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AGRICULTURAL ASSESSMENT IN THE NORTH CAUCASUS, RUSSIAN FEDERATION

SEPTEMBER 2006

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ACRONYMS AND ABBREVIATIONS

ACDI/VOCA	Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance
CIS	Commonwealth of Independent States
DCA	Development Credit Authority
FAO	Food and Agriculture Organization of the United Nations
ICRP	Instability, Crisis, and Recovery Programs
IKAR	The Russian Institute of Agricultural Markets
IQC	Indefinite quantity contract
NC-RCC&AD	North Caucasus Rural Credit Cooperation and Agribusiness Development Program
NGOs	Nongovernmental organizations
PEP	Center for Citizens' Initiative Productivity Enhancement Project
ROSSTAT	Russian Federal Service of National Statistics
SME	Small- and medium-sized enterprise
SUE	State Unitary Enterprise
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USDA FAS	United States Department of Agriculture Foreign Agricultural Service
WB	World Bank
WFP	World Food Program

FOREWORD

The objective of this report is to provide USAID Russia with an up-to-date assessment of the agricultural economy in the North Caucasus region of Russia, including key areas of potential improvement and possible options for near-term assistance. It is not presented as an academic report, but rather as a working paper to guide the USAID mission in its planning. The assessment focuses on Chechnya, Ingushetia, North Ossetia, Kabardino-Balkaria, Karachayevo-Cherkessia, Dagestan, and southern Stavrapol krai. Given the high unemployment and the instability in the region, the role of an expanded agricultural economy to provide jobs for youth was considered. The ethnic, cultural, religious, and social structures in the targeted oblasts and republics were considered at every step of the report.

The assessment was carried out in August 2006 and included the assessment team's meetings in Moscow with the World Bank (WB), United Nations Development Program (UNDP), the World Food Program (WFP), the Southern Russia Investment and Development Program, the United States Department of Agriculture Foreign Agricultural Service (USDA FAS), and USAID personnel. A literature review of relevant documents was undertaken. A team of Russian field investigators was assembled, trained in interview techniques, and given a questionnaire to guide them in their interviews with farm producers (large and small), processors, and relevant officials in each of the targeted political units.

This assessment was prepared at the request of USAID Russia under ARD, Inc.'s Instability, Crisis and Recovery Programs (ICRP) IQC (DFD-I-00-05-00248-00). The QED Group, a sub-contractor to ARD, took the lead in preparing the report, and was supported by two Russian institutes: the Russian Institute for Agricultural Market Studies (IKAR), and The Institute for Economic Management.

The empirical data cited in this assessment may be negative: the data reported by local political agencies may be less than 100 percent accurate. That notwithstanding, we believe that orders of magnitude are credible. There is a paucity of literature available on the north Caucasus region. We have reviewed UNDP reports and ongoing WFP reports on the region. WFP investigations are primarily focused on food security, whereas our assessment addresses the whole of the agricultural economy in the region. The World Bank also prepared a timely (April 2006) report on the problems of youth in the region (work cited in Executive Summary).

The USAID Russia Assessment of Agricultural Sector North Caucasus Scope of Work is located in Annex A.

EXECUTIVE SUMMARY

The agricultural economy (farmers, processors, transportation, and marketing) in the North Caucasus region[1] today has a much greater percentage of regional gross domestic product (GDP) than in Soviet times. There are two main reasons for this: many, if not most, of the Soviet era manufacturing plants have closed, and the ongoing conflict in and emanating from Chechnya discourages an inflow of investment capital. Compounding these problems is the challenge of finding gainful employment for the youth of the region. A World Bank report this year cites the "unemployed or not-in-education" population of 15–24 year-olds at nearly 11% for the Russian Federation, nearly 55% for Chechnya, and as high as 70% for Ingushetia.[2] If expanded opportunities in agricultural production or agribusinesses could absorb this available labor source, a major source of instability in the region would be reduced.

