**Approach to Local Development Project Rural Development Component: Developing Agricultural Service Cooperatives**

Draft Assessment Report

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# Abbreviations

|  |  |
| --- | --- |
| ASC  ASCU | Agro-service cooperative  The Agricultural service cooperatives Union of Ukraine |
| CBA | Community-Based Approach to the Local Development Project |
| CIDP | Crimean Integration and Development Programme |
| EU | European Union |
| M&E | Monitoring and Evaluation |
| PAS | Participatory Self-Assessment |
| RCC | Regional Coordination Council |
| RRC | Rayon Resource Center |
| ToR | Terms of Reference |
| UADRC | Ukrainian Association of District and Regional Councils |
| UAH | Ukrainian Hryvnia |
| USD | United States dollar |
| UNDP | United Nations Development Program |
| VC | Village council |

# Executive Summary

**Sustainability of CIDP ASC is high despite unfordable economic context.** Most of CIDP ASCs have proved to be sustainable, with growth rates and expectations being more positive than among the members of the production cooperatives and individual households. Yet, business and institutional risks remain high. Overall business environment is not favorable to small companies, also in the rural area: 1) competition is limited as the market for agricultural produce is dominated by large companies; 2) state support to ASCs is very scarce.

**The CBA approach to choosing target households should be preserved, but key thresholds should be relaxed**. First, the 80% threshold for the engaged community members should be revisited. One option would be to revise the threshold to 50% of households or other relevant figure based on CBA experience. Another option could be to achieve the target over a period of time – as in fact seems to be the intention of the project, according to CBA management. Second, CBA should foresee the possibility of lifting the requirement on limiting ASC membership to only non-wealthy households after ASCs become more mature (once there is a critical mass of active members and established procedures for decision making and dispute settlement).

**Financial sustainability could be strengthened through initiating regular (quarterly) monitoring for ASC financial operations.** This would 1) enable CBA or its partners to intervene in a timely way once there is a risk of violating ASC statute or legislation, 2) enable the assessment of the effectiveness of CBA rural economic component, 3) improve the accountability of the ASCs and mitigate the principal agent problem (members not being able to hold the leadership accountable). In this context **CBA could develop a set of simple indicators to monitor the impact of ASC operations.** This could be a set of indicators to be provided as an annual report by ASC management covering: ASC employment (full time and part time), turnover, incomes (or expenditures) of ASC members, yields and cases/examples of ASC engagement with local communities.

**CBA should focus on those regions, which have a system of ASC support already in place and/or clear willingness to provide policy support.** CBA should then strive to choose in each region a specific area (both in terms of the ASC activity and location) to create a model ASC network. The ASC network might unite ASC involved in the same business activity with potential for vertical or horizontal integration. This would ensure achieving greater effect, sustainability and visibility of the CBA intervention.

# Головне

**Сталість СОК в Криму є високою, попри несприятливий економічний контекст.** Більшість створених СОК є сталими, мають темпи зростання та очікування, що є більш позитивними ніж поміж членів виробничих кооперативів та індивідуальних домогосподарств. Водночас бізнес та інституційні ризики лишаються високими. Бізнес середовище не є сприятливим для малого бізнесу, також у сільській місцевості через: 1) обмежену конкуренцію, оскільки на ринку сільськогосподарської продукції домінують великі компанії, 2) державна підтримка СОК є надзвичайно малою.

**Методологія МРГ щодо вибору цільових домогосподарств має бути збережена, проте ключові критерії вибору мають бути послаблені.** По-перше, критерій охоплення 80% членів громади має бути переглянутий. Одним із способів є зменшення критерію до 50% (чи до іншого значення, що відповідає відповідному досвіду проекту). Іншим способом може бути продовження періоду досягнення цього індикатора, що фактично відбувається в проекті, за оцінками керівництва.

По-друге, МРГ має передбачити можливість послаблення вимоги щодо обмеження членства у СОК лише незаможних домогосподарств (після того, як в СОК вже є критична маса активних членів та встановлено процедури вироблення рішень та врегулювання суперечок).

**Фінансова сталість СОК може бути посилена через започаткування регулярних (квартальни) звітів.** Це дозволить 1) МРГ та його партнерам вчасно реагувати на ризики порушення статуту чи законодавства щодо СОК, 2) оцінювати дієвість компоненту з місцевого економічного розвитку МРГ, 3) покращити підзвітність СОКів та запобігти зловживанням (коли члени не можуть контролювати дії керівництва). МРГ **має розробити перелік простих показників для моніторингу діяльності СОК.** Ці показники можуть надаватися керівництвом СОК і охоплювати таке: зайнятість в СОК (повний і неповний робочий час), оборот, доходи (чи видатки) членів МРГ, врожайність та приклади взаємодії СОК та місцевих громад.

**МРГ має зосередити зусилля на регіонах, які вже мають систему підтримки ОСК чи чіткі наміри надавати таку підтримку.** МРГ має обрати певну сферу діяльності та район розташування СОК для створення моделі мережі СОК. Мережа СОК може об’єднати СОК, що займаються спільним видом діяльності, що матиме потенціал для вертикальної та горизонтальної інтеграції. Це забезпечить більший економічний та соціальний ефект, сталість та наочність роботи проекту МРГ.

# Introduction

## Project background

UNDP Ukraine has supported piloting of agricultural service cooperative (ASC) in rural Ukraine within the framework of Crimean Integration and Development Programme (CIDP) and Community Based Approach to Local Development Project (CBA). Objective of this support is to raise employment and income opportunity among the poor rural households. Support includes mobilisation of target households to form cooperatives, support the development of business plan and undertake economic activities to ameliorate economic situation of its members. The activities include training on improvement of production, processing and market infrastructure; and providing access to extension services and business consultancy services.

