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**FARMER TO FARMER
IN THE NIS**

FINAL REPORT

LAND O'LAKES, INC.

SEPTEMBER 1992 – SEPTEMBER 1999

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COOPERATIVE AGREEMENT # FAO-A-00-00091-00

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I INTRODUCTION

The Land O'Lakes Farmer to Farmer Program (FTF) began as a three-year program funded through USAID/BHR/PVC for \$2,000,000 that eventually extended into a seven-year program funded at a life-of-project level of \$4,391,000. The goal of the Farmer to Farmer project was to stimulate development of private sector agricultural enterprises in Russia and Ukraine. Land O'Lakes assisted FTF partners in their transition away from the centrally controlled Soviet system of the past. To better meet this goal, Land O'Lakes refined its program strategies, volunteer and FTF partner selection, and other matters over the course of the project. The key proved to be matching volunteers with practical experience to host partners who were open to change and who had the capacity to move to a farm-to-market system, where the functions of production, processing, and retail were all under their control. Many of the partners' success stories are contained in Appendices C and D. The statistics about impact are in the impact monitoring tables of Appendix A.

Land O'Lakes and the subrecipient, FFA Foundation, fielded 328 volunteers from 37 states. As one might expect from an implementor based in the Upper Midwest, one-third of the volunteers were from Minnesota and Wisconsin. Disaggregated by gender, the volunteer make-up was 13% women and 87% men. Volunteer tracking information, including technical assistance objective categorization, is included in Attachment B. The volunteers' assignments were located in twenty-two (22) oblasts of the Russian Federation and six (6) oblasts in Ukraine.

II. PROGRAM STRATEGIES

PARTNER SELECTION

Initially, Land O'Lakes targeted four specific regions in Russia: Kaliningrad, Ivanovo, Vologda, and Ryazan, based on local progressive leadership in the administration. This was done to concentrate resources in order to maximize impact. Volunteers were also sent to selected agribusinesses in other regions, where the management of the agribusiness exhibited exceptional market orientation and local leadership. Later in the program, as elections changed, the people involved in regional government and, correspondingly, the administration's attitude toward market reforms, the program expanded into new areas. Through the work done by the PRARI project to identify progressive regions, Land O'Lakes expanded into the Chuvashia Republic.

We utilized a three-prong approach to identifying recipient organizations, working through regional AKKOR offices, the regional department of agriculture, and educational institutions. Each of these organizations limited their recommendations to a very select group of agribusiness people. By working with each of them, this approach allowed us to expand our contacts and diversify our client contacts.

While former government farms were never excluded from the program, Land O'Lakes FTF did little work with them. This was due to the fact that they exhibited no interest in either purely technical-oriented assistance or in implementing significant market-oriented change in their operating procedures. These farms received significant assistance from the government and so were not in need of assistance.

In Ukraine, Land O'Lakes initially worked in close cooperation with the Lviv Association of Private Farmers, Lviv Oblast Center for Privatization and the Transcarpathian Fund for Private Farm Support to identify potential host partners. Toward the final two years of the project, however, the focus shifted away from these groups. This occurred first of all because by this time Land O'Lakes had already identified a core group of progressive agribusiness operations on which to focus its activities. Secondly, FTF began to work closely with partners of Land O'Lakes' Western Ukraine Initiative to complement that project's offering of assistance activities. Third, as local farmers increasingly expressed their dissatisfaction with the Lviv and Transcarpathian farmer support organizations and their close ties to the state, when the project sought new partners, it chose to do so through other channels. As a result, 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. Land O'Lakes also 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.

For more on the issue of partner selection, refer to the Lessons Learned section later in this report.

PROGRESSION OF PROGRAM STRATEGIES

Education

Attention was devoted during the first half of the program toward assisting agricultural education institutions transition into the developing market economy. These institutions were lacking in market economy expertise and faced continual reductions in funding from the government. Structurally, the holdover Soviet agricultural education system was top-down and lacked a means for theoretical knowledge and practical experience to interact.

Land O'Lakes worked in a number of ways to assist interested institutions in transitioning. Farmer to Farmer volunteers worked directly to pass on market-oriented knowledge and reference material to interested institutions. Through work with FFA and Russian agricultural youth organizations, we worked to provide students with practical experience in addition to theoretical knowledge.

Institutionally, we worked with several organizations to develop a more grassroots-driven extension service. In Kaliningrad, Ivanovo, and Vologda, our work with our partner organizations evolved during the latter half of the program into the establishment of outreach and training programs. Farmer to Farmer volunteers worked with the staff and provided on-the-job training in extension. This served to pass on needed knowledge to, and establish a more direct link with, local agribusiness. Also of importance, it provided the institutions with a means for bringing in additional revenue.

Production

Also during the first few years of the program, assignments were concentrated in production agriculture. This was driven by a large number of production operations appearing in Russia. These individuals were either breaking off from collective farms or relocating from Central Asia. A significant portion had little experience in agriculture and none of them had experience running a market-oriented business.

Market Orientation

Market orientation quickly became a theme for the project as our clients ran into problems created by the collapse of the Soviet infrastructure. Privatization of the farm-to-market chain in input supply, storage, processing, distribution, and marketing quickly created monopolies in all of these areas. Producers were faced with maximized prices for inputs and services combined with minimized prices for their product. At the same time, consumers were facing maximized prices. In addition, inflation during the first few years combined with delayed payments from the monopolies to producers to further hinder the development of production agriculture.

Credit

In the final year of the program, assignments were conducted to assist existing lending organizations expand their portfolio into agriculture. This was driven by regional government initiatives designed to create sustainable agriculture lending institutions. In progressive areas of the country, money traditionally distributed through the department of agriculture as grants or soft loans to producers was being used to establish agriculture lending organizations. This was done for a number of reasons. Primarily, the existing system of credit distribution was ineffective and exhibited chronic loan default. This was compounded by the collapse of SBS-Agro, the bank dispersing federal monies earmarked for agriculture.

These newly formed organizations with whom Land O'Lakes worked had experience in lending but lacked experience in agricultural lending. We worked with them in tightening their accounting systems and in developing a system for evaluating loan applicants. We also worked with them to establish self-sustaining systems resembling credit cooperatives.

Vertical Integration

In the volatile agricultural environment that existed during the initial years of the program, progressive agribusiness managers came to the realization that in order to survive they would need to access the market directly. Land O'Lakes also realized that in order for the Farmer to

Farmer program to be able to provide financial impact to an agribusiness, that agribusiness would need to have a direct market for their produce

Access to financial resources were a significant obstacle for all agribusiness. Because of the deficient market system, the vast majority of agribusiness was involved in elaborate barter relationships. This was done to acquire inputs and market their produce. Unfortunately, most of these barter relationships did not have a cash component. In addition, the pricing system for items was inflated against the producer and tended to not reflect the goods' actual market value.

What began as a target for the program soon became a requirement. A potential partner agribusiness needed to have a direct market for their product, otherwise, the first assignment with them would be targeted at establishing this market. After the direct market was established, the program would provide volunteers in other areas of the agribusiness's activities, from processing to financial management and down into production.

This proved to be very successful and resulted in measurable financial impact. Changes implemented at the marketing level attained significant profit increases for the recipient organization. Changes made in processing and production, when the agribusiness had an established direct market, expanded profits geometrically up through the chain. That is to say, improvements and innovations in processing had a tendency to double profits as they moved up through direct marketing to the consumer. Changes at the production level could quadruple as they went through processing into direct marketing, provided the agribusiness had complete linkages from farm to market.

COLLABORATION WITH USAID MISSION STRATEGIES

Right from the very start of the Farmer to Farmer program in Russia, Land O'Lakes' Moscow representative office worked in close contact with the Moscow Mission of USAID. This contact was based on the sound reporting system that ensured frequent feedback to the Mission about the results achieved and the development of the program in Russia in general. Regular meetings with representatives of the Mission responsible for the programs related to small business development, and agribusiness in particular, also helped to coordinate the work of Land O'Lakes Farmer to Farmer program team in Russia.

Volunteer assignments were always focused on achieving impact within USAID's strategic goals. The three strategic objectives – broad-based economic growth, building sustainable democracies, and sustainable environmental use and protection – were given priority in the development of the scopes of work for the volunteers. All the procedures used by Land O'Lakes Farmer to Farmer team in selection of Russian partner organizations as well as in monitoring of their development and impact assessment were developed following the recommendations and guidelines of USAID's Mission in Russia.

Always eager to improve methods of implementation of the program, Land O'Lakes Farmer to Farmer team welcomed site visits to Russian 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 Russia.

Due to Land O'Lakes' concentration in specific regions, USAID/Moscow requested assistance on several Mission initiatives

- **Credit Cooperatives** Land O'Lakes has worked in support of a Mission-funded initiative to support developing credit cooperatives. This program is also striving to utilize USDA monetized funds to provide financial support to credit cooperatives. FTF volunteers have worked with several credit cooperatives in Chuvashia, Yaroslavl and Rostov. In Chuvashia, we assisted in coordinating this work with the PRARI project, through which a consultant on cooperative legislation worked with the regional government. In addition, our Russian partner NGO Veche has recently completed an analysis of the credit cooperative movement for the Eurasia Foundation.
- **MOFSA** The MOFSA program in Russia was targeted at transitioning former government farms into a market economy. Land O'Lakes provided Farmer to Farmer volunteers to work with local participants in support of this program in the Vologda region.
- **PRARI** This program, designed to facilitate investment in the Russian economy, identifies and provides technical assistance to progressive regional governments in Russia. Land O'Lakes has worked with the program, assisting to distribute information about the program to the regions where FTF operated. In Vologda we have worked with the department of agriculture and economics on investment projects. In Chuvashia, Land O'Lakes has facilitated meetings between potential investors and FTF partners.

III PUBLIC OUTREACH IN U S

The majority of Farmer to Farmer volunteers perform public outreach activities, which assist Land O'Lakes in publicizing the Farmer to Farmer program and also in finding qualified candidates to conduct assignments. Land O'Lakes stresses the importance of public outreach activities to every volunteer who travels to Ukraine and Russia. During the briefing meeting, the project officer explains the different types of outreach activities that can be conducted, and asks that the volunteer attempt to perform some type of activity. Land O'Lakes has found that the volunteers enjoy discussing their assignments with other people and like to share their experiences with others.

Volunteers conduct various types of outreach activities ranging from speeches at churches, Lions Clubs, board meetings, employee meetings, university classes, credit union meetings, and cooperative and association meetings. Many volunteers also have articles published in their local newspapers, which allows for a great medium for publicizing the Farmer to Farmer program.

IV IMPACT ASSESSMENT

RUSSIA IMPACT

The general directive of the FTF program in Russia has been to strengthen downstream private agricultural enterprises. This directive, as well as the Strategic Objectives of USAID for the program, remained unchanged throughout the whole seven-year history of Farmer to Farmer in Russia. The emphasis of the Land O'Lakes implementation of the program evolved with time to better answer the needs of our Russian partners.

Farmers' Associations

The opening of Farmer to Farmer in Russia coincided with the then massive campaign of the Russian government aimed at supporting reforms in agriculture. A new social group was emerging in post-Soviet Russia – private farmers. The need for an organization that would represent them and defend their rights was so great that farmers' associations began to appear in different provinces of the country. Finally they were all joined together as the All-Russia Farmers' Association – AKKOR. Unfortunately, the head office of AKKOR in Moscow was established in the worst traditions of Soviet government style. Its major function became the distribution of government subsidies to private farmers, and when the subsidies dwindled, the role of AKKOR decreased accordingly.

At the same time, many honest people came to work in regional branch offices of AKKOR, and it was with them that Land O'Lakes preferred to work. A lot of effort was put into developing local Farmers' Associations into independent representative organs of private farmers in Russia. In many cases, for example in Vologda and Kaliningrad, local Farmers' Associations have become long-term Farmer to Farmer partners. They have always played a significant role in coordinating the joint efforts of private farmers in their regions and were helpful to Land O'Lakes in targeting potential participants of the Farmer to Farmer program.

In turn, we provided diverse informational and consulting assistance to them and are glad to note the growth in the ranks of the Vologda AKKOR and the reestablishment of some of the regional Farmers' Associations in our target regions (Ivanovo and Ryazan).

Farmer-Owned Processing Plants

The appearance and the growing numbers of private family farms in Russia was not welcomed by the collective or state farms' leaders. Very soon it became evident that they would do anything to prove that private farms are not efficient and have no place in Russian agriculture. From the onset, the competition between private farms and collective and state farms was not equal, as the latter had control over the infrastructure. All the processing facilities were in their hands, for instance.

Selling their produce unprocessed, the private farms were barely able to survive and in many cases lost money. The more successful and enterprising ones began to develop their own on-the-farm processing. The Farmer to Farmer program came to their aid through the Russian Farmer

Foundation and volunteer-assisted business plan development to obtain loans from banks and other credit institutions

The Russian Farmer Foundation that was set up with the assistance of Land O'Lakes provided credit to start over 60 private farmer-owned processing plants all around Russia. Needless to say, it boosted the production of the corresponding farms as well as their neighbors.

Numerous volunteers were applied for to assist the development of farmer-owned processing plants. TOO Dionis in Ivanovo region, TOO Tatiana in Nizhny Novgorod region, Kentavr (I Davidovich) in Yaroslavl region, Bakharev dairy plant in Vologda region and many others were established and grew with the assistance of Farmer to Farmer volunteers.

Consulting Centers

The need for information about modern technologies and techniques in agriculture grew among the farmers when they began to go into processing and marketing of their products. The limited resources of FTF didn't allow Land O'Lakes to satisfy all the applications for volunteer assistance.

Some of our Russian partners had a chance to go to the USA via a Reverse Farmer to Farmer program and saw how the extension service operates in America. Naturally they wanted something of that kind to be established in Russia.

All these factors prompted the appearance of Informational-Consulting Centers in the regions of Russia. Land O'Lakes, through the Farmer to Farmer program, assisted various organizations in designing the establishment and fund raising for the work of such consulting centers. Through these centers we were able to reach a wider range of agribusiness people, thus increasing the effect of volunteers work. The dissemination of agriculture-related materials brought by the volunteers and the translation into Russian were also much facilitated by the work of these consulting centers.

Agribusiness consulting centers at Ivanovo Agricultural Academy and at Kaliningrad Institute of Agribusiness were started with Land O'Lakes Farmer to Farmer volunteer assistance. Consulting centers in Krasnodar and Ryazan benefited from working with our consultants. The FTF role, when working with these organizations, was in developing them into financially sustainable institutions that provide useful services to agribusiness people and that would continue their work even after the close-out of the program. The most notable result was achieved in Kaliningrad, where the consulting center grew into a network of branches in other towns of the region, in order to be in a better position to reach the maximum number of clients.

NGOs

Throughout the program, the Land O'Lakes Farmer to Farmer team always provided support and assistance to the non-governmental organizations (NGOs) related to agriculture. It is necessary to explain that numerous NGOs appeared in Russia in the course of democratic reforms both at the federal and local level. The Service Center in Sergiev Posad (Moscow region), the Business

Center in Severskaya (Krasnodar krai), the Morozov Center in Ryazan, the Educational Center in Vologda and many others were among our Russian partners

Cooperation with these organizations was fruitful and led to noticeable results only when there was a live connection between them and local agribusiness people. Strong ties with private farmers was the most important condition of our collaboration with NGOs in Russia.

Land O'Lakes actively participated within the framework of the Farmer to Farmer program in the creation and development of a Russian NGO – Veche Fund – founded by private farmers from various regions of Russia. The Land O'Lakes Farmer to Farmer team took active part in the last project of Veche Fund – a research of the credit market in modern Russian agriculture. This project was supported by a Eurasia Foundation grant received by Veche Fund with the assistance of Land O'Lakes, Inc. Based on this research, recommendations were made to the Eurasia Foundation concerning its plans of launching a program of financial support for rural credit cooperatives in Russia.

Credit Cooperatives

In the last two years, the emphasis of the Land O'Lakes Farmer to Farmer program was on the assistance in farmers' credit cooperatives development. The collapse of Russia's bank system in August of 1998 boosted the urge to develop a credit cooperative. The absence of reliable and affordable sources of credit for farm operations prompted the private farmers of Russia to invent ingenious schemes in order to generate funding for their newly organized credit cooperatives.

Through volunteer consultant assignments designed to address the specific needs of each particular group of farmers interested in starting a credit coop, Land O'Lakes assisted in the creation and development of several such credit organizations. Credit cooperative Soyuz in Chuvashia, Small Enterprise Development Fund in Chuvashia, Sodruzhestvo credit coop in Yaroslavl region, Donskoy Farmer credit coop in Rostov-on-Don region and some others continue to operate with increased efficiency after they became Farmer to Farmer partners.

Long-Term Strategic Partnerships

The impact of the program in the long run is best seen on the Russian partner organizations that have been participating in FTF program activities continuously over the years.

It is interesting to note that those of our partners who achieved the most notable results followed a similar pattern in their development. All of them start off as production farms and evolved into closed farm-to-market systems combining production, processing, storage and marketing of their products. Pagad agribusiness in Ryazan region, TOO Dionis in Ivanovo region, TOO Tatiana in Nizhny Novgorod region, TOO Tsvety and The House of Flowers in Vologda region, Pavlovsky agribusiness in Kaliningrad region, Kentavr agribusiness (I. Davidovich) in Yaroslavl, Shanchak agribusiness in Chuvashia, Alena agribusiness in Krasnodar krai, and Verkhovazhsk Millstones cooperative in Vologda region are all good examples of such Farmer to Farmer partners.

Multiple volunteers assisted them through various stages of their development. Some of them also participated in Reverse Farmer to Farmer program. These partners are now the core of the

Land O'Lakes Farmer to Farmer program in Russia. They and similar agricultural enterprises constitute the most dynamic segment of Russian agribusiness now.

Individual impact reports on some of the best Farmer to Farmer partners in Russia are included as Attachment C. Here are the partners included:

UKRAINE IMPACT

The impact reports in Attachment D detail the wide range of successes that have come about throughout the course of Farmer to Farmer's six years of assignments in Ukraine. They represent cooperation with partners from western Ukraine primarily, and from Lviv oblast in particular, and involve collaboration with producers, processors, associations and cooperatives. While not meant to be exhaustive, these articles focus on a representative sample of the kinds of private agriculturalists on which Land O'Lakes has concentrated its efforts in Ukraine.

In addition to these individual success stories, the impact that a number of activities have had on a broader level should also be noted. Through targeted efforts in particular sectors, by utilizing Farmer to Farmer assistance in nontraditional ways (these will be detailed later), positive developments were brought about for agriculture throughout the oblast and, in some cases, nationwide. These areas included cooperative development, dairy processing, and canola production.

Canola

Through an intensive focus on rapeseed, and especially canola, Land O'Lakes, together with FTF assistance, identified and helped revive the production of a lucrative crop that was western Ukraine's number one crop prior to Soviet collectivization. Land O'Lakes' work brought together local producers, processors, input providers and a local vegetable marketing cooperative. As a result of these efforts, the cooperative expanded its activities into providing both inputs and markets for rape producers, membership in the cooperative increased, cooperation was initiated between producers and those with drying operations, and over a dozen partners began growing canola, thereby increasing their revenue by an estimated \$254,950 in 1999 alone. Furthermore, project activities in partnership with the Institute of Rape and Flax in the city of Ivano-Frankivsk have helped increase the profile – and production – of this crop in several additional oblasts in southwest Ukraine.

Cooperative Development

Cooperative development activities, such as volunteer assignments, training and study trips to cooperatives in Hungary and Poland, helped foster the creation of two vegetable procurement and marketing cooperatives in Lviv oblast and have spurred on the development of a similar co-op in Transcarpathia. These cooperatives provide members with inputs at reduced prices and secure higher sale prices for their produce.

Private Dairy Processing

The work of various volunteers and Land O'Lakes staff with the Lviv Oblast League of Private Dairy Processors and its members, as well as participation in LOL-organized trade fairs in Ukraine and Romania, has helped the dairy-processing industry in a number of ways. Lobbying by the League to exempt farmers from VAT helped lead to its adoption nationwide for a period of five years. Land O'Lakes assistance also made possible a promotional event for local dairy products that attracted over 700 attendees, featured prominently in local print and local and national broadcast media, and resulted in an increased demand for local dairy products. Furthermore, FTF volunteer assistance helped League members improve their marketing efforts and expand product lines.

Swine Production

While traditional feeding methods are largely outdated in Ukraine and require a 12- to 14-month fattening period to produce low-quality and high-fat pork, Land O'Lakes has launched a number of training activities to try to improve the situation – with notable results. Over a dozen farmers have made study trips with Land O'Lakes assistance to learn from more advanced Polish swine producers, a practical seminar was organized at a farm owned by a partner who is utilizing modern feeding techniques and dry feeds and obtaining dramatic results, and a swine production and marketing cooperative is being developed to secure lower-cost inputs and premixes and to provide better sales markets to its members. As a result, five partners already have completely switched to dry feeds purchased from a supplier Land O'Lakes introduced them to, and another ten are either presently constructing modern swine facilities to initiate or improve swine production, or have begun feed trials at their farms. A Farmer to Farmer volunteer also prepared a great deal of technical information on the fundamentals of swine management, taking into considerations local conditions and constraints.

Spotlight on an Exceptional Volunteer

Roy Chapin, who conducted two six-week Farmer to Farmer assignments, completed various successful assignments in Ukraine. Mr. Chapin held workshops, organized a test farm, and published many brochures and articles related to animal nutrition in Ukraine. In addition to his work with animal nutrition, Mr. Chapin participated in a local seminar on rapeseed production. Following this seminar, Roy focused on this field during many of his Farmer to Farmer assignments. Land O'Lakes also became very interested in rapeseed production and held their own seminar due to Roy's research and work on the subject. Both parties realized that canola meal could be used as a much needed protein resource in Western Ukraine.

Mr. Chapin also wrote a three-part series on swine nutrition that ran in the local newspaper, as well as two brochures on swine nutrition and utilizing canola meal in livestock rations, respectively, which Land O'Lakes will be distributing to local farmers.

In addition to work with livestock nutrition and rapeseed production, Chapin worked on liquid feed manufacturing, which provided a Ternopil processing plant with technical information on producing it and the potential economic benefits.

Certainly there were many more successful assignments in both Ukraine and Russia, and these are due in large part to the success of previous, exemplary volunteers and their ability to reach out to other potential consultants through public outreach activities

During the past seven years, Land O'Lakes implemented over 325 assignments in Russia and Ukraine. Through these assignments, Land O'Lakes formed many successful partnerships with agribusinesses, cooperatives and other organizations in various regions of Russia and Ukraine. Some of the more successful partnerships were formed with

- Kaliningrad Institute of Agribusiness – Russia
- Stremilche Agribusiness – Ukraine

An impact story on the Kaliningrad Institute of Agribusiness may be found in Attachment C. The story on Stremilche Agribusiness is in Attachment D, along with individual impact reports on fourteen more of the best Farmer to Farmer partners in Ukraine.

Impact indicator monitoring tables for the life of the project are included as Attachment A.

V. LESSONS LEARNED

A PARTNER SELECTION CRITERIA

1) *UKRAINE*

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 assignments had occurred with hosts 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, assignments were 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 assignments. In addition, assignments devoted to computer-based financial management were facilitated by obtaining six donated, used computers from an American company. These computers were provided free of charge to several local host organizations.

Finally, it is worth noting a change of geographical focus over the course of the program. Initially, Land O'Lakes focused its activities on the oblasts of western Ukraine, and its subawardee, FFA, focussed on Crimea. The reason for this was to concentrate FTF efforts in a limited area in order to maximize its profile and impact in those regions it considered most progressive. This strategy was further refined by the Kiev Mission when it selected Lviv oblast as one of three target regions. As a result, Land O'Lakes started to make Lviv the main focus of each new volunteer assignment, although it continued to utilize these volunteers, when possible, also to build on partnerships it had already established with host organizations from other parts of Western Ukraine.

2) *RUSSIA*

In Russia, the key factor to assignment success was the identification of recipient organizations. Land O'Lakes developed and continually refined both a systematic approach to reaching recipients and a checklist for potential partners. This system has served to maximize the impact of the Farmer to Farmer volunteers.

Reaching Potential Recipients

Land O'Lakes took an intensive approach to recipient identification. Concentrating resources in several key regions of the country, we sought to reach as wide a cross-section of the agribusiness community as possible. In each region we worked with the local administration, department of agriculture, department of economics, AKKOR, Peace Corps volunteers, foreign and Russian NGOs working locally, agriculture equipment manufacturers and retailers, commercial funding organizations, educational institutions, assignment coordinators (see below), and the local media. By combining all of these elements, we were able to establish widespread contacts and reach the most appropriate organizations. This also allowed us to develop an in-depth understanding of the local agricultural environment to better direct our program and meet our partners' needs.

Regional Partner

In each region where we worked, we fostered a close relationship with the most progressive of these elements. By working through these organizations to provide assistance, we established a sustainable entity which would continue to provide consulting services after the Farmer to Farmer program ended. In Vologda, Ivanovo, and Kaliningrad, together with our partner organizations, we were able to leverage financial resources to further strengthen their positions as providers of consulting services.

Small- and Medium-Sized Enterprises

Larger enterprises tended to have significant government support and therefore have resources to pay for consulting services. Furthermore, this government support reduced their need and corresponding interest in outside consulting. Protected from the “invisible hand” of the market, larger organizations tended to resist implementing change. With large organizations there was additional resistance due to the fact that the organization needed to replace an established existing system. The soviet management system was deeply entrenched in these enterprises at every level. Small and medium enterprises, on the other hand, were usually not receiving significant government support. These organizations were very interested in new market-oriented approaches to grow their business. Their size made them vulnerable, and at the same time, made them more flexible and better able to utilize consultants. This resulted in maximum impact.

Vertical Integration

In an unstable market, being self-sufficient became the determining factor for an organization’s success. Unable to depend on suppliers and buyers, the enterprises leading agribusiness were those which began to develop their own vertical integration. Land O’Lakes worked with these businesses back through their vertically integrated chain. We started with market access, then processing and eventually worked down to production.

