable and pertinent information relevant to the credit decision.

In the first segment, October 6th –8th, participants practiced building and doing analysis of basic financial statements, specifically the balance sheet and income statement. Approximately ten exercises were done under supervision and trainers, Kenneth Smith and Anatoliy Pokhodziaev. The second seminar segment, October 25th –27th, reviewed a loan application case study calling for preparation of a complete analysis on the basis of preliminary loan information from a borrower and to role play the loan officer's presentation at the loan committee.

Financial Planning and Management Planning

Early in 1998, WUCB transferred to the International Accounting Standards. In addition, overall techniques and methodology in financial planning, human resource management, and financial analysis underwent major reviews in this bank. Requested assistance for development of bank operations was provided in the following areas:

- Asset/Liability Management
- Liquidity Management
- Capital Management
-

The course is an advanced training program for senior management. It consists of three individual 3-day workshops: Workshop #1 – Asset/Liability Management; Workshop #2 – Liquidity and Interest Rate Risk Management, and Workshop #3 – Principles of Financial Planning Model.

In August of 1998, the overall management training needs analysis of WUCB was conducted in order to investigate training and technical assistance demands of Ukrainian banks in the specific area of financial planning. The follow-up analysis was continued in 1999 to study the current system in banks, strengths and weaknesses in the areas outlined above. The study also included trips to selected branch offices to evaluate the existing connection between HQ and branch offices.

In October 1998 for WUCB, and in November 1999 for Electron bank, the financial management training programs were delivered in the sequence of A/L, liquidity and interest rate risk management, and then financial planning. All these programs were considered pilot projects that encouraged input for future training programs to be adjusted for further replication according to participants comments and needs.

Additional training course segments were developed in the area of strategic management and planning in response to advancement and preferences of Ukrainian recipients.

Human Resource Management

The course was developed in conjunction with Polish trainers specifically for Ukrainian audience. Three-day course with a video, seminar material and textbook, which had been professionally translated into Ukrainian, was presented twice at the WUCB: first time for the Head Quarters Senior Management officers, and second—managers from WUCB branches. Objectives of this course were to introduce participants to several aspects of Human Resource Management, and to:

1. Provide specific information to help in the development of job descriptions as a tool for communicating performance expectations;
2. Develop skills in conducting employment interviews so as to select the best qualified candidates;
3. Present specific steps for monitoring and evaluating employee performance, conducting appraisal discussions, and developing action plans for performance improvement, utilizing strengths and providing regular feedback to an employee.

Training in conjunction with BKHF

This subprogram ran in collaborative association with British Know How Fund to ensure compatibility between the training programs of KHF and ACIDI/VOCA being implemented at the West Ukrainian Commercial Bank, to avoid duplication and conflicting instruction and to insure the consistency of training at various stages of these programs. The Project credit specialist attended training in order to maintain the momentum of training throughout years 1999 and 2000.

The two principal objectives were:

- to support for institutional changes now being effected in the Bank, with particular emphasis upon productivity gains, and
- to professionally develop personnel in the bank's branches, in support of demands for greater competitive efficiency in a tightening market.

The subprogram covered two segments: a) WUCB Branch Operations and Business Plan Development, and b) Medium Term Lending Procedures for credit managers.

a) Branch Operations and Business Plan Development for WUCB

This course provided WUCB branch managers good guidance in the preparation of branch business (operations) plan. In pursuit of more efficient and competitive branch operations, all branches are required to prepare a three-year business plan following the pattern established in this course. The course gives participants:

- a structure and contents of an operations plan;
- an understanding of the environmental context which the plan must reflect
- a knowledge of the methods for 1) analyzing the market in which they operate; 2) determining their performance in that market; 3) deriving strategies; and 4) forecasting future business and compiling financial projection.

b) Medium Term Lending Procedures for credit managers

This course is a series of seminars to introduce the manuals of procedures for medium term lending, and problem account management; and On-the-Job training practical sessions in the field to apply procedures for appraisal, monitoring and supervision, variation and problem account management for current business.

Managerial Business Planning

Five-day course was given in intervals of one day each week for 4 to 5 weeks. Allows the participating lender management to actively participate to develop their individual business plans under instruction and supervision. Two credit unions participated in the course.

The supporting schedule at the bottom of the text contains dates and trainers for all completed training courses in a chronological order.

Loan participation mechanism. Several mechanisms (methods) were developed and negotiated with financial institutions as to how the Program's funds would reach the end user – the borrower. One such method was loan participation with a commercial lender in financing requested loan amount for borrowers. Banks and/or credit unions were to provide loans to individual businesses that had made 'bankable' loan applications. After a loan was approved on the credit committee of the financial institution, the institutions applied to ACDI/VOCA offering to sell a share in the total loan.

Another method was to use a commercial lender as a pass-through vehicle where the lender used provided funding from ACDI/VOCA to deposit it in a special deposit account and outlay the loan funds to specified borrower at ACDI/VOCA's request.

Participation in loans by commercial lenders allowed for training to be naturally connected with practical application of the newly acquired knowledge to overall bank's operations, which resulted in the transition for improved internal procedures and banking activities. Through the participation in the financial institution's activities, the assistance to help find solutions in lending, financial management, planning and strategy development was provided. The involvement of ACDI/VOCA in the financial institutions on all stages of credit activity had a direct impact on the financial condition of the bank or credit union and positive change within the organization.

Total five banks and credit unions were prepared to adequately perform in joint lending operations. They have been exposed to westernized approaches, standards and procedures as we adopted and provided the material in the format of purely Ukrainian manuals and successfully used it in seminars and workshops.

Furthermore, efforts have been made to prepare individual borrower businesses to apply for credit from a variety of other credit sources such as the EBRD credit program, the Western NIS fund and any other potential sources.

b) PARTNER SELECTION

The process of selecting partner financial institutions was primary oriented on desire of financial institutions to work in the designated sector (e.g. agriculture), their willingness at the senior management level to change/improve current procedures and adequately train their staff to meet standards of such improved procedures.

To maximize the coordination of efforts in working with credit unions, a Memorandum of Understanding was signed on June 7, 1999, with the Canadian Program for development of credit unions in Ukraine. This Memorandum provided for:

- information exchange on credit unions who cooperate with this credit program,
- monitoring financial status and creditworthiness of participating credit unions,
- performance of due diligence audits of participating credit unions.
- coordination of training programs.