During 2008-11, UNDP/CIDP supported formation of 33 ASCs in 10 Crimean districts and provided grant support on cost sharing basis for such activities as drip irrigation/greenhouse, processing of agricultural products, tillage service, and milk/vegetable refrigeration, etc. ASC-members were able to increase their income through collective action that reduced cost of input supply, increased return on output and expansion of economic activities. Database of all existing agro-processing enterprises was set up in each district to increase access to information and awareness of farmers about possible sale markets under the management of Crimean Agricultural Serviced Cooperatives Association (CASCA) thereby leading to local ownership and sustainability. The effectiveness of this pilot was affected by lack of micro-credit in rural areas. More about CIDP and its pilot on ASC can be viewed at [www.undp.crimea.ua](http://www.undp.crimea.ua)

## Assessment objectives

The main objective of the consultancy is to utilize the results of the sociological survey of Crimea Integration and Development Programme’ s (CIDP) agricultural service cooperatives (ASCs) for improvement of CBA’s approach for ASC promotion. The specific objectives are:

1. Assess CBA approach to address economic wellbeing of rural poor in light of

* Participation of target households in ASC promotion and ASC activities
* Adequacy of Support to make impact on target households and target area
* Vision on sustainability of economic/production infrastructure created
* Vision on institutional and financial sustainability of the ASCs
* Vision on linkage development (vertical and horizontal; backward and forward) and multiplier effect

1. In light of the CIDP impact assessment study, develop a set of recommendations for adjustment of the CBA approach to promote ASC and address the objective of raising income and employment of rural poor.

## Assessment methodology

The applied assessment methodology covered the following:

* Interviews with communities and local authorities in four oblasts - Chernivtsi, Donetsk, Mykolaiv and Ternopil (see Annex 2). In the course of the meetings both focus groups and individual members of the ASC and representatives of the local governments (rayon and oblast administrations and councils) were interviewed (a total of up to 60 people, with men and women being equally represented).
* Desk study of the CBA and CIDP documents, business plans of selected ASCs and relevant legislation (see the list of documents that have been reviewed, including those by GfK, in Annex 2).
* Analysis of the sociological study of the CIDP’s ASCs implemented by GfK (see the data summary in Annex 1). The Study covered 10 ASCs that were supported by UNDP in Crimea within the CIDP project. The study employed sociological survey and qualitative interviews with experts and members of the ASCs.
* Interviews with national and local experts (see the list in Annex 2).

This report benefited from the results of the CBA project evaluation which took place in November 2013 and the feedback received during the second meeting of the Working Group on Rural Economic Development, were the preliminary valuation results were presented and discussed[[1]](#footnote-1).

# Evaluation findings

## Differences between CBA and CIDP approach to ASC development

While CIDP and CBA had similar goals of increasing economic wellbeing of the rural inhabitants, but employed different approaches in creating agricultural cooperatives .Unlike CIDP project, the CBA has a more comprehensive approach to ASC that is articulated in relevant project manuals. The major differences of the two approaches used are the following:

1. **Target households**. CBA is more selective than CIDP, targeting only poor households and aiming to engage as many people in the community (village) as possible. As a result, the ASC membership in CBA is about 60-100 households, while in CIDP – up to 5-17 households.
2. **Project support**. When supporting ASCs, CBA tends to rely on the wide internal project system of regional and rayon resource centers (which is expected to be institutionalized by local governments at a later point). The CIDP provided more ad hoc support outsourced to external experts (one exception was helping to create the ASC association).
3. **Financial contribution**. CBA has very specific requirements as for financial sharing of the project budget, which engages local governments in the project as well.

**Table 1. Comparison of CBA and CIDP methodology to develop ASC**

|  |  |  |
| --- | --- | --- |
|  | CBA-2 | CIDP |
| Target COs | Specific criteria. Project targets poor and close to poor households that constitute a certain share of the local community and that are willing and financially capable to raise necessary funds | No specific criteria. Project works with all willing and financially capable households (only regions are selected according to economic criteria) |
| Target region | All Ukraine (both CBA-1 and non CBA) | Crimea |
| ASC specialization | None (communities are free to choose) | None (communities are free to choose) |
| Support structure | Regional, rayon resource center, ASC office at the site of operation | ASC Association established |
| System of monitoring | Standard project monitoring (not specific to ASC activity) | Standard project monitoring (however, very little result reports were available for review) |
| Financial support | Specific (70% of the total project budget – the rest is shared between communities and local governments) | Flexible (usually 50-70% of the total project budget) |
| Consulting/legal support/capacity building | Yes (communities are provided with training/consulting in such areas as accounting, legal support on an ad hoc basis) | Yes (communities are provided with training/consulting in such areas as accounting, legal support, business plan development, communication with tax authority, phytosanitary inspection on ad hoc basis) |
| Learning from peers | Yes (project provids video materials, outsourced specialized experts) | Yes (training visits to other countries, outsourced specialized experts) |
|  |  |  |

Source: CBA, CIDP materials, GfK study, own observations

## Economic and policy context in Ukraine

***Economic context***

**Economic situation in Ukraine remains unfavorable for small business development, particularly in rural areas.** According to experts and market players, the business environment for ASCs (registration and operation) is as unfavorable as for the small and medium businesses in general in Ukraine. Besides, there is an increasing concentration of large agro-holdings in Ukraine (bigger land size, higher productivity) with negative implications for employment in rural areas (small farmers being driven out of the market). The share of land used by farmers and households goes down and rural work age population migrates to towns. Yet, the share of households in producing milk, meat and vegetables is still very high (up to 70% of total output).

**The number of ASC is growing, however, a large share of cooperatives are not active and many of the newly created ASCs are said to be nominal entities** (having very few members) created in a top-down manner by local authorities. According to the ASCs Union, there are more than 1 000 ASCs registered in total with annual growth rates being up to 50% over the past years.

***Policy environment***

**State support infrastructure is still not available on a continuous basis, especially at the local level, which presents a major risk to ASC sustainability.**

**State financial support is not sufficient and not regular**. There was no government funding available for ASC in 2011 and the one disbursed in 2012 (or in previous years) was provided in a non-systematic way. Therefore, the **support at the local level is quite limited.** Rayon government programmers on ASC development are usually provided ad hoc to support only the ASC created by the CBA. Local authorities claim they can support ASCs even without national or regional programmes (making ad hoc funding decisions at the council level). This however is not sustainable. First, such available funds at the rayon level would be sufficient only to support 1 or 2 ASCs. For example, Ternopil oblast plans to allocate UAH 300 000 (which is equivalent to full support of maximum 2 ASCs). Second, since most rayon level programmes adopted to support ASCs are targeting just one ASC (usually, the CBA supported one), this has corruption implications in the future (if such assistance to a single ASC to be continued).