Market Access

With the collapse of the Soviet infrastructure and the rise of processing and marketing monopolies, market access became the determining factor for an agribusiness’s survival. Our implementation was designed to make a solid market the number one priority and we worked with clients who shared our vision. For those who did not have market access, we worked with them to establish it. For those who had market access, we worked with them to strengthen their position and expand their market.

Value Added

After establishing a market, we worked with partners to include a value-added link to their vertically integrated chain. For organizations with existing cleaning, processing and/or packaging activities, we worked with them to improve their operations. In many instances, these newly opened processing facilities lacked fundamental technical knowledge and were learning by trial and error. Farmer to Farmer consultants served to train their staff, improve efficiency, reduce costs, and improve quality.

Management

Due to the rapid growth and expanding activities our recipient organizations faced, management became another target area for the program. Organizing the activities for a retail outlet, processing facility and production operation as part of one integrated business is a considerable task. Land O’Lakes, as part of a successful vertically integrated farm-to-market organization, was perfectly suited to provide assistance in all aspects of the business, from personnel management to financial management.

Association Development

Work early on in the program targeted at association or cooperative development faced significant challenges. Culturally, after decades of collectivization, agricultural producers were wary of any relationship that would have them working collectively with others. They also refused to enter into any form of relationship where there was any feasible way for them to be exploited. This was compounded by the fluid nature of the Russian legal system, which left many contract issues open to easily influenced interpretation. In addition, existing legislation regarding cooperatives is written for former government farms and leaves traditional agricultural cooperatives without an inherent advantage in the Russian agriculture system.

Working agricultural associations and cooperatives are almost exclusively informal, at the production level, and between relatives. Relationships between producers, processors, and distributors in Russia tended to be too exploitative in nature to allow for the development of mutually beneficial structures resembling a cooperative.

For more on Partner Selection, refer to the Program Strategies section earlier in this report.

Long-Term Commitment to Partners

Given the task of developing an extended small- and medium-sized business, Land O'Lakes took a long-term approach to relationships with our partner organizations. Repeat assignments were a cornerstone of the FTF program.

As each agribusiness grew, the FTF program assisted them through the new phases of their business. All of the data collected in each information packet was stored in a recipient file. In this way, we were able to track the business throughout their development. The information from all past assignments was made available to each new volunteer as a means to brief them on the recipient organization.

B VOLUNTEERS

Evaluation of Volunteers

Over the course of the program, a substantial database of volunteers was developed. Both recipients and coordinators working with the individual volunteer filled out volunteer evaluation forms. This, together with impact assessments of the volunteers' work, was used to assess the performance of the volunteers. Theoretical knowledge was of little use on assignments. The best volunteers were those with extensive hands-on experience. Volunteers who viewed their assignment as an opportunity to actively adapt their knowledge and experience to local conditions achieved the best results.

Repeat Volunteers

As volunteers traveled to the NIS, their understanding of the overarching problems faced by our recipients grew. This resulted in an increase of their ability to properly assess given situations and provide accurate advice.

Repeat Assignments

Volunteers with an established relationship with a host organization were brought back for repeat assignments with that host organization. This also served to facilitate impact. In addition to the volunteer already beginning the assignment with clear understanding of the organization, a level of trust and respect had already been established between the two organizations.

Trends in Volunteer Participation

Highly qualified volunteers from varied backgrounds conducted Farmer to Farmer assignments in Russia and Ukraine. A variety of volunteers were fielded including retirees, Land O'Lakes employees and cooperative members and graduate students. An increased number of women were also fielded on assignments during the past two years of project implementation.

During Years 6 and 7, Land O'Lakes also began to utilize in-country volunteers to minimize program implementation costs. Peace Corps volunteers were the most utilized in-country volunteers in both Russia and Ukraine. In Ukraine, Peace Corps volunteers working at the Business Support Center conducted business planning, marketing and computer training courses with many Farmer to Farmer recipients.

Land O'Lakes also utilized other cost-saving measures in order to implement more Farmer to Farmer assignments. Some volunteers conducted six-week assignments and some volunteers conducted assignments in both Russia and Ukraine on one trip.

Sector Focus for Volunteers

A final major change in program administration in Ukraine involved the increased role of sector-focussed (versus host-based) interventions. Whereas the program originally was implemented between one host and one volunteer, this model changed as Ukraine staff identified certain key sectors, and fielding a volunteer to focus on each of these sectors during an assignment. By focussing volunteer-based activities on an entire sector within the Lviv oblast, for example, the volunteer gained the opportunity to become acquainted with the general situation within a sector and not just with the challenges facing an individual enterprise.

By basing certain volunteers out of the Land O'Lakes office in Lviv, and arranging field visits to host partners as needed, the project benefits in the following ways:

- The volunteer is in a better position to utilize project resources to get acquainted with in-country agricultural and economic specifics. These resources include project staff knowledge and expertise, statistical and market information, and communications resources,
- Being in Lviv provides an opportunity to set up meetings with relevant agribusiness professionals, government officials, and staff from agriculture assistance projects in the city,
- Spending 24 hours day on a farm for an extended period of time requires a great deal of time and energy from the host, and typically limited living quarters are cramped even more so by the presence of both volunteer and interpreter. Both host and volunteer are often served by

the volunteer being present only for specific meetings and activities, for this makes it easier for the farmer to keep up with his own work and simultaneously leaves the volunteer in a position to accomplish other valuable work in the project office or at other scheduled meetings,

- By not limiting the specialist's work to one particular host enterprise, the volunteer is both able to get a better sense of the dynamics of the sector he is providing assistance in (and not just of the individual enterprise he happens to be working with), and afforded the opportunity to share his/her expertise with a wider audience

It is hoped that this experience will provide other projects with a model with which to improve the effectiveness of their volunteer-based, technical assistance activities

C TRANSLATOR/COORDINATOR POSITION

Originally, interpreters for FTF assignments were paid consultants who were hired on an as-needed basis for particular volunteer interventions. In order to increase the effectiveness of the program, Land O'Lakes evolved these part-time interpreter positions into full-time coordinator positions. This change in approach benefited the program in several ways

- 1) Coordinators working full-time on FTF were able to build on their experiences to improve their interpreting skills, knowledge of specialized agricultural terminology, and strategies for working with American volunteer consultants,
- 2) Through their long-term work with the program, coordinators got to know better both host organizations and specific issues and characteristics of agriculture in Russia and Ukraine. Not only did this facilitate trust between Land O'Lakes and its host organizations, but it also allowed the coordinator to facilitate useful connections between various agribusinesses,
- 3) The coordinators wrote valuable reports on each assignment regarding the volunteer's recommendations and the host organization's reaction to those recommendations,
- 4) Through ongoing work with FTF, coordinators were better able to represent both FTF and USAID in their professional work,
- 5) The coordinators educated people in the area about the details of the Farmer to Farmer Program and helped identify potential new host partners,
- 6) Finally, it should be noted that the use of several Ukrainian-Americans as volunteers simplified the issue by making interpreters unnecessary

D EVALUATION

Evaluation of program accomplishments is one of the most challenging parts of administering FTF. 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, FTF 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 coordinators for this purpose. This was helpful, first of all, because the coordinator who had interpreted for an assignment was clearly the most qualified to pursue follow-up. He or she already was best acquainted with what the operation was like prior to the intervention and knew what to look for in terms of impact,
- 2) Whereas an American had initially performed follow-up, the increased use of full-time coordinators enabled the establishment of more continuity in Land O'Lakes' relationships with its host clients. Also, the fact that coordinators were locals 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 their FTF experience,
- 3) The comfort level between coordinator and host client was additionally enhanced by increasing the frequency of contact between Land O'Lakes and host clients. Rather than waiting 4 to 6 months after an intervention to visit a host for follow-up, an effort was made to visit each client on a more regular basis to stay informed about their work and to let them know about the project's continued interest in them and eagerness to continue working together,
- 4) Training was provided to coordinators to emphasize some strategies for collecting follow-up. These included, for example, asking fewer direct questions about impact from assignments 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 assignment. In addition, hosts often are hard pressed to identify positive impacts immediately. While it may be tempting to go down a list of volunteer recommendations and ask if the host implemented each one or not, this can create the sense that the host is being judged against the infallible advice of the specialist. In reality, many FTF impacts are more subtle than the list of specific written recommendations the specialist submits, and they may be missed if the person conducting follow up limits the discussion to the contents of the written report.

In addition, to meet the challenges associated with results-oriented reporting, Land O'Lakes developed a system for gathering information. This system consisted of an information packet to be included for every assignment. At the initial contact with the recipient organization information was gathered regarding their history, current activities, and future plans. Together, a detailed scope of work was developed and this also went into the information packet. The volunteer's recommendations and the coordinator's report were included in each information packet on the assignment. This set of documents was used to brief the person conducting the impact assessment. The impact assessment was also added to the information packet.

E COLLABORATION

Working together with other organizations, including farmers' associations, local governments, and development organizations further increased the impact the FTF program was able to achieve. Among these organizations were Peace Corps, Eurasia, Citizens Democracy Corps, Center for Citizens' Initiatives, Ronco, 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. While, as noted previously, in Ukraine official government structures proved to be more of a hindrance to FTF activities than a help, in Russia there was more collaboration, as explained below.

Regional Government

In Russia, the regional atmosphere is very dependent on how the regional head of administration relates to market reforms. In areas such as Ryazan, where a communist governor won the election, Land O'Lakes found that the working environment for our recipient organizations in the region substantially worsened. In contrast, the progressive president and administration of the Chuvashia Republic has done much to improve the market in the area. The ability of the Farmer to Farmer program to achieve impact is greater in such a region.

Work with the regional departments of agriculture has been challenging. While there is substantial diversity among regions, overall the bureaucracy was not designed to facilitate the market, but to control the market. For this reason, transitioning into a new role has proven to be difficult.

Land O'Lakes has found the regional department of economics to be much more comfortable in their new role of facilitating transition. Correspondingly, they are much more receptive to cooperating with development programs.

F ADMINISTRATION

Coordination with Western Ukraine Initiative

The FTF program worked closely with the Western Ukraine Initiative, a USAID-funded program in Ukraine also administered by Land O'Lakes, to maximize the impact of both programs. By beginning work in Ukraine, the Farmer to Farmer program had provided a basis and foundation for the USAID/Land O'Lakes Western Ukraine Initiative Program. Many recipients of this successful program were introduced to the project by the Farmer to Farmer program. The two programs also shared resources, which saved expenses and helped them both to successfully implement their respective programs.

Coordination between Russia and Ukraine Offices

After a seminar and team meeting in Moscow during year six, the Farmer to Farmer team initiated an integrated approach to their assignments that encompassed production, processing and marketing sectors. This approach allowed the team to focus the assignments on meeting

all of these sectors within the agricultural industry. The goal of the program became strengthening the entire cycle by assisting with the production, processing or marketing sectors. This seminar also allowed the team to facilitate more cooperation between the Moscow and Lviv offices. The two offices coordinated assignments and began working more closely on quarterly and impact reports.

Administration in the U S

There were a few administrative changes within staff structure throughout the seven years of the Farmer to Farmer program. The changes were facilitated very smoothly, which allowed the program to run without hindrance. The positions in the U S were consolidated so that one person conducted activities for both Russia and Ukraine, instead of one person for each country. Efficiency rose due to this change in headquarters personnel.

ATTACHMENT A

IMPACT MONITORING TABLES

Ukraine numbers in the tables reflect years 5 to 7, but not year 4
 The Russia numbers are inclusive of years 4 to 7

Table I Institutional Partners

Indicators	Previous Total	This Reporting Period	New Total
Number of FTF Implementor/Institutional partnerships	42	1	43
Number of FTF Implementor/U S organization partnerships	36	1	37

Table II FTF Host Organizations

Indicators	Previous Total	This Reporting Period	New Total
Number of hosts with first-time FTF assignments	93	3	96
Number of FTF implementor/host organization partnerships	51	0	51
Number of FTF facilitated U S organization/host organization partnerships	20	0	20
Number of host organizations that have graduated	1	0	1
Number of inactive host organizations	5	0	5
Total number of host organizations	150	3	153

Table III Improved Mobilization of Resources by PVC's PVO Partners

Indicators	Previous Total	This Reporting Period	New Total
Est value of FTF volunteers professional time	\$1,630,222	\$13,750	\$1,643,972
Est value of resources leveraged by FTF implementers, U S partners, hosts and volunteers	\$256,231	\$39,739	\$295,970
Number of host organizations assisted in mobilizing resources	13	1	14
Value of resources mobilized by FTF host organizations	\$408,000	\$2,500	\$410,500

Table IV U S Public Awareness Raised

Indicators	Previous Total	This Reporting Period	New Total
Number of FTF volunteers who have performed public outreach activities	211	0	211
Number of media events by implementers and FTF volunteers	91	0	91
Number of group presentations by implementers and FTF volunteers	529	0	529

Table V Summary of Primary Strategic Objectives for Host Organizations

Indicators	Previous Total	This Reporting Period	New Total
Number of host organizations with Broad-Based Economic Growth as the primary objective	120	4	124
Number of host organizations with Sustainable Environmental Use or Protection as the primary objective	1	0	1
Number of host organizations with Building Sustainable Democracies as the primary objective	27	1	28
Total number of host organizations	148	5	153

Table VI Strategic Objectives for Broad-Based Economic Growth

Indicators	Previous Total	This Reporting Period	New Total
Number of host organizations with production increases over pre-project levels	44	2	46
Number of host organizations operating with increased efficiency	40	1	41
Number of host organizations adopting innovative practices	40	3	43
Number of host organizations with increased financial performance	46	0	46
Number of host organizations with increased foreign exchange earnings	3	0	3

Table VII Strategic Objectives for Sustainable Environmental Use or Protection

Indicators	Previous Total	This Reporting Period	New Total
Number of host organizations with improved waste or pollution management	8	0	8
Number of host organizations with improved management of natural resources (soil, water, forest, grazing lands, national park land, etc)	11	0	11

Table VIII Strategic Objectives for Building Sustainable Democracies

Indicators	Previous Total	This Reporting Period	New Total
Number of host organizations that were created with FTF assistance and that are operating with democratic principles (i e transparency, accountability and rule of law)	6	0	6
Number of host organizations that have expanded membership	12	0	12
Number of host organizations providing new or improved services to members (advocacy, newsletters, etc)	13	1	14
Number of host organizations with improved policies for functioning of grass roots, democratic organizations	6	2	8

Table IX Objectives for Change in Knowledge through Training

Indicators	Previous Total	This Reporting Period	New Total
Number of host organizations with Change in Knowledge through Training as an objective	20	0	20
Number of host organizations with new courses or new subject matter for courses	14	0	14
Number of host organizations with improved training materials and skills	18	0	18
Number of persons trained with FTF volunteer assistance	2445	114	2559
Number of host counterparts trained in U S Reverse FTF and all other U S training/exchange programs	35	0	35

NIS FARMER TO FARMER PROGRAM
IMPACT INDICATOR MONITORING
 January 1, 1996 – September 30, 1999

Table X Summary Of Host Organizations And Impact By USAID Strategic Objective

	# of Orgs	BROAD BASED ECONOMIC GROWTH Table VI	SUSTAINABLE ENVIRONMENTAL MANAGEMENT Table VII	BUILDING SUSTAINABLE DEMOCRACIES Table VIII
Hosts with First-Time FTF Assistance	96	40	8	13
FTF Grantee/Host Organization Partnerships	51	33	9	7
U S Organization/Host Organization Partnerships	20	0	0	0
Total Number of Graduated Host Organizations	1	1	0	0
Inactive Host Organizations	5	3	1	0
Total Host Organizations	153	77	18	20

- FTF Program linkages to USAID Strategic Objectives are measured by indicators in Section II of the FTF Program Impact Reporting Model (Tables VI, VII & VIII)
- Broad-Based Economic Growth indicators are related to FTF volunteer assignment codes 1,2B, 3B, 4 and Table VI
- Sustainable environmental management is related to FTF volunteer environmental assignments in the tracking system and to Table VII
- Building sustainable democracies objective is related to FTF volunteer assignments 2A, 3A, & possibly 5&7 of the FTF volunteer tracking system and to Table VIII

Table XI Summary Of Impact Assessment with Host Organizations - Number of Host Organizations and Level of Impact

	# of Orgs	Level 1 Primary	Level 2 Secondary or Spread Effect	Level 3 Strategic Impact
Hosts with First-Time FTF Assistance	96	40	11	0
FTF Grantee/Host Organization Partnerships	51	28	17	1
U S Organization/Host Organization Partnerships	20	0	0	0
Total Number of Graduated Host Organizations	1	1	0	0
Inactive Host Organizations	5	3	0	0
Total Host Organizations	153	72	28	1

- Levels 1,2 & 3 are defined as Primary, Secondary & Strategic Level Impacts

ATTACHMENT B

VOLUNTEER TRACKING

LAND O'LAKES, INC
FARMER TO FARMER PROGRAM - NIS
Cooperative Agreement FAO-A-00-92-00091-00
VOLUNTEER TRACKING
PROJECT TOTALS

September, 1992 – September, 1999

# of Volunteer			Technical Assistance Objective								
Total	Male	Female	1	2	3	4	5	6	7	8	9
328	286	42	61	45	148	3	2	60	3	1	5

Volunteer States																			
AL	AR	AZ	CA	CO	FL	GA	IA	ID	IL	IN	KY	LA	MA	MD	ME	MI	MN	MO	MT
2	1	4	9	12	3	2	27	9	15	5	2	4	3	1	4	5	59	11	3

Volunteer States																	
ND	NE	NH	NJ	NM	NY	OH	OK	OR	SC	SD	TN	TX	VA	WA	WI	WY	TOTAL
3	8	2	1	4	2	8	13	8	1	8	1	6	5	18	56	3	328

28

PROJECT TOTALS										
September, 1992 - September, 1999										
OBLAST	# OF VOLUNTEERS PER T A OBJECTIVE CODE									TOTAL
	1	2	3	4	5	6	7	8	9	
RUSSIA										
Amur								1		1
Cherepovets	1									1
Chuvashia		1	4	2		1				8
Irkutsk	2					2				4
Ivanovo	5	2	10		1	3				21
Kaliningrad		3	16		1	9			1	30
Komi						1				1
Krasnodar	1	3	8							12
Moscow	5	8	13	1		16	1			44
Nizhny Novgorod		1	5							6
Orenburg						1				1
Orel	2					2			1	5
Penza						2				2
Primorye						2				2
Ryazan	4	4	24			7			1	40
Samara			2			1				3
Stavropol	1		2			1				4
Sverdlovsk	2	3								5
Tula		2	5			1				8
Tver	1		2			1				4
Vologda	8	8	19			2				37
Yaroslavl		1								1
UKRAINE										
Ivano-Frankivs'ka	1		1							2
Kyyivsk'ka		1				1				2
L'vivs'ka	12	3	19			1			2	37
Respublika Krym		2	4			3	2			11
Ternopil's'ka		1	1							2
Zakarpats'ka	16	2	13			3				34
TOTALS										
28 Oblasts	61	45	148	3	2	60	3	1	5	328

ATTACHMENT C

RUSSIA IMPACT STORIES

- Alena Agribusiness
- Arkhipov Agribusiness
- Dionis Agribusiness
- House of Flowers
- Kaliningrad Institute of Agribusiness
- Kharolsky Bakery
- MASHA
- Oadim Fish Agribusiness
- Pagad Agribusiness
- Shanchak Meat
- Soyuz Credit Cooperative
- Verkhovazhsk Millstones Cooperative

**FARMER TO FARMER IN THE NIS
RUSSIA
Land O'Lakes, Inc.**

IMPACT

ALENA AGRIBUSINESS

Krasnodar Krai, RUSSIA

2 assignments, 2 volunteers

The Sinchilo family agribusiness, Alena, is a growing, vertically integrated enterprise, led by an experienced manager, Anatoly Sinchilo. Anatoly worked most of his professional life in the local collective farm. During this time he established processing plants for almost all of the farm's produce, a meat processing plant, a sunflower seed oil press, a dairy, and a bakery.

When Anatoly began his family agribusiness in 1991, he immediately began to repeat the same approach he had used to make the collective farm successful. He set up a vertically integrated system of production and processing. He also quickly realized the new problems created by the transition from a controlled economy to a market economy and established retail outlets for his produce.

While the Sinchilos work to improve their agribusiness, the once successful local collective farm is on the verge of bankruptcy. Of their processing plants, only the oil press and the bakery are still working. The oil press is working far below capacity and the bakery is only used to provide bread for internal use, i.e., in trade for back wages to collective farm members.

Anatoly first leased sunflower seed oil extraction equipment and later on a flourmill. Although he was able to pay the loans back on time, Anatoly Sinchilo was dissatisfied with the level of profitability of both his processing operations. The first volunteer who worked with Alena Agribusiness assessed and evaluated all the operations of the enterprise. His recommendation was to open a store in order to get around the barter arrangements the farm was heavily involved in at the time and to increase its sales for cash.

Implementing Land O'Lakes' volunteer's recommendations, the Sinchilos rented a retail store within one month after the consultant's departure and started a bakery in two months time. They were able to barter flour for used baking and pasta production equipment for a very low price. (This impact was reported in the Land O'Lakes' fourth quarter report FY 1998.)

The used equipment did have its disadvantages. The Sinchilos ran into multiple problems with the equipment resulting in poor bread and pasta appearance and quality. The crust of their bread was cracked and crumbly. Their pasta had a rough surface and dark, dull appearance. This affected their ability to maintain sales in the competitive local bread market. They could only remain competitive because their vertical integration allowed them to offer a lower price. Alena Agribusiness decided to apply to Land O'Lakes for technical assistance for their bakery and pasta line.

ALENA AGRIBUSINESS (Continued)

Krasnodar Krai, RUSSIA

The volunteer, Arthur Fischer, recommended several changes to be introduced into the bread formulas used at the bakery. The most fundamental changes were to maximize the percent of water used in the dough and maintain a higher humidity in the proofing cabinet. After experimenting with the formulas under the guidance of the volunteer, the bakers were able to improve and stabilize the quality of their bread using the same equipment and without any additional expenses. At the same time, using more water in their formulas produced more dough, and the amount of bread produced increased by 3%.

- ✓ Improved bread quality
- ✓ Increased bread production without additional costs

Bread production, unfortunately, was becoming less profitable for other reasons. The Krasnodar oblast administration froze the price of bread in the region. Our partners in the Saratov region also reported that the regional administration froze the price of bread. The Russian consumer's buying power has fallen significantly since the banking collapse in August. This, in combination with growing competition, has served to keep the price of bread low throughout Russia, in spite of a record low wheat harvest.

This could also be a contributing factor to the low price of wheat on the Russian market. The price of wheat on the internal Russian market has been one-third the world price for wheat. This, in turn, has meant that a significant amount of Russian wheat has been sold abroad, intensifying the deficit on the Russian market caused by last year's drought.

When faced with the problem of a restrictive bread market, the Sinchilos and Arthur Fischer began to work on diversifying their product line. After all, the prices for pastry and cookies are not regulated by the Krasnodar Administration.

The Alena bakery/store is located across the street from the local high school. The students who frequent the store prefer to buy pastries over bread and they are willing to pay more for pastries. The volunteer trained the bakery personnel in the production of three pastries for their production line.

- ✓ New products

The low price for bread has pushed many local bakeries to the verge of bankruptcy. Alena Agribusiness bakery was able not only to survive, but to increase their profit by \$400 per month, which amounts to a 15% increase in the bakery's profit. They were able to do this thanks to the assistance Arthur Fischer provided to diversify their production and improved the quality of their bread.

- ✓ 15% increase in profits

At present, Alena Agribusiness has already doubled their pastry production, and according to Alla Sinchilo, the manager of the bakery, this summer the demand for their pastries will grow considerably. Their bakery is located in a town on the Azov Sea, and the population doubles during the summer because of all the tourists.

- ✓ Doubled pastry production

ALENA AGRIBUSINESS (Continued)

Krasnodar Krai, RUSSIA

The bakery already knows what they will do with this additional profit. Arthur Fischer determined that part of the problem with their pasta quality is caused by worn-out parts in their pasta machine. This money will be reinvested to improve the quality of their pasta.

While the volunteer was on assignment at Alena Agribusiness bakery, his work was covered in the local newspaper. This gave the enterprise some good publicity and helped them to compete with other bakeries.

Refer to the next page for a schematic of the Alena Agribusiness operations.