The long list of cited constraints to expanded production, processing, and marketing is consistent among all respondents and the literature reviewed. These constraints include antiquated and worn out farm and processing machinery; inability to get affordable credit to acquire new equipment and high quality inputs; a cost-price squeeze for producers (i.e., high fertilizer, seed, fuel lubrication, and electric power costs), and low farm gate prices for produce. Also, access to markets is problematic; all producers cited shakedowns by the road police (state motor vehicle inspection service); and the alleged control of market access by the Azerbaijani mafia in Moscow. Complaints of corruption at all levels of government are a common theme. In response to the question "What assistance would you like to receive from the government?" the common response was "The assistance is needed in various forms, but for a start it would be desirable that the authorities at least do not hamper." Land tenure is ill-defined and leads to the under- or non-utilization of substantial arable land, especially at defunct collective and state farms. Technical support to farms (extension services) is virtually non-existent.

This report is intended to provide the USAID Russia mission with a working paper that can assist the mission in determining what programs, if any, it may undertake to mitigate one or more of the constraints cited herein, thereby creating more opportunities for employment of the region's youth. Many of the constraints itemized are beyond the reach of any donors' ability to mitigate. We attempt in this report to recommend initiatives that the mission may consider undertaking that would 1.) have an impact, and 2.) could be undertaken and accomplished with either a modest or limited levels of funding. In preparing this report, the differences (ethnic, religious, social structures) among the various political units have been considered when making the following recommendations. These differences are not material to these recommendations.

Recommendations:

1. **Constraint**: Lack of access by producers and processors to skilled labor that are well trained and educated, and willing to remain and work in the region. The region as a whole is experiencing high under-employment and under-educated/trained young people.

   Solution: Develop, in conjunction with local/regional educational institutes, vocational technical (votech) training programs that will make these youths more employable within the agricultural

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1 The North Caucasus region, for purposes of this report, includes Chechnya, Ingushetia, North Ossetia, Kabardino-Balkaria, Karachayevo-Cherkessia, Dagestan, and southern Stavrapol krai.

2 Youth in the Northern Caucasus: From Risk to Opportunity, World Bank, April 30, 2006.

sector. These youths may be more employable with local agricultural producers or processors, or they may migrate to other regions in Russia. But they will be more employable. USAID may provide scholarships for this training, plus tuition for the training institute on a cost sharing basis.

2. **Constraint**: Lack of employment opportunities for recent graduates of training programs.

   Solution: Create a fund for internships at agro-processing companies, or the larger farms, which would pay the employer a certain amount to subsidize the employment of a training program graduate for a limited period of time (e.g., six months, one year). This would require sufficient monitoring to ensure that the interns would not just be "slave labor" but are given an opportunity to apply the skills they have learned into practice.

3. **Constraint**: Lack of exposure to new ways of doing things. Technological obsolescence.

   Solution: Develop a program of study tours for North Caucasus personnel (not just youth) to visit successful Russian farm and processing operations. These could include joint programs with Wimm Bill Dann, Russian Farm Project (the Minnesota-supported program managed by Andrei Danilenko), Golden Rooster, and/or other successful Russian small- and medium-sized enterprise (SME) processors.

4. **Constraint**: Lack of technology transfer to small- and medium-size farms in the region.

   Solution: Create a pilot program with one or more forward looking political units (oblasts or republics) to establish a meaningful agricultural extension service. Some preliminary work to determine what, exactly, was needed by local farmers and the best mechanisms to deliver those services.

5. **Constraint**: Lack of access to "affordable" credit.

   Solution: Increase support for the Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA)-managed North Caucasus Rural Credit Cooperation and Agribusiness Development Program (NC-RCC&AD). Support this program with a study and report to determine if, in fact, credit scarcity in the region can be overcome by support for this program.

