

# Findings of the Local Economic Development Component Efficiency Study

## Report



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## I. Introduction

The Report provides findings of the study designed to assess efficiency of the Local Economic Development (LED) component. The efficiency analysis was necessitated by the need to maintain regular activity monitoring and to ensure meeting the outcomes set by UNDP CIDP. First and foremost, the study was conducted to provide the most complete information possible to the Program management for administrative decision-making, and for more efficient management and distribution of resources within the component.

The efficiency analysis did not seek to answer the question "whether it is efficient or not?" as such questions often do not provide for clear binary "black and white" answers. Our research confirms that in the case of the majority of existing cooperative arrangements these answers are closer to some grades of grey: some cooperatives are closer to the optimal cooperative model, while others are less. We sought to find when invested resources generate optimal results - i.e. when a cooperative is really a form of equal, joint and

beneficial cooperation, to find out when cooperation results in growing incomes of its member-farms.

Efficiency of a particular project depends on numerous factors, including location of a particular settlement, available infrastructure (e.g. access to water for irrigation), existence and quality (inc. education) of leaders in the cooperative, nature of relations with local authorities, available markets for products, etc. As a result, we tried to avoid focusing on particulars and concentrated on common approaches of the Program to development of the cooperative movement and to support of rural areas.

It is worth to note that the research generated some value added as well - in the course of these studies UNDP CIDP researchers (the Research Assistants and the LED Specialist) mastered principles and practices of in-depth semi-structured interviews.

## II. Research objectives:

The research sought to:

1. Assess prospects for the development of already existing cooperatives and households. What are strategies for households to adapt to the current situation?
2. Assess the current situation and readiness of households for implementing business approaches and making use of consultations: identification of barriers and necessary conditions for efficiency.
3. Assess the level of cooperation of authorities with regard to matters of local economic development. Obstacles and barriers.
4. Identify existing problems/barriers that hinder development of the cooperative movement, and assess the level of social cohesion within cooperatives. Inequality in capacity of members as a factor under study. To assess understanding of cooperation principles by members of a cooperative.
5. Identify sources of income of rural households in northern Crimea.
6. Collect baseline data on: growing numbers of members, increasing land areas under cultivation/livestock capita/tons, return on investments, accumulation funds, money turnover, frequency of meeting of cooperative members, overall household incomes.
7. Identify categories of people who are members of cooperatives and are engaged in small-scale agricultural production. To assess business initiation and development, inc. models, preconditions, factors of influence. What are the villages where such developments occur? What are differences or specific features of this activity model vis-a-vis other types of activities?
8. Assess available experience of receiving loans (credit) and the baseline level of awareness on these matters (whether members of cooperatives are aware of lending mechanisms).

### III. Methodology and Data Collection Techniques:

Accounting for the study objectives and the Program capacity we decided to conduct the research with application of qualitative methods, namely in-depth semi-structured interviewing.

At the stage of conceptual development, qualitative methods have clear advantages over quantitative ones: the former are used to diagnose a problem and cover new variables, they help to understand people's mentality and their situations (i.e. their contextual framework), allow to ascertain a range of issues that are important for cooperatives, but may be hidden from external researchers, they may provide a deeper insight into existing problems and constraints for development of a particular sphere of activity.

Quantitative methods may be applied when we need to know the majority's view on a particular issue - in such a case the sample must be large enough and representative. Otherwise, there is no sense in conducting quantitative studies. Quantitative studies are applied when all necessary hypotheses have been already formulated and a researcher already knows the "cafeteria" of responses.

In-depth semi-structural interviews were conducted with representatives of 12 cooperatives – we covered the whole array of cooperatives that got support from UNDP CIDP (2 remaining cooperatives in the sphere of market creation are of different nature) and 1 initiative group (Sovetsky district). Overall, 39 persons participated in the interviews. See the table below for gender breakdown of the respondents:

Int. #	Respondents (total)	Men	Women
1	3	2	1
2	3	1	2
3	2	0	2
4	8	4	4
5	2	0	2
6	3	0	3
7	1	0	1
8	2	0	2
9	3	0	3
10	4	4	0
11	2	1	1
12	4	2	2

13	2	2	0
Total	39	16	23

In terms of districts represented, the respondents were distributed as follows:

District	Number of cooperatives	Number of respondents
Pervomaysky	6	14
Belogorsky	3	8
Saksky	2	7
Sovetsky	1 (In. group)	8
Krasnogvardeysky	1	2

In terms of ethnicity, the study sample distributed as follows:

	Number of resp.	%
FDP	17	43,6
non-FDP	22	56,4

Interviews were conducted with several representatives of a cooperative simultaneously and the relevant cooperative chairperson often was the key interlocutor. In current settings it was impossible to arrange separate individual interviews. Interviewers posed questions separately to every individual respondent.

An important data collection element was associated with the fact that interviews were conducted by UNDP CIDP personnel. On the one hand, such an insider position was advantageous as the interviewers were well aware of aims of the study, were able to respond to new information and understood objectives of UNDP CIDP. On the other hand, their position as staff-members of the organization that provided financial support to members of a cooperative might be perceived by respondents as position of some sort of auditor/inspector. It is necessary to note that the interviewers applied all possible efforts to neutralise effects of such a perception - both in the course of arranging interviews and in the course of conducting them.

The study was conducted from December 2008 to January 2009. 10 initial interviews were conducted on December 22 - 26, 2008, while 3 final ones were conducted on January 19.

It is necessary to note that the study findings are not representative of households of northern Crimea and for Crimean cooperatives in general. It is necessary to remember that the cooperatives established in the Programme framework have some specific features.