(Newspaper) "Pulse of the Week"

Krasnodar Krai

18-24 January 1999

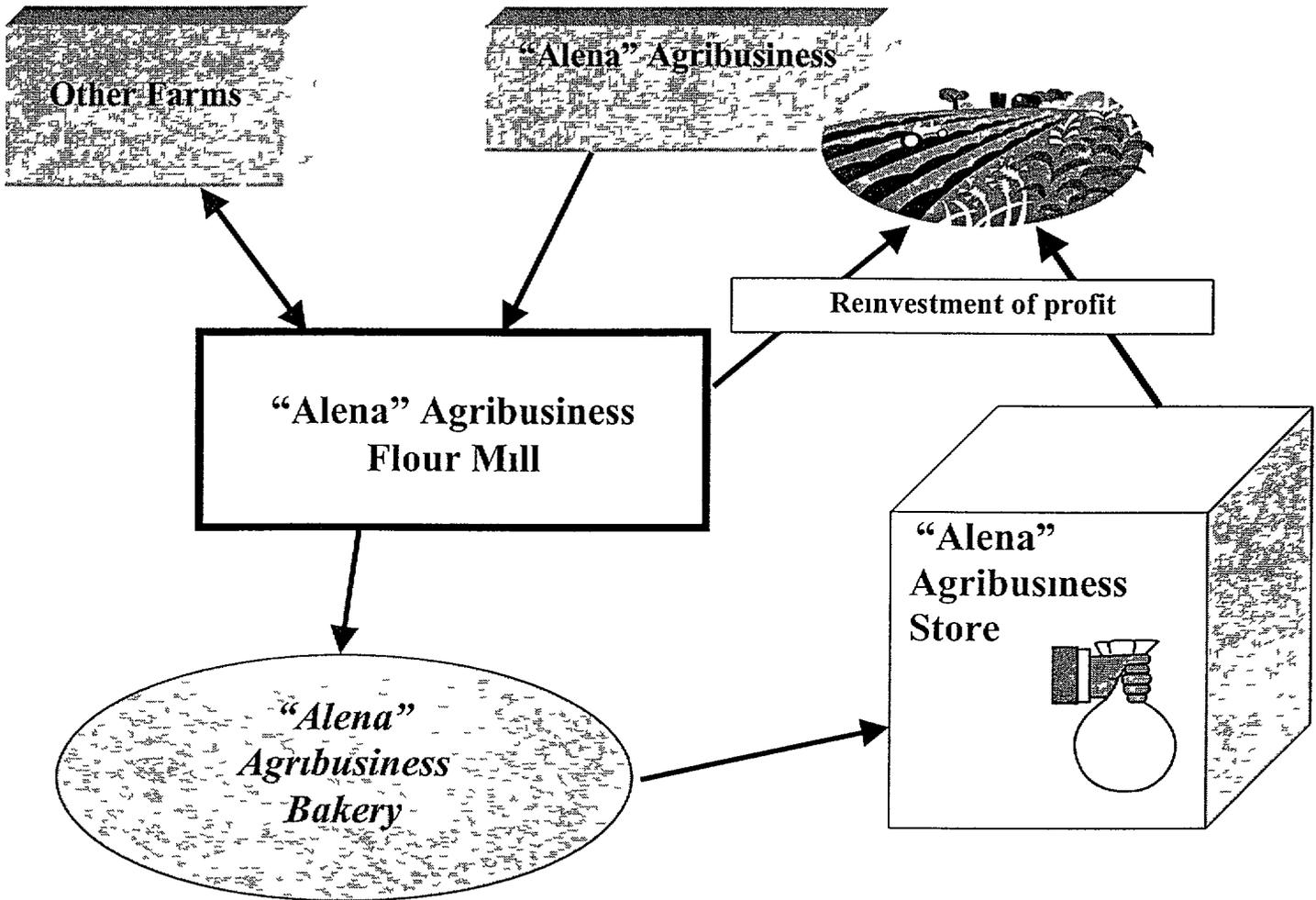
AMERICAN BREAD FROM YASENKY

It is not a coincidence that goods from the recently opened Alena bakery are in great demand with the inhabitants of Yasenskaya station. Anatoly Sinchilo, the head of this business, has a rule to perfect each of his new enterprises and bring it up to world standards of quality.

The staff of the bakery is constantly looking for ways of improving the quality of their product, trying out new formulas and paying attention to the recommendations of experienced specialists. They have already learned a lot from the bakers of the biggest bakery in Yeisk, "Yeiskmoloko," and especially their head specialist, Mrs. Chernodyrko. Last Monday they turned their equipment over to an experienced baker from the USA, Arthur Fischer. He came as a volunteer on the Land O'Lakes Farmer to Farmer program. Arthur proved the fact that there's no limit to perfection. Using the same old equipment and the same ingredients, the master of baking produced new kinds of bread and they taste great. Now it's the matter of borrowing his experience and knowledge.

As a matter of fact, the volunteer, as he calls himself, Arthur Fischer worked with the Alena Agribusiness for free. His trip to Russia to provide technical assistance, as well as similar trips by other volunteers, was paid for by American taxpayers. In the opinion of the American Government this is a more efficient means of helping our country's economy improve during this difficult period of time, than providing direct dollar subsidies.

ALENA AGRIBUSINESS (Continued)
Krasnodar Krai, RUSSIA



FARMER TO FARMER IN THE NIS RUSSIA

Land O'Lakes, Inc.

IMPACT

ARKHIPOV AGRIBUSINESS

Vologda oblast, RUSSIA

1 assignment, 1 volunteer

Valery Arkhipov can justly be proud of his farm. Despite the pessimism, and in some cases, open hostility of his former colleagues from the local collective farm, he has managed to turn his small family farm into a successful agribusiness.

Seven years ago the Arkhipovs and two other families from Ivanovskoye in Cherepovets province of Vologda region decided to quit the collective farm and become private farmers. Getting their share of land presented no problem, but getting their share of collective farm property was more difficult. In the end, the Arkhipovs and the two other families decided to work together receiving two old tractors and an unfinished farm building as their share of property from the collective farm.

The three families haven't formalized their cooperation in any official way, but seem to have developed a strong mutual trust, which helps them to avoid conflicts. Valery Arkhipov is definitely the leader of the group, although he prefers to use persuasion rather than authority in settling disputes.

It was their unanimous decision to choose dairy production as the major operation for their private farm. Back in 1992 Valery got a bank loan and purchased eight cows and one bull. Their first task was finishing the construction on their barn. It put a strain on their resources, but they managed to finish the building before winter. That first winter on their own was, according to Valery, the hardest experience in his life.

It soon turned out that it was simply impossible to make any profit producing milk and selling it to the local dairy plant. The price was not good, but even worse, the dairy plant was not timely with payments for the delivered milk. Getting paid a month later meant, at that time, that inflation was taking 10% to 20% of the profit. These circumstances pushed the Arkhipovs to the verge of bankruptcy. In 1993, having evaluated the demands of the market, Valery decided to concentrate on his lumber and hay operations, and simply maintain his dairy operation.

By selling hay and lumber in the years that followed, Valery was able to raise funds to upgrade the farm building as well as purchase a new tractor and a bailer. His dairy herd slowly grew, remaining nevertheless the least profitable operation on his farm. At the same time, Valery was always sure that the future of the farm lay in the development of the dairy operation.

The economic conditions changed in favor of dairy farms last summer. The financial crisis pushed the prices for dairy products up which resulted in greater demand for raw milk. Valery was able

ARKHIPOV AGRIBUSINESS (Continued)

Vologda oblast, RUSSIA

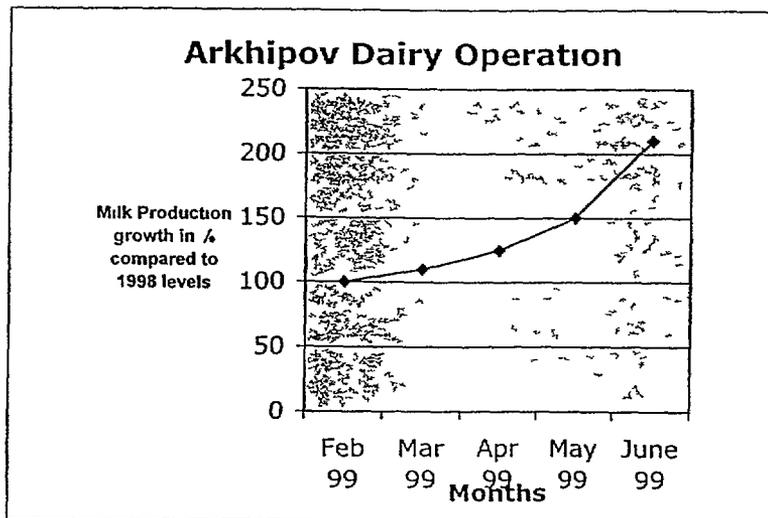
to negotiate a much better price for his milk and the dairy plant began to pay the farmers on time for their milk, on the same day of delivery. All this prompted Valery's decision to increase his dairy operation. His plan right from the start included a new breeding program for his herd based on artificial insemination (AI). This was when Valery decided to apply for technical assistance from Land O'Lakes Farmer to Farmer program, as neither he nor any of his partners had any experience in AI.

Robert Bower, the volunteer who worked with Valery, not only taught him and his wife artificial insemination techniques, but assisted him in developing a sound business plan for the increase of their dairy production.

When the volunteer came to the Arkhipovs' farm, they had a small herd of 12 dairy cows with a production level of about 190 liters of milk per day, or 15.8 liters per cow. Eighty percent of the milk went to Cherepovets dairy plant, 10% to the local orphanage and only 10% was direct marketed to local consumers.

Implementing the business plan developed with the volunteer's assistance, the Arkhipovs kept all their heifers born this spring and purchased 5 more cows with good pedigree. The number of milking cows went up from 12 to 20 and the production of milk from 190 to 400 liters per day. The average productivity per cow went up as well from 15.8 liters per cow per day to 20. Below is a graph that depicts how the Arkhipov dairy operation has increased milk production.

✓ 25% increase in milk production per cow



Valery was able to achieve this increase in milk production not only by increasing the number of milking cows, but also through changing the feeding ration. As recommended by the Farmer to Farmer volunteer, Valery has increased the amount of ground oats

ARKHIPOV AGRIBUSINESS (Continued)

Vologda oblast, RUSSIA

and other small grains fed to his milking cows proportionate to the amount of milk each cow gives per day. Despite the additional expenses for feed, according to Valery's own words, he was able to increase the profitability of his dairy operation through the increased milk production by 70-80%. This gives the Arkhipovs an additional \$900 a month.

While the volunteer was working with the farmer, the latter was contemplating the possibility of buying a refrigerator tank for his milk. Mr. Bower supported this decision, and the refrigerator was installed and started working in March 1999. It is paying off already, as Valery is able to store his milk and take it to the processor only once in two days, saving on transportation costs and time. Spending only half of 3,000 rubles (\$125) to drive 100 kilometers to the dairy plant and back, Valery also saves 22 hours of his working time a month.

Refrigerating milk increased its quality and *dachniki* (city folks coming to the villages for weekends or summer vacations) are now buying milk from Valery more willingly than from anybody else because his milk keeps longer without going sour.

Below, Farmer to Farmer volunteer Bob Bower consults on the maintenance and operation of the new cooler tank for milk.



- ✓ Profit increased by an average of 75% per month

- ✓ Transportation costs reduced by half

- ✓ 22 hours of working time are saved

ARKHIPOV AGRIBUSINESS (Continued)

Vologda oblast, RUSSIA

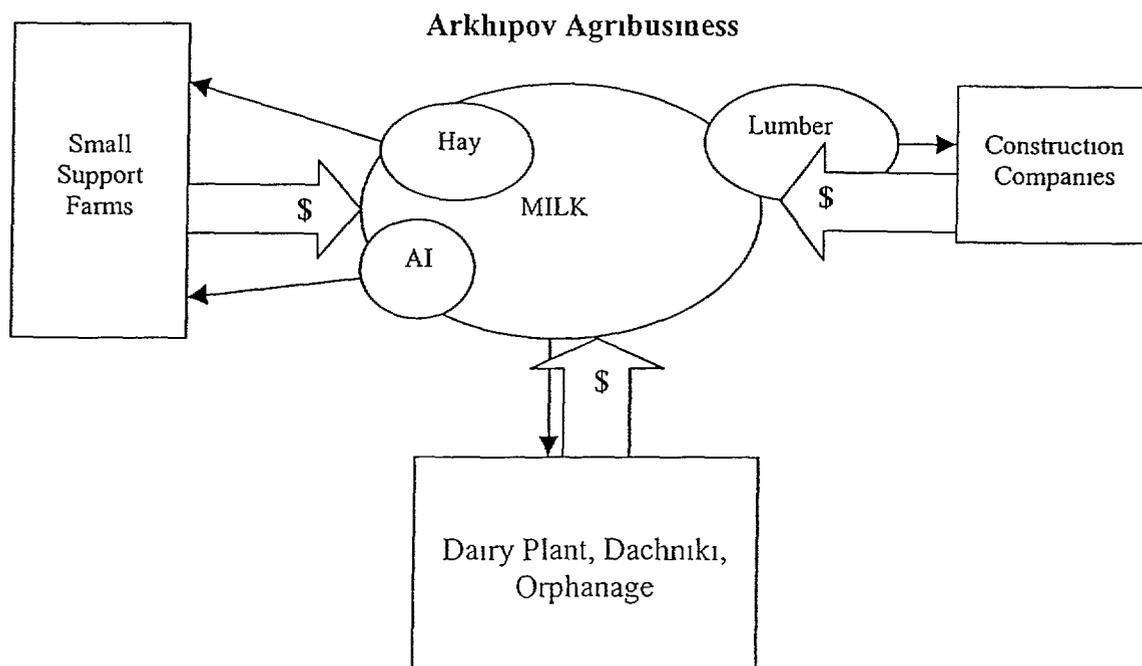
The weakest point of Valery's dairy operation was feed production, as the volunteer pointed out. Following Robert Bower's advice, Valery began to make silage for his cows this summer earlier than he usually did. The volunteer explained to him that the nutrition value of most grasses decreases in the late stages of growth, thus decreasing the quality of rough feed produced from them. The farmer also, after discussing it with Land O'Lakes volunteer, has introduced ryegrass on his farm, which enabled him to put the cows in the pasture two weeks earlier this year.

The most important part of the volunteer's assignment was teaching Valery AI techniques so that he could start working on improving the genetics of his dairy herd. As a result of this training, Valery is not only practicing AI on his farm, but providing a fee-based service to other smaller farmers. He purchased a nitrogen tank and microscope for semen storage and analysis, and he is sure that he will earn this money back this year. There are over 100 privately owned dairy cows in the neighboring villages. Providing AI to them could bring 8,000 rubles net profit, whereas the nitrogen tank and the microscope together cost Valery only 4,000 rubles – a profit of 4,000 (\$170).

Valery is very optimistic about the future of his dairy operation. The next recommendation of the volunteer that he plans to implement in the near future is improving the watering system on his farm, which he plans to get done before winter. This is likely to increase milk production by about 5% compared to the present level, which will bring the farm the additional profit of \$90 per month.

Below is a schematic of the Arkhipov agribusiness.

✓ Artificial insemination practice established



FARMER TO FARMER IN THE NIS RUSSIA

Land O'Lakes, Inc

IMPACT

DIONIS AGRIBUSINESS

Ivanovo oblast, RUSSIA

2 assignments, 2 volunteers

In 1996, the small agribusiness Dionis was in serious financial difficulty. They had taken a loan from a local bank for their dairy operation. Without packaging, the plant could only sell its product in bulk to government institutions—primarily hospitals and schools. Due to budget problems, these organizations were not receiving money from the government and could only pay Dionis in Ivanovo Region Vouchers. These vouchers could only be used to pay taxes, and Dionis could not receive cash for their product. They could not pay their milk suppliers and they could not pay their loan.

Land O'Lakes volunteer, Bill Behrens, who worked with Dionis in 1996, provided technical assistance to the manager of the plant in business plan development to reorganize the work of the plant and renegotiate the terms of the loan from the bank in Ivanovo. With the help of Bill Behrens, Valentina Kravtsova—the manager of the plant—was able to get a low-interest loan from the Ivanovo branch of the State Fund for Support of Small and Medium Private Enterprises (\$18,000). This low-interest loan practically saved the plant from closing.

With this new start, Dionis was able to attract investors to their business. These Russian investors provided a new packaging line. Sour cream and quark are packaged into small plastic containers, and this meant that the dairy could now sell their product to retail stores and receive cash. The dairy is no longer in debt to its milk suppliers and can pay them on time.

When the volunteer arrived, the dairy plant, due to cash flow problems and the resulting problems with milk suppliers, was processing almost no milk. Now the plant is working two shifts at maximum capacity of 10 tons.

In May–June 1998, Dionis requested another Land O'Lakes volunteer. John Parsons arrived to provide training in yogurt production and provide recommendations concerning the future development of the enterprise.

Working directly with the staff of the dairy plant, John Parsons provided hands-on demonstrations and training to 5 employees of the plant in yogurt production. Test batches of

- ✓ Renegotiated loan terms, received new loan, saved business from bankruptcy
- ✓ Leveraged \$50,000 investment
- ✓ New packaging line purchased
- ✓ Production increase
- ✓ Staff trained in yogurt production

DIONIS AGRIBUSINESS (continued)

Ivanovo oblast, RUSSIA

different kinds of yogurt were produced at the plant with the assistance of the consultant. John also provided a book on cheese production, cultures for yogurt and other dairy products, dial thermometers, and pH paper slips.

After they had worked out the production of yogurt, they test-marketed it through the stores where Dionis products are usually sold. The firm received additional advertising when the local TV station arrived at their plant and did a story on the work that John Parsons was doing at the plant and the development of yogurt.

Using the recognition the agribusiness received through this television exposure, an advertising campaign was developed with posters of John Parsons trying the yogurt. These posters were hung up around the capital of the region, Ivanovo. Sales of Dionis products increased markedly (15%) after this interview was shown on TV. This amounted to additional sales worth almost 65,000 rubles in July, or almost \$11,000. See the graph on the next page.

Together they worked out a business plan to start yogurt production at the plant. John was able to provide concrete information about what equipment they would need to expand their production into yogurt. The volunteer also assisted the manager of the plant—Valentina Kravtsova—with the development of a business plan to expand the operations of Dionis agricultural firm.

Dionis took this business plan and applied for a loan from SBS-Agro Bank to purchase the needed equipment to begin yogurt production. A month after the volunteer's departure, Dionis company received a \$200,000 loan from SBS-Agro Bank at half the interest rate of the Central Bank of the Russian Federation.

The Dionis organization is an excellent example of the long-term approach Land O'Lakes has with its Russian partner organizations. The goal is to assist agribusinesses like Dionis through each stage of their development. The next work with Dionis will be working with them and the area milk producers which supply their plant.

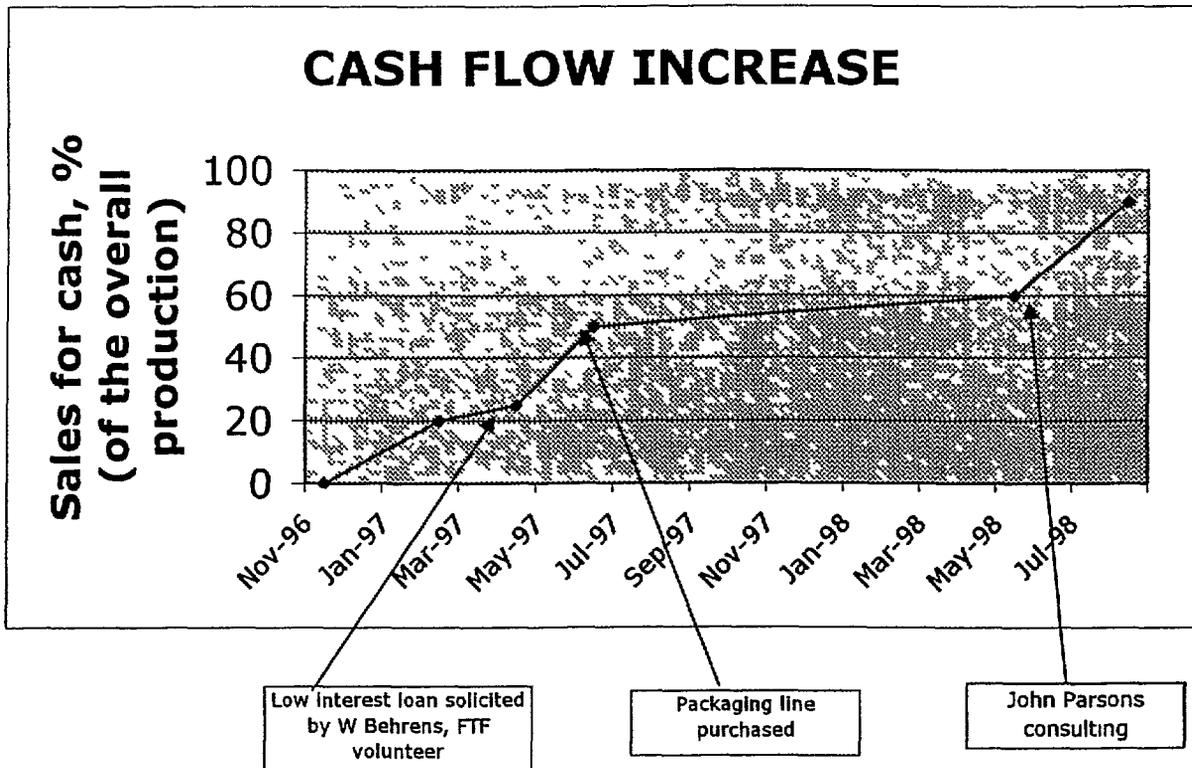
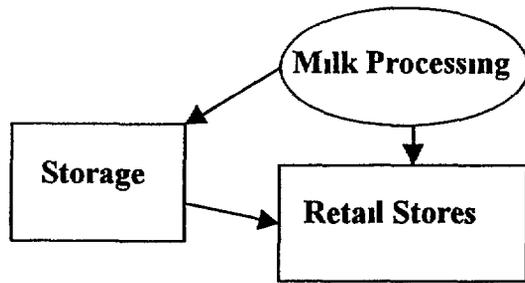
Please refer to the schematic and graph on the following page.

- ✓ Marketing plan developed
- ✓ 15% increased sales, \$11,000

- ✓ Business plan developed

- ✓ \$200,000 in leveraged funding, loan for yogurt processing equipment

Dionis Agricultural Firm



FARMER TO FARMER IN THE NIS RUSSIA

Land O'Lakes, Inc

IMPACT

HOUSE OF FLOWERS

Oleg Yevgenievich Nikitin

Vologda oblast, RUSSIA

1 assignment, 1 volunteer

The House of Flowers was originally part of the greenhouse operations of a state farm. Oleg Yevgenievich Nikitin, together with other greenhouse personnel, privatized the greenhouse. He also began a family company in partnership with the greenhouse to sell fresh cut flowers. His wife, daughter, son and son-in-law are the backbone of the company, each of whom has an artistic background, important in flower arrangements. Nikitin turned the greenhouse operations from a losing vegetable into a profitable flower operation while other greenhouses in the region went bankrupt.

Oleg Nikitin was not familiar with nursery operations and turned to Land O'Lakes for assistance. John Gerten, owner and operator of a successfully family-owned greenhouse and garden center, provided technical assistance in December 1997.

The first recommendation they agreed to was to hire a young manager, right out of the military, who is a "new Russian not spoiled by the old system." Basically, Gerten left a detailed list of management, marketing and technical recommendations that are being implemented one by one. Nikitin said that Gerten "revolutionized our way of thinking." For example, by shifting work schedules (cutting flowers every day, not just on weekdays), there was an immediate increase in production. New flower varieties, double plastic insulation (more effective and 1/4 the cost of traditional glass), the addition of advertising, the addition of two new shops and other changes have increased sales from 40 million rubles in 1994 to 6 billion rubles expected at the end of 1998. See graph on the third page of this report. Gerten's suggestions account for half, or 3 billion rubles of this increase. As of June with the exchange rate at 1 USD = 600 rubles, that equaled US\$500,000.

✓ Privatized greenhouse

✓ Successful family business

✓ New management

✓ Reduced costs

✓ Increased sales of 3 billion rubles, or US\$500,000

HOUSE OF FLOWERS (continued)

Vologda oblast, RUSSIA

The greenhouse manager has implemented 14 of the 35 recommendations so far, including (1) measurement of potassium levels, (2) increased lighting for lilies, (3) better indoor varieties of roses and chrysanthemums, (4) increased temperature and more minerals for lilies and roses, (5) additional fertilizer on sunny days, (6) use of tomato plants to measure air quality, and (7) installation of back-up heaters if the boiler fails. When asked what was the most important recommendation, he said "It is a new attitude towards your job and work."

✓ New technology



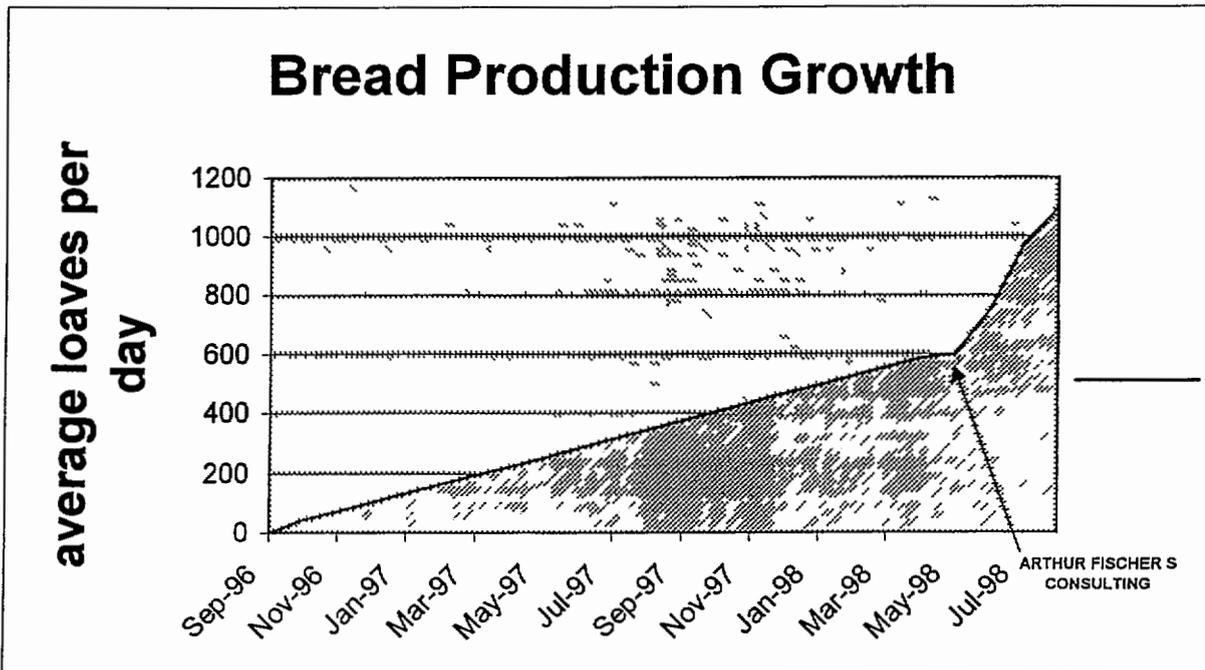
The Vologda Administration has opened the former U S Embassy as a museum and invited the U S Ambassador to Russia, Ambassador James Collins (second from right, above), to attend the opening in June 1998. In preparation for the trip to Vologda, the Ambassador expressed a desire to visit a site of American activities in the Vologda area, and USAID recommended visiting a Farmer to Farmer partner of Land O'Lakes, The House of Flowers. The Ambassador visited the House of Flowers with the Consulate General from the U S Consulate in St Petersburg (Tom Lynch, left of the Ambassador) and John Thomas from USAID (second from left). The Ambassador spoke with Yelena Antypina (far right) about the history of the business and their work with Land O'Lakes. The work that the House of Flowers and the FTF volunteer had done together to improve local production at their greenhouse and to expand their stores in Vologda and in the region were of particular interest. Yelena explained that their partnership with Land O'Lakes is a key element in the continued improvement and expansion of their business.