The Canadian Program recommended an additional eleven credit unions to the Project for cooperation, and proceeding organizational and credit development. As part of the Memorandum of Understanding, the Canadian program performed a "due diligence" review of each requested credit union and provided their findings and recommendation to the Project. Such reviews were completed on the Striy, Chortkiv and Mykolaiv credit union.

A similar Memorandum of Understanding was the subject of negotiations with the Project of the World Credit Unions Council however nothing has progressed due to unknown future of this Project.

The list of all the financial institutions, which signed a cooperation agreement with the Project follows. We also diagramed branch geographical coverage by these financial institutions for visual demonstration.

West-Ukrainian Commercial Bank

The bank was established in 1990 as a limited liability partnership and was registered by the State Bank of former USSR. In 1991, the bank was reregistered by the National Bank of Ukraine and in 1992 it was re-organized into open joint-stock company. In 1998, the general meeting of shareholders approved a decision to transform the West-Ukrainian Commercial Bank into a bank with foreign capital participation. Major investors including, Polish Kredyt Bank PBI S.A., Banking Investment Fund (Poland), and Banking Trade House (Poland), became shareholders of the bank in 1998. Several new strategic investors, European Bank of Reconstruction and Development, Western NIS Enterprise Fund, expressed their intention to participate in the Bank's capital with total combined foreign shareholding of 70%. The current President of the bank is Mr. Olexandr Dziubenko. The bank structure consists of the headquarters in Lviv and 17 branches throughout Ukraine.

Electron Joint Stock Commercial Bank

The bank was established as a closed joint stock company by the Resolution of 8-31-91 institutional meeting of 15 enterprises. On 10-10-91, the bank was registered by the National Bank of Ukraine #25. The major founder of the bank was the Electron Concern (TV sets and components production). In 1993 the bank was transformed from the closed joint stock company into open joint stock company. Currently the Bank consists of four branches: headquarters in Lviv and three branches in Kiyiv, Lviv and Mukachevo (Transcarpatian branch). In 1996 the authorized capital of the bank exceeded \$2.8 mil. The President of the bank is Mrs. Larysa Zagoronya, the Chairman of the Board is Mr. Victor Rybynok.

Eurocenter Joint Stock Commercial Bank

This is a new bank with about seven years of history on the Ukraine banking market. The bank was registered in 1993 in the city of Lviv and gained the status of an independent bank by the year 1997. In 1997 the bank, due to the lack of capital correspondent to NBU requirement, had to merge with Oasis (bank in Ternopil). In 1998 the bank merged with one more bank - Viktoria in Khmelnytsky. At present, the bank consists of three branches. The headquarters is in Ternopil (one division) and branches in Khmenlytskiy and Lviv (two divisions). The distinctive feature of the bank is that all three branches keep a limited amount of independence in their operations and are responsible for their profitability. Representation of all branches in the Board (executive body) is equal and the representation of the Founders from the three regions (Lviv, Ternopil and Khmenlytskiy) in the Bank Council (supervisory body) is equal, too.

The bank is a joint stock company with the UAH 7.4 million authorized capital. Currently, some of the larger businesses of Lviv, Ternopil and Khmenlnytskyi are major founders of the bank. Many founding companies and clients of the bank operate in agricultural business. Ternopil Academy of Banking is one of the Founders and is the largest university in Ukraine that trains banking specialists. This Bank operates throughout one of the more successful agrarian regions and is capable and willing to expand its activities more through agricultural lending.

Vygoda Credit Union of Striy (Lviv oblast)

The credit union was established in 1992 and registered in August 1994. Establishment of the credit union was supported by the Canadian Program for Development of Credit Unions in Ukraine (CPDCUU). To date the credit union consists of two divisions: headquarters in Striy and a branch in Morshyn. Total assets of the credit union amounted to UAH 412,593.50 at the end of 1999 and total number of members was 1,960.

Credit Union "Lvivska" of Lviv

Lvivska Credit Union was founded on May 12, 1994. The mission of the Lvivska Credit Union is to make loans available to the middle-class members. Currently, Lvivska Credit Union is dynamically growing with present membership of over 800 individuals. As of May 1, 1999, the credit union assets equaled to UAH 304,000. The credit union has a small branch that operates in Vynyki near Lviv. Aside from general financial services to its members, Lvivska Credit Union also provides regular advise and consulting to other smaller credit unions as well as helps various initiative groups for establishment. In 1999, CU staff completed more than twenty consultant assignments and organized two major training programs for borrowers.

Anisia Church Credit Union of Lviv

The credit union was established in November 1995. In July 1997 the credit union signed the cooperation agreement with Union credit union (Canada) and in October 1997 Anisia CU signed joint activity agreement with The World Council of Credit Unions (WCCU). At the end of 1999 total assets of the credit union equaled UAH 496,800, number of members – 402.

Nadia Credit Union of Mykolayiv (Lviv oblast)

The credit union was registered in 1997. At the end of 1999, assets of the credit union totaled UAH 16,432 total number of borrowers in 1999 were 105. It was last credit union signed up by the Project before termination.

Samopomich Credit Union of Chortkiv (Ternopil oblast)

The credit union was established in 1993. It is one of model credit unions supported by CPDCUU and WCCU. The credit union employs 8 people. By November 1999 the credit union has made over 1500 loans totaling UAH 1,300,000. For 5 years of operations the credit union paid over UAH 290,000 of interest to its members. At the end of 1999 total assets of the credit union reached UAH 300,00 while membership exceeded 1,400.