Besides that, it is necessary to note that due to the nature of the research data (accounting for the

current project phase of Local Economic Development component) we had a particular focus on development of conclusions that would assist UNDP in adjusting its approaches to this sphere of activities in Crimea. One particular aim of the study is associated with provision of substantiated data for development of the uniform concept of the Small Farming Model.

## IV. Key Research Conclusions

### 1. Unpredictable nature of agriculture

One of the key underlying (obvious for all albeit often forgotten) variables, that should be accounted for in the course of planning agricultural activities, is the unpredictable nature of agriculture. Agriculture-related risks are associated with natural disasters (droughts, hurricanes, plant diseases, animal diseases and cattle losses, etc.), as well as with product pricing. An extraordinary big harvest is also risky - due to underdeveloped storage capacity it may cause low returns on investments or even finance losses. The unpredictability is also caused by a low technological level of agricultural production and by lack of governmental support for the group of agricultural producers under study.

### 2. The target group

Research findings show that the group of people who get UNDP support is fairly diverse. So far, the uncertain nature of the target group has been a serious flaw in the work of the LED component, as it is very difficult to design a uniform coherent strategy for all; every target group needs a particular set of approaches and aims. We believe that prior to allocation of financial support UNDP CIDP needs to answer the key question: whom do we provide money to and work with. After clarifying the target group profile and requirements to members of a cooperative, it is necessary to trace presence of households and farms that meet the profile for the whole period of development of draft project proposals (inc. personal field visits and brief interviewing of local residents by assistants).

Three farming practice patterns were identified among households:

a. Amateur agricultural producers. Agricultural activities are of solely auxiliary nature; these activities often do not belong to key sources of household income and the household has another substantial source of income, although subsistence farming may generate a serious share of income. As a typical example, we may refer to a household that keeps one or two cows, but the both adults may have employment or may be pensioners. Members of such a group, who are often of old age,

cannot develop their "farm" even with serious support.

- b. Professional individual producers. Agricultural activity is the primary and often the only source of household income. Such households are engaged into agricultural activities professionally, on a larger scale (they keep more cattle and use more cultivated land). However, they do not process their products. The most important distinctive feature of this group is associated with their personal agricultural labour - they do not hire external employees (except application of outside machinery). Markets for their products are volatile.
- c. Professional managers. For such producers agricultural activities are of professional nature and represent the key source of income, they produce substantial amounts of products due to hired labour. The head of the production entity usually performs managerial functions; he/she either does not apply his/her physical labour in agriculture or applies it only to a minor degree. Markets for sale of products for such producers are relatively stable.

### 3. Cooperative principles

The interviewing results prompt that cooperative principles - i.e. internal democracy, equality of members, mutual benefits for all - work particularly efficiently when members of a cooperative belong to the second category of households (professional individual producers who do not apply hired labour of third persons). In the case of households of the first group, subsistence farmers are not interested in compliance with cooperative principles - they are far more interested, say, in selling produced milk on higher prices, in a stable and transparent manner. They are not interested - often due to lack of physical capacity - in expansion of their farming operations. As for the third group - first of all, they belong to an absolutely different category of farmers, as they are sufficiently wealthy. As a result, support of UNDP CIDP in their case cannot be considered a poverty alleviation activity. Second, they were found to dominate other members (including domination via other connections) - as a result, partners are not equal both in terms of capacity and in terms of access to information; members'

opinions often are not accounted for in the course of decision-making. In some cooperatives with participation of third category producers, ordinary members often are alienated from management of cooperative property (one of UNDP CIDP requirements).

None of the cooperatives, where interviews were conducted, was found to accumulate finance resources regularly for future development purposes. They collect only non-recurrent contributions for purchase or repairs of equipment.

#### **4. Under-formalized relations**

The study results revealed that cooperatives do not formalize relations and decisions into documents. Only in one case (and only some meetings of the cooperatives members) were documented by means of formal minutes. Minutes were drafted only at the stage of co-operation with the Program and then even annual general meetings were not conducted. Moreover, rights of cooperatives' members are not fixed by notification of relevant authorities on their accession to a cooperative. Internal democracy mainly depends on leaders; members are not equal in terms of access to information. To sum up - relations between members of cooperatives are based solely on their mutual trust - i.e. on experience of their prior communications.

#### **5. Increase of household profitability**

It is rather difficult to assess changes of households' profitability in cooperatives. First, cooperatives have been operating for a short period of time and the majority of them have not even passed through a single production cycle. Second, it is often impossible to estimate their real incomes as the majority of cooperative members do not record their revenues and expenditures, nothing to say about accounting for, say, milk consumed by their families and relatives. In the case of cooperatives that have already gone through one production cycle, only one cooperative did not improve its profitability due to the fall in prices for its product (due to a good harvest of onions - it was an effect of the unpredictability factor - see above). Other cooperatives reported increasing incomes in the range from 30% to 250%. In future studies, indirect profitability indicators may be used - raising purchases of home appliances, cars, repairs of their

homes or such events as weddings, or improvement of family rations.

#### **6. Indirect benefits (Value added)**

Raising incomes are not the only effect of a cooperative's operations. The interviews allowed to reveal the following indirect advantages of cooperatives: 1) stable markets for sales (milk, vegetable storage facilities), 2) prompt/regular payments (milk), 3) fairness of relations and more fair prices for products (milk), 4) reduction of labour and time intensity, reduction of material and energy inputs (e.g. drip irrigation), 5) guaranteed cheaper services (e.g. extruding machines, milk).

#### **7. Sales market problems**

In the case of 1st and 2nd categories of producers (see paragraph 2), the most serious problem is associated with ensuring fair and smooth sale of their products. At the time of interviewing, the majority of milk collection facilities did not have a clear vision of their product prices. No comprehensive marketing studies have been undertaken. So, in the current project format, cooperative members focus on the problem of minimising their production costs, instead of the problem of sales efficiency.