KHAROLSKY BAKERY ENTERPRISES (continued)

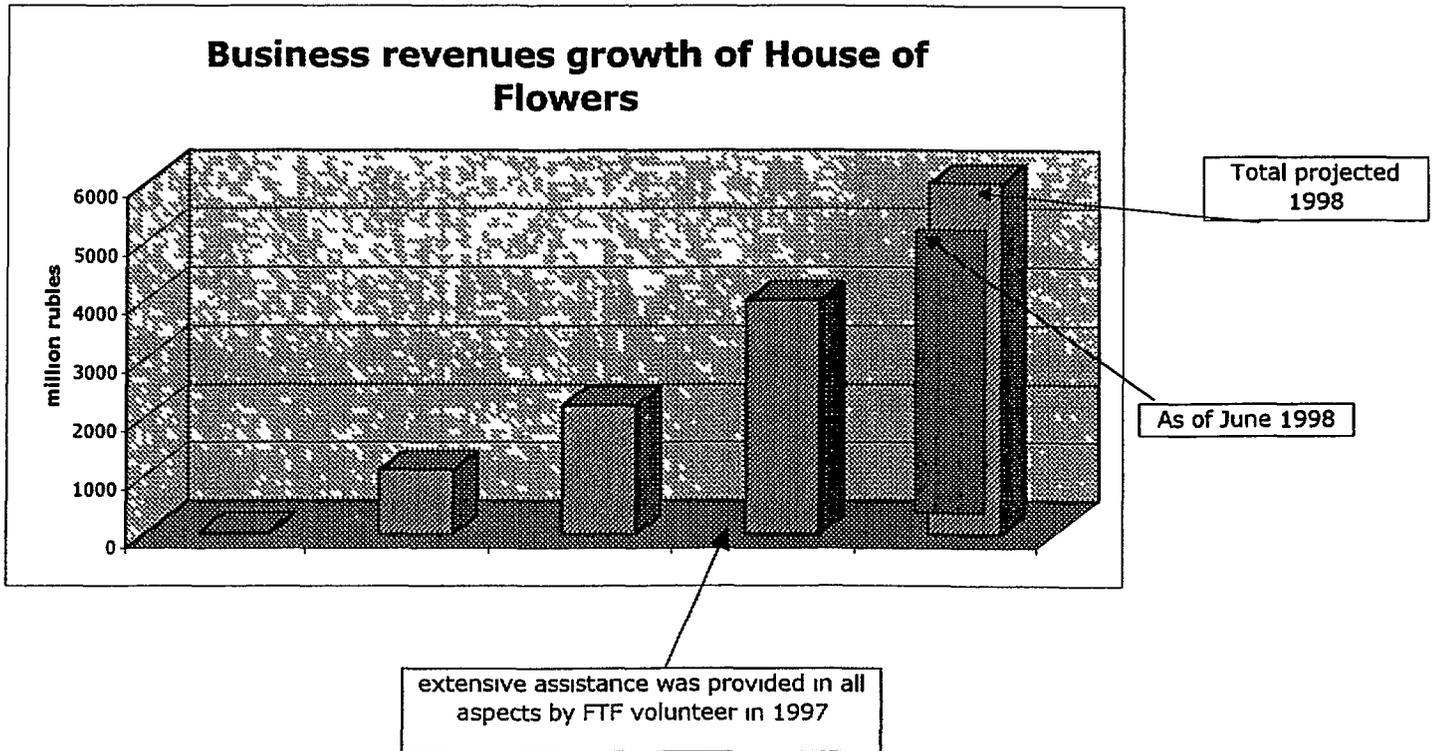
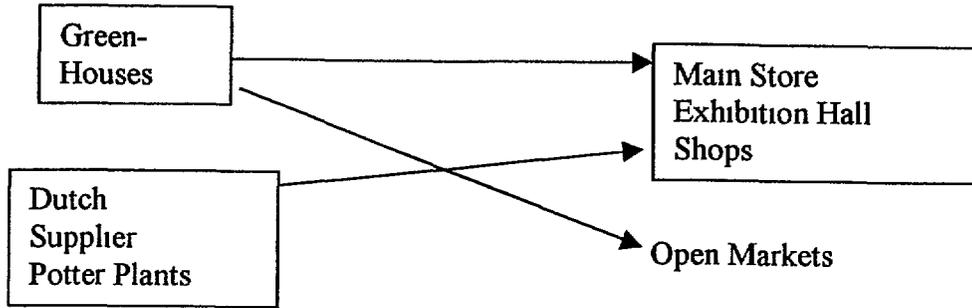
Ryazan oblast, RUSSIA



Anatoly Kharolsky (second from left) and two of the women bakery workers proudly display their new “Amerikansky” breads. The man second from right is the interpreter for the FTF volunteer Arthur Fischer.



HOUSE OF FLOWERS (continued)
Vologda oblast, RUSSIA



FARMER TO FARMER IN THE NIS RUSSIA Land O'Lakes Inc.

IMPACT

KALININGRAD INSTITUTE OF AGRIBUSINESS

Kaliningrad Oblast, UKRAINE

2 assignment, 2 volunteers

Agricultural education in the Soviet Union was markedly different than the US system. Conforming to the Soviet style of centralized management, educational needs were dictated from the government through the educational institutions. This meant that the organizations involved in production had little input as to what training they received. A system that reacted to the producers needs and provided them with the knowledge they needed similar to the US extension system did not exist. In most cases, professors had little or no contact with the people and organizations involved in production and processing. The training that was provided through a system of retraining institutions required that people leave their farms for several weeks to participate in obligatory training that the educational institutions, not the agribusiness people, decided was necessary.

With the fall of the Soviet Union, those individuals who left the government farm system and became private agribusiness people fell outside the system and did not even have the option of participating in training provided by agricultural institutions. In addition, the agricultural education institutions did not have the knowledge or experience necessary to provide training for the demands of the newly forming market economy and private ownership.

The Kaliningrad Institute of Agribusiness is working to change this. Together with Land O Lakes, Inc., they have leveraged financing from the Eurasia Foundation in order to provide training courses to assist the agribusiness people in the Kaliningrad region make the transition to a market economy. They now are able to provide the training that the agribusiness people need to work in the new market economy. They are also a driving element in the reforms that the Kaliningrad Oblast Administration is working to conduct in agriculture.

In connection with this, Land O'Lakes, Inc. provided two volunteers to work with the Kaliningrad Institute of Agribusiness. Dale Dunivan and Thom Belich.

In March 1998, Dale Dunivan worked on a project recommended by the head of the Oblast Department of Agriculture, Yuriy Shalimov. The purpose of his work was to develop a program of reorganization for the former government farms. The round table discussions he facilitated between the different elements of the agriculture system—members of the former government farms, government officials, private farmers, and university staff—provided the interested parties with a forum to voice their views, hear new opinions, and compare this with the US experience that Dale was able to share with them. The volunteer worked with two staff members of the Institute who took part in development of the seminars and adaptation of educational materials that were later used at the seminars. The volunteer brought educational materials (brochures, books and booklets) which he donated to the host organization. In the course of his work, the volunteer visited an ex-collective farm which is on the verge of bankruptcy and is included into the program of reorganization of Agri-industrial Committee of the Kaliningrad region. The volunteer met with the manager and the leading specialists of the farm and consulted them on different issues concerning farm reorganization and farm management.

This work was done in conjunction with the Agri-Industrial Union of Kaliningrad region. The Kaliningrad Institute of Agribusiness was involved in the development of the Agri-Industrial Union of Kaliningrad region and the work that Dale Dunivan did, through the reorganization round table meetings and his farm management training courses, was instrumental in bringing the participants of the union together to work on a common problem and affect agricultural policy in the area.

KALININGRAD INSTITUTE OF AGRIBUSINESS (Continued)

Kaliningrad Oblast, RUSSIA

Thom Belich also worked with the Kaliningrad Institute of Agribusiness, providing marketing training. Thom developed an educational program working directly with 3 staff members of the Institute, so that these staff members could continue the Marketing course and consequently it was added to the list of courses and seminars after the technical assistance intervention by the volunteer. The volunteer conducted Introductory and Intermediate Marketing Seminar with three different groups of people. One group of 16 people was composed of agribusiness people from Kaliningrad region, the second group was composed of employees of Kaliningrad region Tax Inspection (12 people) and the third one – of agricultural government officials who work at Kaliningrad region Department of Agriculture and at the Agri-Industrial Committee of Kaliningrad region (15 people). This work went a long way to training the people in the Oblast government who are involved in implementing agricultural policy.

The work of the volunteer also included practical classes for those who attended the seminars on writing marketing plans and executing them. Thom Belich was able to utilize his experience in international consulting, using concrete examples of similar marketing cases of Polish dairy cooperatives which related closely to the situation in Kaliningrad region.

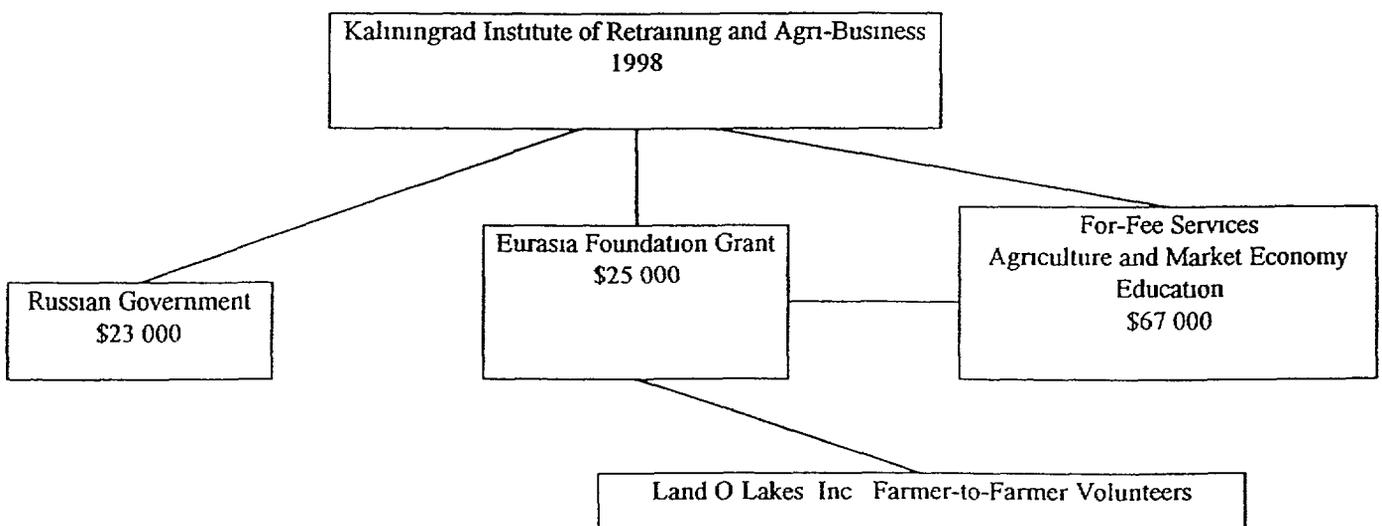
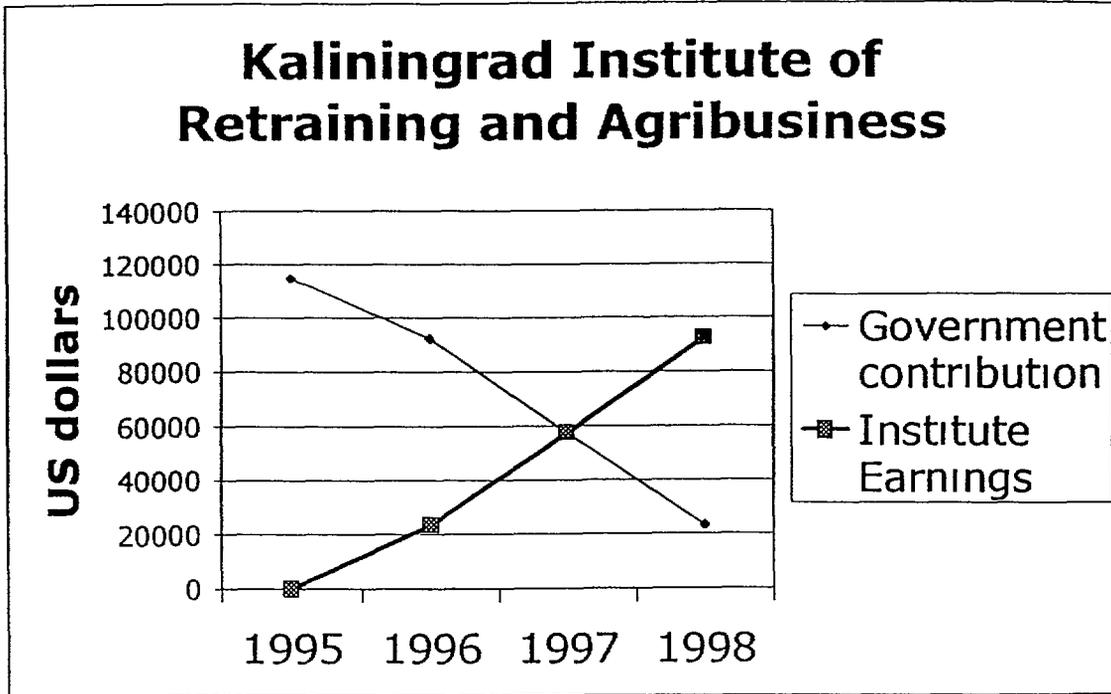
Leveraging the new training that they developed in cooperation with Land O'Lakes, Inc., the Institute was able to prove to the German government that they are a leader in providing market-oriented education in agriculture. In recognition of this, the German government donated a bus which has been turned into a classroom on wheels. It is equipped with computers and a video as well as with a gas stove and a refrigerator. The bus comes equipped with a tent which allows them to provide the group training vitally needed in the rural areas of the Kaliningrad Oblast. Using the money they earned through their for-fee courses, the institute was able to pay the registration fees and Russian duties on the bus (they paid roughly \$4,000). This new asset increases the ability of the Institute and subsequently of the Consulting Center to provide higher level consulting services to agribusiness people in remote parts of the Oblast.

The work that the Land O'Lakes volunteers have done has been included into the institute's for-fee training program. Every year, about 30-35 people enroll in the Institute for-fee courses. The charge is from \$150 to \$200 per six months. This has provided the Institute with the resources necessary to keep it afloat.

Currently, the Ministry of Agriculture is under serious financial constraints, as are all government organizations dependent on the Federal Budget. The Kaliningrad Institute of agribusiness has determined that through their expanded role in market economic training, they will be able to survive on 20% of their former budget from the Ministry of Agriculture.

The graph on the next page illustrates the growing independence of the Institute. Given the budgetary problems the government is faced with, the amount of support the Institute receives from the government has been threatened. In conjunction with Land O'Lakes, Inc. participation, the Institute has been able to transition from complete dependency on the government budget. Funds from the Russian Government will only amount to 20% of the total budget for the Kaliningrad Institute of Retraining and Agribusiness. In cooperation with Land O'Lakes, Inc. volunteers and utilizing the \$25,000 leveraged from the Eurasia Foundation, the Institute has been able to cover 50% of their budget in 1997, or roughly \$58,000. In 1998 the figures will grow to 80% of their budget, or roughly \$92,000 for a total of \$150,000 over this two-year period.

The Kaliningrad Institute of Retraining and Agribusiness, in cooperation with the Land O'Lakes, Inc Farmer to Farmer program, has been acquiring new knowledge to pass on to the agribusiness people of the Kaliningrad Region and developing new methods to reach their clients. This has gone a long way toward making them a sustainable enterprise providing needed support to the agribusiness people of the Kaliningrad region.



FARMER TO FARMER IN THE NIS RUSSIA

Land O'Lakes, Inc.

IMPACT

KHAROLSKY BAKERY ENTERPRISES

Ryazan oblast, RUSSIA

1 assignment, 1 volunteer

The Kharolsky family was one of the many families who departed Central Asia after the fall of the Soviet Union as attitudes toward the Russian population deteriorated. Anatoly and Alexandria packed up their belongings in 1991 and together with their three daughters and two sons-in-law relocated to the Shilova District of the Ryazan Region.

Anatoly worked in the management of a large bakery, and Alexandria worked as an economist in Kazakhstan. The family was able to piece together a bakery using equipment they gathered from Kazakhstan and Russia. It was soon discovered that competition in the local market was fierce. A number of small bakeries competed for the customers in the regional center and even in the village where their bakery is located. A strategy was put into place whereby their bread is sold in the surrounding villages. The Kharolskys purchased a truck and began to bring bread to seven separate villages. Of course, trucking bread to the villages means additional transportation costs. The second part of the Kharolskys' plan was to reduce the cost of the ingredients of their bread.

When FTF volunteer Arthur Fischer arrived, the Kharolsky Bakery was exploring expansion options. They were thinking that they needed an aggressive plan to stay competitive. A bakery had recently gone out of business and they were considering purchasing the bankrupt business. Their fear was that another bakery would purchase this facility before them and drive them out of the market. After discussing their options with Arthur, they understood that they could avoid this significant investment in another bakery, and corresponding risk, by increasing the amount of bread that their enterprise could produce and improving its quality.

The bakery had several problems with quality. The recipes had not been standardized and the ingredients were not being accurately measured, creating variable levels of quality. The appearance of the bread was also suffering due to a lack of moisture in the ovens.

Arthur set up readily accessible bread recipes for the staff. He also trained them in how to determine the quality of the flour they receive from the mill. Damp cotton towels in the proofing processes for the bread significantly improved the appearance of their bread.

Americansky Bread

Arthur was able to provide them with information on ten new kinds of bread. The most popular bread was a white bread they began to produce which the local population called "Americansky Bread." See the picture on the third page of the story. This bread, due to a more efficient raising process, reduced the amount of ingredients by 6 percent.

- ✓ New products
- ✓ Reduced costs

KHAROLSKY BAKERY ENTERPRISES (continued)

Ryazan oblast, RUSSIA

In total, the bakery has added six new products to their product line

During his work at the bakery, Arthur not only developed two new recipes a day, but also test marketed this bread at the store and provided free samples. The bakery was able to get instant feedback from their customers.

Arthur was able to significantly reduce the amount of time needed to prepare bread dough. The bakery had been using a two-stage raising process for their dough, and by implementing a one-stage process that Arthur showed them they have cut their production time in half. The volunteer also suggested that they add another shift to the bakery. By doing this, the bakery was able to increase its production by 120 percent without additional investment.

“The most important thing for us was the increase in the quality and quantity of our product line. We were able to increase our sales in spite of the competition this summer,” Anatoly Kharolsky stated.

- ✓ More jobs
- ✓ Increased production
- ✓ Improved quality

**FARMER TO FARMER IN THE NIS
RUSSIA**
Land O'Lakes, Inc

IMPACT

MOSCOW AREA SHEEP ASSOCIATION (MASHA)

Moscow oblast, RUSSIA
5 assignments, 2 volunteers

Peter Hagerty and Land O'Lakes began working together in Russia in 1995 through the Farmer to Farmer program. Peter's experience in Russia, however, goes all the way back to 1985. At this time he began a joint venture, Soviet-American Woolens, which produced yarn and woolens from a blend of American and Soviet wools. The business has evolved along with the changes taking place in Russia and with the collapse of the Soviet Union became Peace Fleece.

The goal of this business is to support cooperation through trade between different groups of people, traditionally in conflict, using agriculture as common ground. This goal made Peace Fleece and Land O'Lakes natural partners through the Farmer to Farmer program. Over the course of our cooperation, Peace Fleece has provided 6 on-site workshops. In addition, Peace Fleece has also organized the participation of a total of 30 Americans in these workshops.

When Land O'Lakes began cooperation through the Farmer to Farmer program with Peace Fleece, Peter provided training at the Sergeyev Posad Re-qualification Institution to local sheep producers. This project was further developed through the cooperation of Pipestone College in Minnesota, which provided their correspondence materials on sheep production. These materials were translated and used in this training. The most active participants finished the Pipestone course and went on to form MASHA, the Moscow Area Sheep Association.

- ✓ Pipestone College training course
- ✓ Producers association formed



Picture of MASHA member Lyudmila Korneva dying wool for Peace Fleece products

MOSCOW AREA SHEEP ASSOCIATION (Continued)

Moscow oblast, RUSSIA

This is a diverse group, composed of three separate family agribusinesses. The Kornyevev family arrived in the Moscow area as refugees from Kazakhstan. The Podstrelovs left their jobs in Moscow and moved out to their farm eight years ago. Tamara Brusova, in her 60s, also left Moscow to begin a farm in the countryside. What they have in common is a fierce commitment to make their agribusinesses successful.

This relationship has grown into a business partnership between Peace Fleece and MASHA. Using wool from MASHA members, Peace Fleece direct markets their products through a mail order business. In addition to the blended wool, the original Soviet Woolens sold, Peace Fleece also sells Russian felt baby boots and wool socks. They have also launched an "adopt-a-lamb" program. Participants "buy" a lamb on a MASHA member's farm. They receive a picture of their lamb, annual updates on the animal's progress and purchase items made from its wool.



The domestic wool market in Russia is dominated by monopolistic wool processing facilities offering unprofitable prices to producers. Through Peace Fleece, MASHA members have opened a new market for their farms. Proceeds from these sales go into a bank account for MASHA members. Wool, which had become a waste product for producers, is now bringing in essential inputs for their farms. This money is used to purchase needed inputs: medicine and animal management products, which Peter brings over during semi-annual visits to Russia.

The support and knowledge that Peace Fleece provides has enabled MASHA members to expand their farms. Lamb mortality has dropped off from over 50% to almost zero and herd size has gone from 24 in 1995 to 100 in 1998. Refer to the chart at the end of this story.

✓ Joint venture

✓ New markets

✓ Resources reinvested in production

✓ Decreased loss

✓ Increased production

MOSCOW AREA SHEEP ASSOCIATION (Continued)

Moscow oblast, RUSSIA

The end result of this has been that MASHA members are now in a perfect position to access the Moscow market. With the devaluation of the ruble's buying power, imported lamb has become too expensive and the Russian market has begun buying locally. MASHA members find themselves not only with an expanded market, but a market that is paying around \$100 per head for lamb carcasses.

- ✓ Improved price
- ✓ Expanded market

Peace Fleece continues its active involvement in the development of MASHA. On Peter's last trip to Russia, he was accompanied by Anne Hayes and Joshua Therriault. Anne Hayes of New York University is making a film of the Peace Fleece - MASHA partnership which will be available this spring. Joshua is working on the development of an exchange program for teenage Americans and Russians involved in agriculture.

Peter will be returning in the spring. Among the issues to be addressed during this trip are a number of requests from other sheep producers to complete the Pipestone course and become MASHA members.

Peter says that essential to the sale of Peace Fleece products is the story of the Russian farmers who live the story every day. To this end, Peace Fleece attaches written material about Land O'Lakes, MASHA and the Farmer to Farmer program on every one of the nearly 80 products it sells in its catalog to over 8,000 annual customers. For additional information and a list of products made from MASHA members' wool, please visit the Peace Fleece Website at www.peacefleece.com

Peace Fleece makes a considerable contribution to the Land O'Lakes Farmer to Farmer program. In addition to his time, Peter provides his own international transportation and most of his in-country expenses, with Land O'Lakes providing visa and in-country support. We also work in close partnership with Peace Fleece on another humanitarian project in the West Bank. Land O'Lakes would like to take this opportunity to thank Peter Hagerty for all the time and creative energy he has devoted to these programs.

Please refer to the diagram and the chart on the following page

FARMER TO FARMER IN THE NIS RUSSIA

Land O'Lakes, Inc

IMPACT

OADIM Agribusiness

Valery Dimov

Krasnodar oblast, RUSSIA

1 assignment, 1 volunteer

Land O'Lakes learned of the OADIM agribusiness from its strategic partner in the region, the Educational Business Center. It was the first time of this Russian host organization working with Land O'Lakes through the Farmer to Farmer program.

In 1993, Valery Dimov began his agribusiness in fish production. He separated from the state farm where he worked as an engineer. As his share of the farm, he received 5 hectares of ponds. The fish ponds had been abandoned for a number of years, which was why the state farm allowed him to receive them.

Without a background in aquaculture, he began to ask advice from other state farms producing fish in the area and from professors at the local university. As it turned out, much of the advice they gave him increased his costs and decreased his production.

When Land O'Lakes Farmer to Farmer volunteer Craig Paulsen arrived in May 1998, OADIM agribusiness had four ponds of various sizes, some land around the ponds, and also a building where Valery Dimov intended to install fish processing equipment. There were 6 employees working on the farm. The average production per year was 35 to 45 tons of fresh fish sold at the local market.

Craig provided information on practically every aspect of fish production, from measuring and regulating water quality to modification of the pond system and canal construction.

The volunteer provided training and hands-on demonstrations using a borrowed light microscope and haemocytometer to estimate phyto-plankton density as an indicator of pond production potential. The measurements were correlated with a Secchi Disk, which was later donated to the farm by the volunteer. This provides OADIM agribusiness with a simple and quick means of estimating pond productivity on an ongoing basis. This has helped Valery Dimov to adjust the amount of feed he uses for raising fish in every pond.

In fact, it helps him to use much less feed, 20%-25% less compared to last year's figures. A meter was used to gauge the amount of feed. The local professors had told him incorrectly how to measure feed consumption, and he was polluting the water of his ponds by over feeding his fish.

✓ Reduced costs

OADIM AGRIBUSINESS (continued)

Krasnodar oblast, RUSSIA

Craig also assisted Valery in the construction of a monitoring log form to record critical water quality parameters necessary to track pond conditions. This data provides Valery with the information necessary for identifying and responding to unfavorable pond conditions quickly in order to minimize losses to farm production.

Following these recommendations and using the methods of pond conditions monitoring acquired from the consultant, Valery was able to increase his fish production by 10%-15% already in this year using 20%-25% less feed than last year. See graph on next page.