**The network of institutional support of ASC in Ukraine is not settled.** The regional network of advisory services is weak (with some exceptions) and the ASC Union is only emerging having very limited resources. ACS Union, Advisory Service of Ukraine, Trade and Industrial Chamber are the largest and most relevant to ACS associations. All of them (with the exception of the Trade Chamber) do not have adequate regional networks. Educational institutions do not seem to have capacity related to ASC development or state funding.

**Legislation is not fully settled while enforcement is not favorable towards ASC.** The government program to support agricultural cooperatives has been updated in 2012 and provides a number of incentives, a major one being the tax exemption for ASCs. However, the ASC legislation is evolving. It is likely to be further amended given certain inconsistencies with the Tax and Commercial Code. The biggest problem is that there is a large degree of discretion on the part of the Tax administration authorities to interpret the application of the Tax code and the ACS bill. Constant changes of ASC legislation confuse the stakeholders. For instance, it is very difficult for existing ASCs apply the new amendments in the legislation to utilize the benefits of non-profit nature. A number of CBA ASCs faced significant opposition from tax administration during the registration process.

**Most of preparatory policy work has been accomplished**. According to a number of interviews of stakeholders, all legal gaps have been identified and suggested amendments submitted. However, it is not clear how soon the policy changes will be implemented and to what extent. Therefore, a significant degree of legal uncertainty over ASC legal status and activity will remain to be a problem.

## Relevance of intervention

**Support to creating ASC is very timely and highly relevant in the rural development context in Ukraine.** The CBA and CIDP project assisted communities in creating agro cooperatives to promote rural economic development. Both projects viewed service cooperatives as an instrument to mobilize poor households and realize local development potential.

**The development of ASCs reflects both the needs of the local communities and the policy development priorities.** Poor employment and income opportunities are the main problem in most rural communities. The majority of the interviewed communities and local authority representatives eagerly wish to see this component of CBA expended in their areas. In their view, resolution of employment and income problem would lead to improved ability of rural population to solve other problems, including improving and sustaining social infrastructure. There are expectations that ASCs would prevent youth migration from rural areas.

## Effectiveness

*CBA*

**CBA was successful in registering the pilot ASCs despite significant difficulties encountered by the project** because of the low awareness of ASC concept among local authorities, communities, tax administration and because of changing legislation on cooperatives. The project managed to overcome registration challenges of almost all cooperatives on individual basis. In November 2013 there were 15 communities engaged in RED. The total amount of ASC members was 1159, which represent 891 households or 39.7% of target households in the selected communities. Since the beginning of RED a total of 10 micro-projects have been approved (total budget of UAH 2.04mn).

**There are first signs of success in the functioning of ASCs established under CBA II but judging their effectiveness is still too preliminary.** In the framework of the evaluation some of the 15 communities in 8 regions (Cherkasy, Chernivtsy, Donetsk, Mykolaiv, Kirovohrad, Sumy and Ternopil oblasts) have been in the process of establishing the cooperatives. Those communities that have already registered cooperatives have barely started to use the equipment. Some initial evidence indicates financial success of ASC operations. Overall, it is still early to make conclusions on impact of the pilot ACSs, since they are at the initial stage of their development. The payback period for most CBA ASCs (as defined in the business plans) is 2-5 years, so their economic and social effects are to be monitored over the period of several years.

At his stage of project is still too early to make final conclusions as the pilot ACSs are at the early stage of development. According to the ASC business plans, it is expected that CBA will lead to the following benefits:

* Job-creation. Most of ASC would create two or three jobs: one of an accountant and one of a ASC director, but receiving minimum wage of about UAH 1 000 per month. Most ASC would provide part time employment (e.g., a tractor driver). Some ASCs plan to engage an accountant on a voluntary basis at the initial stage due to the shortages of working capital.
* Cost-savings. The difference between the market price of the service and the cost of ASC service for its members is expected to be in the range of 30%.
* Higher productivity. It is expected that some of the ASC services will help increase production yields of ASC members though providing them with better seeds, better livestock or due to timely plowing and better agricultural techniques used. Communities plan to achieve economies to scale by joining their efforts and using the advantages of specialization (focusing on a certain type of economic activity).

*CIDP*

*Employment*

**CIDP ASCs generate significant employment only during high season, which is usually limited to people, directly affiliated with the ASC**. The range of the CIDP ASC membership size has been 8-17 persons. During the high season (harvesting) ASCs engage family members in the work which increases the employment per ASC to up to 30-50 persons. According to GfK study, about 22% of ASC members use additional workforce each year. On average, the number of external labor force amounts to five persons.

*Incomes*

**Incomes of ASC members have increased since ASC started to operate and the incomes are higher than the average in the community**. According to GfK study, about 82% of ASC members claim they have sufficient incomes for food and clothing. Also, ASC members on average are doing better than members of the agricultural production cooperatives. ASC helped to increase the wellbeing of its members via the following channels:

* Cost of production is less due to wholesale purchases of goods and services required for land farming
* Higher yields due to using modern equipment and technology, more professional land farming
* Less dependence on seasonal volatility (only 40% members of ASCs have a share of ASC production in their incomes which is more than 50%)
* Diversification of supply channels and being able to sell large quantities of goods.

*Poverty alleviation*

**Not all poor households are willing to join ASCs.** Despite clear economic benefits of the ASC membership, many individual households prefer to stay out of ASC. One of the reasons being different from ASC specialization: for instance, individual households are often involved in meat and milk production, while members of the production cooperatives are growing crops for exports. In both of these activities, the intermediary firms are quite powerful, so even ASCs cannot break their monopoly and so there is no substantial gains to be achieved through ASC membership. Therefore, some households hesitate to join ASC as it would require either to change their type of activity or to diversify their activities. Another reason, mentioned during interviews, is that poor households lack confidence and are not ready or able to make a step forward. Some comments were even more negative: ASC members imply that the poor households are “lazy and irresponsible people”. At the same time, financial barriers for ASC membership are not as substantial, in the opinion of the interviewed, as poor households can become members of ASC making in-kind contribution or by promising to pay the membership fee at a later stage (from the income generated as a result of ASC activity).