#### **8. Use of external financial support for development**

The studies suggest that micro-credits and lending in general (for agricultural purposes) is encountered extremely rarely among members of the existing cooperatives (only one case). On the one hand, unpredictable nature of agriculture is emphasised, as well as a too long period of capital turnover - one cycle in a year. Contemporary inflation rates, situation in the banking sector and the general financial crisis further aggravate difficulties of mobilisation of external monetary resources for business development. All respondents stressed that a loan at standard lending rates for agriculture is impossible in any country. All examples the respondents referred to were associated with negative experience of loan repay (i.e. bankruptcy of a borrower). At the same time, cooperative members very rarely sought for lending opportunities in a systematic manner. Now, finance resources for development purposes are limited solely to internal resources of farms - members of existing cooperatives.

#### **9. Business approach and business planning**

Producers belonging to the first and the second categories do not document their costs and revenues. As for farms of the third category, they maintained accounting only in the case of having a private agro-facility status. As it was already noted, very substandard accounting (if any) does not allow to assess income growth. Farms themselves cannot clearly assess profitability of their own production.

All cooperatives - as legal entities - maintain records on expenditures and members' contributions, however, interviews suggest that the accounting is of a very simplified form. Two records that were presented in the course of interviews, were unclear - it is likely that such documents cannot be used for reporting to the cooperative members and need some additional "processing" of finance data at the end of the year.

As for a broader understanding of business approach (i.e. search for new markets, alteration of production and planning), none of the groups (except the third one, and only partially) apply business plans as a tool for planning their operations for the next year. The majority of cooperatives have some ideas on their prospective development (e.g. a production line for making fermented milk products), but so far none of the groups had ever tried to assess necessary finance and time inputs and relevant benefits of such a project. None of the cooperatives had developed a business plan for the next production cycle.

#### **10. Agricultural extension services**

The cooperatives under study got professional advice on improvement of production technologies due to village-level social networks. It was found that rather often members of a cooperative include agronomists or livestock specialists. Alternatively, such specialists may be friends or close relatives of cooperative members. So, agricultural consultations (extension services) are provided as needed, but they are based on informal relations and do not always represent

"state of the art" in a relevant sphere. The majority of cattle holders apply for consultations to certified veterinarians, vegetable cultivators apply for soil analysis, etc. Information on new plant protection chemicals and crops is predominantly provided by relevant distributors. In some cases, cooperative members (3) told us about use of services of experimental farms or institutions. In one case (strawberry cultivation) members of the cooperative noted about lack of consultations in the sphere, as they had no information on relevant opportunities and had never got any assistance.

In general terms, we may speak of weak contacts between farmers and state entities or education institutions, that provide agricultural consultations, and about strong contacts at the level of villages or village councils. Farmers were often found to rely on their own long-term experience as the key source of information on production improvement matters.

The consultations provided in the course of the project implementation with UNDP CIDP support, were always assessed rather positively and their practical application was confirmed, notwithstanding that some respondents stressed their reliance on their own long-term practical experience.

#### **11. Support of authorities**

Existing cooperatives got support from local authorities (chairmen of village councils) in the course of drafting necessary documents and allocation of land plots for construction purposes. Some cooperatives do not have spheres of interaction with local authorities, and yet emphasise that local authorities at the level of village councils do not obstruct their business activities. In two cooperatives, at the stage of business initiation, chairmen of village councils were leaders of the cooperatives, while in one cooperative a village council chairman was the chairman of the cooperative at the moment of interviewing.

## V. Recommendations for Greater Sustainability of UNDP CIDP Intervention Effects

1. The proposal is to focus on the second target group - i.e. on persons who are engaged into farming activities professionally and individually, without hiring labour. It is necessary to define the complete profile of the UNDP CIDP target group in order to improve the programme efficiency.
2. The main problems of households - members of cooperatives - is associated with ensuring uninterrupted and fair sales of their products. Some activities should be introduced to the project design stage in order to raise awareness of cooperative members with regard to sales markets. Opportunities for allocating finance for study visits, specialised publications, participation in fairs, Internet access, maybe including some training in auto-presentations, and negotiation techniques should be foreseen.
3. In the framework of information activities under the Programme, production diversification issues should be addressed, particularly in connection with provision of water supply to settlements where the Program operates. Brief discussions on potential production diversification should be provided for newly established cooperatives.
4. The project design should be adjusted to make UNDP CIDP assistance indivisible (e.g. a pump instead of pipes in the case of drip irrigation; to avoid provision of 100 sheep, etc.).
5. In order to improve sustainability of a cooperative, requirements should be posed to documenting internal cooperative relations (e.g. minutes, annual general meetings, accession of new members).
6. In order to improve the project efficiency, we propose to consider opportunities for business development by means of elimination of some inherent agricultural risks, namely by use of greenhouse methods. First, in such a case the production cycle is decreased (several harvests/year, year-round), weather and irrigation risks are avoided and, additionally, the production diversification problem is solved. Besides that, greenhouse agriculture requires relatively small land areas.
7. The project proposal and reporting design should be adjusted to ensure opportunities for monitoring of attainment of Program outputs (improvement of profitability, production volumes, etc.).

## VI. Findings

### VI.1. Meeting Cooperative Principles in Cooperatives under Study

In the framework of the research, 12 cooperatives and 1 initiative group were interviewed in 5 districts of Crimea. It is necessary to underline that at the time of the study, only 6 of these cooperatives had already operated for more than 1 year and all conclusions on profitability and production increase are associated only with the latter ones. 5 remaining cooperatives are newly established and one cooperative launched its operations in 2008. In the framework of the study, the initiative group demonstrated state of mobilisation of members and their understanding of cooperative principles at the project initiation stage. In such a way, we studied cooperatives at 3 stages of development: 1) an initiative group – funds from UNDP CIDP have not been provided, a project has not been developed yet; 2) an operational cooperative – all funds have not been provided, a project had not been implemented yet; 3) a cooperative that operated for at least one year and had gone through at least one production cycle.