His fish harvest by his estimate will be over 50 tons of fresh fish (25 tons already sold by August 1998). Fresh fish is sold at the local market at 13-14 rubles (before the August crisis prices) per kilo. The 50 tons will sell for approximately \$100,000. Out of that sum, according to Valery Dimov's own words, \$24,000 was made thanks to better use of the natural productivity of the ponds carrying out the recommendations of the volunteer.

Some other recommendations of the volunteer take more time to implement, but they are also being implemented by the host organization. Thus following the consultant's advice, Valery Dimov began the reconstruction of his pond and channel structure and also began the construction of a new fifth pond. This will both increase Valery's ability to control the conditions of his ponds and fish populations in them and increase his farm's fish production capability.

One other recommendation was to speed up the construction of the fish processing mini-plant. Implementing this recommendation, Valery Dimov has purchased processing equipment and has constructed a refrigerated storage for processed fish as part of the mini-plant. The mini-plant will start working this October, when Valery is going to harvest the rest of this year's fish and process it to be sold at a higher price.

While working with Valery and his farm, the volunteer gave an interview to the local newspaper (see article attached) soliciting support for Valery's project and raising public awareness of the Farmer To Farmer program. After the volunteer's work with Dimov, several private individuals living in the same town with him have expressed their desire to invest in Valery's farm. The agribusiness has already received investment from the community amounting to \$30,000.

✓ Increased production

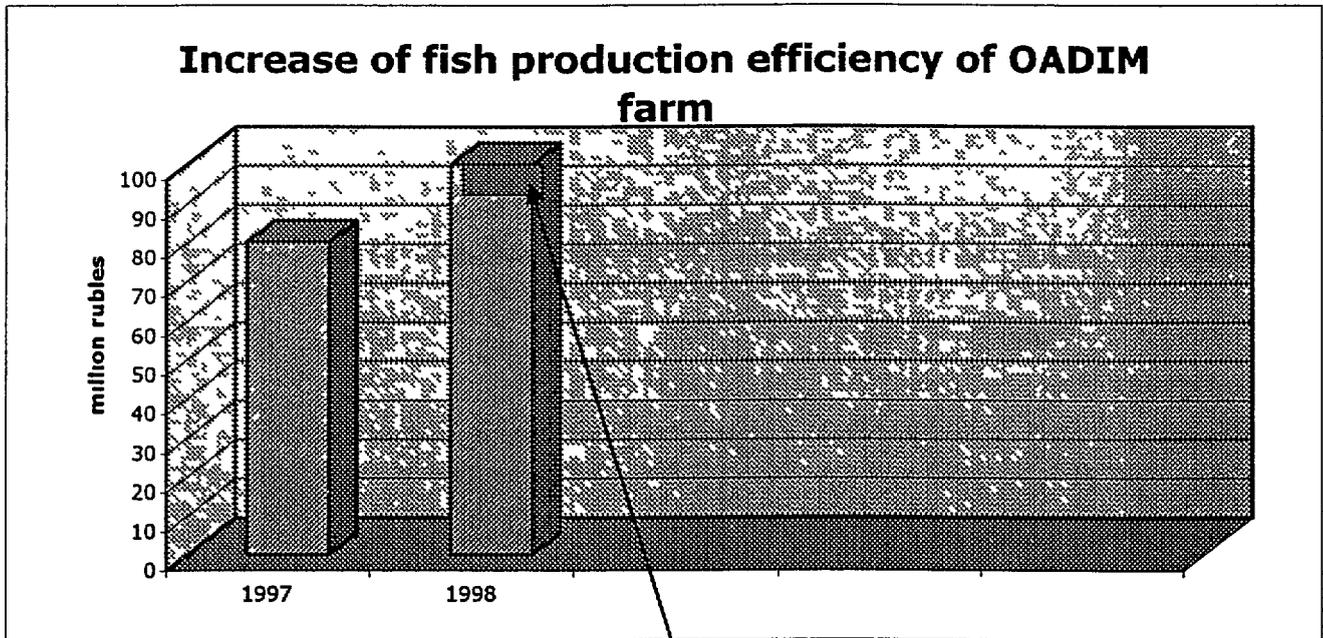
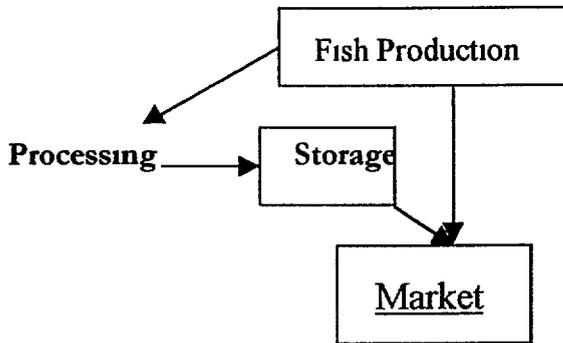
✓ \$24,000 increased profit

✓ Value-added processing plant opened

✓ Leveraged funding investment of \$30,000

OADIM AGRIBUSINESS (continued)
Krasnodar oblast, RUSSIA

OADIM Agricultural Firm



10%-15% using the natural productivity of the ponds as recommended by FTF volunteer

OADIM AGRIBUSINESS (continued)

Krasnodar oblast, RUSSIA

Item #1

Krasnodar Krai, Stanitsa Severskaya

Zory (Dawns) (local newspaper)

4th of June, 1998

Economics The Difficult Way of Reconstruction

I got acquainted with Valery Dimov about a year ago. In the past, Valery worked as an engineer in the ex-collective farm Za Mir. Later he rented the ponds of this collective farm and started his own private agribusiness – OADIM – to grow, process and sell fish.

The largest problem that he encountered was the lack of operating capital. Although many people of means showed interest toward Valery's business, no one was ready to lend him money. I wrote about that period of OADIM farm business history in the article "The Poverty of the Rich." Then I organized a meeting between Valery and Nelly Nikitina – the Director of the Business Center in Severskaya. Nelly told Valery that she would probably try to arrange a visit of an American specialist to Valery's farm. When Valery learned that the consultant was not going to bring any money with him to invest in Russia, he was somewhat disappointed, but said to Nelly – "Let him come anyway."

Recently I met Valery in Severskaya and he announced happily that the American specialist had arrived. I asked him at once if the consultant was useful. "Very" – was the answer. "He helped me to get a microscope to analyze the water in my ponds," said Valery.

Craig Paulsen is an aquaculturalist from the USA. He came to Valery's farm as a volunteer of the American cooperative – Land O'Lakes that is not only one of the largest producers of dairy products in the USA, but also an active participant of the international program of the Congress of the USA to support agribusiness people in developing countries. Craig came together with Land O'Lakes coordinator from Moscow – Arkady Zhdanov.

For over 27 years Craig has been travelling to different developing countries to consult the beginning aquaculturists there: the Philippines, Malaysia, China, Egypt, Kuwait, Saudi Arabia and East European countries. Craig Paulsen is a very experienced specialist in fish production. In his opinion Valery's business plan is one of the best he had seen during his numerous travels. Craig is sure that Valery can achieve great results as he is the kind of person who "can make things happen."

Valery Dimov, in his turn, is very much impressed with Craig's level of expertise. "I learned a lot from Craig," said Valery. "He explained the importance of monitoring the quality of the water in the ponds every day and helped me to create a small lab at my farm. Together with Arkady Zhdanov and Craig we went to local schools looking for the necessary tools. I'm very grateful to Craig and to Arkady too for their help. Craig also taught me the new modern methods of feeding the fingerlings, that helps to not waste too much feed which was also spoiling the quality of pond water, and shortens the growing period of the fingerlings," said the farmer.

"Craig also taught me different methods of preventing the penetration of predators into my production ponds, and also ways of avoiding pollution of the ponds. I can not really mention all the useful things I learned from Craig. On the whole his visit was very useful for me," said Valery.

I was really pleased to hear that. I was also glad to hear how Craig praised Valery's diligence and hard work. All this proves that all our efforts to help Valery were not wasted and also proves that money is not the only ingredient of success. It is equally important to know as much as you can about your business and use every opportunity to learn more.

It turned out that Craig's wife knows Russian and Russian business people as frequent visitors in their house. Valery told me that he hopes to invite Craig to come again to his farm with his wife.

OADIM AGRIBUSINESS (continued)

Krasnodar oblast, RUSSIA

Craig on his part is sure that Valery will be a successful businessman

The Americans are trusting and optimistic people They trust their laws, their President, their Government They trust themselves too

We are different we don't trust anybody even ourselves, but at the same time we let corrupt politicians and simply crooks cheat us

I wish that Valery succeeds in his work in the farm We realize that in America fish farmers have computers that monitor the quality of pond water and many other things too, this is something we can only dream of now, but Valery is not going to give up Meeting with Craig boosted his optimism

One more idea was born while Craig was working with Valery – to introduce new fish species say red fish This will be the next step

A Ignatkin

Item #2

A Letter of Appreciation

I would like to express my gratitude for the timely and very useful visit of the American specialist Craig Paulsen and your coordinator Arkady Zhdanov After their visit the development of my agribusiness went faster I'm finishing, as we have planned with Craig, the construction of the smoke house and a new pond (3 hectares) for fish production I'm sure I will finish this work in the autumn Although I don't have enough financial resources of my own for the development and realization of all of my projects, still I look into the future with more optimism than before Craig's visit Especially because after the work of the American specialist at my farm many people in our town are interested in investing money into my enterprise

I think that I need some help with the questions of financial management and business plan development If you could send a specialist on financial management in the near future that would be a great help for me

Nelly Nikitina and her Business Center who helped to organize Craig's visit continues to provide assistance to me and other agribusiness people of our district

I wish our cooperation to continue If you don't forget about us we are ready to work together for the better future

Respectfully yours,

Valery Dimov
Stanitsa Severskaya
24 07 98

**FARMER TO FARMER IN THE NIS
RUSSIA
Land O'Lakes, Inc.**

IMPACT

PAGAD AGRIBUSINESS

Ryazan oblast, RUSSIA

3 assignments, 2 volunteers

Yury Pavlov started his farm in 1991. As a livestock specialist, Yury planned the major operation on his farm to be hog production. Grain production was included to provide feed. Yury counted on his hog operation to become the major source of income for his family. In the beginning, Yury sold all his produce to the local meat processing plant and his excess grain to the local flourmill. This was the way most of the local collective farms, as well as newly organized private farms, operated.

This did not work out to be very profitable for the farm. The profit margin for selling to the flourmill and the meat processing plant was not very high. Worst of all, these local monopolies had significant delays in payment. These amounted at times to upwards of six months.

Very soon Yury noticed that his hog operation was losing money, whereas his grain production was just marginally profitable. This situation, together with delayed payments from buyers, was not allowing the farm to develop and grow. Scraping together barely enough money for the next harvest, Yury found it hard to keep his machines in good shape or to buy inputs. Very soon this began to tell on production. It became apparent that without being able to reinvest money in at least the upkeep of his equipment, he was headed toward a dead end and could lose his farm.

These unexpected difficulties prompted Yury to apply for technical assistance from the Land O'Lakes Farmer to Farmer program. Since 1994, Yury has been an active participant of this program. He traveled to the USA on the Reverse Farmer to Farmer program.

Dennis Hammen, the first volunteer who worked with Yury, came during this period of financial difficulties for the farm. Yury was ready to close his hog operation and concentrate on grain production. The hog operation was brought to marginal profitability due to the technical assistance of the volunteer, and Yury's grain operation has flourished.

Having analyzed the situation, the volunteer pointed out the need to get direct access to the market. This has proven to be a fact across Russia. Only producers actively involved in marketing their produce are surviving.

After discussion with the volunteer, Yury decided to open a store. He invested what little profit the farm had from its grain production into the construction of a retail store by the highway. Yury's farm has a favorable location for a store on the Volgograd - Moscow highway.

✓ Retail outlet established

PAGAD AGRIBUSINESS (Continued)

Ryazan oblast, RUSSIA

The store allowed the Pagad agribusiness to stop selling its wheat to the local flourmill. With a retail outlet, Yury could receive flour to trade for goods and these goods he could sell through the store. By bartering with the mill, the mill receives 30% of the wheat in payment and Yury receives flour. With the mill having a flour extraction rate of 70%, the end result for Pagad agribusiness is that it was able to increase its profit margin by over 100% through this barter operation.

Devoting more time to marketing, Yury was able to find much better deals for his flour outside Ryazan region. Bartering his wheat flour for tractor and automobile parts in Kazan, Yury sold them through his store. An additional 20% mark-up was added to these goods, which increased the profitability to over 120% as compared to grain production.

The retail outlet also brought in a steady supply of cash for the business. This meant that Yury was able to buy new agricultural machines—a new combine and a new tractor, as well as the necessary fertilizers and chemicals. This enabled him to do two things. First, he was able to increase his wheat yield, achieving 4 metric tons per hectare. This is almost 35% higher than the regional average of 3 tons.

Yury Pavlov reinvested his profits in farm implements, pictured below.



- ✓ Bartering flour = 100% increase in profit margin over grain sales

- ✓ 120% profit margin in cash

- ✓ Profits reinvested in production
- ✓ Increased production

PAGAD AGRIBUSINESS (Continued)

Ryazan oblast, RUSSIA

Second, he was able to rent more land. Throughout Russia, there is a significant amount of fertile land lying fallow because producers have cash flow problems and do not have strong enough markets to support their current production levels. By solidifying his market, Yury created a reason to increase the amount of land he plants. Yury now owns 430 hectares and rents an additional 100 hectares. Over 80% of this land is used for wheat production.

✓ Increased land in production

The next logical step for the Pagad Agribusiness was to open a bakery to process its wheat flour. Due to the absence of a credit system for agriculture in Russia, Yury has to depend on self financing. For this reason, he was only able to set up a bakery in 1998--as soon as he had enough money to buy the necessary equipment. Having no experience in baking, Yury turned to Land O'Lakes for assistance.

✓ New enterprise opened

The new bakery had difficulties with the consistency of their bread quality. Some of the loaves would come out too dry and with cracked surfaces, others with under-baked centers. Strong competition in the local bread market created additional difficulties for the new bakery. There are 5 other bakeries working in the area. All these factors forced Yury to price his bread 20% lower than his competitors to be able to make sure that all of it is sold. Operating in such a way, the bakery was able to stay open only because Yury was using his own flour. The profitability of the bakery was dangerously low.

The Pagad agribusiness was having growing pains. While the staff did have prior experience working in a bakery, Yury had no prior experience managing a bakery. It didn't take the volunteer long to realize that the bakery had management problems.

Changes were made in the bakery. Sanitation was very slack, and the volunteer warned that there was a significant danger of a bacterial contamination getting a foothold in the bakery. All the production orders and policies were put in writing and the sanitary rules strictly observed. During production, recipes were not strictly observed. Now, recipes are all written down and tight control was put on the use of ingredients. The volunteer was able to achieve considerable progress in the two weeks he spent with the host organization. These measures made sure that his help with the technical issues would have a lasting effect.

✓ Improved quality

With the assistance of the volunteer, the bakery was able to establish proper baking procedures and achieve a high quality of all types of bread produced at Pagad Agribusiness bakery, with a stable production level of 1,000 loaves of bread per day. The competitive quality of their bread enabled Yury to increase the price by 20%, from 2 rubles per loaf to 2.4. This increase in price brings Yury an additional \$500 income per month.

✓ 20% increase in profits

PAGAD AGRIBUSINESS (Continued)

Ryazan oblast, RUSSIA

Having improved the quality of his product, Yury took the first opportunity to gain some good publicity for his enterprise. While the volunteer was still working with the Pagad Agribusiness, the bakery took part in the local bakery fair, put on for the governor of the Ryazan region.

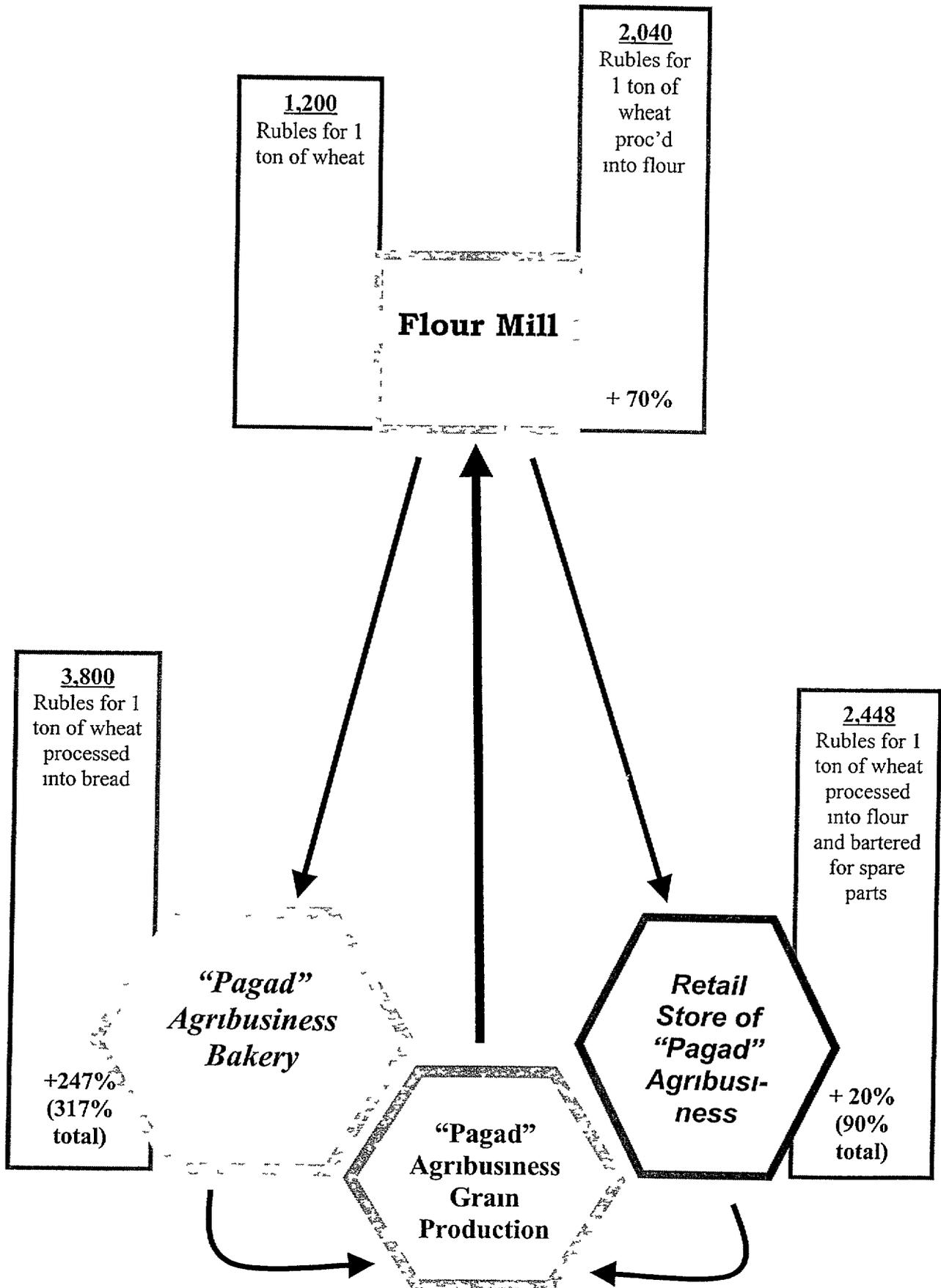
This is of particular importance because the governor of Ryazan is a member of the communist party, and since he has taken office, family agriculture enterprises have been under increased pressure in the region. This provided the Pagad Agribusiness a chance to show what a family business can do.

The Pagad Agribusiness is an example of a family farm that over the past five years developed into a vertically integrated enterprise. In so doing, the business was able to make itself profitable. Before adopting the "closed system" model for his farm, Yury was making no profit and thus had no incentive to increase his production. Now he is making money off his grain production and he is reinvesting that money right back into his farm.

✓ Participated in a local fair attended by the regional governor

PAGAD AGRIBUSINESS (Continued)

Ryazan oblast, RUSSIA



**FARMER TO FARMER IN THE NIS
RUSSIA
Land O'Lakes, Inc.**

IMPACT

SHANCHAK MEAT PROCESSING AGRIBUSINESS

Chuvashia oblast, RUSSIA

1 assignment, 1 volunteer

Gennady Illarianov began private farming in 1992 with a livestock production operation. He soon ran into the common problem of delayed and delinquent payments from his buyers. His solution to this problem was to expand his business in 1993 to include a meat processing facility. He also set up two retail outlets in order to completely vertically integrate his farm and market his processed meat directly to the consumer.

Gennady shifted his operation away from production and began processing the livestock of his neighboring farmers. And Gennady, unlike the other meat processing plants in the area, pays cash for livestock. This provides a much needed stable market for the local livestock producers. For many families in the area, this is the only source of cash they have. It also guarantees that Gennady has a stable supply of livestock.

Unfortunately, Gennady was new to meat processing and after struggling for a little over a year, he was forced to close shop in 1995 because he could not make enough money to pay for renting the facility which housed his processing equipment. Judging that the rent was too high, Gennady set about building a processing facility to get around this problem.

It was not until February 1998 that he was able to complete construction of this building. He promptly returned to processing meat, but he was disappointed in the profit he was making. Even after the time and resources he had invested in order to reduce his overhead, he still was not satisfied with his sales and profit margin. With a capacity to process 500 kilograms a day, the plant was only able to consistently sell 150 kilograms of product per day through its two stores.

After working with Farmer to Farmer volunteer Aubrey Hilyard, Gennady has been able to turn his business around. This was accomplished through two approaches.

First, the plant personnel were trained in butchering. Traditionally in Russia meat is not separated out into different cuts of meat. The carcass is cut up piece meal and all cuts are just as likely to be processed into sausage as they are to be sold as fresh meat. Aubrey showed them the different cuts of meat and how to divide up the carcass to maximize their profit.

Second, Aubrey trained the agribusiness's retail outlets how to market their meat. In contrast to the way product was presented before, piled in a heap, Aubrey showed the staff how to lay the cuts out in a more ordered manner that is attractive to the

✓ Trained processing plant and store staff in preparation and presentation of product

SHANCHAK MEAT PROCESSING (Continued)

Chuvashia oblast, RUSSIA

eye He also educated the staff on the difference between the cuts so that they could explain them to their customers

Four new recipes were developed during Aubrey's work at the plant Perhaps even more significant than these new sausages are the marketing techniques that the staff were trained in By explaining what their new products were and giving free samples, the stores were able to both allow potential customers the chance to try their product and receive feedback from consumers on what they want

Gennady explained, "Under the Soviet system deficits were the rule and our approach to sales was that if I can produce it, it will be purchased I had always seen a retail outlet as being the key to our meat processing plant succeeding What Aubrey showed me was that I had to do more than just own a store I had to prove to my customers that my product was worth buying"

The results of the changes made to their fresh and processed meat retail outlets have been astounding As of October 1998, the stores have been able to increase their per kilogram price on meat from an average of 18 rubles to 35 rubles This amounts to an increase of over \$1 per kilogram, an increase of over 50% Most importantly, this was accomplished without any additional expenses

Aubrey also provided assistance in the management of the plant After examining their operation from start to finish he was able to provide recommendations on each aspect of their business, from slaughter to sanitation, standardization of recipes, managing inventories, and equipment care and maintenance The result has been to maximize the facilities capacity It has also improved the quality and appearance of their product

These together have combined to bring about an increase in sales for the business Gennady stated, "One of the goals I developed working with Aubrey was to increase our sales annually by 20% We have already increased our sales volume in only 3 months by over 300%"

Aubrey also worked out a development strategy for the expansion of the business Gennady says he is devoting his new profits to purchasing the equipment detailed in this plan This will double the capacity of their processing plant

Gennady's long term goal is to restart his livestock operation "I originally started my own business because I wanted to raise livestock I wanted the independence of owning my own business, but I also wanted to be in production I have had to expand my operation to keep it alive, but my long term goal is to have a successful livestock farm as part of my operation"

✓ New product developed

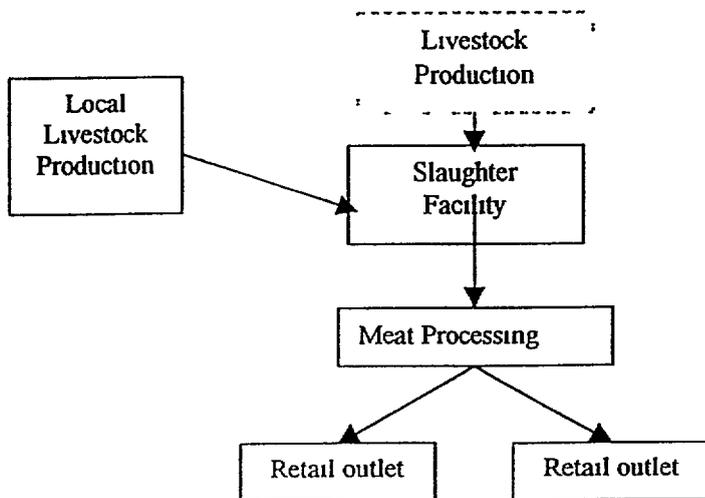
✓ 50% increase in retail profits with no additional expenses

✓ Increased production

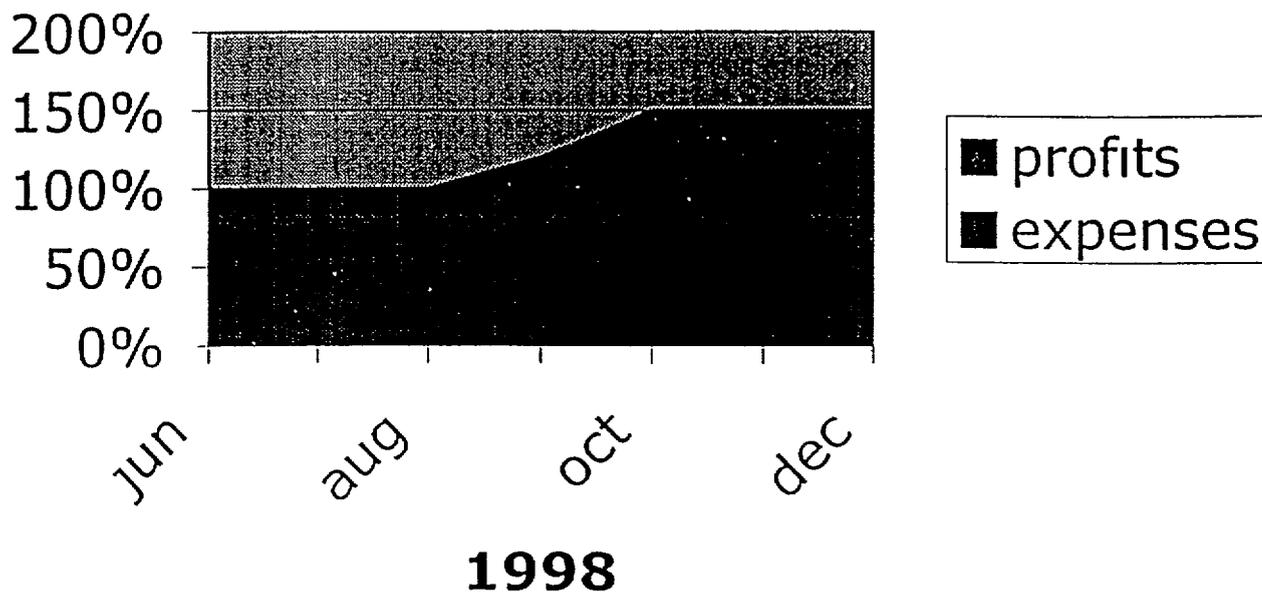
✓ Increased quality

✓ 333% increase in sales

SHANCHAK MEAT PROCESSING (Continued)
 Chuvashia oblast, RUSSIA



Shanchak Meat Processing Agribusiness Profits



**FARMER TO FARMER IN THE NIS
RUSSIA
Land O'Lakes, Inc.**

IMPACT

'SOYUZ' CREDIT COOPERATIVE

Chuvashia, RUSSIA

2 assignments, 2 volunteers

Chuvashia is a small, ethnically diverse, autonomous republic about 500 kilometers east of Moscow. Traditionally, agriculture plays an important role here in this densely populated region. Chuvashia is known for its high-quality potatoes, hemp, hops, and beer. The young and progressive president of Chuvash Republic, Mr. Fyodorov, and his team did a lot to open the republic to new ideas and to make it attractive to investors. They actively seek ways of facilitating the development of small and medium private enterprises and joint ventures in Chuvash Republic.