*New skills and behavioral changes*

**ASC members are more optimistic and confident**, with reasons being that members can work together (enjoying mutual support to overcome difficulties), have access to equipment which increases productivity and, as a result, members have more time for leisure or other activities.

## Participation of target households and defining the target area

### Target households

*CIDP*

**Participation of poor households in CIDP cooperatives tends to be low**. According to GFK data, the share of poor households in ASC is 2% (while the share of poor households in the population is 27%). This could mean that over the course of ASC activity the financial state of its members improved and / or that ASC attracts households that are relatively better off. According to ASC members themselves, at the very start of the ASC activity most of its members were “very poor”. Overall, the interviewed ASC members and experts in Crimea tend to underline little economic rationale of engaging poor households.

**Most of CIDP ASC members had experience of cooperation in the past.** It appears that in most cases CIDP helped to formalize existing informal cooperation of a group of households. Therefore, the composition of ASC membership was likely a “natural” one, not necessarily taking into account income level of households or other criteria.

*CBA*

**The eligibility criteria for (poor) households imposed by CBA could be difficult to define and sustain.** First, the concept of poverty might differ from community to community and finding a right threshold is difficult. For example, in one CBA community, there was criticism of the definition of a poor outsold as some willing households with three cows were not allowed to join the ASC, while those with two cows were allowed.

Second, there is an impression that the ASC functional group has the discretion to interpret poverty data and make membership decisions on a case by case basis. This is a good approach (and is welcomed by CBA), as the local community members knows best the real situation. Yet, this approach might fail to fully meet the CBA formal requirement of the target group. For example, in several communities, the ASC leaders say they welcome all households willing to join the ASC without using income filters.

Third, the Ukrainian legislation does not limit membership of households based on their income level while the legal entities are allowed to join the ASCs. At the current stage of ASC activity rich households are not as interested to participate in ASCs since the cooperatives do not yet have many resources or enough scale of operation to attract them. But as the cooperatives develop the risk of cooption may increase.

**It is hard to achieve the target of 80% of households (even when including middle income households) at the initial stage.** At the initial stage of CBA ASC creation, the membership covers 5% to 40% of all households. This might somewhat increase once ASC start operation and the level of trust in the venture would grow in the community. **On the other hand, there are valid reasons to limit ASC membership at the initial stage**. Given the financial limitations of the CBA grant and, thus, the capacity limits for the ASC to provide services to all members *(“We have to see how far we can expand our membership. At the moment one tractor we bought is hardly sufficient to plow the plots of all cooperative members. We do not want to create conflicts among members”).* In some cases the equipment bought (e.g. a tractor) cannot possibly serve the needs of more than 10% of all community households.

The households interviewed within the CBA project hesitate to participate in the ASCs because of the following reasons:

* *ASC risks are perceived as being higher than the returns*. The level of trust in ASCs is somewhat lower than in the case of other CBA initiatives, since there are real failure risks of the venture.
  1. The benefits to the community and ASC members are less tangible and their realization is prolonged in time. Some poor households are not willing to become members as they have high discount rate: *Given that the project had 3 year payback period, the fact that services outside of the ASC cost 30% higher did not make a difference.*
  2. *The membership contribution is significant.* It is not uncommon, that at the initial stage the contribution can be as high as UAH 1 000 per one household. In some cases, the ASC leadership has allowed the poor households to make the payment in several tranches. However, in some communities, this option was not foreseen and some willing but poor households were not able to participate. According to one ASC leader *“20 willing poor households were left outside ASC because they could not contribute UAH 1 000 fee”*. In another case, the solution was found by households selling some of the assets they jointly owned. The financial contribution required from the households varies depending on the number of ASC members (the bigger the membership, the less is the contribution).
* *Some households are not capable to utilize ASC opportunities as the major activity of ASC being not relevant to target households***.** Some households are not involved in the major ASC type of business service (e.g. have no cows in case of the ASC focusing on milk trade or have very small land plot, not requiring mechanized plowing). For the most part, this is not a major barrier, since the CBA ASCs tend to be multi-functional. *(According to one pensioner: “Our cooperative is now dealing with milk and meat but with the time it can help me to market and sell my dried apples and other fruit.”)* Among the households in this category are 1) the elderly (old age persons, relying solely on pensions and payments from leasing their land and having little products to sell), and 2) socially marginalized groups (e.g. people addicted to alcohol or not willing to engage in any type of activity for other reasons – this group can take up to 20% of the local community in some villages.

### Target area

*CBA and CIDP*

**The free choice of target areas by communities tends to work well, but there is a challenge in linking ASCs with the regional development priorities.** CBA and CIDP communities choose those types of services for cooperatives that are relevant for the majority of households. Therefore, the ASC specialization reflects the desires of communities (the priority is chosen through the voting process). Though each ASC tends to have a specialization, ASC are capable of providing a wide spectrum of services round the year. Multi-activity ASCs and those having vertical linkages are likely to have more advantageous compared to more simple type of ASCs. For instance, ASC involved in the milk-selling activity plan to provide services on improving the breed of the cattle, which is to increase milk yields in the future. According to CIDP, milk and meat cooperatives face challenges as there are not enough of economies to scale to achieve price gains. A small scale of a typical ASC operation can also largely explain why linking the cooperatives with the relevant value chains that have potential in the context of particular regions remains to be a challenge.

## Adequacy of support

*CBA*

**CBA project provides comprehensive and very good quality** **support**. The support is provided via a number of channels. CBA RCs are useful at the initial stage of registration, but not as much once ASC start operating as they have very specific needs and not all of them can be addressed by RRCs. This is because the members of the CBA oblast and rayon resource centers usually come from the economic departments/decisions and are not experts in ASC area or face certain communication difficulties with their colleagues from agricultural departments. Some regional authorities plan to create separate departments to deal with ASCs (for example, in Ternopil).