The study findings allow to reveal a trend - levels of social mobilisation and integration of members, as well as the "spirit" of co-operation decrease in transition from the first stage to the third (accounting for formal indicators, such as frequency of meetings). At the first stage, the initiative group conducts meetings several times a month (3 - 4 times). The level of mobilisation peaks at the stage of project proposal development and its submission to UNDP CIDP. After the project implementation, meetings are conducted only as needed, or are not conducted at all.

*Meetings were conducted [only] when the cooperative was organized... They only want to sell their milk. (6)*

*Anyway, they do not leave, but they slowed down a little. Meetings are conducted more rarely, but the initiative group meets more often. (...) It is not easy to arrange a meeting of all in time, but the majority of them are informed. People start to slow down a little. (7)*

*The last general meeting was held when [the cooperative] was registered and contributions were*

*collected. (...) Initially we collected UAH 200-300 per person, then UAH 600. There are some persons who did not cancel their membership, but we contributed our money for them.(9)*

At the same time, respondents very often underline importance of informal contacts and trust. The interviews allow to conclude that respondents consider compliance with formal requirements (e.g. the requirement that more than a half of members should be present at a meeting and that every meeting should be documented by minutes) as an excessive requirement, imposed by UNDP CIDP. Such an external obligation may be met if demanded by external partners: *We will meet and produce minutes (13).*

Due to the above considerations, minutes are documented solely at the stage of project development and justification. Minutes are produced for purposes of key project related decision-making. According to respondents, for the whole period of existence of a cooperative up to the stage of a project justification, the number of minutes reaches 4 to 5 (or 10 in one particular case). So, in our research, 5 cooperatives reported regular documenting of minutes (the cooperatives at the project implementation stage).

At the next stage - an operational cooperative after project implementation - none of the cooperatives was found to document its decisions by minutes (7 cooperatives). These findings may suggest low legal awareness of cooperative members and the fact that, at this stage, accumulated assets of a cooperative may not be considered by other members of the cooperative as "a lucrative piece of cake".

Cooperative members are sure that the fact that only 3 members of a cooperative are registered officially as founders, does not create a problem and these people would not abuse their position for their own benefit to the detriment of other members of the cooperative. Just one statement, demonstrating a rather common view:

*We did not assemble to cheat each other. We do everything for ourselves, it is pure business. (10)*

Cooperative members who live in one rural territory, often have closer personal contacts and public control, they are connected by other personal and family relations that promote higher trust in board members.

Besides that, a similar view was expressed in interviews with members of two milk collection cooperatives - should members of cooperatives be cheated (respondents believe that cheating is almost impossible), the members could just refuse to supply their milk, thus depriving the leaders of opportunities to gain profits. (1, 6)

It is worth to note that leaders of 4 cooperatives were found to live in other locations, not in villages where cooperatives were founded (4, 6, 12, 13). In such cases, the interviewers were rather sceptical about management systems of these cooperatives, in terms of organising meetings, producing minutes, and managing the common property. First, in one of such cooperatives, members were called "milk suppliers". In such a cooperative, capacity of one member (a legal entity - in clear contradiction to cooperative principles promoted by UNDP CIDP) was substantially higher than cumulative capacity of all other members. The cooperative chairman admitted that not all members sell him milk now and then, answering the question whether he plans to extend the number of members, said:

*- We plan to admit the all who wish, but it does not depend on us only, it depends on people. I think that people will come when the weather is warmer, but now we will make contracts with them. (...) The members will return to us.*

*- Do you plan to make contracts with them or admit them as the cooperative members?*

*- We'd prefer to conclude contracts.*

Therefore, members of the cooperative do not perceive themselves as real co-owners of property and decision-makers, they perceive themselves as "milk suppliers" who rely completely on the will of their leader.

In the course of the interviews, the respondents revealed that the cooperative leader does not sell milk provided by the cooperative members ("milk-suppliers") and uses the milk for needs of its legal entity.

In the sheep-breeding cooperative, respondents provided the following answer when the interviewer asked them: "What could happen if a member would need to take back his sheep?":

*So far, such situations have not happened [i.e. someone wanted to take his sheep back], but should one need it we will slaughter a sheep.*

One may only guess about practical application of cooperative principles and principles of management of common (by definition) property of a cooperative. Most likely, application of cooperative principles is predominantly limited to their application on paper - as the leader of the cooperative admitted: *"other people cannot manage [sheep] themselves and give [them to us to keep]"*.

Besides different capacity in comparison to ordinary cooperative members, there is another variable that characterises such cooperative leaders - application of hired labour. Rather often (albeit not in all 4 cases), the cooperative leader does not work himself in agriculture, operating instead as a contractor. Actually, he operates as a manager, who manages finance and labour resources to ensure functioning of a farm and a cooperative. In two cases their contributions to the cooperative property were found to exceed substantially cumulative contributions of all other members of cooperatives.

In cooperatives where capacity of one or a few members substantially exceeded capacity of other members, where leaders were not "imbedded" into local communities, structural principles of the cooperative movement (e.g. equality of members, equal access to information, democratic and transparent decision-making) functioned in the poorest manner (however, it does not always overweight economic importance and benefits of these cooperatives for their other members).

Another element, that demonstrates strength and sustainability of a cooperative as well as willingness of its members to set long-term objectives, is associated with regular collection of contributions (fees). The study results suggest that none of the cooperatives has ever collected regular contributions for development. The cooperatives collect purpose financial contributions merely at the project implementation stage. Later on, only "vegetable cultivation" cooperatives maintained collection of purpose contributions to buy seeds and to cover cultivation costs.