Zhovskivska Gromada Union of (Lviv oblast)

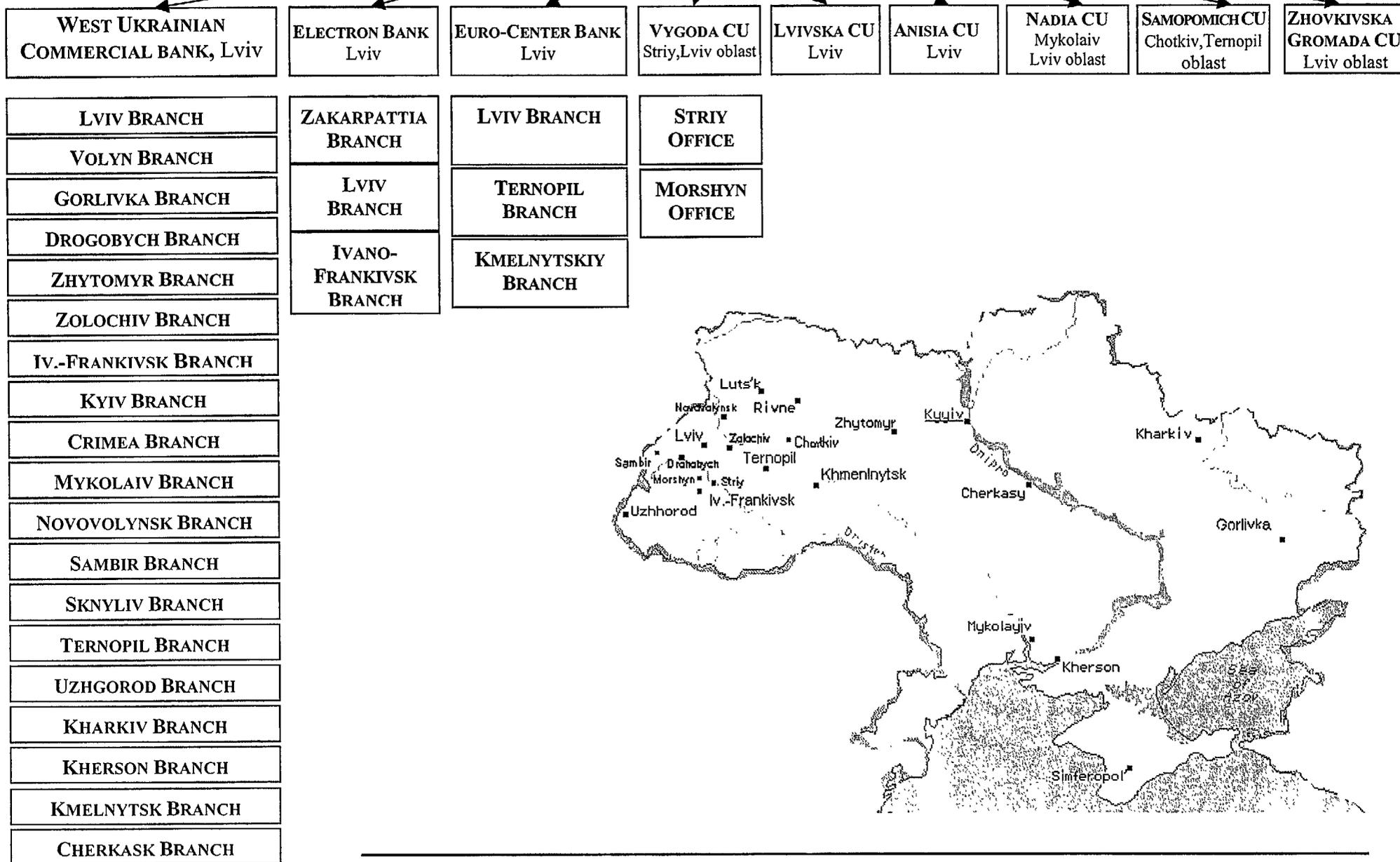
It a new and very young credit union that was established at the Business Support Center of Zhovkva (a town some 20 km from Lviv). The Center was started under the Eurasia Foundation-sponsored technical assistance program and now holds a small fund (up to UAH 25,000) designed to make loans in Zhovkva rayon. Originally, the Center did loan though the AgropromBank. Currently, it works with the PrivatBank, though which 10 loans were made in 1999. However, due to experienced difficulties of keeping a bank as intermediary on small-sized

loans, the Center decided to establish its own financial institution to facilitate lending to small business. A decision was made to create a credit union.

The Zhovkivska Gromada CU was registered on January 6, 1999, and was founded by 50 residents of the Zhovkva district of Lviv oblast. Alina Kernytska, heads the CU, the Executive director is Uliana Golia. Currently all assets of the CU total UAH 7,000.

WUI ACDI/VOCA RURAL CREDIT EXPANSION PROJECT

Figure 1
Institutions with whom the Project
signed the joint activity agreements



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c) IMPACT ASSESSMENT

Overview. Our internationally oriented training courses strengthened the Ukrainian banking and finance system through the transfer, adaptation and application of international business standards and principles in the current banking practices in Ukraine. They improved efficiency and performance of bank and credit union operations, integrated Ukrainian banks into the international financial system, and facilitated strong relations between Poland and Ukraine to bring current relations to a quality level. Our cross-border training and linkages assisted banks and other financial institutions in strengthening their ability to operate and improve financial performance with access to generally accepted financial management techniques. It resulted in the following outputs:

1. extensive credit analysis and lending training, through the actual lending program, facilitated in practice good loans to private sector by teaching lenders to professionally appraise, monitor and supervise borrower operations.
2. operational performance of banks and other institutions improved with enhanced financial management skills in banks such as better balance sheet management, ALCO responsibilities, and financial risk management and techniques.
3. liquidity and interest rate risk were the most germane aspects to Ukrainian banking environment. Polish experiences and techniques based on western standards help banks to introduce procedures that enhanced bank security and minimized risks.
4. the planning-related financial and marketing analysis made banks advance in understanding their market position and identifying financial sources for future success. It led to the development of new banking products on deposit and credit side resulting in better service for customers.
5. improved ability by banks to foresee the future of their operations through acquired planning techniques.

The impact on financial institutions. Implementation of the training program gave a chance to improve the professional level and to expand the range of vision of employees of both credit unions and banks. Theoretical information supplied to the participants helped them to systematize knowledge they had obtained in the course of their practical work. As the seminars and courses were conducted in a certain succession, this helped to embrace the maximal number of the participants at each of the stages of training. All educational materials were based on the international uniform methods and lending techniques, finance and personnel management. Many participants at the seminars have changed their views regarding their performance at the financial institutions. As the training required of bank and credit union officers to practically apply newly acquired knowledge to overall bank operations, it improved and continuously developed existing Ukraine lending mechanisms by providing financial institutions with technical and financial assistance.

Our training exposed Ukrainian financial institutions not only to international operating standards and experience, but to Polish banking personnel and intermediaries who are close to Ukrainians in historical and cultural terms. This emphasized the success story of the Polish transition. The training component implanted techniques and procedures proven successful in Polish banks. Participating in cross-border tours to Poland, bank and credit union employees met with their colleagues from Polish banks and credit unions and obtained information and knowledge they later applied in their own operations.

