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**RESTRUCTURING AGRICULTURE  
THROUGH AGRIBUSINESS FORMATION:  
PRIVATE SECTOR PROGRAM FOR RUSSIA COOPERATIVE**

**Agreement No. CCN-0006-A-00-3039-00**

**Final Report  
1997**

**Land O'Lakes, Inc.  
International Development Division  
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**October 31, 1997**

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## **I. Executive Summary**

The Restructuring Agriculture through Agribusiness Formation: Private Sector Program for Russia project consisted of two phases. The first phase used long-term and short-term technical assistance to assist project clients as they strived to form western style agricultural cooperatives. The second phase of the project consisted of six training sessions which were held in the United States.

Two people who participated in the first course in phase two started sausage production businesses. With information they learned during the courses, and assistance from Farmer-to-Farmer volunteers, their enterprises have grown and become profitable.

## **II. Activities**

### **Development of Project Concept**

The seeds of the project date back to 1989 when Land O'Lakes began to build relationships with the Russian Ministry of Agriculture and the Association of Country Farms and Agricultural Cooperatives of Russia (AKKOR). By 1991, Land O'Lakes was asked by President Boris Yeltsin to undertake a feasibility study for the creation of a "western" (i.e. farmer owned and controlled) cooperative in Russia. The Russian government officials picked the location that the proposed cooperative would be located in. A delegation from AKKOR visited the United States, and a group of seven Land O'Lakes specialists traveled to the Venev District of the Tula oblast to gather information for the feasibility study. A proposal was submitted to USAID. A revised proposal was submitted in the fall of 1992. The project was approved and a cooperative agreement was executed which went into effect on February 13, 1993.

### **Phase 1, Long Term TA and Volunteers**

A long-term specialist was placed in Russia to implement the program. Later, a second long-term person was retained as well. During this phase of the project, 15 specialists completed 17 volunteer assignments. One Russian dairy plant manager participated in a U.S. training session. The volunteers provided assistance to project clients with cooperative structure, business management, agricultural production methods and dairy processing.

The goal of the project was to increase agricultural productivity and the availability of domestically-produced food by assisting private farmers and strengthening agricultural institutions. One of the strategies employed by the project was to assist farmer associations and agribusinesses develop cooperative structures.

### **Phase 2, U.S. Based Training**

Early in 1995, program funding was cut by USAID. In light of the reduced budget, Land O'Lakes restructured the project. The long-term staff were repatriated and the remaining funds were used to implement six U.S. training sessions. They were:

1. *Marketing, Distribution and Food Processing* (which was held twice)

2. *Marketing, Distribution, Food Processing, and Cooperative Principles*
3. *Agribusiness Management*
4. *Agribusiness Marketing and Logistics*
5. *Agribusiness Management and Finance*

### **III. Significance of Activities**

In 1995, project methodology shifted from long-term technical assistance to U.S. based training programs. The first session, Marketing, Distribution and Food Processing, was held from September 11-29, 1995. Ten Russians participated in the session, among them, two budding entrepreneurs who would later start their own meat processing businesses.

The first, Izrapil Sychoyev, was originally a manager at a large, state-owned farm. His background was in meat processing. At the time of the course, he was the manager of the entire farm, with all of its soviet era enterprises and services.

The second, Natalya Karpushova, was a veterinarian by training. She was the manager of another large farm at the time that she came to the U.S. for the training session.

Both Mr. Sychoyev and Ms. Karpushova had the sparks of an entrepreneurial spirit glowing within them. Both would have their dream of running a business in post- Soviet Russia fueled by their training sessions in the U.S. On September 21, just after lunch, they met with a meat processing specialist who would travel to Russia on three occasions to help them bring their dreams to reality. He traveled as a volunteer under the Farmer to Farmer program. When he returned home he maintained contact with them. He sent information and recipes which helped them produce better and more diverse products. Mr. Sychoyev named one of his products after the volunteer. (See the impact piece which follows.)

The following two excerpts from a report on Land O'Lakes' Farmer to Farmer program list some of their successes.

**SYCHOYEV FARM**

Izrapil Sychoyev

Kaliningrad Oblast, RUSSIA

Originally from Ingushety, Izrapil Sychoyev started out by setting up his own processing site with used equipment purchased from the local Chernyakhovsk meat processing plant. This equipment proved to be too expensive to be profitable so he replaced it with new equipment which was purchased from the Oblast Budget. He, along with three other people (see Karpushova Farm below), received the Kyrgystan-produced meat processing equipment with the stipulation that only those who worked actively to set up processing plants will be considered share holders once they are established.

The Sychoyev meat processing facility currently employs five people. It produces 1200 kg. of smoked sausage per day and approximately \$10,000/year of various cuts of fresh and fresh-frozen meat. The current status is a direct result of Farmer To Farmer volunteer interventions.

Processing quality control was addressed by volunteers with the intent of solving the plant's problem with product loss due to sausage splitting. The following improvements have been made which resolved the issue:

- the bacteria count is kept down
- the meat is kept cool during production
- the raw meat is chilled through, especially the thicker cuts
- the meat which is used for sausage is cut into smaller pieces

Sychoyev now produces sausage using volunteer expertise regarding the composition of brine for sausage making and the proper usage and types of sawdust in smoking operations. Volunteers also solved problem regarding product-drying by having ventilation chimneys added to the smoke houses.