No [we did not collect], if we need to buy seeds, we contribute. If a tractor is needed, everyone counts his costs individually. (10)

People cannot meet every month. (9)

There are [contributions], as needed (8)

Only at the beginning of the season, when necessary. Approximately once in a year. (12)

We agreed on plans, on only those costs that were specified. (CIDP project costs were meant) (13)

Only the initial contribution was made. And when we purchased milk-churns. There was also an in-kind labour contribution during construction. (6)

They were non-recurrent - for founding of the cooperative. (4)

We also found that cooperative principles - transparency of decision-making, accounting for members' opinions, regular meetings - functioned best in the group of small producers who work individually (without large-scale application of hired labor), whose agricultural activities are not of merely "auxiliary" (subsistence) nature. In this group of cooperatives every member understood significance of his share in a cooperative and made informed decisions on membership.

We found the abandoned storage belonging to many shareholders. We invested UAH 152 thousand and took it; as a result, we paid money only for current repairs. When we discussed all these matters we decided to apply to CIDP. Initially we wanted to dismantle it, but then decided to

keep it for a little. For a short time it was leased. Many people here dismantled and divided materials among themselves. These facilities did not belong to one man, they belonged to 5 - 6 people, so they dismantled them, and divided e.g. asbestos-cement sheets between themselves equally (...) Meetings are held every month. A few persons attend, but it is necessary to inform people. They inform others. For them it is important to get their wheat. They come, grind wheat, it is rather good for farming.

The research also demonstrated that cooperative principles are applied more successfully when a cooperative or some other cooperative arrangements existed prior to the launch of CIDP project. In our study there were 3 such cases.

Accounting for the above considerations we may propose the following recommendations for "Local Economic Development" component:

- To develop the profile of the target group of small producers, who meet aims of UNDP CIDP in the most adequate manner.
- To change principles of provision of CIDP aid – the aid should be indivisible (e.g. provision of 100 sheep or pipes for drip irrigation that might be divided, should be avoided).
- To ensure equal economic capacity of members of a cooperative.
- To focus on compliance with formal requirements and (equal) members' contributions in the course of the project implementation,.

## VI.2. Profitability of households

Profitability of households is the main indicator of efficiency of "Local Economic Development" component. In the course of our research, the respondents were asked about profitability growth and production increase (cattle, land, materials). It is noteworthy that precise estimates of profitability growth and identification of direct linkages between the project and profitability growth represent a rather difficult task due to the following reasons:

1. First, agriculture is unpredictable - it depends on climate conditions and applies too little technology – as a result it is often impossible to assess underlying factors of profitability growth or decline. For example, in 2008, the harvest yield was high (the fact is confirmed by statistical data in UNDP CIDP annual monitoring report).

Paradoxically enough, the unusually high harvest negatively affected profits, as wholesale prices were lower than production costs. Two vegetable production cooperatives reported a very similar market analysis:

*Some failures happened. We planted melons, onions and cabbage. As a result, we produced a lot of onions but prices were low. In the business plan we estimated the price of onions at the level of UAH 3.50. But actually we found that too much onions were produced [they meant that other farmers also planted a lot], conditions were favourable and early onions were ready for sale. In short, we failed to cover our planting, cultivation, harvesting and transportation costs. At the final stage we had to sell 12 tons of onions for UAH 0.12 [per kilogram]. We still keep 12 tons of cabbage in storage. (...) the harvest was almost the same. (13)*

In the second "vegetable production" cooperative we also were told about sales problems and low prices. In the course of the interview, one man arrived just from the field. He explained that in order to get higher prices he has not harvested cabbage yet and told us that he already had to dispose off many tons of cabbage due to low market prices.

A similar situation was observed in a grain-producing cooperative:

*Wheat production costs are higher than the price (3)*

2. Second, it is difficult to estimate real income and real shares of household income generated by agricultural production, as some shares of products (sometimes large ones) are consumed by household members or by close relatives. The task is particularly difficult in the case of households that are not engaged into professional farming and consider agriculture as merely subsistence (e.g. keep 1 - 2 cows).

3. Third, profitability estimates are complicated by the fact that none of the respondents records his/her revenues and expenditures. Only one respondent said that *"one of twenty five members keeps such records" (1)* – however, it was impossible to ascertain how such records look like (the respondent was absent). People themselves often do not know incomes of their households and do not estimate their costs and revenues. Besides that, villagers are not used to account for their labour inputs.

4. Fourth, some problems are associated with sales. Prices and profits depend on many factors: where products are sold, whether a farmer resorts to intermediaries, has means of transportation, sells products from the field and many others. According to one cooperative member:

*It depends on a season. In summer, greenery prices are higher. If tourists come to Ukraine, prices will be higher. Otherwise, they will not. It depends of a season and tourists. (7)*

We may rely only on declared growth of households' incomes. The question may be reliably answered only by members of 6 cooperatives that have already gone through one production cycle from the moment of completion of UNDP CIDP project. So, in one case, no profitability growth was reported due to the general decline in prices of

products produced (13). In the second cooperative, the cooperative leader reported profitability growth by 20 - 30% due to the project implementation. (8) In the third cooperative, the final milk price was by 17% higher than the price paid for milk if collected in the village (6). The leader of the fourth cooperative reported a profitability increase of 25%. (4) In two cooperatives (5, 11) leaders were not able to provide an unequivocal answer to the question on profitability growth.

It is worth to note that answering questions on profitability growth was very difficult for all respondents due to the above-mentioned factors.