CBA Manuals are being praised as being highly useful. Videos showing ASC work (in the target region) and exchange of experience with ASCs peers are being prepared, and according to COs would be very much in demand.

The project provides the ASCs with the services of the short term consultants (accounting, taxation issues) on ad hoc basis, which is very welcomed by the communities.

CBA has also plans to engage ASC associations and educational institutions to in order to provide more systematic support to ASC movement in Ukraine.

*CIDP*

**ASC members value consulting support by the project**. Overall project support was assessed as very useful. Technical consultations on farming have, in the view of ASC members, greater value than the preparation of business plans and accounting consultations, since the former are relevant to all ASC members. Especially important was overall information about ASC provided at the initial stage and legal support over the course of ASC operations. CIDP initiative to establish the ASC Association seems to have failed, according to experts, due to a number of reasons, one being interpersonal conflicts among the leadership of the association.

## Sustainability of economic infrastructure

*CBA*

**The vision with regards to social and economic nature of the cooperatives and their performance criteria are not well defined yet.** In terms of the vision of the future of the cooperatives there is a certain tension exist between their social role (supporting the livelihoods of poor) and economic potential (generating employment and income).

**ASC are highly dependent on local authorities in entering the markets for their products.** Supply chains and logistics are not well developed with high entry costs due to monopolized markets and unfair competition. There are very few examples of successful regional policy to support ASC, one of them being a milk processing cluster in Chernivtsi region (local authorities initiated the procurement of ASC products by municipal schools and kindergartens). However, even this large cluster (consisting of a number of ASCs) is struggling with finding a stable market for its products.

*CIDP*

**CIDP enabled ASC to apply professional methods of farming, especially compared to members of the production cooperatives and individual households**. This is reflected in a fact that ASC tend to have more diversified output mix (both in terms of crops and meat), have greater scale of operations (land farmed, livestock), and more regular use of chemicals and water. In the words of ASC members, the farming became “more organized and planned” as opposed to what was in the past.

**The livestock sector (meat and milk) is considered to be more capital intensive and more dependent on wholesalers (prices, transportation).** According to focus groups, ASCs in the meat and milk business are less successful than ASCs involved in growing vegetables, fruit and berries. This observation is perhaps more relevant to situation in Crimea, though similar statements about milk and meat specialization of ASCs have also been made by communities in the rest of Ukraine.

## Institutional and financial sustainability of the ASCs

*CBA*

**The project has correctly identified the availability of local capacity as a prerequisite for partnering with the community**. The availability of skilled persons with financial and technical background is crucial for sustaining ASC activities. ASC leadership is comprised of the people with prior experience in a similar role (accountant in state collective farm) and people with flexible or part time work schedule (public sector employees).

**The ASC component has a potential to mobilize better the men and youth part of the rural population, and this does not seem to be done at the expense of women exclusion**. The economic component, since it has potential to generate employment and income attracts the men population (men are traditionally seen as bread winners in a family). The ASC functional group seem to be generally gender balanced, while the leadership tends to be slightly dominated by males (60-70%). Like in other CBA components the involvement of young people (20-40 yrs category) is relatively low, though in selected communities, their share is quite high.

**There is a risk of management failure due to high administrative burden placed on one-two individuals in charge of ASC management and finances**. The capacity for implementing the accounting function is particularly quite low, while there is often very little potential to outsource. This seems to be true for some CBA ASCs. People with the relevant professional background tend either to work in towns or be of pension age. This risk is currently mitigated by extensive support from CBA and the RRCs.

*CIDP*

**Most of the CIDP ASCs showed financial and institutional sustainability.** According to GfK study, six out of ten reviewed ASCs are sustainable. Two cooperatives show neither growth nor decline and another two ASCs plan to reduce output or stop operations. Successful ASC are said to have made the right decision when choosing between the types of activities and equipment during the investment phase. Accordingly, unsustainable ASCs failed to plan and invest adequately: for example, some ASCs made mistakes when buying the equipment (for instance, instead of a milk transportation vehicle, a refrigerator was bought). ASC financial failures have also been linked with the wrong choice of the cooperative activity and poor risk analysis in the business plan. Overall, investing into a wrong type of equipment, lack of output diversification have been named as factors that make ASC vulnerable to changes in the legal environment or demand.

**An important factor of ASC success is the level of cooperation between its members**. Successful ASCs join efforts of its members at all levels (from production to selling the output). More intensive cooperation also implies more complex organizational structure of ASCs (various functions are assigned between members, depending on their specialization).

**ASC governance and management forms are quite simple and are often not clearly formalized.** According to GfK, most ASCs are managed by the ASC board (usually, consisting of active ASC members with specific functions - accountant, driver, salesman etc) and ASC head. Sometimes, the board is absent, and all members make equal contribution, while the services (accounting are outsourced). To some extent simple management models are explained by the fact that CIDP ASCs membership size is quite small. According to GfK study, ASC decisions are collective, while voting and decision making is usually not formalized. Only half of ASC have intuits of their member meetings (as one responded formulated - “just in case”). Only one of the ASCs has a strategic development plan in writing. ASC members tend to prefer informal procedures to run the cooperative as many of them have previous experience of informal cooperation. ASC abide with the minimum set of legal requirements necessary for operations. About one third of ASC members are engaged in ASC management or other related activity (which is a high share, but is perhaps explained by a small size of the reviewed ASC).

**ASC membership size is stable and has high turnover rate**. According to GfK study, the ASC membership size has been increasing over 2008-2010 (this was the time of CIDP intervention). Since 2010 the membership peaked and stabilized. There is evidence of high turnover in some ASCs: as old members leave the ASC new members join. The two ASCs with poor sustainability saw their membership falling twofold over time (these were the ASCs with the largest membership of more than 20 persons).