The work of the Chuvashia Small Enterprise Development Fund is completely and solely devoted to the support of small private business that began to appear after perestroika. Such Funds were created throughout the country following the model set by the federal government. The work of these Funds in different regions varies greatly. Many of these Funds tend to work with specific individuals earmarked by the administration in power. The Fund in Ryazan region, for instance, doesn't work with farmers at all. The one in Ivanovo does provide loans to farmers, but still gives preference to other clients. There is a long standing (dating back to socialist times) belief in Russia that agriculture is not a good investment. This belief was shaken by what Vladimir Krasnov did in Chuvashia.

Vladimir Krasnov, the General Director of the Chuvashia Small Enterprise Development Fund, is not the kind of person to lead the quiet life of a government employee. His goal has always been to find new ways to support the economic reform in the Chuvashia Republic and assist the growth of the private sector in his republic.

Last year while meeting with some of his colleagues in Moscow, Vladimir learned about credit cooperatives that started to appear in different regions of Russia. He visited one such cooperative in Smolensk. The conclusion that he came to after the visit was that this was exactly what they needed in Chuvashia. The idea was to give access to the resources of the Fund to small businesses and starting businesses. Among these small businesses were private farms and other kinds of family enterprises that are too small for the Chuvashia Small Enterprise Development Fund to work with.

Having very little experience in cooperative development, Vladimir Krasnov applied for assistance from Land O'Lakes through the Farmer to Farmer program. At the same time he and the initiative group that he organized continued to prepare the documents to register their credit coop. The gaps in Russian corresponding legislature made the job of getting Vladimir's coop officially registered next to impossible. Finally Vladimir was able to register it in Komsomolsk, one of smaller towns in Chuvashia where the local mayor supported his ideas.

They named their credit coop "Soyuz" (Union). The registration took place in October 1998, but the operations started only in the second half of January 1999. There were 36 members (none of them farmers) in their coop initially and just 10,000 rubles capital in members' shares. The government of Chuvashia perceived the cooperative as Vladimir Krasnov's whimsical toy and did not take it seriously. This indifferent attitude to the cooperative could easily change to a negative one and considerably slow down its development. In Chuvashia, as elsewhere in Russia for that matter, the bureaucratic machine

'SOYUZ' CREDIT COOPERATIVE (Continued)

Chuvashia, RUSSIA

of local government can slow any new development to a complete halt. That is why the benevolent attention of the administration was of great importance for Vladimir Krasnov and his partners. The visit of foreign consultants helped him to achieve this.

When Land O'Lakes volunteers arrived in February 1999, the credit cooperative was in the process of drafting contracts for the first two loans to its members. Both Joyce Harris and Marty Ringham actively participated in the establishment of the first credit cooperative in Chuvashia. They also took part in the promotional campaign for credit cooperatives in local mass media. There were meetings with the Minister of Economics of Chuvashia and with the heads of administration of two districts of the Republic where Vladimir Krasnov plans to open branches of his coop. At these meetings the strategy of the development of credit cooperatives infrastructure in Chuvashia was discussed as well as the involvement of the government in this process. It was stressed at these meetings that the credit cooperatives work for the good of the republic on the whole and so deserve the support of the government. Several articles were published covering the work of the American consultants. All of the articles were very pro credit cooperative in nature. Two radio and one local television programs about the credit cooperative were released after the consultants' departure.

The excitement the American specialists to Chuvashia visit had stirred helped in drawing attention to Vladimir Krasnov's credit coop and resulted in new members joining the coop. In the three months that followed, the membership of "Soyuz" has more than doubled. Now they have 78 members and 11 of them are private farmers. The capital in members' shares has grown from 10,000 rubles to 241,000 or 2,400%. See the last page of this story for a graph showing the growth in capital.

The most productive work occurred with the credit cooperative's employees. Both consultants shared their professional experience on managing the everyday operations of cooperatives and credit unions in the USA with the staff of "Soyuz" credit coop.

Vladimir and his employees managed to make ample use of the consultants' knowledge and desire to help. According to Vladimir, especially useful were consultations and samples of documents regarding work with loan applications. Borrowing the business experience of their American colleagues, the loan officers of the "Soyuz" credit coop were able to accelerate their work. They were saved the trouble of "reinventing the wheel" and developing the forms for their clients and files formats for their records.

Important changes were introduced into the credit union's policies and procedures governing the work of credit officers with loan holders and applicants. As a result of the implemented

- ✓ Lobbied and received local government support
- ✓ Membership of the credit coop more than doubled
- ✓ 2400% increase of the capital of the cooperative

'SOYUZ' CREDIT COOPERATIVE (Continued)

Chuvashia, RUSSIA

recommendations of the volunteers, the number of loans grew from 1 to 47 for the sum of nearly 900,000 rubles. Seven loans for the sum of 368,500 (\$15,450) went to private farmers.

✓ 46 new loans given

With the borrowed funds the farmers were able to purchase badly needed inputs: fuel, seed and fertilizers when it was most necessary. This way the farmers – members of the credit coop – were able to prepare for the planting season and complete all the farming operations in the fields in good time. This in its turn ensured good harvest in the fall when they will be paying the loans back. Some of the farmers are interested in borrowing money for longer periods of time to purchase trucks or tractors, for example.

✓ 11 loans to private farmers to purchase inputs

In order to satisfy the financial needs of its members, the credit cooperative borrowed money from the Chuvashia Small Enterprise Development Fund. This revitalized the work of the Chuvashia Small Enterprise Development Fund after the financial crisis last August. During that crisis most banks and other financial organizations went bankrupt. The Chuvashia Small Enterprise Development Fund also began to experience difficulties in its work, as many of its clients went bankrupt too. Through the creation of the credit coop, Vladimir Krasnov increased the clientele of the Fund and created what he himself called an incubator for its future clients. The establishment of the credit coop proved to be beneficial not only for the farmers and other small businesses in Chuvashia, but for the Fund itself as well.

✓ \$29,000 low-interest loan received by the coop from Chuvashia Small Enterprise Development Fund

A lot of time was spent by the volunteers explaining the methods of how to evaluate risk and work with bad loans. Using their experience, the management of the credit cooperative has developed a very flexible approach to cases when borrowers cannot pay on time. They separate the cases when the prospects of getting the money back are good from those that are considered hopeless and use different procedures for them. Currently they have 85% of the loans paid back on time and almost 15% after prolongation of the loan agreement. Only one case went to the Court of Justice so far and the credit coop won, getting its money back in the end. This is an exceptionally good result for Russia at any time, but especially during the financial crisis period. In this country, where the government suspended paying its own debts, bad loans are in most cases simply written off. The work of this credit cooperative set a new precedent of legal collection of 100% of its loans.

✓ 100% loan repayment

The Land O'Lakes volunteers not only worked with the credit cooperative's staff to develop the policies and procedures necessary for a successful financial enterprise, they also assisted the cooperative's parent organization, the Chuvashia Small Enterprise Development Fund, in lobbying the Chuvashia Republic government for positive new legislation to assist the development of agricultural credit cooperatives.

✓ Chuvashia Law on Credit Cooperatives drafted

'SOYUZ' CREDIT COOPERATIVE (Continued)

Chuvashia, RUSSIA

Land O'Lakes put Mr Krasnov in contact with the USAID PRARI program Working together with a Russian credit union consultant provided by PRARI, Vladimir Krasnov headed a group working on the Chuvash Republic Credit Cooperative Law The law is currently under consideration by the Chuvashia Republic Parliament This law will, in the absence of federal laws governing credit cooperative, allow the local Chuvashia government to regulate the work of credit cooperatives in the Chuvashia Republic Vladimir is committed to opening new branches of the "Soyuz" credit coop in other parts of Chuvashia The first two branches of the credit coop will be opened by the end of this year

The volunteers also reviewed Vladimir Krasnov's applications to the Eurasia Foundation for grants to support the organization of the credit cooperative branches and launching of the leasing program of the Fund The grants will help the cooperative cover the start-up costs associated with expanding their services The grant proposals have been submitted after the volunteers' departure and are being reviewed by the Eurasia Foundation Judging by the reaction of the Foundation's management, Vladimir is confident in his chances to receive at least one grant this fall

The crucial element of the volunteers' assignment turned out to be the explanation to the credit cooperative staff and membership of how to successfully market the credit union philosophy The credit union can survive only if it attracts savings deposits, which in turn are loaned to its members Winning the confidence of private depositors seemed to be a next-to-impossible task in the country where people have been constantly cheated by different financial pyramids

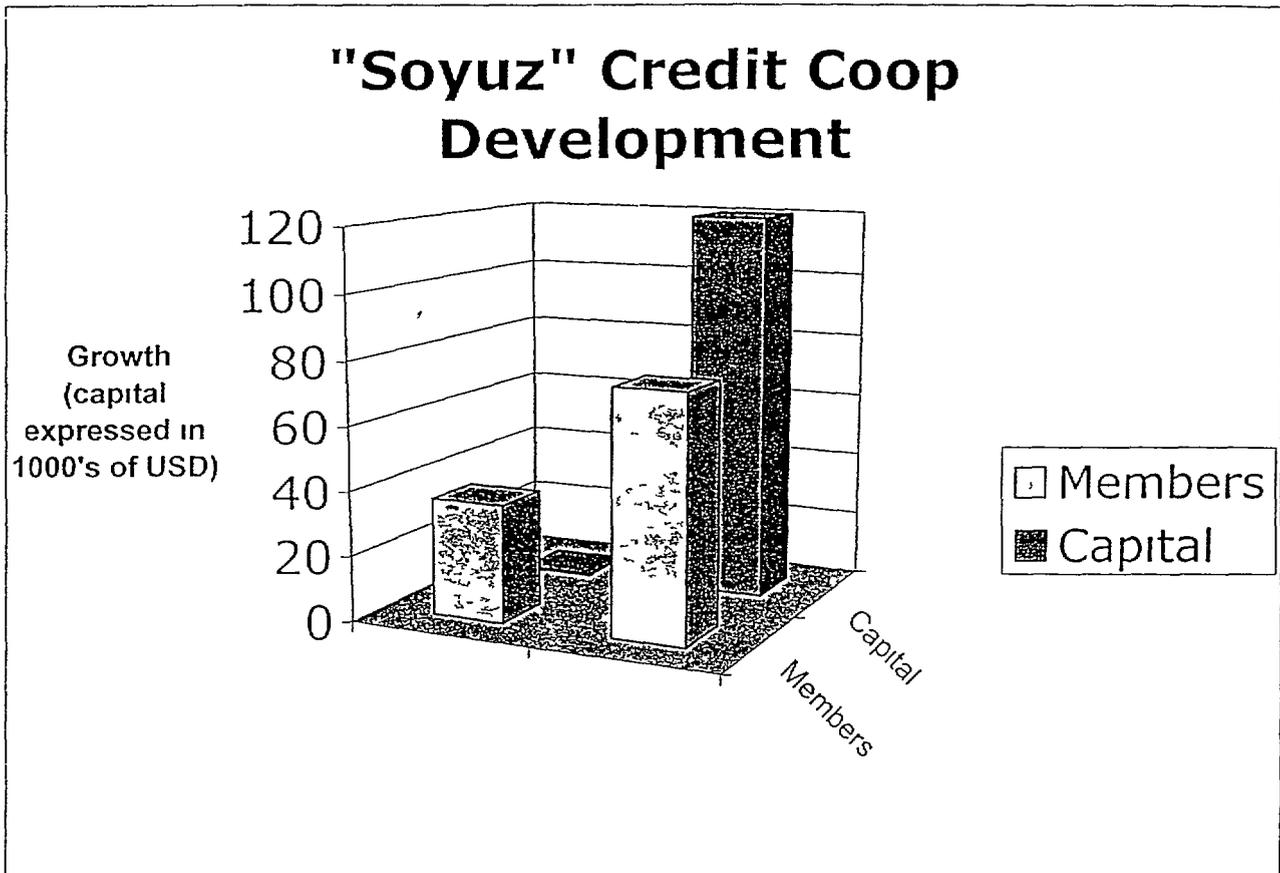
The successful work of the credit coop "Soyuz" in the first six months of its existence, however, brought the savings accounts of nearly all its members into the coop They trust their coop much more than any bank now Many non-members especially retired people, are eager to deposit money in the credit cooperative as well The policies for working with non-members' money is being developed by the cooperative's management now

Vladimir Krasnov is much more confident of the successful future work of the credit cooperative than he was a few months ago "True, we still have many difficulties in our work, but with the support of the community we will prevail," he said

On the next page is a graph showing the tremendous growth in capital of the "Soyuz" credit cooperative

✓ Two new branches of the credit coop due to open this fall

'SOYUZ' CREDIT COOPERATIVE (Continued)
Chuvashia, RUSSIA



FARMER TO FARMER IN THE NIS RUSSIA

Land O'Lakes, Inc.

IMPACT

VERKHOVAZKSK MILLSTONES COOPERATIVE

Vologda oblast, RUSSIA

1 assignment, 1 volunteer

North of Vologda in a small logging town, seven farmers have been struggling to make their farms profitable. The farms, owned by three brothers and four friends, produce rye and feed grains. They soon discovered that it was not possible to receive cash for their grain. When they learned that they could receive eggs in barter for their feed grains from a state poultry plant, they opened two stores and started to sell the eggs there.

✓ Barter system

In their search for a market for their rye, the farmers worked out a system by which they trade 30% of their rye and receive the remaining 70% back in flour. This flour they began to sell in their store. Without packaging for the bulk flour, sales were slow and this led them to add two bakeries to their operation to bake the flour into bread, and they sell this bread at their store.

The next step was a flour mill and they turned to Land O'Lakes for technical assistance. Farmer to Farmer volunteer, Glenn Babcock, met with the members and worked with them on the principles of cooperative management and operations, new planting technologies, and helped prepare a business plan.

✓ Cooperative formed

The cooperative used their business plan to get a \$50,000 loan from the Russian Farmers' Foundation to acquire a flour mill. The cooperative bought a building and renovated it for the mill that just began operations. The mill has a capacity of 500 kilograms of wheat flour per hour. Their rye runs slightly slower at 360 kilograms of rye flour per hour.

✓ \$50,000 flour mill

In this lumber town in the north of the Vologda region, the new mill is especially significant. Not only is the flour mill providing jobs in this area, but because of their vertical integration, the cooperative can provide a lower-priced staple for the community.

✓ New jobs created

The cooperative produces on average 800 tons of rye a year, which will account for 70% of the flour mill's volume. The remaining capacity of 350 tons will be filled by the other area producers. At the market price of 0.80 rubles per kilogram, they would receive 560,000 rubles, or \$93,000 for the rye production of all 7 farms. With the mill, they will receive 600 tons of flour.

VERKHOVAZKSK MILLSTONES CO-OP (continued)

Vologda oblast, RUSSIA

(200 tons of by-product is not to be used as flour, but makes excellent chicken feed and will go into their barter arrangement with the poultry plant) The cooperative now will also avoid the problems they had when they were milling their grain at the local flour mill, experienced delayed payments, and had no control of flour quality. The varying quality of the flour they were receiving was especially a problem for their bakeries.

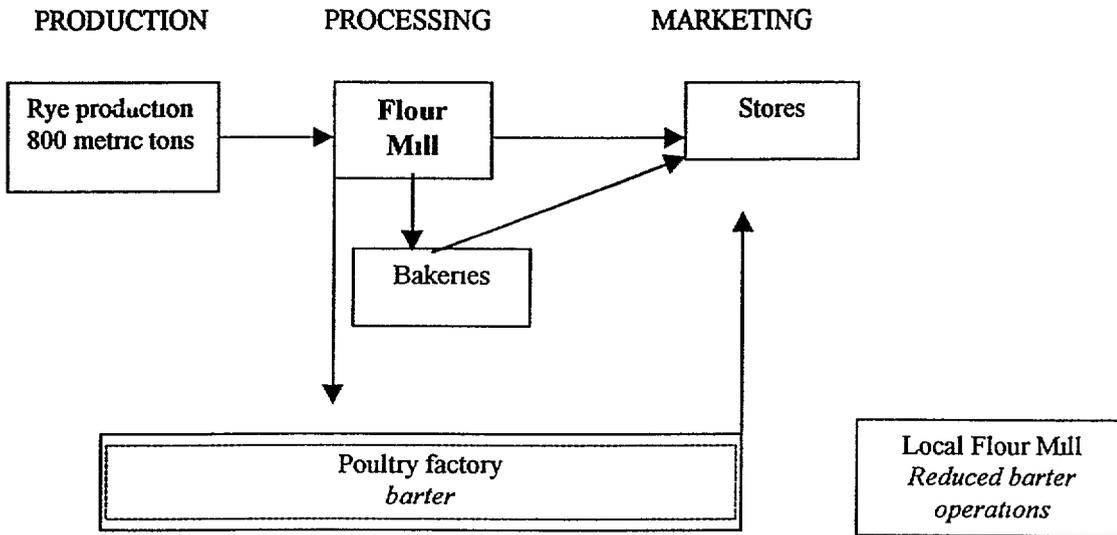
This year the cooperative will save the 30% of their harvest that they were paying the local flour mill. That amounts to an additional 240 tons of grain. At a return rate of 75%, they will receive an additional 180 tons of flour, which at the market price of 1.70 rubles per kilogram, amounts to additional income for the cooperative of 306,000 rubles, or \$51,000. To this they add at least a 30% barter fee for milling 350 tons of other area producers' grain. In addition, they have income from the by-product for eggs barter arrangement to cover expenses. The end result is that the cooperative will be able to pay off their loan in one year's time.

Please refer to the schematic and graph on the following page.

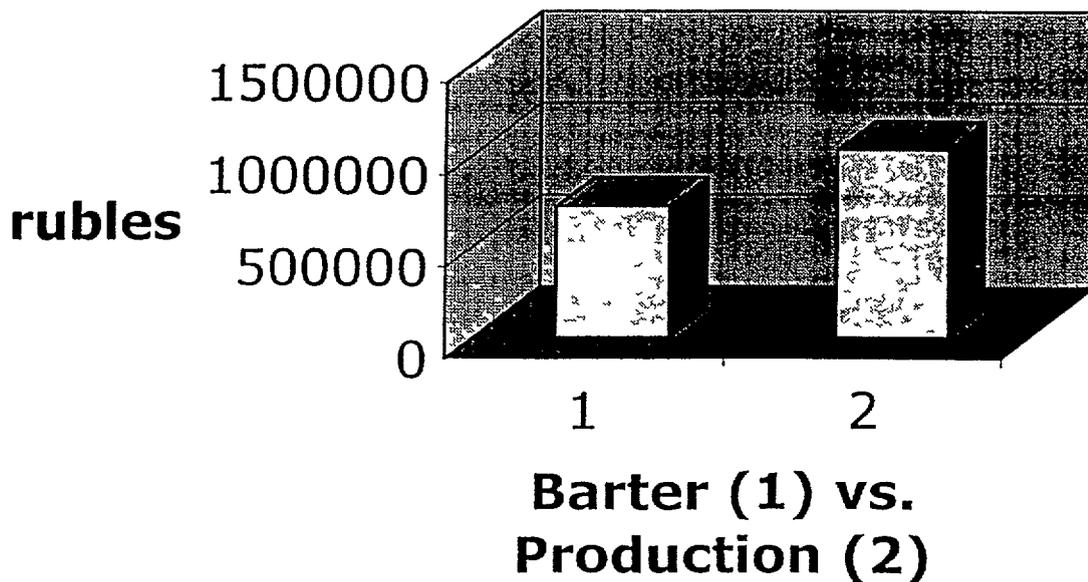
✓ Additional income \$51,000

VERKHOVAZKSK MILLSTONES CO-OP (continued)
Vologda oblast, RUSSIA

Millstones Cooperative Farm to Market System



Yearly Flour Income



ATTACHMENT D

UKRAINE IMPACT STORIES

- Horachek Agribusiness
- Kolo Agribusiness
- Leshko Bakery
- Lozynskiy Agribusiness
- Lviv Oblast Dairy Processors League
- Lyskanych Farm
- Malashivsky Farm and Mostyska Area Farmers
- Mostyska Dairy Plant
- Mukachevo Agricultural Technicum
- Nyva Farm
- Povernennya Farm
- Rosan Capital
- Shosh Agribusiness
- Slyusar Farm
- Stremilche Farm

**FARMER TO FARMER IN THE NIS
UKRAINE
Land O'Lakes, Inc**

IMPACT

HORACHEK AGRIBUSINESS

Myroslav Horachek
L'vivs'ka oblast, UKRAINE
1 assignment, 1 volunteer

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 a specialist through the Farmer to Farmer Program.

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. Over the course of the week he spent at the farm, volunteer Lee Stadnyk worked closely with the hosts in order to balance several different summer and winter rations utilizing ingredients readily available on the farm. The host himself noted that prior to the assignment he had known almost nothing about animal nutrition. However, by working with the farm's management and employees to improve rations and other feeding practices, the FTF volunteer helped to educate them about the specifics of dairy nutrition. As a result of this new information and the rations provided by the volunteer, milk production increased by 15%. In addition, the specialist recommended that the farm dig a well in order to facilitate an increase in the availability of drinking water for the herd.

During the assignment, the volunteer also developed three different strategies by which the farm could expand its herd to twenty head, and outlined the benefits and disadvantages of each option. Mr Horachek utilized this information to come to the decision to purchase young 3- to 4-month-old calves. In addition, the specialist recommended that Horachek expand the dairy products it offers in order to market its increases in production.

- ✓ 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
- ✓ Rations improved with volunteer assistance
- ✓ Milk production increased by 15% thanks to volunteer recommendations

HORACHEK AGRIBUSINESS (Continued)

L'vivs'ka oblast, UKRAINE

The host recently took the first step in this direction by purchasing a separator in order to sell cream in addition to milk

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, and will lease another 25 hectares by the end of 1999.

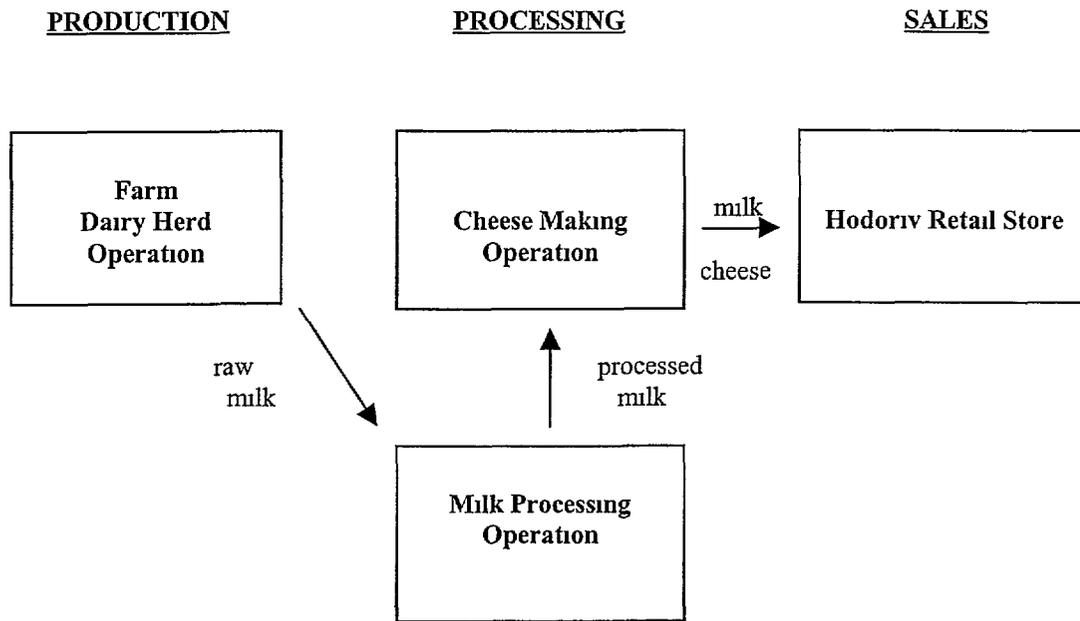
Its hog-raising operations will be expanded as well. After the Land O'Lakes-organized study trip to Polish hog farmers, Horachek and two of his other fellow farmers decided to form a procurement/marketing cooperative with a special focus on pig production. Roy Chapin, FTF volunteer in animal production, 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. 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.