Answering questions on production increase was much easier for cooperative members. Members and leaders of cooperatives reported substantial production growth: 100%, 250%, 50%, 30%, 35% (in one case, no increase of cultivated land area and crop yield was reported). Data suggest a rise in the range from 30% to 250% and one may definitely say that productivity indeed substantially increased (*inter alia* due to the UNDP CIDP project).

At the same time it is necessary to note that besides growing profitability and production, there are other indicators suggesting some productivity growth. UNDP CIDP projects allow to reduce financial, time and labour inputs. For example, costs of production of mixed fodder were decreased by 15% - farmers no longer need to search for mills and make long trips.

Effects of milk-related projects include a higher reliability of sales and more fair relations with buyers. In three villages, the interviewers were told about cases when villagers were cheated by milk buyers.

*When they bought milk form households they underestimated fat contents in milk. (7)*

*I know that she came 10 days later and paid UAH 2 per litre. At the same time, others take milk and pay nothing. People from Simferopol collected milk but did not pay and cheated us. (...) There was a case here, in Krasnogvardeysky, they collected milk for a long time and simply paid nothing when debts accumulated. So, when we established the cooperative, people knew that in this case everything is made here, people understand that nobody will cheat tem... (6)*

*We supplied milk but got no money for it. We waited, but then the woman was told that the milk was of poor quality and she was not paid the due amount of UAH 2000. (1)*

Accounting for the above considerations we may propose the following recommendations for future research:

- to study increasing numbers of cattle, growing cultivated land areas or materials, rather than profitability indicators;

### **VI. 3. Numbers of cooperative members**

At the moment of establishment, the average number of members in cooperatives (including the initiative group) reached 17 persons, while at the moment of interviewing, the relevant figure increased to 20 persons (increase by 17%). It is necessary to note that membership may differ in different cooperatives, in some cases only one representative of a household is a member, while in other cooperatives, two persons (a married couple) may be cooperative members.

The average number of members grew due to increasing membership in 3 cooperatives (as we

- direct questions on profitability increase may fail to reflect real changes, therefore, a study of profitability should focus instead on household expenditures, e.g. purchases of expensive home appliances, or expensive repair works, wedding ceremonies, alterations in patterns of household expenditures.

already noted above, 6 cooperatives are on the initial stage and numbers of their members could change).

In two cooperatives, numbers of members decreased. It is interesting to note that it happened in cooperatives headed by "managers" who applied hired labour at their farms. These findings allow to conclude that cooperatives are more stable if their members have similar economic capacity.

### **VI.4. Agricultural consultations (extension services)**

The collected data allow to suggest that cooperative members solicit different types of advice from different sources - both from organizations (public and private) and from informal sources. The overwhelming majority of interviewed cooperative members reported having access to different agricultural consultations or technological assistance for their production.

On the one hand, they have access to institutionalized governmental assistance - e.g. services of veterinarians in the case of animal diseases or such services as soil analysis.

*We have a veterinarian (7)*

*I paid a visit to Simferopol, Tsvetochnoye, people from the Agrarian University came here. They recommended us to visit Askania Nova [animal preserve and scientific-experimental centre in South of Ukraine], but sheep breeding practitioners argued against it (4)*

*We have contacts in a Kiev company, some Americans visited us and even conducted a training. We know phone numbers, and before planting we always call and get all necessary information. In the case of animal diseases we immediately resort to experts for help. (5)*

At the same time, informal connections at the village level represent a substantial business resource. People often use assistance of more experienced producers, or their friends (or friends of a friend) who are agronomists, animal breeders or specialists in other spheres of agricultural production.

*We have a livestock expert of our own (2)*

*We always ask advice of former farm employees. We invited representatives of farms that deal with cattle selection. They conducted trainings and seminars for us. If a cattle breeding issue arises on a meeting we*

*make all decisions together and provide assistance. (7)*

*Nelly Yakovlevna, my first teacher, was a technologist and taught me a lot of things. Also there are many different manuals now. (8)*

Suppliers of seeds and planting stock also serve as a source of knowledge and information:

*An associate professor came here and explained me something, but it was what I already done. Mainly we got information from magazines. When sellers come to sell seeds, etc. they show us their catalogues and explain: "Those crops are more resistant, other ones require more water". They explain, we read about terms of storage, etc. and take it all into account. (10)*

Self-education also plays a major role for cooperative members, and a serious contribution was made by extension services provided in the framework of the CIDP project (a mandatory element of the project design).

*There were some consultations on equipment - they delivered a book from our institute about production of fodder, inc. information on necessary components, vitamin contents and relative shares of components. I use the book. When we wanted to buy an extruder, that man came and explained. (11)*

*3 trainings were conducted. We have a sufficient supply of publications and consultations. In addition, we have an agronomist; he is well experienced and assists us. (13)*

*They offered us some additives. Representatives of some farmers' association came, I was present there. (6)*

*If we cannot solve a problem with assistance of veterinarians, we apply to the Agricultural University. (7)*

In general, cooperative members very positively assessed extension services provided in the framework of the project. The majority of respondents also expressed their willingness to participate in similar initiatives. The study revealed actual use and applicability of different types of agricultural consultations.

At the same time, it is necessary to add that the interviews have failed to identify a territorial facility that - on its own initiative - could support and promote development of certain sectors by introduction of new technologies, tailored to Crimean or local (district-level) conditions.

In the course of the interviews, some views were expressed that agricultural consultations are not always possible or necessary. On the one hand, respondents attributed such views to their already high knowledge or to the lack of skilled specialists in Crimea on some narrow agricultural issues (e.g. strawberry cultivation).