**Marketing and selling goods has been named a key challenge for financial sustainability**. A lack of competition in the wholesale segment and almost no availability of developed vertical integration chains in the region block ASCs from reaching consumers or obtaining a fair price. Some of the ASCs consider making some processing operations themselves or joining with other ASC to reach final consumers. CBA ASCs have also confirmed that they face high certification costs and relatively short shelf life of their (organic) products.

**The link of ASCs with support networks is present, but is likely to be limited**. Some ASC members take part in various seminars and conferences, are in contact with the Association of farmers of Crimea and member of other ASCs in the region. It is difficult to assess the contribution of such links to institutional sustainability of CIDP ASCs, but it is likely it has not been substantial.

### Economic linkages of ASC activity

*CIDP*

**ASC cooperation with local governments is described as nonsatisfactory.** Assistance of local authorities is usually limited to support at the registration stage; some advice to ASCs is given but not on a regular basis. Local and central authorities (inspections, tax administration) are often mentioned as a barrier to ASC activity.

**Most ASCs help local communities to develop social infrastructure**. According to GfK study, seven out of ten ASCs help local communities (repairing roads, providing supplies to schools and kindergartens, organizing local events, helping with the collection of waste).

**ASC tend to have better terms of access to suppliers and customers, but the level of vertical integration is quite modest**. ASCs achieve most gains when buying inputs (fertilizers, seeds) or farming the land of its members. ASC also tend to have more diversified channels of supply compared to individual households or production cooperatives. ASC tend to be able to sell their produce beyond their settlement (in the nearby city).However, ASC links with organized final customers (hotels, restaurants, stores) are absent. ASC members explain poor links with final customers by having no time for administering retail sales and by not being able to store ASC products for a long time.

# Conclusions

**UNDP initiative to support ASCs is relevant.** Project assistance is adequate as it employs various instruments of support. Survey results show that ASCs as a form of business model in the rural area appear to be superior to other forms of organization (production cooperatives and individual households.

**ASCs have visible positive impact on its members and to some extent on the local communities, however a broader impact (horizontal/vertical integration) is quite limited.** ASCs have shown to lead to jobs creation, higher incomes and improving social dynamics. ASCs and their members actively participate in the lives of their communities (helping to sustain social infrastructure). However, ASCs remain poorly integrated or have few interactions with their major suppliers/clients and partners (authorities, non-governmental organizations). This is partially explained by a relatively small size of the reviewed CIDP ASC, but also by an overall high level of monopolization of the rural economy.

**Most of the reviewed CIDP ASC are shown to be sustainable, but external risks remain high.** The majority of the reviewed ASCs have stable or growing output and plan to continue their activities. Difficulties encountered by ASCs are related not as much to gaps or other imperfections in legislation, as to poor (tax) policy implementation and administration. Ukraine’s business environment remains unfavorable which might undermine sustainability of the ASCs in the future. These difficulties imply that CBA might require additional efforts to ensure institutional sustainability of ASCs.

**Underdeveloped management creates risks for ASCs sustainability**. Until there is an established and formalized system of management and governance, the role of ASC leaders is disproportionately important. There is a possibility of ASC capture just by few members, on the one hand, and leadership failure due to high administrative burden placed on one or two individuals (especially if they do not have proper professional background and no proper local support infrastructure available on a continuous basis), on the other hand.

**CBA approach creating ASCs is more effective than that of CIDP.** First, targeting the poor households in ASCs can achieve the goal of poverty alleviation unlike a broader approach, when there is a risk that wealthy individuals might end up as major beneficiaries. CBA approach also envisages a certain level of discretion when applying the income level threshold, which enables to take into account local differences. Second, the requirement of engaging a significant share of the local community in the ASCs enables to increase the scale of the ASC activity and decrease financial barriers to entry for poor individuals (large size of membership implies smaller membership fees). Third, engaging local and regional authorities financially improves cooperation between local communities and governments.

**ASCs tend to employ very simple management and operational procedures, which seem to work well at least for small ASCs or ASCs at the initial stage of operation.** It is clear that ASCs and its leadership face technical capacity and financial constraints when dealing with internal management procedures, bookkeeping and sometimes, skills relevant to ASC profile type of specialization. In most cases specialized knowledge is provided by the donor (project), but can also be outsourced by mature ASCs to the private sector.

# Recommendations

**The CBA approach to choosing target households should be preserved, but key thresholds should be relaxed**. First, the 80% threshold for the engaged community members should be revisited. One option would be to revise the threshold to 50% of households or other relevant figure based on CBA experience. Another option could be to achieve the target over a period of time – as in fact seems to be the intention of the project, according to CBA management. Second, CBA should foresee the possibility of lifting the requirement on limiting ASC membership to only non-wealthy households after ASCs become more mature (once there is a critical mass of active members and established procedures for decision making and dispute settlement).

**Financial sustainability could be strengthened through initiating regular (quarterly) monitoring for ASC financial operations.** This would 1) enable CBA or its partners to intervene in a timely way once there is a risk of violating ASC statute or legislation, 2) enable assess the effectiveness of CBA rural economic component, 3) improve the accountability of the ASCs and mitigate the principal agent problem (members not being able to hold the leadership accountable). In this context **CBA could develop a set of simple indicators to monitor the impact of ASC operations.** This could be a set of indicators to be provided as an annual report by ASC management covering ASC employment (full time and part time), turnover, incomes (or expenditures) of ASC members, yields and cases/examples of ASC engagement with local communities.

**One should not decrease the share of financial contribution of households**. Current CBA financing scheme provides sufficient incentives to cooperate and increases the sense of ownership. (The project has the possibility that the share of households could be partially compensated by the local governments or other donors). The downside of this approach (especially, given the outlook of slow economic growth in Ukraine) is that it might limit the participation of very poor and small communities (i.e., not having enough members to pool enough resources).

**Assist communities in developing more rigorous business plans or revise current ones**. CIDP evidence shows that well thought business plans are crucial for financial sustainability.