The Project training needs analysis team, who were identifying weaknesses in lender institutions before any actual training was offered, reviewed examples of creditworthy businesses that could be utilized in bigger programs of agriculture development if organized as financing of food production and processing chains. There were a number of such good examples and experience identified in Poland in this area especially as regards to credit development for private farmers and small-scale food processing businesses. This material was adapted and transferred into Ukrainian environment through the Project via banks and private borrowers. Polish trainers were good partners for these discussions and analysis because they were personally involved in development and implementation of such programs in Poland.

Developed were credit policy and procedures, credit standards and credit administration procedures for the Project's financial institutions. These documents were used as demonstration examples to financial institutions in how to develop their own credit policy and procedures and credit administration standards. The availability of this kind of information and the subsequent training to develop more sophisticated management tools with financial institutions had a positive influence for lenders to join the credit program. The Project held specialized training sessions with credit unions and some banks on development and implementation of such tools.

Implementation of the training component overall provided a higher perception level for loan officers since the training program started in evaluating their loans for joint participation. Training helped banks and credit unions develop new products and comparatively improve their current credit procedures.

Following is an impact summary of training activities for each partner bank and credit union:

West-Ukrainian Commercial Bank

Training on such a scale that involved so many participants and covered such a number of topics was conducted for the first time at WUCB. This training was a pilot course for the Project. The work with the bank helped to improve and practice adopted training material for holding training programs with other financial institutions.

At the time when WUCB was undergoing organizational and structural changes, the information obtained by the bank's managerial staff in offered seminars helped introduce these changes. Following these seminars, the bank also improved its methods of evaluating assets and liabilities, the management of liquidity and interest rate risks, operational planning in short and strategic terms.

In April 1999, the Head Office of WUCB established a new department—Department of Risk Management. The idea of setting up such department came up after the bank has received a series of seminars dedicated to financial planning. Theoretical knowledge obtained in the course was used by the bank to elaborate bylaws, rules and procedure for monitoring, control and management of the bank's finances.

JSC "Electron Bank"

The training program for the bank started in February 1999. After holding initial two seminars, Fundamentals of Credit and SME Financial Analysis, the bank requested to proceed with a follow-up training and was offered One-on-One Credit training workshop with the same trainer to go through actual loan application material on the basis of five-credit-factor theory presented in the initial package. Provided training assisted the bank officers in systemizing their knowledge of credit information trained on international techniques in lending.

JSC Euro-Center Bank

The bank was added last to the credit program and offered a package of initial training seminars geared towards preparing the bank to the joint lending. The Senior management of the bank made a sincere statement to us that the credit training they received was entirely new to them and that the principles of credit presented would be immediately put into practice in the bank. The training briefly touched on certain related human resource management principles where credit is concerned. These were in the delegation of authority, loan officer responsibility, ethics, and credit personnel issues. This subject began to answer many questions the bank had on management, credit administration and personnel development and was considered a significant benefit to the bank. We have been asked to provide the bank with a more in-depth training on these issues if and when possible.

Vygoda Credit Union (Striy, Lviv oblast), Samopomich Credit Union (Chortkiv, Ternopil oblast) and other model CUs of the Canadian Program for development of credit unions in Ukraine.

In August 1999, the Project credit specialist went to Kalush, Ivano-Frankivsk oblast, to do on-site borrower collateral Inspection training for Striy Credit Union loan officers. The credit union requested the training in an effort to have their loan officers familiarize with the standards of collateral evaluation as practiced by ACDI/VOCA in joint loans. And, in September 1999, ACDI/VOCA Senior Banking and Credit Advisor Kenneth Smith delivered an introductory training class in Credit Administration to the Lviv credit union and affiliated credit unions from Striy and Chortkiv. This workshop represented the beginning of additional extended training designed to assist lenders in introducing improved credit administration policies and procedures to their organizations.

These beginning on-the-job sessions shed light into simple yet overlooked, or immature, techniques crucial to any successful credit operation. The presented information was thoroughly discussed and organized into the plan of action for immediate implementation in credit union to become ready for joint lending with the Project.

Significant impact on these credit unions had both seminars of the primary credit series (Fundamentals of Credit and SME Financial Analysis). Both proved to be big successes and received high reviews from not only participants but also from the Canadian Program for Development of Credit Unions in Ukraine, who contracted the Project for this training. The Project received a gratification letter from Petro Makovskiy, senior officer of the Program, requesting our initiative to expand the training series with an added workshop on preparing a loan application package.

We found that the basic loan application forms and documentation needed to be developed to provide for consistency and good records in credit unions for efficiently processing loan information. To address this, the Project immediately added to the course instructions for clarity, written communication, and organized record keeping.

Overall, the seminars had useful implications in providing the lenders an opportunity to learn and compare practices of their counterparts by looking at real-life loans either already made and in use or ready to be closed. Participants reported that the seminars were the first of its kind to them.

Credit Union "Lvivska"

Based on the information from seminars on administration and operations of credit unions delivered by Kenneth Smith, the credit union has improved management system and corrected authority of the administration and employees. While developing its operational business plan, credit union to large extent utilized information from the seminar on business planning received from the Project.

The information on activity of Polish banks and credit unions gathered in the trip to Poland in June 1998 was used to improve customer services, and to establish and maintain an borrower tracking database. Credit union was able to develop new services using the experience learned from visited Polish cooperative banks. In particular, the credit union introduced credit lines for loans at request, where the requested loan amount is divided into installments equal to the applicant's salary. Also, the union started to make consumer loans. A retail store was identified where applicant's purchases could be credited.

Upon participation in the seminars, the credit union was able under the Project's guidance to considerably modify loan application and collateral procedures, and expand their system of loan security with a new technique of health insurance. The credit union established cooperation with an insurance company for contracting additional security on loans. On two occasions already, the insurance company compensated CU for loss insured loans.

CU "Anisia"

As Anisia credit union managers declared, the credit union seriously reviewed loan procedures and standards. The five-factor system for loan evaluation was a complete discovery for officers at the union. This lender had "an evaluation system" for loans, which slightly resembled the credit administration procedures used in Polish credit unions.