- ✓ Separator purchased in 1998 and cream now sold separately for a premium
- ✓ Volunteer rates farm the best he's ever seen in Russia or Ukraine
- ✓ Additional 85 hectares being cultivated by 1999
- ✓ Participates in LOL-sponsored swine study trip to Poland
- ✓ Volunteer in swine nutrition helps Horachek improve hog rations
- ✓ Farmer now in first stages of developing cooperative

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

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

HORACHEK AGRIBUSINESS



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

**FARMER TO FARMER IN THE NIS
UKRAINE**
Land O'Lakes, Inc.

IMPACT

KOLO AGRIBUSINESS

Lvivs'ka oblast, UKRAINE

1 assignment, 1 volunteer

Judging by the explosion of interest in rapeseed among farmers in Ukraine today, one might be surprised to learn that this was western Ukraine's number one crop prior to 1930. Introduced with great success from Germany a century before, by the 1950s rapeseed production had been entirely eliminated and replaced with sunflower cultivation. Following the collapse of the Soviet Union, however, Ukraine's fledgling private farmers began seeking crops that would provide them with higher returns than traditional oil and grain crops. In rapeseed, some farmers believed they had found just that—a lucrative cash crop with potential for both domestic sales and export.

Oksana Tomas is one such farmer. For the past two years, she and her partner Petro Lupyvovk have grown large quantities of rapeseed on Kolo Farm, their operation in Lviv oblast, and have marketed it successfully not only domestically, but to buyers in Poland as well. Because buyers of rapeseed generally deal only in large volumes, and also since her operation's drying equipment had significant under-utilized capacity, Oksana felt that by joining together with other producers she could improve her operation's profitability and increase its leverage with processors and other buyers. Joint work with Land O'Lakes and Farmer to Farmer volunteer Roy Chapin has helped make this idea a reality.

Having recognized in its Ukrainian partners a strong interest in rapeseed, last fall Land O'Lakes, together with Chapin, launched a project to bring producers, processors, input suppliers, creditors and buyers together to share technical expertise and market research at an interactive seminar held in Lviv. Only two months later, this activity produced some extremely positive results.

Of 25 farmers that attended the January seminar, over half have already decided to start growing rape. A number of them, including Bohdan Malashivsky of Mostyska, Lvivska oblast, have convinced others to go into rape production as well (see enclosed impact report on Malashivsky for more information). Because this is a new crop for many, cooperation with Land O'Lakes and experienced growers will be especially important for them this year. Each of seven small producers will produce rape independently this year. The total amount of land they plant with spring and winter rape will exceed 70 hectares and should bring in at least 105 tons of rapeseed, which is worth at least \$17,850.

- ✓ Rapeseed, though Ukraine's number one crop prior to 1930, was eliminated by 1950
- ✓ Once again rape now seen as crop with huge domestic and export potential
- ✓ FTF volunteer assistance helped bring potential producers and processors together
- ✓ Seminar held in Lviv in January
- ✓ Over half of 25 participants decide to begin producing rapeseed
- ✓ FTF Partners will receive up to \$17,850 in revenue from newly introduced rapeseed production

KOLO AGRIBUSINESS (Continued)

Lvivs'ka oblast, UKRAINE

Since most of these seven farmers have relatively small operations, this revenue will have a significant impact on their cash flow

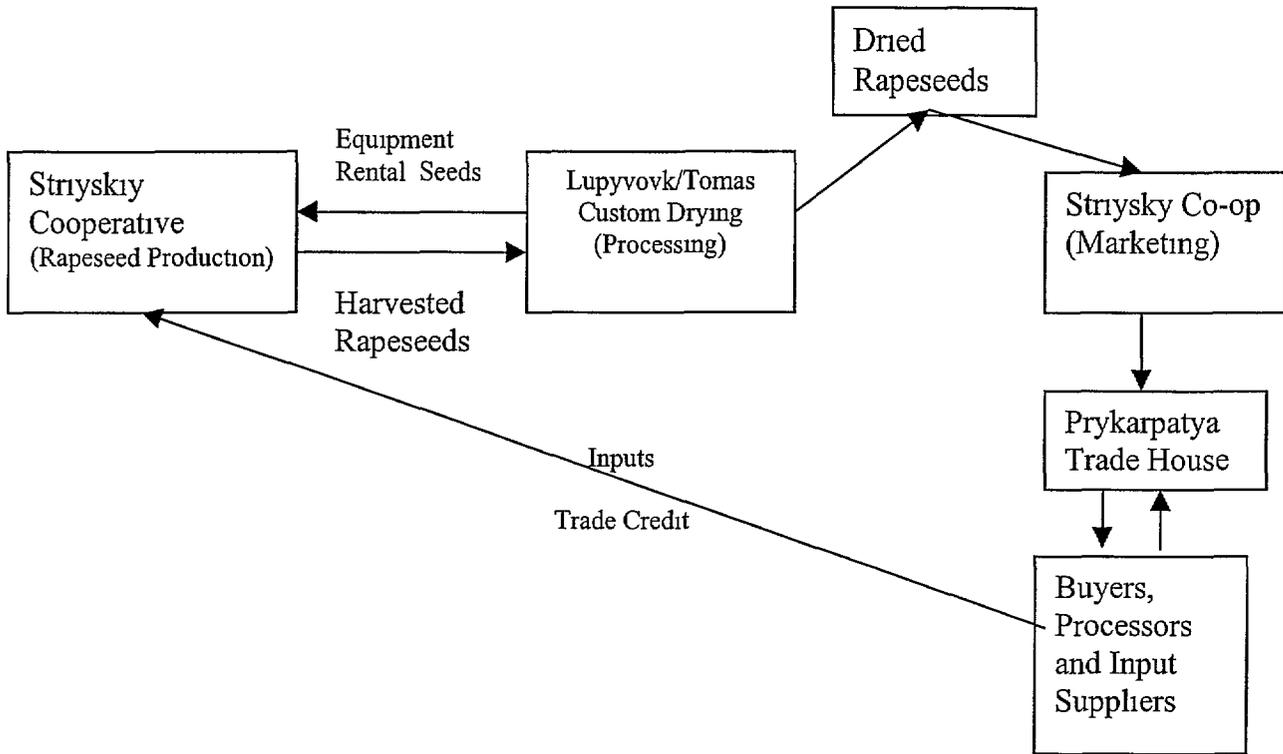
Even more dramatic results have been achieved by five farmers that decided to work together after organizing a meeting in February to follow up on the initial gathering in Lviv. Kolo and four other participants used this opportunity to explore the potential for working together to ensure rapeseed volumes and share resources. After this second meeting, the group decided to form a partnership, and agreements were signed to purchase excess rapeseed and rent machinery from Kolo. As a result, 3 farmers purchased 2 tons of seeds and will plant over 250 hectares (in addition to Kolo's 300 hectares). These seeds are five times cheaper than the ones sold locally by Gaben, a foreign seed distributor. And through this sale Kolo Farm made over \$1300 – money that is helping to finish construction of a new swine production facility. Just as important, the cultivation of canola, one of the types of rape that the farmers will be growing, will provide Kolo and other local farms with canola meal – an excellent protein source in feed for dairy and livestock production.

Finally, Land O'Lakes has worked with a local NGO, the Agency of Agribusiness and Marketing Development (AAMD), to explore potential avenues of cooperation between rapeseed growers and the Stryskiy Vegetable Marketing Cooperative. As a result of this effort, the cooperative will expand its activities to include rape this year. The co-op has already come to an agreement with a local trade house that will provide cooperative members with inputs on a trade-credit basis and guarantee a rapeseed purchase price of \$170 per ton. For the five farmers that have joined the cooperative, this not only guarantees them a market for their production, but will guarantee them a minimum of \$68,000 for the 400 tons of rapeseed they expect to produce as well.

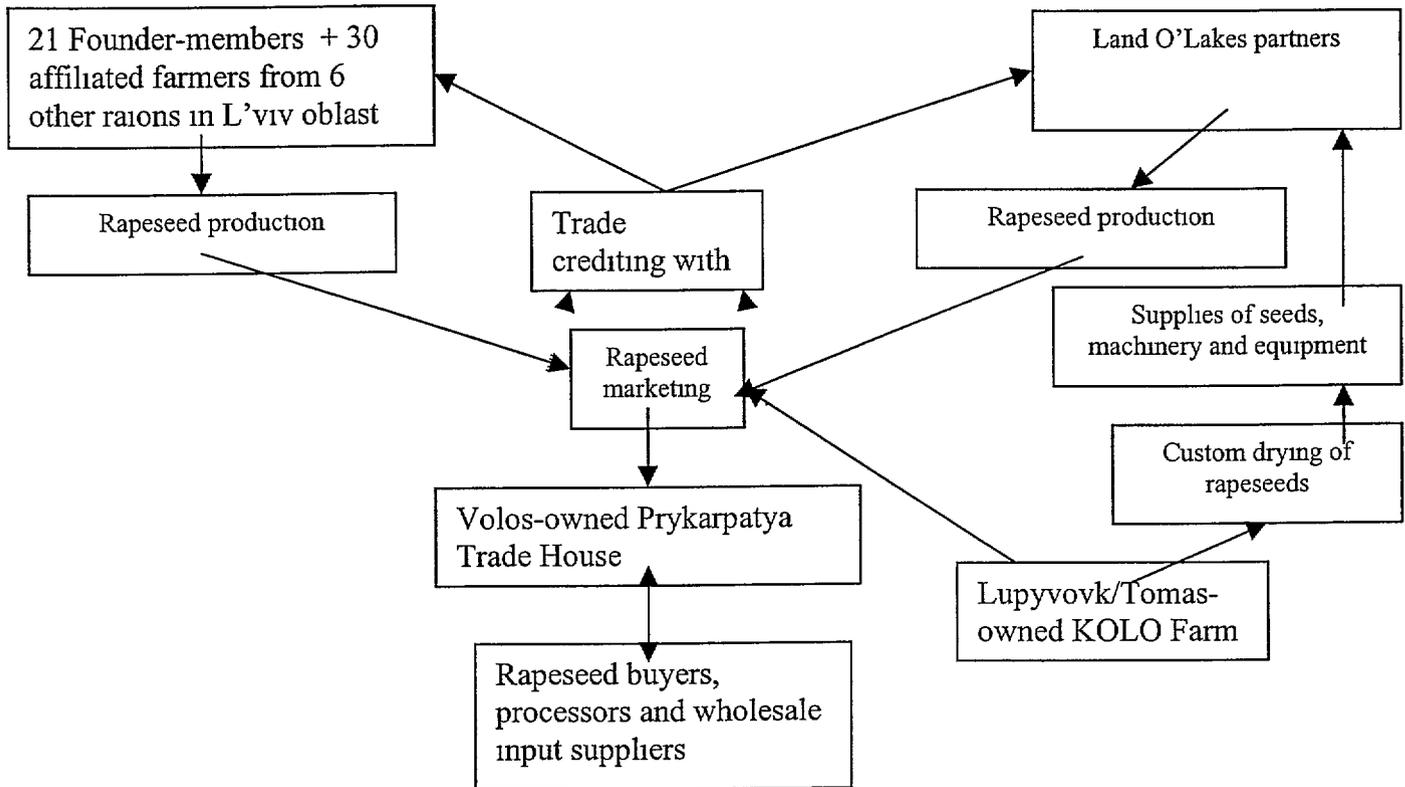
Refer to the next two pages for a structural layout of the Stryskiy Cooperative of Rapeseed Growers

- ✓ Thanks to volunteer recommendation, Kolo Farm forms partnership with four other farms
- ✓ FTF assistance leads to \$5200 savings in seed purchase and leads to \$1300 in additional revenue for Kolo Farm
- ✓ Five FTF Partners join Striy Cooperative and expand its activities to rapeseed marketing
- ✓ Co-op's sales agreement will pay members \$170/ton for rapeseed, guaranteeing a minimum of \$68,000 in revenue

STRIYSKY COOPERATIVE OF RAPESEED GROWERS
Structure Layout



KOLO AGRIBUSINESS (Continued)
Lvivs'ka oblast, UKRAINE



FARMER TO FARMER IN THE NIS UKRAINE

Land O'Lakes Inc

IMPACT

LESHKO BAKERY

Yuri Leshko

Zakarpatska Oblast, UKRAINE

1 assignment, 1 volunteer

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.

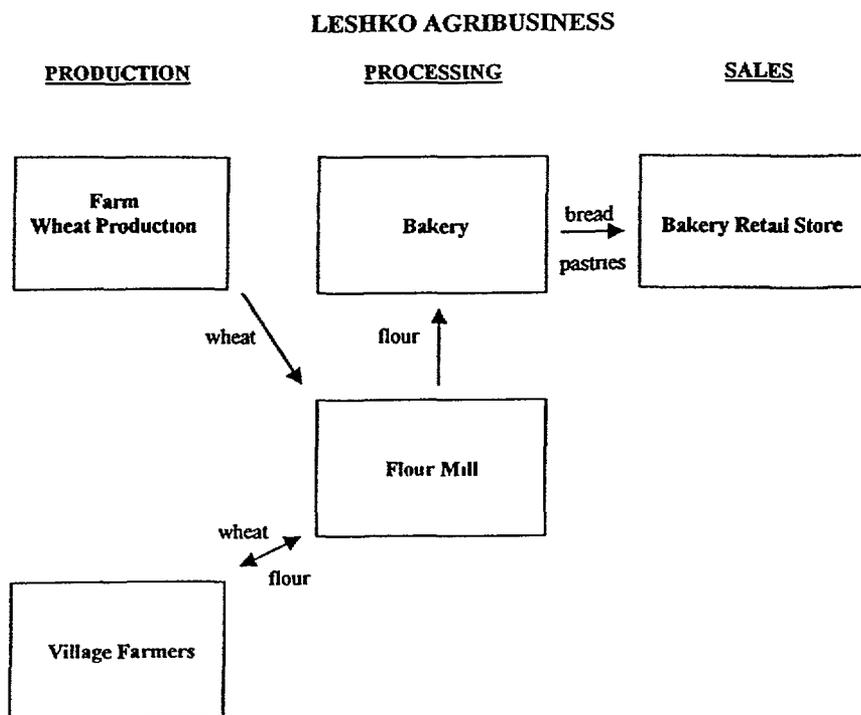
Leshko Bakery is a bakery and retail operation that produces and sells bread, baked goods, and pasta in the southwestern Ukrainian town of Velyki Luchky. Its close ties with the local Baptist community go back to its very founding six years ago. When a Baptist group offered the community two used baking 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 Luchky, 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, FTF volunteer Trevis Gleason discovered several problems with its bread-making process and provided useful advice for 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 since the FTF volunteer's assignment, which amounts to an annual increase of over \$33,000 in revenues.

This growth in sales would not have been possible, however, without the

This growth in sales would not have been possible, however, without the volunteer's recommendations, which helped increase the bakery's output. 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 volunteer 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 will amount 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.



CLOSED FARM-TO-MARKET SYSTEM CREATED WITH LAND O LAKES ASSISTANCE

**FARMER TO FARMER IN THE NIS
UKRAINE
Land O'Lakes, Inc**

IMPACT

LOZYNSKIY AGRIBUSINESS

L'vivsk'a oblast, UKRAINE

1 assignment, 1 volunteer

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. Because Larry was already in country, and thus Land O'Lakes did not have to pay for airfare, a visa, or other related travel expenses, the cost of his assignment was under \$100, a mere fraction of what it would have cost to bring a volunteer over from the U.S. 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 is now hard at work 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 is renovating the former collective's swine facility to allow him to increase his hog operation, and will soon lay a new cement floor. Through Land O'Lakes, he was introduced to Eho, a local feed company, and has signed an agreement with them for swine feed on credit for very flexible terms with no prepayment required. The rations he will obtain should allow him to double, if not triple, the growth rate of his hogs, and allow him to bring them to market in six months instead of twelve. This will shorten the time needed to receive a return on his investment and allow him to raise twice as many hogs per year. Finally, if he is able to secure additional credit from Lviv Credit Union, to whom he recently submitted a business

✓ 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

✓ The farmer cooperates with Eho, a privately owned feed company

LOZYNSKIY AGRIBUSINESS (Continued)

L'vivsk'a oblast, UKRAINE

plan, he will also be able 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 better to turn a former collective into a thriving private operation than a successful private farmer?

- ✓ Petro is confident that another credit for his swine project will be granted by L'viv Credit Union

- ✓ Petro Lozynskiy is revitalizing the stagnating collective recently taken over

- ✓ Private farmers, such as Petro Lozynskiy should lead a collective farm restructuring process

**FARMER TO FARMER IN THE NIS
UKRAINE
Land O'Lakes, Inc**

IMPACT

LVIV OBLAST DAIRY PROCESSORS LEAGUE

Lvivs'ka oblast, UKRAINE
3 assignments, 3 volunteers

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.

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 were. 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, 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

✓ 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

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 has 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 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

✓ 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

✓ 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

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

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 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.

✓ 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

✓ 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

LVIV OBLAST DAIRY PROCESSORS LEAGUE

(Continued)

Lvivs'ka oblast, UKRAINE

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 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 hopes 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.

- ✓ 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

FARMER TO FARMER IN THE NIS UKRAINE

Land O'Lakes, Inc.

IMPACT

LYSKANYCH FARM

Roman Lyskanych

L'vivs'ka oblast, UKRAINE

1 assignment, 1 volunteer

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. It is true that threats of re-collectivization are sounding ever loudly from the left side of the political spectrum, but the more real danger facing private farmers is that the lack of faith of political centrists and right-wingers in the future of private farming will become a self-fulfilling prophecy.

- ✓ 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

**FARMER TO FARMER IN THE NIS
UKRAINE**
Land O'Lakes, Inc.

IMPACT

MALASHIVSKY FARM & MOSTYSKA AREA FARMERS

Lvivs'ka oblast, UKRAINE
3 assignments, 3 volunteers

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.

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. In the course of his work, Block also discovered that the meat-processing facility's management was both overstaffed and under-performing, and recommended that a change be made. Soon after the assignment, Malashivsky took this advice to heart and, after a close examination of the operation's management, he fired both the plant's head manager and head accountant. While this helped improve the facility's performance, by late 1998, however, Malashivsky came to realize that there were external factors that would continue to keep meat-processing from being as profitable as several other potential sectors.

This awareness of the importance of monitoring profitability was something that Malashivsky learned in part through his work with marketing expert and FTF volunteer Terry

- ✓ Farm founded in 1992, mill and sausage-making operation acquired in 1995
- ✓ FTF volunteer assistance helped improve sausage quality, and introduce new varieties
- ✓ LOL volunteer recommendation leads to removal of unproductive management, increased profitability

MALASHIVSKY FARM & MOSTYSKA AREA FARMERS

(Continued)

Lvivs'ka oblast, UKRAINE

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 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.

Following the seminar, Bohdan attended a follow-up meeting and signed an agreement with Kolo Farm that will provide him with drying equipment and other necessary machinery for the 100 hectares he has planted. In addition, he joined Strisky Cooperative, which provided him with inputs and guaranteed a market at the very competitive price of \$170 per ton, or \$25,500 for the 150 tons he expects to harvest.

Malashivsky recently 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 Strisky 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 Strisky Cooperative as well, and now together they receive seeds, chemicals and fertilizers as trade credit. The 12 farmers

- ✓ Volunteer Terry Bell stresses maximizing profit by sector
- ✓ Malashivsky takes part in Cochran Fellowship study tour of U S agriculture
- ✓ Malashivsky consolidates operations to focus on meat and rapeseed production
- ✓ Malashivsky agrees to rent equipment from private farmer in Lviv oblast
- ✓ Malashivsky joins marketing cooperative and is guaranteed inputs and \$25,500 for his rape crop
- ✓ FTF Partner convinces 12 fellow farmers to join cooperative and share transportation costs

MALASHIVSKY FARM & MOSTYSKA AREA FARMERS

(Continued)

Lvivs'ka oblast, UKRAINE

will seed about 500 hectares of land overall this year and produce at least 750 tons of rapeseed, which is worth \$127,500 at the cooperative's guaranteed price

As for Malashivsky's share of the revenue, he plans to reinvest it in order to develop a beef cattle operation, as well for the purchase of several hogs and piglets. Eventually, he hopes to increase his pig operation to 200-300 animals and maintain a beef herd of 50-60 head, which would allow him to get back into processing without fear of insufficient raw meat supplies. But while Malashivsky is convinced of the importance of planning ahead, his experience over the last two years has taught him one thing, it is that one must constantly reassess one's plans and priorities in order to adapt to new obstacles and take advantage of unanticipated opportunities

- ✓ LOL assistance leads to 12 farmers being guaranteed \$170/ton for their rapeseed a \$127,500 value
- ✓ Malashivsky expanding animal production with rape revenues

FARMER TO FARMER IN THE NIS
UKRAINE
Land O'Lakes, Inc

IMPACT

MOSTYSKA DAIRY PLANT

Lvivs'ka oblast, UKRAINE

1 assignment, 1 volunteer

While Mostyska Dairy Plant is the newest such operation in Lviv oblast, the plant has undergone drastic changes over this period. Founded only in 1989, two years before Ukraine gained its independence, the operation has had to adapt to a set of conditions quite different from those under which it was built.

Under Soviet rule, the plant's management was responsible primarily for ensuring satisfactory production levels. Procurement of inputs, determination of product lines and production levels, as well as sales and marketing for all production except milk, were taken care of by external entities. Economic restructuring has changed all that. While new economic conditions have opened up a wide range of new opportunities for agricultural processors, they have also created many new obstacles to success not only for the dairy industry, but for companies in many other sectors as well.

Since 1995, Mostyska has collaborated with Monomakh, a Lviv distribution company with which the plant began producing and marketing powdered milk. Monomakh is owned by Mykola Poraiko, who also has stakes in 3 other companies involved in the distribution and energy sectors. In 1998, Mr. Poraiko purchased 60% of Mostyska's stock, and quickly began trying to turn the operation around.

One of the most pressing difficulties that he had to deal with was the plant's indebtedness, which had reached \$100,000, due to customers – often the state, itself – that had not paid for their purchases. The general liquidity crisis and lack of legal protection for producers in Ukraine means that businesses are rarely paid on time for what they sell and have little legal recourse for recouping debts owed them. For Mostyska, for example, this had the effect of causing delays in its ability to pay producers for their raw milk supplies, which discouraged producers from selling to processing plants when they could sell their milk – albeit illegally – at local markets for a higher price, receive the money in cash, and avoid paying taxes. This cycle exacerbated – and continues to exacerbate – an already dire milk supply situation. Whereas previously milk was produced in abundance by large collective and state farms, the management of their successors often sold off herds for short-term gain, or had livestock holdings divided and distributed to former collective members. One of

✓ Newest plant in oblast, having been founded only in 1989

✓ In 1995 began cooperation with Monomakh distribution company

✓ Illegal raw milk sales make raw material procurement difficult for dairy processors

MOSTYSKA DAIRY PLANT (Continued)

Lviv's'ka oblast, UKRAINE

the results of this latter dynamic is that the average-sized dairy herd in Ukraine is now about one or two, hardly a recipe for efficiency in terms of either production or milk collection

Undaunted by these challenges, Poraiko invested over \$50,000 in improvements to the plant's outdated Soviet equipment, bought new Tetra-Pak packaging equipment, and made major management changes. Having quickly realized that the old management had insufficient skills to turn the plant's fortunes around, Mr. Poraiko hired a new general manager for the plant and began to seek out new markets able to pay for the plant's products. By seeking private outlets for the plant's production among Monomokh's existing client base in Lviv, Poraiko was able to identify customers that had already proved their ability to pay. In just six months time, Mostyska has come to terms with 70 retailers in Lviv, more than enough to market their entire production at present. Now, less than a year after it was privatized, Mostyska has expanded its product line from butter to milk, butter, sour cream, kefir, and powdered milk, and the operation is making 15 times more in profit daily than it had been a year ago.

Unfortunately, Mostyska's processing level remains well below its 60-ton capacity of milk per day, even during the summer when milk supplies are much higher. In fact, in order to save on electricity, fuel and salaries, the plant operates only every other day in the winter. Because of this dire situation, improving milk supplies has been one of Poraiko's major focuses. One of the main strategies they have developed to deal with this difficulty was a result of an Farmer to Farmer volunteer assignment this past fall.

In October, Michael Straus, the director of marketing of Straus Family Creamery, spent three weeks working with local dairy processors. Two of his assignment's major impacts, however, were not even directly related to marketing. During his visits, Straus described his family's integrated milk production and processing operation as one way to guarantee the quantity and quality of raw milk supplies. As a result, Mostyska investigated local dairies and identified two large dairy farms in nearby villages that it will work closely with this spring to promote better dairy herd management practices. Although some other dairy plants provide support to producers in the form of fuel and other inputs, Mostyska has plans to take a more central role in restructuring the farms and utilizing Western technology to improve feed, herding, genetics, and milk collection practices. Land O'Lakes will work with Mostyska to make this plan a

- ✓ Average herd size at present only one or two head
- ✓ Over \$50,000 invested in plant improvements, new packaging equipment purchased, and new management hired
- ✓ Rapid sales strategy garners 70 new retailers in less than a year
- ✓ Profitability increased 15-fold¹
- ✓ FTF volunteer in dairy marketing requested
- ✓ In accordance with volunteer recommendation, plant will work together with 2 dairy farms to increase production

MOSTYSKA DAIRY PLANT (Continued)

Lvivs'ka oblast, UKRAINE

reality. In addition, Farmer to Farmer assistance afforded plant management with opportunity to meet with a financial group in Lviv that expressed interest in financing such an endeavor, and with a Dutch project that will provide ongoing dairy management expertise.