**CBA should also develop more general follow-up strategies to lead newly created ASCs through their operations**. This assistance could be the following:

1. Ad hoc consulting to be outsourced to external experts. Such assistance should be provided only at the initial stage of ASC operations. At a later stage, ASC should be able to outsource it themselves.
2. Increasing the effectiveness of the existing support networks (government education programs, business associations). CBA could partner with an organization to provide such support and disseminate CBA ASC best practices and advocate policy changes (e.g., with the ASC Union or with AgroOsvita). Equally important is activity at the rayon/region level to ensure ASCs are not discriminated and have access to available government resources. Capacity building activities should primarily focus on such major issues of concern as tax policy and bookkeeping , but could deal with technical/marking themes as well (e.g. how to increase the product mix; develop own product brands and standards, and market goods via new channels like Internet).

**CBA emphasis on establishing efficient local partnerships that foresee the inclusion of as many members of the community as possible should be maintained, though it might mean slower growth rates for ASCs and smaller scales of operation**. Ideally, the scale of ASCs operations should be large enough to effectively compete with large and medium businesses, and to improve access to human capital and financial resources. ASCs will also decrease risks of business failures if they manage to enable vertical integration of their activities (from field to the table). However, it would be unrealistic to expect from most CBA supported ASCs to achieve rayon or region significance over a short period of time, especially, if the only source of capital would be own incomes (mostly of poor households) and gains from production. Some donors have emphasized the scale of ASC operations and stimulated fast growth rate of ASC, however this was done at the expense of engaging the poor households.

**CBA does not need to impose additional restrictions on the type of ASC activity.** Communities should be free to choose the type of ASC activity; however, the final choice should be confirmed by the results of a rigorous business plan and consultations with the peers (ASCs that are in a similar business segment).

**CBA should focus on those regions, which have a system of ASC support already in place and/or clear willingness to provide policy support.** CBA should then strive to choose in each region a specific area (both in terms of the ASC activity and location) to create a model ASC network. The ASC network might unite ASC involved in the same business activity with potential for vertical or horizontal integration. This would ensure achieving greater effect, sustainability and visibility of the CBA intervention.

# Annex 1: CIDP survey data

ASC members use the larges area of land (10.2 ha) compared to other types of households.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Average area of land used by households, ha** | | | | | | |
|  | | ASC members | | Members of other cooperatives | | Others, not members of cooperatives |
|  |  | |  | |  | |

Over the past three years most of the respondents across all categories used largely the same area of land. Only 95 of ASC members increase their land size, while 9% of members of other cooperatives decreased the land size.

|  |  |  |  |
| --- | --- | --- | --- |
| **Land size changes over the past three years, % households** | | | |
|  | ASC members | Members of other cooperatives | Others, not members of cooperatives |
|  | | | |

ASC members have better self-assessment of the well-being of their families compared to other groups of households are also have a more optimistic outlook about the situation in their settlement. Incomes of ASC members are more dependent on their agricultural activity.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **How did economic situation change in the village, % households** | | | | | | |
|  | | ASC members | | Members of other cooperatives | | Others, not members of any cooperative |
| |  | | --- | | (red) Improved  (green) Did not change  (blue) Became worse | |  | |  | |  | |

About 40% of ASC members sell their products at the rayon center, which is much higher than for other groups. ASC members also use wholesale markets more often: 14% compared to 2% for individual households.

|  |  |  |  |
| --- | --- | --- | --- |
| **Channels for selling produced goods, % households** | | | |
|  | ASC members | Members of other cooperatives | Others, not members of cooperatives |
|  | | | |

About 35% of ASC members have seen their output increased compared to 4% and 20% of households in other two groups. ASC members claim that the main reason for higher output was using better technologies and capital.

|  |  |  |  |
| --- | --- | --- | --- |
| **Output (for sale) over the past three years, % households** | | | |
|  | ASC members | Members of other cooperatives | Not members of cooperatives |
| a  b  **38%**  **12%**  **22%**  **58%**  **57%**  **52%**  **36%**  **4%**  **20%** | | | |
| **Reasons behind *higher* output, % households** | | | |
|  | | | |
| **Reasons of *lower* output, % households** | | | |
|  | | | |

About 22% of ASC members use external workforce (5 persons on average), while households in other groups use workforce much more seldom.

|  |  |  |  |
| --- | --- | --- | --- |
| **Using external workforce during high season, % households** | | | |
|  | ASC members | Members of other cooperatives | Other, not members of cooperatives |
|  | | | |

|  |  |
| --- | --- |
| **ASC services that are used by their members, % households** | |
| Services  % households  Using equipment  **34%**  Selling products  Joint harvesting  Storage  **28%**  **28%**  **10%**  Assistance,  consultations  **10%** | Most households (64%) are ordinary ASC members, while one third of them are taking part in management and operational activities of the ASC..  Most popular ASC services are access to equpment, joint selling of productions and harvesting. |

ASC members are more confident in themselves and in their ability to improve their wellbeing than other households.

|  |  |  |  |
| --- | --- | --- | --- |
| **Life principles, % surveyed**  Agree with the statement, % answers “agree” and “completely agree” | | | |
|  | UN ASC members | Members of other cooperatives | Others, not members of cooperatives |
|  | | | |

There are equal shares of women and men in ASC, which indicates gender quality in ASC. Average age of ASC members is 47 years.

|  |  |  |  |
| --- | --- | --- | --- |
| **Demographic profile of the surveyed, % surveyed** | | | |
|  | UN ASC members | Members of other cooperatives | Not members of the cooperative |
| Gender | **48%**  **52%** | **29%**  **71%** | **41%**  **59%** |
| Average age | **47** | **50** | **46** |
| Average family size |  |  |  |

# Annex 2

# Interviews and field visits

## List of experts interviewed

By the evaluator and GFK

|  |  |
| --- | --- |
| *Expert name* | *Affiliation* |
| Mr Roman Korinets | Director, Ukrainian Agricultural Advisory Service |
| Mr Ivan Tomych | General Director, Agricultural service cooperatives Union |
| Mr Ayder Seitosmanov | [Community development and public administration expert](http://www.linkedin.com/search?search=&title=Chief+of+Crimean+rural+development+agency%2C+community+development+and+public+administration+expert&sortCriteria=R&keepFacets=true&currentTitle=CP&trk=prof-exp-title), AR Crimea (phone interview) |
| Anonymous | Representative, Institute of Agrarian Economy of Ukraine (phone interview) |
| Mr Mykola Grytsenko | Project Manager, USAID funded AgroInvest project |