The exposure tour to Poland provided by the Project helped with all necessary information to learn about new principles of stabilizing and accumulating funds. They share the info and the new approach with the National Association of Credit Unions of Ukraine. After visiting with several Polish cooperative banks, Anisia officers utilized Polish experience of administration and management and immediately followed the practice of building a revolving lines of credit based on applicant's salary. The advantage of this mechanism is that repayment of the loan may be administered through subtraction of funds from the salary and transfers directly to the credit union's account. Based on the Polish experience, they also implemented the system of buying in-credit. The buy is paid to the store in full right after the transaction by the credit union. The borrower repays 50% immediately, and the rest 50% serves over a defined period of time.

Various project consultants.

Request for the Working-With-Your-Banker training series came from US AID for its project consultants from Ronco, CNFA, the Meta Center, and Land O'Lakes. It was designed to focus consultants on the borrower creditworthiness and skills instrumental in identifying and assisting creditworthy borrowers in putting an adequate loan application package together. Eleven consultants attended our six seminars on fundamentals of credit and SME financial analysis. New knowledge gained by the consultants at this training helped them understand and clearly recognize their objectives in working with private farmers and agricultural enterprises in order to assist them and their operations with financial institutions. Participants of the seminars were presented with banks' approaches to borrowers, requirements to execution and analysis of financial statements and documentation.

Consultants were able to use most of the information immediately in the development of business plans for their clients: farmers and private agricultural enterprises. Another step was made when the consultants realized a difference between pertinent loan information and strategic plan paper for an operation. Special attention to presentable loan package changed the consultants' perception of loan application to financial institutions. In this work, they used format of the financial analysis they studied in our seminars.

Carpathian Region Support Fund

Land O'Lakes consultant Yuriy Kuzmyk, after the training seminars we held for US AID consultants, passed on his participant materials and personal impressions to the management of a Charity Organization in Zakarpattia oblast—Carpathian Region Support Fund in Rakhiv. The Fund does a number of small business support programs mainly sponsored by Eurasia Foundation. The Project received a request for a similar Fundamentals-of-Credit workshop that would be more geared toward issues of banker/borrower relationship and borrower understanding of the loan process.

Twenty individuals participated in the workshop held in December 1999 in Rakhiv. They represented the regional banking, entrepreneurial and government sectors and, even though a mixed selection of participants, the group participated with a lot of interaction from various prospective on credit issues, local banker psychology and relationship with borrowers, regional problems and obstacles of transferring to generally accepted business principles.

Every participant said that the seminar was an impressive opportunity to absorb new ideas and principles that are very slow to reach distant Transcarpathian locations. As reported by Mr. Khoma, the President of the Fund, another reason to invite the Project to do the seminar was “to breathe fresh air into the lungs of the local business and government managers”. “A wind of change” was needed to make the local individual think differently and try to make changes happen. The region suffered last year from an atrocious flood, which inflicted a lot of damage and brought the region even farther behind with the rest of Ukraine. From the geopolitical and business potential standpoint, the area represents an attractive “virgin soil” and several future opportunities were identified and will be pursued for development by the Foundation. Preliminary discussions in this regard were held between the Carpathian Fund management, Rayon Administrator, and members of the ACDI/VOCA-Foundation team.

Material impact was made by the Project in terms of the numerous Polish tours for bankers and middle rank financial specialists. Mainly, such tours corrected the distorted perception of Ukrainians about market economy development abroad, and changed Polish attitude to unknown new Ukraine. A number of contacts were established between the bankers and credit unions that in many cases developed into fruitful business and information communication. We provide below the list of such contacts and established linkages developed through a number of banking and exposure tours during the Project's life span:

1. Banking tour to Poland in October 1997 Senior Management of West-Ukrainian Commercial Bank of Lviv, Ukraine

The intent of this project was to give Senior officers of the bank a chance to see how banks in Poland have progressed and developed in a market economy. It also helped the bank great deal develop professional contacts with the Polish banks visited during the tour. In this regard, especially, this tour was an outstanding success.

The following linkages were established with Polish local cooperative and some regional commercial banks:

- Mikoluv Cooperative Bank near Krakow
- The First Polish-American Bank, Krakow
- Wroclaw Cooperative Bank, Wroclaw
- Gospodarchy Poludniovo Zahodny Commercial Bank, Wroclaw
- Unii Gospodarchey State Bank, Warsaw

2. Study tour to Poland in June 1998

Selected credit union managers and junior financial specialists

This tour was designed to expose the credit unions and middle-rank financial managers to experience and practices of Polish small and medium-sized cooperative banks and credit unions. Due to their volumes of capital, financial transactions and general work principles, this category of financial institutions in Poland is close to credit union organizations in Ukraine.

The following linkages were established with Polish local cooperative and some regional commercial banks:

- Average-sized cooperative bank in Chekhanovo, 100 km from Warsaw. This bank has relatively small capital and belongs to the Regional bank system uniting approximately 30 other banks. Lending remains principal activity. The bank employs 20 people.
- "Bielanska Public Savings and Credit Depository" Credit Union. Started several years ago by Solidarnoshts (Solidarity) organization, the credit union currently serves the "Huta" Mines employees in Warsaw county.
- Tractor Manufacturing Plant URSUS Credit Union in Warsaw. Members of the credit union are 2000 employees of the plant and the membership is consistently growing as well as the union's equity.
- Cooperative Bank in Lomianky, 25 km from Warsaw. The bank is an independent joint stock union created after re-organization of the Polish bank system and currently holds 200 founders.

3. Banking tour to Poland in July 1998

Credit Train-the-trainer Program for West-Ukrainian Commercial Bank of Lviv, Ukraine

This tour took place as another one-on-one class for trainer trainees of WUCB selected by ACDI/VOCA for training under the Train-the-Trainer Credit Program with selected commercial bank credit employees. Objectives of the tour included review of lending techniques in selected commercial banks of Poland.

- The Southwest Economy Bank in Wroclaw, founded by 115 smaller co-operative banks of the region.
- Sosnovitse branch of the Southwest Economy Bank. Specifically established to deposit cash received from branch offices and member co-operative banks.
- Mikoluv cooperative bank near Krakow. An interesting financial institution with experience in handling problem loans, credit monitoring procedures and credit controls.

Feedback and request from financial institutions. Reviewing results of delivered training programs and their impact on the practical activity of financial institutions, the Project sees the positive potential in continuation and development of training activity for financial institutions either through new technical assistance entity or the successor Foundation.