- ✓ started with processing site using used equipment
- ✓ one of 3 local agribusinesses to receive Oblast-funded new equipment
  
- ✓ plant produces 1,200 kg of sausage/day and \$10,000/year sales of fresh and fresh-frozen meat
  
- ✓ quality control improvements solve product loss due to sausage splitting
  
- ✓ brine composition and types of wood used in smoking improve sausage appeal to consumer resulting in higher sales

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**SYCHOYEV FARM (continued)**

Kaliningrad Oblast, RUSSIA

A new product has been introduced in the area which is very popular. This sausage ("Peter's" Sausage, in English) bears the name of a Land O'Lakes Farmer To Farmer volunteer, Peter Bassett, who provided the recipe.

Employees at the plant were trained on how to operate the equipment properly and effectively. This resulted in processing certification for the five employees.

Based on advice to sell better cuts of fresh meat or to freeze meat and ship it to other areas, Sychoyev has developed a marketing contracts to sell three metric tons of meat to the Baltic navy. This resulted in a 40 percent increase in fresh meat sales with a profit margin of 20 percent and an increase of 20 percent in use of local suppliers (12 more local beef farms).

Sychoyev has also increased his product line to include soup bones. Prior to Farmer To Farmer intervention, bones unused in the production of sausage were buried. Now the plant sells the leftover bones at a profit of \$400-\$500/month.

Sychoyev is planning to expand his business into baked goods. As a result of volunteer advice on bakery production buildings, Sychoyev's new bakery building will have appropriate space for equipment installation and a supply of water and electricity.

- ✓ new product introduced named after Farmer to Farmer volunteer
- ✓ 5 trained employees at plant
- ✓ fresh meat sales increased by 40 percent with profit margin of 20 percent
- ✓ 20 percent increase in use of local beef farm suppliers
- ✓ new product line of soup bones - \$400-\$500 profit/month
- ✓ planned expansion of business into baked goods

**Restructuring Agriculture through Agribusiness  
Formation: Private Sector Program for Russia  
Land O'Lakes Inc.**

**IMPACT**

**KARPUSHOVA FARM**

Natalya Karpushova  
Kaliningrad Oblast, RUSSIA

Natalya Karpushova, a veterinarian by trade, worked at the local collective farm before starting her own meat processing plant. She was also one of three agribusiness people to receive Oblast-funded equipment for her plant (see Sychoyev Farm).

Sausage making was a completely new activity for Karpushova. A Land O'Lakes Farmer To Farmer volunteer trained Karpushova in the total procedure from butchering a carcass to finished product. The volunteer also provided suitable recipes and helped design an appropriate facility with the required meat processing tools saving \$1,500 in production costs.

As a direct result of Farmer To Farmer intervention, Karpushova received a license and the necessary confirmed quality certificates on September 26, 1996, to allow her to begin operations at her new plant. This new plant has several advantages: four smokehouses, a nearby slaughterhouse, and a market niche for her new products.

Currently the plant produces 1,020 kg per shift of ham, bacon and pork sausage, including 250 kg of "Peter's" sausage, a sausage name after the Farmer To Farmer volunteer who provided the recipe. This represents an increase in production of 60 percent and a profit of \$2,000/month. Karpushova's use of local suppliers of pork and beef has increase 50 percent.

Quality control improvement efforts have solved problems with product loss and inefficient drying. In addition to the training done for certification of the plant, five employees were also trained to operate the specialized equipment and have received certification.

Other quality improvement has occurred through the use of volunteer-donated knives and thermometers. One volunteer provided thermometers that allow control of the inside temperature of the finished product. These thermometers are not available on the Russian market and were special ordered by the volunteer in a Celsius format.

- ✓ started as a veterinarian working at local collective farm
- ✓ one of three local agribusinesses to receive new Oblast-funded processing equipment
- ✓ complete training in sausage making operations and facility provided
- ✓ \$1,500 in production cost saved
  
- ✓ new plant certified and licensed on 9/26/96.
  
- ✓ plant produces 1,020 kg/shift of ham, bacon and pork sausage
- ✓ 60 percent increase in production
- ✓ \$2,000 profit/month
- ✓ 50 percent increase in use of local suppliers
  
- ✓ Five trained employees at plant
- ✓ drying and product loss problems resolved
  
- ✓ Knives and special-order thermometers donated by volunteer

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**KARPUSHOVA FARM (continued)**  
Kaliningrad Oblast, RUSSIA

Karpushova specializes in producing ham and bacon which were not previously available on the Russian market. These products were added at the advice and through the technical expertise of a Farmer To Farmer volunteer.

The volunteer also recommended using pork and a specific flavor powder as ingredients in the sausage recipe. In addition, a specific type of wood was recommended for the smoking process. These techniques allowed Karpushova to produce sausages which have a unique, delicious taste.

Another volunteer provided Karpushova with an additional recipe for what she calls "home sausage." This strengthened her resolve to continue to expand and improve her product line.