## List of visited ASCs

CBA ASCs

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Region* | *Rayon* | *Village* | *ASC name* | *Type of activity* |
| Donetsk | Amvrosievskiy, | Mnogopolye | Moye blagopoluchie | Processing of meat and milk, logistics |
| Kostyantynivskiy | Oleksandro-Kalynove | Universal | Tillage service |
| Chernivtsi | Storozhenetskiy | Ropcha | Tserenkutsa | Milk selling |
| Kitsmanskiy | Orshivtsi | Orchidea | Growing vegetables |
| Ternopil | Pidvolochyskiy | Koshliaky | Zelena krynytsia | Grinding flour |
| Mykolaiv\* | Snigurivskiy | Barativka | Zhmenka | Tillage service |
| Bashatnskiy | Yavkine | Yavkinskiy prolisok | Tillage service |

\*Interviews with the functional group/leaders within the CBA project evaluation.

GFK has surveyed focus groups over January 7-24 2014 in Saakskyy, Pervomaiskyy and Bilogirskyy rayons of Crimea. Interviews have been implemented from December 17 2013 to January 24 2014. The list of surveyed below. Focus group members comprised of active ASC members (heads of ASCs, accountants, etc).

*Surveyed ASC in Crimea*

|  |  |  |  |
| --- | --- | --- | --- |
| **Specialization** | **ASC name** | **Village** | **Rayon** |
| Herbs | UMYUT | Petrove | Bilogirskyy |
| Sheep | PAVEL | Zuya | Bilogirskyy |
| Vegetables, berries | ARTOK-CRIMEA | Pervomaiske | Pervomaiskyy |
| Berries, vegetables | JILEK | Nova Derevnya | Pervomaiskyy |
| Potatos | START-M | Krestianivka | Pervomaiskyy |
| Vegetables | SHOVKOVYCHNE | Shovkovychne | Saakskyy |
| Vegetables, berries | HAYAL-2009 | Chervone | Saakskyy |
| Crops | NIYET | Lisnivka | Saakskyy |
| Vegetables | PROGRESS-AGRO | Mykhailivka | Saakskyy |
| Milk | TOKULCHAK | Gryshyne | Pervomaiskyy |

GFK interviewed households that are active in agribusiness and sell extra products from their activity to generate income. Some of these households are registered as farmers (33% of our surveyed). The survey took part in the following villages:

* Abrikosove (Pervomaiskyy rayon);
* Krestyanivka (Pervomaiskyy rayon);
* Nova Derevnia (Pervomaiskyy rayon);
* Pervomaiske (Pervomaiskyy rayon);
* Chernove (Pervomaiskyy rayon);
* Lisnivka (Saakskyy rayon);
* Mykhailivka (Saakskyy rayon);
* Chervone (Saakskyy rayon);
* Shovkovychne (Saakskyy rayon);
* Zuya (Bilogirskyy rayon);
* Petrove (Bilogirskyy rayon);
* Tsvitochne (Bilogirskyy rayon).

## List of reviewed key documents

CBA documents and videos

* Information leaflet of the Rural economic development component
* CBA Manual on implementation of rural economic development component
* CBA Practical manual on accounting and taxation of multifunctional agricultural service cooperatives
* CBA Manual on how to develop a business plan of the multifunctional service cooperative
* CBA Training video of the Rural Economic Development component "Prosperity Through Cooperation"
* Закон України «Про сільськогосподарську кооперацію» від 17.07.1997, в чинній редакції з останніми змінами від 19.01.2013. <http://zakon2.rada.gov.ua/laws/show/469/97-%D0%B2%D1%80>
* Наказ Міністерства аграрної політики та продовольства України «Про затвердження Примірних правил внутрішньогосподарської діяльності сільськогосподарського обслуговуючого кооперативу» від 30 жовтня 2013 року <http://minagro.gov.ua/ministry?nid=10089>
* Проект примірних правил внутрішньогосподарської діяльності сільськогосподарського обслуговуючого кооперативу і додатки до них, розроблені за підтримки проекту технічної допомоги PRISM (CIDA) в рамках ініціативи "Розбудова спроможності Міністерства аграрної політики та продовольства України щодо розроблення та впровадження політики підтримки розвитку сільськогосподарської обслуговуючої кооперації в Україні" від 30 листопада 2012 року <http://www.zerno.org.ua/download/file/80-prymirni-pravyla-vnutrishnohospodarskoi-diialnosti-silskohospodarskoho-obsluhovuiuchoho-kooperatyvu-z-dodatkamy-proekt>
* Національна спілка сільськогосподарських кооперативів України, Центр розвитку сільського господарства та правової підтримки, Київська обласна аграрна дорадча служба. «Сільськогосподарські обслуговуючі кооперативи: створення і діяльність». Київ, 2005
* United Nations Development Programme. Crimea Integration and Development Programme. Final Project Report. April 1, 2008‐ September 30, 2011. Prepared for the Canadian International Development Agency (CIDA)
* Kurtmolla Abdulganiev. Findings of the Local Economic Development Component Efficiency Study Report. Simferopol, January 2009
* Роман Коринец. «Сельскохозяйственная обслуживающая кооперация в Украине». ФАО Региональное бюро по Европе и Центральной Азии. Исследования по политике перехода сельского хозяйства No. 2013-6. Декабрь 2012.
* ООО «Центр бизнес решений «ОПТИМУМ». Отчет по итогам исследования «Эффективность сельскохозяйственных обслуживающих кооперативов, созданных при поддержке ПРИК ПРООН». Симферополь, июнь — август 2011.
* GfK Ukraine. Стандарты жизни в Автономной Республике Крым. Отчет по результатам исследования для ПРИК ПРООН. Сентябрь 2012.

1. This report has benefited from the results of CBA-2 project evaluation, conducted over September-November 2013. [↑](#footnote-ref-1)