There are certain fundamental reasons that underlay successful development of the training program by the Project. These are:

- 1) ACDI/VOCA's three-year experience in working with Ukrainian financial institutions;
- 2) Accessibility to the material and developments of ACDI/VOCA project in Poland that involved Polish consultants in training to Ukrainian banks;
- 3) Good relations and trust built between Ukrainian financial institutions, the Project and ACDI/VOCA;
- 4) Joint credit program with trained financial institutions that provided for immediate on-the-job application of the trained principles.

We were able to achieve a high positive attitude to the foreign technical assistance and training, and finish the Project leaving our beneficiaries with a remaining sense of necessary continuation of started training. The Project managed to overcome pervasive arrogant opinion in financial institutions, especially banks, that what they do is all right and does not require to bother changing anything. Most of them had by the time the Project began developed a negative feel to any time of humanitarian or technical assistance organization due to their little if any measurable results of operating in Ukraine.

All the financial institutions, to which the Program offered the seminars, expressed their interest in continued professional development of their employees. The majority of financial institutions needed more detailed study of some topics examined in previous seminars. Naturally, the most sought-for were courses for improved lending techniques.

The need was demonstrated in the following suggestions to expend course material:
To Fundamentals of Credit:

- Procedures of holding negotiations with borrowers and conclusion of contracts
- Loan monitoring
- Evaluation, execution and selling of the collateral
- Working with problematic loans
- Restructuring of creditor indebtedness and utilization of alternatives for debt repayment
- Legislation on crediting

To SME Financial Analyses:

- Work with financial reports; their evaluation; verification and development of conclusions
- Market evaluation and prognosis of borrower's operations
- Borrower's financial condition evaluation

To banking activity and planning

- Pricing of banking products
- Prices of liabilities involvement

- Customer services; training for personnel working with clients
- Development of financial planning models and others.

It was emphasized that the studying of foreign experience is the essential part of the training, as it allows seeing more efficient and actually workable mechanisms possible for adaptation. Also, needed is the assistance from the Project in preparing procedures that regulate their lending activity, financial planning, and organization of operations.

WUI ACDI/VOCA RCE donated to the Foundation, a detailed and inclusive Agri-Lending course. It is designed to train how to administer credit to the agriculture and consists of sixty hands-on classes for loan officers. Both internally with its own officers and externally with loan officers from participating financial institutions, the Foundation will conduct training classes to develop expertise for sustainable credit program within the Foundation.

The introduction of a computer-based software financial planning model into the Ukrainian commercial banking system brought a huge potential for Ukrainian banks. The Project evaluation team conducted a thorough study of banking and legal background for possible development and implementation of such model at the WUCB and Electron Bank. Three workshops on conceptual fundamentals of financial planning model were held for WUCB management and planning personnel. The bank received conceptual preparation to advance their operations to a computer-operated level.

III. LESSONS LEARNED

A) IN-COUNTRY TRAINING

Among major training principles we identified:

- to use and improve upon the Training and Technical Assistance, developed in the past;
- to replicate the training program with new participating financial institutions;
- to expand the activities of Technical Assistance and Training with other Project consultants and Borrowers with very little costs added (matching funds).
- to continue progress made in development for ability to provide credit with available loanable funds.

Courses provided to participating financial institutions had some important attributes, developed over the period of successful training activities with commercial banks and credit unions. They intended to streamline the instruction process and techniques applied: length of a course should not be more than 2 or 3 days any one time; courses aggressive and energetic with 1 to 1½ hour sessions followed by breaks; testing of the participants; review and revision of the material covered; the use of actual loan material.

B) CROSS-BORDER TRAINING

For two years, the ACDI/VOCA Lviv office has been working with OPCJA Consultants and their trainers. A number of specialized training courses have been adapted for the Ukrainian language and circumstance. Around sixty training workshops and seminars, exposure and study trips to Poland for commercial banks and credit unions successfully developed and implemented.

ACDI/VOCA staff supervised the training contracted from OPCJA Consultants and made recommendations for the best reception and smooth comprehension of the material by Ukrainian recipients. All participating financial institutions found the training practical and demonstrated their particular interest through immediate attempt to use a number of segments in the operations.

C) COLLABORATION WITH OTHER AID PROVIDERS

Series of seminars and courses were requested from WUI ACDI/VOCA Rural Credit Expansion project to professionally develop various project consultants and employees. The purpose of training was to give these people a better idea of borrower creditworthiness, proper loan application process, and psychology of baker/borrower relationship. It was also expected that these consultants would help locate eligible creditworthy borrowers for the Project's credit program. Training workshop on Fundamentals of Credit was held to provide the consultants of Land O'Lakes and RONCO general though substantially initial banking information on procedures, conditions, and disbursement of loans to farmers and agricultural businesses. At present time, Ukraine has a need in technical assistance to agricultural businesses for improving their relationship with banks and other lending facilities. Knowledge of credit administration could have helped consultants provide much more meaningful assistance to their clients in agricultural sector.

The SME Financial Analysis seminar gave participants general understanding of financial statements used in preparing a loan application and analysis techniques used in banks. The participants did many exercises, which included general financial review of a business, financial performance report, cash flow analysis report and projections. Majority of the workshop participants had no preliminary lending experience with banks and were not involved in credit administration. However, all left the seminars with sincere belief in the importance of good working relationship with bankers, and ability to use those principles in their personal careers and with their clients who starved for the lack of outside financing.

D) CREDIT FOUNDATION

The US AID-funded Western Ukraine Initiative which primarily focused on technical assistance to Ukrainian agribusinesses and banks, was successfully complemented by USDA monetization project that provided capital for establishment of the rural credit program. The combination of technical assistance and credit promoted viability and profitability of the private agricultural sector in Ukraine.

In July 1998, ACDI/VOCA received a contract from the U.S. Department of Agriculture (USDA) to implement another economic development project in Ukraine. Under the terms of the contract, ACDI/VOCA was assigned to administer the collection of monetized proceeds from sale of 20,000 metric tons of soybean meal which had been transported to Ukraine, sold at local market prices, and the proceeds were to be used to support economic development of the Ukrainian private agricultural sector. The sale has generated approximately \$3.6 million, however, nothing had been collected by the time of the contract.