*There is the Crimean Plant Protection and Cultivation Centre, we visited the Agricultural Institute, but they are also reluctant to answer, as there are many diseases now. (...) We already knew all diseases. We can diagnose them by looking at leaves. (12)*

*This year, something is wrong with beets. He told me, maybe we should ask a specialist? I told him: "We are the best specialists.". We have a lot of experience as we are in this business for a long time. (...) We can do it ourselves, but something new will not do any harm. (10)*

*We need it. They are always welcome. However, it is not necessary to involve all members of the cooperative. I think that they will not be interested (4).*

*We take care of cattle ourselves. We use vitamin additives. (2)*

## **VI.5. Business accounting and business approach**

The research revealed that none of the producers keeps records on revenues, expenditures and agricultural activities. On the one hand, it might suggest that rural households do not consider agricultural production (even if they use large land areas or keep a lot of cattle) as a traditional business.

In the whole course of the study, business planning (e.g. keeping records of revenues and expenditures, fluctuations of product prices in a

year) was never encountered. Questions on record-keeping and planning often just surprised respondents who consider farming as an auxiliary activity. Respondents of this category considered it excessive and noted that it is impossible to distinguish revenues and expenditures as the bulk of products are consumed by family members or by close relatives. Just a few examples of responses:

*No, we do not keep records. We have money seasonally. For example, should I need to bale straw*

*or to buy feedstuffs I pay if I have money at that time. I cannot plan my expenses. (...) If I can feed a cow, I leave calves. If I cannot pay for fodder, I sell them. This is the planning I have. A lot depends on climate conditions. In the case of drought, I will have less straw. (...) Many farmers do not account for their labour and financial inputs, as well as profits they get. If we start to estimate, we will get only manure as profits. Villagers do not account for their labour inputs (...) Nobody accounts for. (...) I think it is not needed. (7)*

*There is no specific accounting, for sure. But every responsible person should think about tomorrow. (8)*

*No. We can say about crop yield. (9)*

*There is some internal family accounting, but there is no accounting in form of a book of accounts or a separate notebook - people do not do it (10)*

*I do not know. I have not examined these matters myself. We keep all in our heads and calculate only approximately. For example, a farmer may go to a marketplace and sell milk for UAH 2. In addition he should pay for transport. Alternatively, he delivered milk to village collectors for UAH 1.3 and got UAH 200 two weeks later. (11)*

At the same time, some cooperatives admit usefulness of business planning. However, practical experience suggests that none of the cooperatives has applied business planning for the next production cycle.

## VI.6. Loans

The research revealed a rather suspicious attitude towards loans in villages. The overwhelming majority of respondents expressed their reservations about lending practices of banks. The reasons to avoid loans included:

- Extremely high interest rates and very long production cycles in agriculture make repay of loans at standard commercial lending rates absolutely impossible.
- Non-transparent advertising practices of banks.
- Lack of collateral.

Only one of all interviewed respondents admitted that he got a loan for agricultural purposes and repaid it successfully. That respondent had a sufficiently high "official" income outside the farming sphere. The loan was provided by a bank, the amount was small and he used the money for purchase of seeds and some processing equipment.

It is interesting to note, that all "human stories" (overall, there were 3 of them in the course of interviewing), illustrated negative experience of loans.

*We do not trust the credit union (3)*

*Agriculture is a risky sector. I can understand if one takes a loan for trade - in trade 2 cycles may give you 20%, allowing to repay the loan and get some profit. But in agriculture you have one cycle in a year, when you get the harvest. If you get a loan at 1% rate, you will need to repay it by the end of the accounting year, when revenues just start to arrive. The cycle is very long. (6)*

*If we manage to do the work properly...(...) I generally consider loans negatively. We did not attempt to take a loan because we do not want to work for banks. (...) I know many people who had some experience of working as agronomists and now they try to earn money in Moscow to repay their debts. Moreover, they had all - a farm, a fruit garden*

## VI.7. Cooperation with authorities

Local Economic Development component promotes development of public-private partnerships. Respondents stressed that in the course of all projects that needed assistance of village councils, their chairmen provide all the

*and a cannery. They just had a bad year, they were not able to repay debts while interests grew. One man here also borrowed \$20 thousand. All his onions got rotten and finally he hanged himself. At that time loans were not provided, he simply borrowed the money. (13)*

*No. Neither me, nor other cooperative members. As you know, farmers are afraid of it. No, we did not attempt. They are afraid, they will not want. Even without loans, they cheat our farmers as they want. (11)*

*I made inquiries and concluded that if I buy one tractor on credit ... so I will get 1 tractor but I will need to pay for 2 tractors when I will repay the loan. Why do I need it? (...) If you apply to a bank, you fall into a debt bondage. I studied the situation. You come to a shop and they offer 0% interest rate, you just need to buy, but it is a pitfall - you will get one piece but pay for two. I would better borrow from friends or relatives, I am not wealthy enough. They sold Chevrolet on credit at 0% interest rate, I came, read documents and found that one should pay 30% just to get registration for buying the car. It is a fraud. If you buy a TV set on credit, you pay over UAH 6000 instead of its price of UAH 4700, while in the case of a tractor, the difference will be higher. (...) My friend borrowed a loan in Aval Bank for grain production. But grain prices had fallen and he had to sell a lot to repay his debts. He applied to another bank to repay his debts to the first one. Now he has to sell machinery. They [bank clerks] themselves advice to borrow from another bank to cover debts to them. As a result, he has to sell everything. He got himself into a mess. (10)*

Villagers rather often think that loans are of no use, as very often older people whose farming is limited to keeping a cow do not need loans or simply cannot develop their activities.

*Now we do not need it. We do everything on our own. (9)*

necessary support. First of all, such support is associated with authorising allocation of land for facilities or constructions of a cooperative, such as a vegetable storage or a milk collection facility. Chairmen of village councils also assist in settling

matters with connection to industrial grid (three phase AC), in negotiations with the district power supply authority, fire protection service, sanitary and epidemiological services.