A second major impact that Straus had on Mostyska concerns dairy shelf-life standards. After spending time in western Ukraine, nearly every FTF dairy specialist has singled out the state-imposed shelf-life regulations (36 hours for raw milk) as needless and excessively strict. In the West, it is believed that the producer, not the government, should set shelf-life standards for its own products, because the producer knows how long they remain fresh. The current law results in perfectly good dairy products being barred from sale, decreasing processors' revenues. To remedy this problem, one of the volunteer's recommendations to local plants was to try to increase those standards for products that remain good for longer than the state-allowed periods, at least for those producers that have proved their products' longer shelf-life. Previously, Mostyska dealt with this difficulty by forward-dating the expiration date printed on their milk cartons by one day. However, they were consequently caught quite often for this and fined an average of \$150 per month. Now, however, they have initiated discussions with the relevant state agency to serve as an experimental station for the establishment of revised standards. This was made possible by Mr. Straus' visit to the state agency. Within the month, regional sanitation agents have promised to give the green light to this trial, which should result in shifting responsibility for shelf life over to the producer.

The majority of Straus' time, however, was spent addressing marketing issues. In response to management's search for possible new items to add to its product line, Mr. Straus suggested producing cream and packaging it in small cartons that have been traditionally used for sour cream. As opposed to butter, which is often difficult to sell, cream is a dairy product that has become more popular in Ukraine in recent years. Through its cream sales, Mostyska is hoping to capture this new niche market.

In accordance with the FTF specialist's recommendations, the plant is also seriously considering the possibility of going into the co-packing business in order to more fully utilize its modern packaging and other equipment. One local plant that he identified, in particular, is an especially suitable candidate for this type of partnership. Finally, Mr. Straus worked with Mostyska to improve the artwork and shape of its packaging. While Mostyska

✓ State shelf-life restrictions hurt dairy sales

✓ Experimental program with state dairy inspector will allow plant to extend allowed shelf-life

✓ Cream sales begun thanks to FTF volunteer recommendations

✓ Dairy packaging improved

MOSTYSKA DAIRY PLANT (Continued)

Lvivs'ka oblast, UKRAINE

has very sleek and professional-looking packaging by Ukrainian standards, there is still room for improvement. Better packaging, with a distinctive logo and professional artwork, is especially important now that Ukrainian goods must compete with Western products, and it is encouraging that Mostyska's management has already expressed interest in implementing these recommendations.

FARMER TO FARMER IN THE NIS UKRAINE

Land O'Lakes Inc.

IMPACT

MUKACHEVO AGRICULTURAL TECHNICUM

Zakarpatska Oblast, UKRAINE

1 assignment, 1 volunteer

After Ukraine gained its independence in 1991, Transcarpathia was one of the nation's first regions to grant parcels of land to its residents. Many individuals in Transcarpathia became some of the country's first landowners, and soon thereafter, its first private farmers. Because a great number of them had little or no experience in farming, and even fewer had the kind of entrepreneurial skills necessary to run a business, for many, the first few years proved to be a time of trial and error.

At the same time, Ukraine's agricultural schools were ill-suited to ease this transition. Since they were developed to support the Soviet agricultural system of subsidized state and collective farms, their curricula often were not relevant for smaller, private entrepreneurs. In addition, knowledge of and access to information on modern farming techniques and statistics were quite limited. At the same time, the critically important business skills essential to running a private farm were not sufficiently emphasized. It was in these circumstances that Land O'Lakes was contacted by an agricultural educational institution in Transcarpathia that wanted help in its efforts to modernize its teaching and make its curriculum more relevant.

Mukachevo Agricultural Technicum is a 4-year institution of higher learning in southwestern Ukraine that provides instruction for current and future farmers and agribusiness professionals. The school's 600 students pursue degrees in the fields of farm management, accounting, agronomy, and veterinary science. Land O'Lakes recruited Dale Dunivan, a private farmer and educator with many years of teaching experience, to provide assistance in curriculum development in order to make the technicum more responsive to the needs of Transcarpathia's emerging private agricultural sector.

Over the course of his assignment in the fall of 1997, Mr. Dunivan worked with staff to update the content of several of their courses and to include new subject areas as well. Dale presented the school with educational materials worth over \$1000 on agricultural production and processing issues, as well as on agribusiness marketing, bookkeeping, and total quality management. These materials are now being used together with standard textbooks in order to provide a contemporary western perspective, as well as more detailed technical information, for both student and professor. The FTF volunteer also provided the school with a lesson plan and accompanying materials on small business development, including materials on sales and marketing, two especially vital topics that previously had not been included in the school's course of study. The agricultural statistics he shared with the school were thought to be particularly useful. As the school's assistant director said, "The statistics he provided on farming in the West are especially important because they allow us to gauge our own performance and compare it to what is truly possible."

MUKACHEVO AGRICULTURAL TECHNICUM (Continued)

Zakarpatska Oblast, UKRAINE

Perhaps one of the most valuable aspects of the specialist's work, however, was the hands-on teaching that he was involved in at the technicum, as well as at its branch campus in the ethnic Hungarian town of Ivanivtsy. As part of his work, Dale delivered twenty lectures to over 200 students and faculty in Mukachevo, and to 50 more in Ivanivtsy, on various contemporary agricultural issues. Both the content and the style of teaching made a deep impression on his audience. By incorporating discussions, group activities, and audio-visual materials into his lessons, he engaged the students to a degree that the school's administration had not witnessed previously, and inspired the faculty to rethink their traditional emphasis on lecture-based teaching.

Finally, the specialist followed up on his previous Farmer-to-Farmer (FTF) assignment to Vinohradovo Agricultural College two years earlier. As one of Ukraine's first educational institutions to offer courses tailored especially to the needs of private farmers, the college benefited greatly from the specialist's experience in the western agricultural education system. The FTF volunteer also gave video films and written materials worth over \$500 to the college for use in their classes. After his return visit, Dale Dunivan remarked that he was especially impressed by the progress they had made in incorporating the materials and ideas he had shared with them previously.

Insufficient government funding and Ukraine's general economic crisis continue to cause serious problems for educational institutions in Ukraine. Thanks in part to the efforts of Dale Dunivan, however, for those attending courses at both Mukachevo Agricultural Technicum and Vinohradovo Agricultural College, trial and error increasingly is becoming a farming technique of the past.

**FARMER TO FARMER IN THE NIS
UKRAINE**
Land O'Lakes, Inc.

IMPACT

NYVA FARM

Pavlo Turyanytsya
Zakarpatts'ka oblast, UKRAINE
1 assignment, 1 volunteer

While private farming in Ukraine is still only in its infancy, Pavlo Turyanytsya is already carrying on a family tradition. Within 12 months of the country gaining its independence in 1991, some enterprising young agriculturalists in Transcarpathia, a region in southwestern Ukraine, were given the opportunity to obtain small parcels of land and, as a result, became some of Ukraine's first private farmers. Pavlo's father was one of them, having received 28 hectares of land in early 1992. Pavlo followed in his father's footsteps and established his own farm soon thereafter. When his father died suddenly two years later, Pavlo took over his father's operation, combined it with his own land, and created Nyva Farm.

Nyva encompasses 50 hectares in central Transcarpathia oblast, a region that is located just high enough to have escaped the destruction two cataclysmic floods have caused in the province within the past year. In addition to growing field crops, Turyanytsya raises swine, cows and poultry. Pavlo benefited greatly from his father's expertise in the field and this is reflected in the rapid growth in his swine operation. While his small 25-hog operation is not quite at a Western level of production, he does get his pigs to market in seven months thanks to a balanced diet including grains and soy meal, a result that compares very favorably with the year that many domestic operations take to fatten their hogs to market weight. Because of less impressive yields from his field crops, however, Pavlo contacted Land O'Lakes in early 1998 to request Farmer-to-Farmer assistance to help improve his soil quality and plant protection methods.

In July 1998, volunteer Steve Welker spent a week at Nyva Farm examining the operation and sharing his expertise in these areas. He recommended specific herbicides for Nyva's grain, corn and sunflower crops and provided instructions of their application. Pavlo reports that these herbicides are working so well that his harvest will exceed last year's by at least ten percent, increasing the value of this year's crops by over \$2,000. In addition, as the specialist recommended, this fall Turyanytsya will begin using lime to increase the pH of his soil. He has already identified a local, low-cost supplier, and the increased pH will allow for both increased yields and better long-term soil quality. Finally, a soil test and recommendations provided by Land O'Lakes will help Turyanytsya to better gauge the proper amount of lime and other chemicals to apply.

✓ Farm founded with 22 hectares in 1992 and later expanded to 50 hectares

✓ Hogs raised to market weight in only 7 months, versus a year in most traditional Ukrainian swine operations

✓ Use of herbicides recommended by FTF specialist has helped increase 1999 crop revenues by over \$2,000

✓ LOL provided soil analysis and recommendations -- a \$60 value -- to host

**FARMER TO FARMER IN THE NIS
UKRAINE**
Land O'Lakes, Inc.

IMPACT

POVERNENNYA FARM

Yaroslav Shakalo
Lvivs'ka oblast, UKRAINE
1 assignment, 1 volunteer

Yaroslav Shakalo is a born engineer. His farm is littered with machinery and equipment from the old collective farm once written off as junk – an old bus used as a supply transport, a large UMZ-6 tractor, two combines, a dumptruck, sawmill, drill, and other pieces of machinery. In fact, when he recently saw a neighboring farmer's new Dutch planter, he went out to buy materials and built a virtual copy for only a few hundred dollars, less than a third of the cost of the original. Extremely entrepreneurial, Yaroslav is building a diversified operation with a brother-in-law and other friends from the village.

Shakalo founded Povernennya farm five years ago, a private grain and vegetable production operation an hour south of Lviv. Although he founded the farm on just 10 hectares of land that he received from the state six years ago, Shakalo has expanded his operations by building a small sawmill and feedmill, as well as by leasing more and more land each year. At present, Povernennya Farm consists of 27 hectares, and will be expanded to 57 by the end of the year.

Because of his lack of agricultural experience, Shakalo spent the first four years gaining knowledge both through intensive self-study and through trial and error. Although he was able to learn a great deal over this period, Shakalo understood full well the limits of his farming background when he approached Land O'Lakes in late 1997 to request technical assistance in production agriculture.

Jeff Adelman, an expert in vegetable and greenhouse production spent several weeks on Povernennya Farm in February of 1998 providing consulting assistance. Over the course of his assignment, the volunteer evaluated the whole operation and provided a number of recommendations that have already been implemented and are producing significant results. First of all, Jeff recommended that Yaroslav discontinue raising hogs and cows for their manure due to the high cost of feed, and to use more fertilizers, so that he could concentrate on his more successful grain and vegetable operations.

The volunteer also recommended that the host have a soil analysis done, and Jeff helped him get in touch with a local laboratory that performed this service. As a result of the analysis, Jeff determined that the soil was not suitable for growing barley, and that oats would not only grow better, but would produce

- ✓ built own modern planter for only a few hundred dollars
- ✓ grain and vegetable operation founded five years ago
- ✓ has grown from 10 to 57 hectares over the past 4 years
- ✓ volunteer assistance provided in 1998 in open-soil and greenhouse crop production
- ✓ plans to expand into dairy and hogs abandoned due to volunteer's recommendation

POVERNENNYA (Continued)

Lvivs'ka oblast, UKRAINE

50%-60% more in revenues. It is expected that Shakalo will continue to switch over to oats over the coming year. Training in crop rotation provided by the specialist has also enabled Shakalo to improve his soil and improve yields, and has helped him to use pesticides more accurately. As a result, in spite of an extremely wet summer, Shakalo saw an increase in his wheat crop this summer of over half a ton per hectare, producing over \$1000 in increased revenues.

Land O'Lakes is also working with a TACIS project in Lviv to develop a marketing cooperative of which Shakalo is a founding member. The co-op was founded and registered by TACIS in early 1998 in order to jointly market the vegetable production of Shakalo and four other farmers. Because the co-op is using its members' own transport for delivery, and since Shakalo has the most equipment, he stands to benefit most through reimbursement for its use.

The majority of the assignment, however, was spent discussing greenhouse construction and growing techniques. Jeff also spent two days with the host at a large greenhouse operation nearby discussing and demonstrating the latest western production techniques. He also developed a plan for constructing greenhouses for Yaroslav. When completed, the greenhouse will enable Shakalo to greatly increase his vegetable production and revenues. While this past summer's wet weather has made Shakalo temporarily put off construction, he has firm plans to begin building the coming spring. Those who have seen what Yaroslav has reconstructed from the machinery graveyard of the local collective farm have no doubt that he will be up to the task.

- ✓ volunteer has soil analysis performed, and determined that soil is not suitable for barley production
- ✓ due to technical assistance, despite terrible summer weather, wheat yield increased, adding \$1000 in revenue
- ✓ Land O'Lakes works with TACIS to register, create marketing co-op
- ✓ plans for construction of greenhouse operations provided by specialist

FARMER TO FARMER IN THE NIS
UKRAINE
Land O'Lakes, Inc.

IMPACT

ROSAN CAPITAL

L'vivs'ka oblast, UKRAINE

1 assignment, 1 volunteer

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 head 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 some a feeding program. Then, in April, animal nutritionist and Farmer-to-Farmer volunteer 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
- ✓ FTF arranges two study trips to Poland, while Rosan pays own expenses of \$300 per trip
- ✓ FTF volunteer 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 Agra that led to negotiations regarding Rosan's desire to become a distributor of LOL Agra feeds and premixes in Ukraine. As a result of that meeting, Rosan Capital is now working to get the company's feeds and premixes registered for sale in Ukraine. Rosan has since been authorized by LOL Agra to represent the company in this process and to sign all documents relating to it.

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 Agra, have indicated that relations with them would be enhanced and simplified by the presence of an American manager within the company.

At present, only a few weeks after the completion of Chapin's assignment, Rosan Capital has already obtained a swine facility and started renovation work on it. In addition, LOL Agra's feeds are expected to be registered by the end of August, just in time for the anticipated start of operations of the swine facility in September. 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.

✓ FTF sets up meeting with feed and premix producer LOL Agra that leads to Rosan representing latter in Ukraine

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

✓ Hog facility already obtained and presently being renovated

FARMER TO FARMER IN THE NIS UKRAINE

Land O'Lakes, Inc.

IMPACT

SHOSH AGRIBUSINESS

Karl and Zholt Shosh
Zakarpats'ka oblast, UKRAINE
3 assignments, 3 volunteers

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. This type of expansion, however, was also necessitated by the lack of reforms

- ✓ 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

allowing the free purchase and sale of land. Because of this problem, there were-- and still are --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

Mark also recommended that Shosh begin using lucerne as a cover crop. This has allowed Karl to increase his soil's organic matter, reducing the need for fertilizer use. This activity has helped the farm to save an estimated \$1,000/year in fertilizer costs, in addition to producing high-protein hay for sale to farmers with livestock operations. Shosh will also be able to improve his soil more accurately thanks to the soil analysis and recommendations provided by volunteer Jim Gregory in 1998.

Two 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.

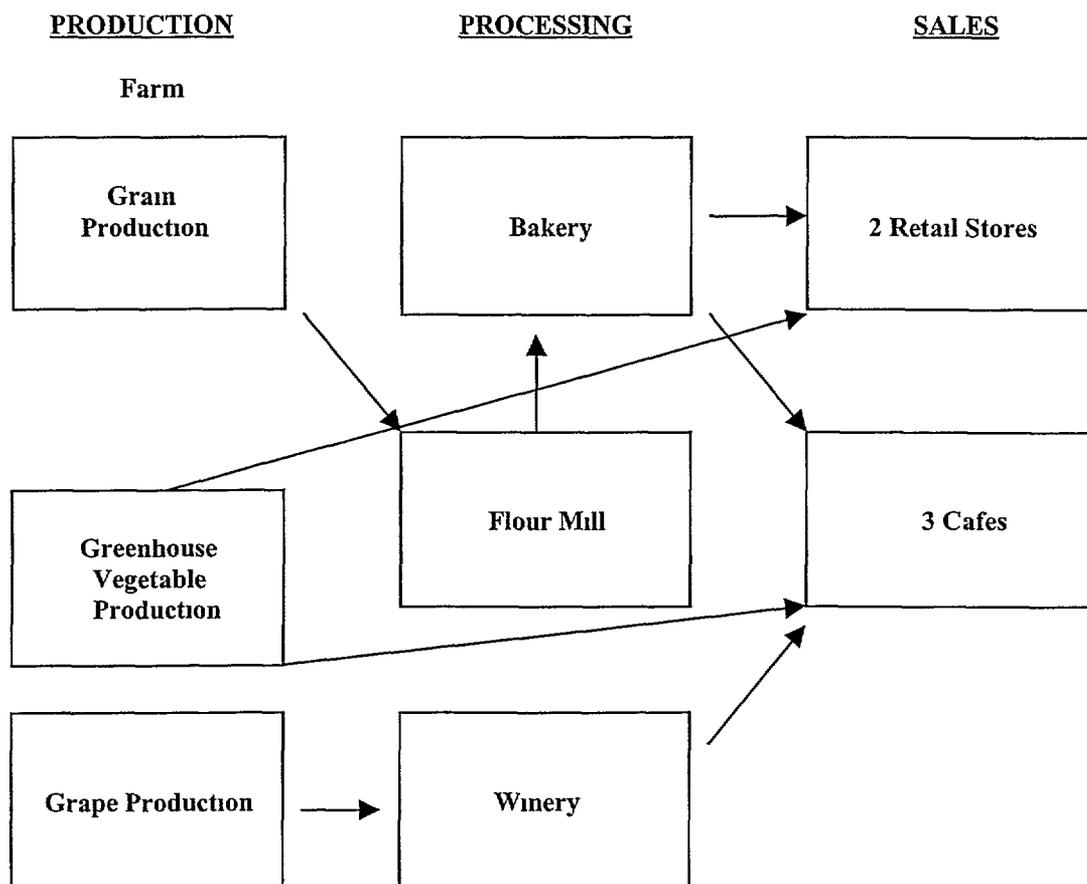
With all of this activity going on in his business, it is remarkable that Shosh finds time to head the local district's farmers' association as well. However, Shosh has managed to utilize this organization to support local farmers and encourage informal cooperation between them. He also has gathered association members to learn from visiting Farmer-to-Farmer volunteers, and to share his own experiences with the former group. In addition, he has been 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. While the practical steps needed to make this a reality have yet to be taken, Shosh has both the leadership qualities and business success to inspire trust in him by all of the potential partners in this venture in his community.

For a graph depicting the Shosh agribusiness ventures and their interdependencies, please refer to the next page.

- ✓ addition of lucerne as cover crop per volunteer's recommendation leads to \$1,000/year savings
- ✓ FTF volunteer provides soil analysis and advice in soil improvement
- ✓ 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

SHOSH AGRIBUSINESS (Continued)
Zakarpats'ka oblast, UKRAINE

SHOSH AGRIBUSINESS



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

**FARMER TO FARMER IN THE NIS
UKRAINE**
Land O'Lakes, Inc.

IMPACT

SLYUSAR FARM

Olha Slyusar

Lvivs'ka oblast, UKRAINE

1 assignment, 1 volunteer

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.

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.

- ✓ 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
- ✓ improved crop rotation sequence provided to farm
- ✓ inexpensive modifications make machinery run more efficiently

SLYUSAR (Continued)
Lvivs'ka oblast, UKRAINE

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 fall 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 FTF 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.

✓ 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

FARMER TO FARMER IN THE NIS UKRAINE

Land O'Lakes, Inc

IMPACT

STREMILCHE FARM

Leonid Olhynyk

Lvivs'ka oblast, UKRAINE

5 assignments, 5 volunteers

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 willingness has been reflected by his close cooperation with Land O'Lakes' Farmer to Farmer program.

This cooperation began when volunteer specialist 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

- ✓ 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

wide open this potential market will be for Olhynyk if he proves able to take advantage of this opportunity

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, Olhynyk 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."

Six months after his first visit, Terry Bell returned to Ukraine on a second assignment with Olhynyk, as well as with another Land O'Lakes host organization. The assignment was focused on finding both new markets and structuring sales contracts in a more favorable way. The specialist helped Olhynyk demand pre-payment, and showed him how to structure such agreements in order to ensure that he would be paid for all of his sales. This is a major problem in present-day Ukraine, because many state-run organizations are extremely indebted to other entities. As of this writing, Leonid had already made \$10,000 in prepaid sales.

During the volunteer assignment, the host and specialist also made trips to Lviv and Kyiv to investigate new sales opportunities. In Kyiv they found a meat processor that pays 10% to 15% more for beef than the going rates in western Ukraine. They also identified several distributors in Lviv that may be potential outlets for Leonid's produce. Finally, the volunteer provided numerous materials on crop production and food processing to the farm.

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.

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

✓ Terry Bell's second assignment helped Leonid restructure sales contracts and collect \$10,000 in addition

✓ Wholesale buyer and a number of local distributors identified during the assignment

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 55% 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 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 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

- ✓ 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
- ✓ 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

company information and design characteristics more typically found in the West



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 Olynyk 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 Olynyk 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 Olynyk'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 Olynyk 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

- ✓ Stremilche Farm continues its publicity campaign
- ✓ Livestock Field Day on Stremilche Farm on May 2, 1999
- ✓ Stremilche runs demonstration of its products at a local raion center

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 earlier this year will enable Leonid to can his own vegetables and provide him with a more steady and reliable cash flow. Oliynyk is shipping 10,000 jars of pickles to a new buyer in Odessa oblast for 2.50 hryvnias per jar. Leonid 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 FTF Partner Petro Fedyna, with whom he has already signed a purchase agreement.

LIVESTOCK PRODUCTION PIG BREEDING

Time spent with a Farmer to Farmer volunteer 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.

✓ 500 people visiting the stand with 400 UAH in sales

✓ Leonid is getting ready to ship 10,000 jars of pickles to an Odesa buyer

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

✓ American fish farming specialist visiting Stremilche farm in 1998

During the week she spent at Stremilche, volunteer Martha Rowan introduced Leonid to Western feeding and pond management practices. Martha provided Olhynyk with feed rations and schedules, as well as stocking directions and recommended ratios. She also helped Olhynyk 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, Olhynyk 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.

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 Olhynyk 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 Olhynyk and five 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

- ✓ Fish feeding and pond management techniques were taught to Olhynyk 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
- ✓ Roy Chapin, an animal nutritionist from Oregon detects inaccuracy in production record-keeping system at the farm
- ✓ FTF donates used computers to Olhynyk 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

computers of the other five FTF partners who received computers

CONCLUSIONS

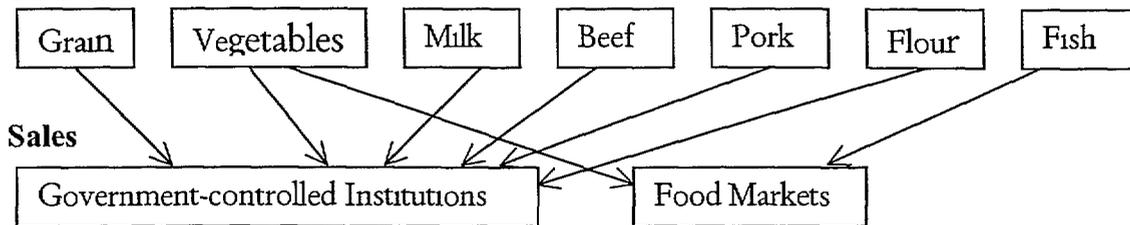
In order to summarize the dramatic changes that have taken place over the past several years with Land O'Lakes assistance, two charts are shown below. Stremilche's older, diversified operation and the present, increasingly specialized one incorporating vegetable processing and pig breeding.

✓ Stremilche tends to become more specialized in vegetables and pork

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

Chart 1 Farm Operational Layout

Production

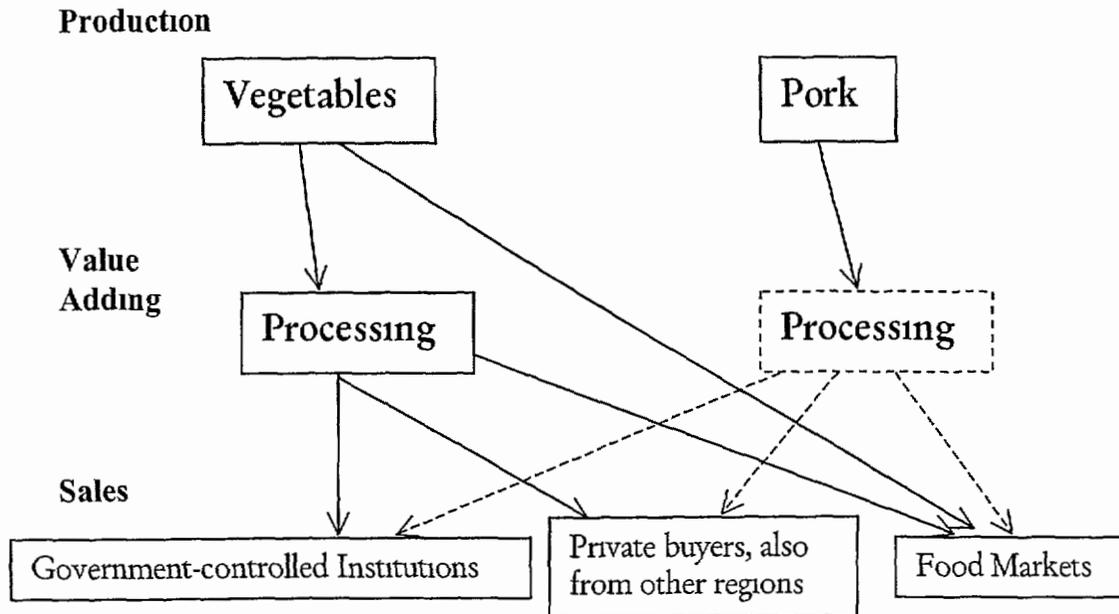


While most of products produced at the farm were marketed mainly to government-controlled institutions or wholesalers (such as military bases, hospitals, state-owned grain elevators and processing plants) and only a few were marketed directly to the consumer, there was practically no on-farm value added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

✓ Stremilche Farm has closed the food chain to a large extent