The monetized proceeds should have been transferred to the accounts of an Ukrainian entity—Ukrainian Finance Development Foundation. This Foundation was properly established and registered to become a legal successor of the ACDI/VOCA Rural Credit Expansion sub-program. The account is now still administered by ACDI/VOCA, but consequently will be assigned to the

Foundation, for continuing the development of secondary source of finance for private farmer and agribusiness development.

The two principal goals of the Foundation today is to promote small business development and economic growth through loans with longer maturity and lower interest rates than those currently available in Ukraine; and, to support financial sector development through credit analysis training and the creation of systems and policies for credit operations at partner banks in Ukraine.

ATTACHMENTS

Schedule #1

Seminar	Date	Trainers
1. Banking Tour of WUCB Senior Officers to Poland	October 7-11, 1997	<ul style="list-style-type: none"> ACDI/VOCA personell from Lviv and Warsaw offices; Shannon Matthews, independent consultant
2. WUCB Branch Training Need Assessment at West-Ukrainian Commercial Bank	September 11-October 22, 1997	<ul style="list-style-type: none"> Shannon Matthews, Independent consultant James Besore, Senior Banking Advisor, ACDI/VOCA Warsaw
3. Fundamentals of Credit selection seminar for WUCB Credit personnell	April 8-9, 1998	<ul style="list-style-type: none"> Jerzsy Glinietsky, ACDI/VOCA Warsaw credit specialist James Besore, Senior Banking Advisor, ACDI/VOCA Warsaw
4. Fundamentals of Credit seminar for officers of the Anisia and Lviv credit unions	May 6-7, 1998	<ul style="list-style-type: none"> Anatoliy Pokhodziaev, Ukrainian Credit Specialist, ACDI/VOCA
5. "Train-the-trainers" Credit: One-on-One (four WUCB credit trainees; meeting at the Sambir branch)	May 26-28, 1998	<ul style="list-style-type: none"> Jerzsy Glinietsky, ACDI/VOCA Warsaw credit specialist
6. Banking Tour of Middle Rank Banking specialists	June 1-5, 1998	<ul style="list-style-type: none"> ACDI/VOCA Warsaw office personell; Anatoliy Pokhodziaev, Ukrainian Credit Specialist, ACDI/VOCA
7. Banking Tour of WUCB Credit Trainer Trainees	July 21-23, 1998	<ul style="list-style-type: none"> Kenneth Smith, Senior Banking and Credit Adviser, ACDI/VOCA; Anatoliy Pokhodziaev, Ukrainian Credit Specialist, ACDI/VOCA; ACDI/VOCA Warsaw office personell
8. Fact finding visit and Management Training Need Assessment at the West-Ukrainian Commercial Bank	August 4-5, 1998	<ul style="list-style-type: none"> Jacek Wozniak and Genowefa Wozniak, "OPCJA" consultants from Poland
9. Fundamentals of Credit seminar for selected credit unions	September 29-30, 1998	<ul style="list-style-type: none"> Malgozhata Yankovska-Yagello, banking professional from the Economy Union Bank in Warsaw, Poland. (Provided by "OPCJA" Consultanting Firm.)
10. SME Financial Analysis for WUCB Credit Trainees	October 13-14, 1998	<ul style="list-style-type: none"> Malgozhata Yankovska-Yagello, banking professional from the Economy Union Bank in Warsaw, Poland. (Provided by "OPCJA" Consultanting Firm.)
11. Financial and Management Planning Course Development visit at the West-Ukrainian Commercial Bank	October 13-16, 1998	<ul style="list-style-type: none"> Jacek Wozniak and Roman Rak, "OPCJA" consultants from Poland
12. Small and Medium Enterprise Financial Analysis Seminar for credit personnell of Credit Unions	October 15-16, 1998	<ul style="list-style-type: none"> Malgozhata Yankovska-Yagello, banking professional from the Economy Union Bank in Warsaw, Poland. (Provided by "OPCJA" Consultanting Firm.)

Seminar	Date	Trainers
13. Financial Planning: Asset/Liability Management for Senior Management of WUCB	October 26-30, 1998	<ul style="list-style-type: none"> Jacek Wozniak and Genowefa Wozniak, "OPCJA" consultants from Poland
14. BKHF Branch Operations and Business Plan Development for WUCB Eastern Ukraine branch managers	November 4-5, 1998	<ul style="list-style-type: none"> BKHF Senior Consultant, Michael St.Martin
15. BKHF Branch Operations and Business Plan Development for WUCB Western Ukraine branch managers	November 9-10, 1998	<ul style="list-style-type: none"> BKHF Senior Consultant, Michael St.Martin
16. Borrower training for LOL consultant trainees and various project participants	November 13, 1998	<ul style="list-style-type: none"> Kenneth Smith, Senior Banking and Credit Adviser, ACDI/VOCA; Anatoliy Pokhodziaev, Ukrainian Credit Specialist, ACDI/VOCA
17. "Train-the-trainers" Credit: One-on-One continued (four WUCB credit trainees; meeting at the Lviv branch)	November 20, 1998	<ul style="list-style-type: none"> Kenneth Smith, Senior Banking and Credit Adviser, ACDI/VOCA; Anatoliy Pokhodziaev, Ukrainian Credit Specialist, ACDI/VOCA
18. Human Resource Mgmt development seminar #1 at WUCB Head quarters for Senior Management Officers	November 24-26, 1998	<ul style="list-style-type: none"> Roman Rak, "OPCJA" consultant from Poland; Kenneth Smith: banking/credit advisor
19. Financial Planning: Liquidity Management seminar for WUCB Senior Management Officers	December 1- 4, 1998	<ul style="list-style-type: none"> Jacek Wozniak and Genowefa Wozniak, "OPCJA" consultants from Poland
20. Principles of Financial Planning Model seminar for WUCB Senior Management Officers	December 15-18, 1998	<ul style="list-style-type: none"> Jacek Wozniak and Genowefa Wozniak, "OPCJA" consultants from Poland
21. Medium Term Lending Procedures for credit managers from Cherkassy, Khorlivka, Kharkiv, Kyiv, Zhytomyr, at the First WUCB Branch	January 19-20, 1999	<ul style="list-style-type: none"> BKHF Senior Consultant, Michael St.Martin
22. Medium Term Lending Procedures for credit Managers from Crimea, Kherson, Khmelnytsky, Mykolaiv, at Kyiv Branch	January 22-23, 1999	<ul style="list-style-type: none"> BKHF Senior Consultant, Michael St.Martin
23. Human Resource Mgmt development: Seminar #2 for Senior Management Staff, WUCB Headquarters	January 25-27, 1999	<ul style="list-style-type: none"> Roman Rak, "OPCJA" consultant from Poland
24. Medium Term Lending Procedures at Mykolaiv Branch for Credit Managers from Drokhobych, First branch, Ivano-Frankivsk, Lutsk, Novovolynks, Sambir, Sknyliv, Uzhgorod, Zolochiv.	January 26-27, 1999	<ul style="list-style-type: none"> Michael St.Martin, BKHF Advisor KMS: banking/credit advisor
25. Working with your banker (Fundamentals of Credit) for LandO'Lakes Consultants	January 29-30,1999	<ul style="list-style-type: none"> KMS: banking/credit advisor A.P: A/V Uk credit specialist