*We got substantial support from the former village council chairman. He allocated a land plot for construction of the milk collection facility. (7)*

*We will get it [land] from the village council. Before that it is necessary to conduct a land value assessment to decide on rent prices ... We have normal relations with the chairman. (...) He proposed us a building in another village, but we found it unsuitable, then he proposed us an old canteen - it was also unsuitable for us. (10)*

*The village council allocated land. -Did we meet obstacles with them? - No, they assist us. (9)*

### **VI.8. Impact on inter-ethnic relations**

The interviews demonstrate that cooperative projects do not substantially affect inter-ethnic relations - they mainly improve communications between representatives of different ethnic groups. It may be attributed to the fact that founders of a cooperative already have sufficiently close and friendly relations of co-operation - regardless their ethnicity. At the same time, from the overall list of 12 cooperatives and 1 initiative group under study, 4 cooperatives were of mono-ethnic composition at the moment of founding.

One may pay attention to the fact that our respondents included representatives of cooperatives that "evolved" from community-level projects - these ones are often of poly-ethnic composition and are more open for admission of new members (more "democratic"). However, it is difficult to identify a dominating trend in this sphere as there are some cooperatives that are not based on community-level experience, but are nevertheless multi-ethnic.

As for inter-ethnic relations in villages, all respondents believe that these relations were good even before the project initiation. Some respondents shared the view that conflicts are

*She is a good and pushy person, she makes a lot of good for Krymskoe [village] and for us. They supported us, we could not succeed without them; she returned from Poland [from a study tour], came here, studied the situation and told us how they do it all there. (1)*

*The village council supports us (2)*

In the case of some projects, cooperatives do not establish relations with local authorities, as some types of activities do not need engagement or support of cooperative projects by village-level authorities. Support of local authorities is often necessary only for projects that incorporate construction of storage facilities.

mainly generated in urban areas: "villagers do not have serious reasons for conflicts, all people know each other well".

*People in our village are more or less united and maintain normal relations. We have nothing to dispute. We have similar problems. However, there may be exceptions. One should not judge all people by one stupid man. There may be conflicts elsewhere but everything is OK here. (10)*

*We have no such problems. In our village, 45% residents are Tatars. (7)*

So, it seems that the situation does not improve substantially as "there is no space for improvement". UNDP CIDP projects only improve interrelations and communications between different groups. Some interviewed respondents revealed a rather clear trend - representatives of one ethnic group do not perceive other ethnic groups as something uniform, i.e. they do not demonstrate ethnic stereotypes. For example, in one interview, respondents referred to distinction between Crimean Tatars who returned in 1970s and 1990s, between poor and wealthy ones.

## VII. Outcomes and Indicators of the LED Component stated in the UNDP CIDP Programme Document

Accounting for the current UNDP CIDP Strategy at the moment of the research study implementation (by the end of 2008), outcomes of the component should include:

1. Viable operational agricultural cooperatives in target areas;
2. Improved access of small farmers and processing facilities to agricultural extension services;
3. To promote development of efficient, high quality processing capacity of small agricultural facilities in target districts, resulting in additional operational revenues of cooperatives;
4. To promote efficient trade, marketing and sales of agricultural products;
5. Improved access of agricultural cooperatives and small processing facilities to micro-credits;
6. Improved environment for agricultural production and processing operations in target districts;

Indicators:

- (a) Growing overall profits of farms (families, households) in target settlements;
- (b) Growing agricultural production outputs in target settlements;
- (c) Growing incomes of households (families) from agricultural activities in target settlements;

- (d) Enhancement of social cohesion in communities (due to introduction of cooperative principles);

The above lists suggest that the indicators do not reflect all outcomes, or, to be more precise, they do not reflect the outcomes at all, as they pertain to improvement of living standards in settlements instead of assessing results of our activities. Therefore, there are no indicators of: 1) improved access to extension services, 2) expansion of processing capacity, 3) efficient marketing and distribution of products, 4) access to micro-credits, 5) improved environment for small agricultural businesses.

UNDP CIDP has made some efforts to address these problems and discrepancies. In late 2008, the new Strategy Document of the Program had been drafted, the new document incorporated an adjusted approach to assessment of progress in the project implementation. The Program particularly focused on achievements of farms and cooperatives themselves. A particular attention was paid to development of sales (support of markets), and to development of cooperative principles (the indicator pertaining to establishment of funds in cooperatives and accumulation of money in these funds).

## VIII. Assessment of Studies conducted in 2007:

The previous studies were conducted in April 2007, by the Crimean Association of Farmers and Land-owners (CAFLO). 360 respondents were interviewed in 9 villages of 3 districts (Belogorsky, Krasnogvardeysky and Pervomaysky). Besides that, they interviewed 62 members of initiative groups and compared these results with results of the survey of village residents.

In terms of UNDP CIDP objectives and targets, the study of 2007 should be assessed as inadequate. The study had several deficiencies:

- The methodological background was not sufficiently elaborated, they conducted some activities, that, albeit of some cognitive interest, were excessive for the Program purposes. The integral framework of the research had not been sufficiently elaborated.
  - The overwhelming majority of responses are of no value for UNDP CIDP, in other words, they cannot be unequivocally interpreted by third persons. Individuals
- are used as units instead of households. No conclusions of significance were made for improvement of the component. And the most important - questions and the study approach did not correlate with UNDP CIDP LED component goals (see the list in Section II): 1) improved access to extension services, 2) expansion of processing capacity, 3) efficient marketing and distribution of products, 4) access to micro-credits, 5) improved environment for small farming businesses.
- Wording of the questions, as well as data processing and presentation in the report often do not reflect main points of agricultural problems, do not allow to produce unequivocally interpreted data, thus causing concerns about reliability and methodological integrity of the study.
  - The report provides no underlying reasons for selection of the target group of districts for the study.