As a result of these additions and improvements, Karpushova has increased her customer base by 50 percent, adding another local community and a resort and sanitarium located in Svetlogorsk.

- ✓ ham and bacon added to product line
- ✓ special ingredients and flavors result in a unique product
- ✓ product line expanded to include "home sausage"
- ✓ customer base expanded by 50 percent, including local resort and sanitarium

#### **IV. Comments and Recommendations**

As part of its continuous quality improvement process, Land O'Lakes International Development Division staff completed a review of project activities. Participants in the review included staff members who had worked on the project during different time periods. A Land O'Lakes Human Resources representative served on the review team as a facilitator. Land O'Lakes' upper management contributed as well. The primary result of the exercise was to identify common cause issues where the Land O'Lakes International Development Division could improve its internal systems. During the review, special cause issues were documented which were unique to this project or to Land O'Lakes' experience with projects in Russia. Two broad issues were identified which adversely affected the implementation of this project. The first issue relates to the very long time period between the development of the project's concept and its implementation. The second issue relates to coordination of project resources in a large development arena such as Russia.

##### **Timing of Implementation of the Project; Implications on the use of Unsolicited Proposals in a Development Strategy**

Land O'Lakes began building relationships with officials at the Russian Ministry of Agriculture in 1989. As early as 1990, Land O'Lakes International Development Staff provided Prime Minister Yeltsin with a preliminary feasibility study on formation of cooperatives in Russia. The project cooperative agreement was signed in February 1993, with written notification to Land O'Lakes arriving in March. Russian clients of the project became impatient with the long, protracted process of obtaining funds to begin this project. Because of timing, a window of opportunity was missed. The delay in funding detracted from early impact which could have been achieved.

To a large degree, USAID procurement procedures contributed to the long pre-implementation period of this project. Unsolicited proposals, like this one, are a valuable part of development strategy, especially during the early phases of entry into a country. To maximize the impact of unsolicited projects, timing is key. Unsolicited proposals should be part of a quick response system. Rapid identification of development needs and opportunities is one of the most valuable facets of the unsolicited proposal process. Much of the advantages of quick identification of needs is lost if the administrative requirements of the funding instrument delay the project. Progress can still be made, but it will not be as easy, and most likely, will not be as efficient.

##### **Coordination of Project Resources, Effects on Project Success**

Development efforts and projects should be coordinated. Further, they should be concentrated into reasonably sized geographic areas in order to maximize short and long term impact.

Especially during the early part of this project, USAID staff discouraged Land O'Lakes staff from using project resources from the project in concert with those of any other project. Emphasis was on keeping projects "distinct" and "separate". The effect of this practice was to disperse development dollars, effort, and impact very widely. At the end of a project, its effects can become lost in a sea of other issues. In an environment as large as Russia, the vastness of the geography can dwarf even the most significant development accomplishments.

Potential benefits and impact were lost during this project by not actively coordinating efforts of the "distinct" projects implemented by Land O'Lakes. Further, if this project and other implementors' agricultural and business development efforts would have been in a common geographic area, the effects of all of them could have been synergistic, as opposed to simply additive.

## **V. Fiscal Report**

**Land O'Lakes, Inc.  
Financial Summary**

**RESTRUCTURING AGRICULTURE IN RUSSIA  
CCN-0006-A-00-3039-00  
September, 1997**

	<b>Actual Grant To Date Thru 09/97</b>	<b>Actual Quarter 07/01/97-09/30/97</b>
<b>Direct Labor</b>	<b>322,439.57</b>	<b>2,129.75</b>
<b>Fringe Benefits</b>	<b>114,249.09</b>	<b>654.37</b>
<b>Allowances</b>	<b>91,771.30</b>	<b>0.00</b>
<b>Consultant Fee</b>	<b>104,456.12</b>	<b>0.00</b>
<b>Travel &amp; Per Diem</b>	<b>156,574.00</b>	<b>588.10</b>
<b>Expendable Supplies</b>	<b>39,034.43</b>	<b>0.00</b>
<b>Non-Expendable Supplies</b>	<b>80,321.00</b>	<b>0.00</b>
<b>Evaluations</b>	<b>11,477.00</b>	<b>0.00</b>
<b>Other Direct Costs</b>	<b>366,019.55</b>	<b>1,586.47</b>
<b>Subcontract</b>	<b>0.00</b>	<b>0.00</b>
<b>SUBTOTAL Direct Costs</b>	<b>1,286,342.06</b>	<b>4,958.69</b>
<b>Indirect Costs</b>	<b>513,411.63</b>	<b>1,815.87</b>
<b>G &amp; A on Subcontract</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Federal Funds</b>	<b>1,799,753.69</b>	<b>6,774.56</b>
<b>Non-Federal Funds</b>	<b>136,334.07</b>	<b>677.45</b>
<b>TOTAL PROJECT</b>	<b>1,936,087.76</b>	<b>7,452.01</b>

This report represents a summary of actual and accrued expenses for the referenced agreement or grant. If accrual expense amounts were not available for activities occurring in the reported quarter, those expenses will be reflected in the next quarterly financial summary.