Seminar	Date	Trainers
26. Fundamentals of Credit for Electron Bank Loan Officers	February 8-9, 1999	<ul style="list-style-type: none"> Barbara Lewicka, banking professional from the Economy Union Bank in Warsaw, Poland. (Provided by "OPCJA" Consultanting Firm.)
27. Working with your banker (Fundamentals of Credit) for Ronco project consultants	February 16-17, 1999	<ul style="list-style-type: none"> KMS: Bking/credit advisor A.P: A/V Uk credit specialist
28. SME Financial Analysis Seminar for Electron bank	March 15-17, 1999	<ul style="list-style-type: none"> Barbara Lewicka, banking professional from the Economy Union Bank in Warsaw, Poland. (Provided by "OPCJA" Consultanting Firm.)
29. Working with your banker for LOL consultants (SME Analysis)	March 26-27, 1999	<ul style="list-style-type: none"> KMS: Bking/Credit advisor A.P: A/V Uk credit specialist
30. Working with your banker for Ronco consultants (SME Analysis)	March 30-31, 1999	<ul style="list-style-type: none"> KMS: Bking/Credit advisor A.P: A/V Uk credit specialist
31. A/V-BKHF VEEM Furniture Appraisal Seminar	April 14-17, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
32. A/V-BKHF Biblios Printers Appraisal Seminar	April 19-22, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
33. A/V-BKHF NTON Tailors Appraisal Seminar	April 26-29, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
34. A/V-BKHF VEEM Trans Appraisal Seminar	May 10-13, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
35. A/V-BKHF Loan Supervision and Monitoring Seminar VEEM Furniture	May 19-21, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
36. A/V-BKHF Loan Supervision and Monitoring Seminar Biblios Printers	May 24-26, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
37. A/V-BKHF Loan Supervision and Monitoring Seminar NTON Tailors	May 27-29, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
38. Foundation Board meeting #1 "Introduction to being a Director"	May 28, 1999	KMS: Bking/credit advisor Andrew Tsegelsky: project assistant
39. A/V-BKHF Loan Supervision and Monitoring Seminar VEEM Trans	May 31-June 2, 1999	D. Black: BKHF A.P: A/V Uk credit specialist
40. A/V-BKHF Problem Account Management Seminars	June, 1999	D. Black: BKHF
41. Credit One-on-One follow-up training session #1 with Electron Bank	June 21-23, 1999	Barbara Lewicka Sr. Credit Specialist of Economic Union Bank Warsaw
42. Foundation Board meeting #2 "Being a Director"	June 29, 1999	KMS: Bking/credit advisor Andrew Tsegelsky: project assistant
43. Striy Credit Union Borrower Collateral Inspection Training	August 10, 1999	David Mather: Loan consultant, PCV
44. Fundamentals of Credit for Credit Unions	September 6-8, 1999	A.P: Uk credit specialist and KMS: Bking/credit advisor

Seminar	Date	Trainers
45. Credit One-on-One follow-up training session #2 with Electron Bank	September 13-14, 1999	Barbara Lewicka Sr. Credit Specialist of Economic Union Bank Warsaw
46. Foundation Board meeting #3 "Being a Director"	September 24, 1999	KMS: Bking/credit advisor Andrew Tsegelsky: project assistant
47. Credit Administration Training Lviv Credit Union	September 28, 1999	A.P: Uk credit specialist and KMS: Bking/credit advisor
48. Credit Administration Training Striy and Chortkiv Credit Unions	September 29, 1999	A.P: Uk credit specialist and KMS: Bking/credit advisor
49. SME Financial Analysis for Credit Unions. Part 1	October 6-8, 1999	A.P: Uk credit specialist and KMS: Bking/credit advisor
50. Agri-lending. Class #1	October 15, 1999	KMS: Bking/credit advisor
51. Asset/Liability Management for Electron Bank	November 2-4, 1999	Jacek Wozniak and Genowefa Wozniak, "OPCJA" consultants from Poland
52. Credit One-on-One follow-up training session #3 with Electron Bank	November 29-30, 1999	Barbara Lewicka, Sr. Credit Specialist of Economic Union Bank Warsaw
53. Fundamentals of Credit for Euro-Center bank	December 2-4, 1999	A.P: Uk credit specialist and KMS: Bking/credit advisor Barbara Lewicka, Sr. Credit Specialist of Economic Union Bank Warsaw
54. Financial Planning Model for Electron Bank	December 15-17, 1999	Jacek Wozniak and Genowefa Wozniak, "OPCJA" consultants from Poland
55. Credit One-on-One follow-up training session #4 with Electron Bank	December 20-21, 1999	Barbara Lewicka Sr. Credit Specialist of Economic Union Bank Warsaw
56. ACDI/VOCA Staff General Credit training seminar	December 22-23, 1999	Anatoliy Pokhodzaiev Andrew Tsegelsky
57. Fundamentals of Credit for Rakhiv Business Support Center of Carpathian Region Development Fund	December 28-29, 1999	Anatoliy Pokhodzaiev Andrew Tsegelsky
58. SME Financial Analysis Seminar for Euro-Center bank	January 18-20, 1999	A.P: Uk credit specialist and KMS: Bking/credit advisor
59. ACDI/VOCA Staff SME Analysis training seminar	January 24-25, 1999	Anatoliy Pokhodzaiev Andrew Tsegelsky