When considering any of the foregoing recommendations, consideration should always be given to collaborating with other donor agencies such as the UNDP and/or the WFP. Our team was of the distinct impression after meetings with other donors in Moscow that collaboration with other donors was both desirable and possible. USAID should also take into consideration the difficulties and complexities of operating in the region including travel restrictions and security concerns.

1.0 STRUCTURE OF THIS REPORT

It is intended that this report be a rapid assessment that will accurately describe the state of the agricultural economy in selected North Caucasus political units, identify the constraints to expanding the agricultural economy in the region, and propose several alternatives for programs that might mitigate the constraints to that expansion, thus creating more employment opportunities, especially for young people in the region.

The report is structured to directly address the points outlined in the USAID Agricultural Assessment in the North Caucasus, Russian Federation Scope of Work. The scope of work is located in Annex A. The sections of the report include:

Methodology

Analysis

- Structure of the Sector – National and Regional Analysis
- Structure of the Sector – Existing Viable Agricultural Production
- Constraints – Product Processing and Development
- Constraints – Available Markets
- Constraints – Transportation Issues
- Constraints – Legal and Regulatory Issues
- Constraints – Education and Extension Resources
- Constraints – Potential for Conflict Mitigation

Recommendations

A snapshot of the agricultural sector of each of the North Caucasus republics covered in this assessment is located in Annex C.

2.0 METHODOLOGY

A rapid appraisal approach was used to conduct this assessment, given the need to be expedient and efficient in completing the assignment within a limited timeframe. Both primary and secondary sources of information were used. The primary sources of information were key informants from each of the seven North Caucasus republics. The key informants included farmers and producers, processors, merchants and traders, government officials, and agricultural experts. Primary information was also collected from donor groups operating in the North Caucasus; these organizations include the WFP, the World Bank, the United Nations Development Program (UNFP), and the Southern Russia Investment and Development Agency. These discussions took place in Moscow at the headquarters of the organizations.

The secondary information sources included agricultural statistics from published literature, including reports, papers, and articles on the North Caucasus agricultural sector. This information was collected through literature review and synthesis of secondary data.

Semi-structured interview guides were used to collect the data from the key informants. The questions included in the guide were designed to solicit information relevant to each of the key goals and objectives outlined by USAID. To ensure context and content validity of the questions, a draft of the instrument was reviewed by Russian agricultural experts, especially those familiar with the cultural and regional context of the North Caucasus. Their recommendations were incorporated into the final instruments that were used in the assessment. The instrument was translated into Russian and then checked to ensure appropriate translations of concepts and terminologies.

The interviewers were selected from each of the republics in which the assessment was conducted. They were selected based on their past experience conducting agricultural data collection, their familiarity with agriculture and agribusiness, and knowledge of their republic. They participated in an interviewer training that was held in the Caucasus. The training focused on reviewing the goals and objectives of the assessment, a process for locating key informants, and data quality assurance. The data collection was supervised by a field coordinator familiar with the North Caucasus.

Discussions with donor organizations were conducted by members of the evaluation team and involved group discussion with key staff of each organization.

3.0 ANALYSIS

This report will use the terms “household farms” and “private farms.” In the Russian context, “household farms” mean just that: a family may have .5 ha or 2 ha, grow some vegetables and seed fruits, perhaps have a small area in orchards for stone fruits, and maybe a few cows, chickens, geese, and/or sheep. Most of the production is for home consumption, with a residual for sale in the neighborhood or local farmers market. A “private farm” is usually something larger and may use farm machinery such as a tractor and harvester for grains. The labor is usually supplied by the owner’s family or part-time seasonal help during harvest time. Each of the targeted political units has similar patterns of farming, and usually includes a few of what might be called commercial farms. The commercial farms are typically those legacies of sovkhoz or kolkhoz that existed during Soviet times, and whose farm directors have either appropriated (with the assistance of local administrations), or have leased from land share owners (the former collective members), and have enough arable area and farm machinery to make an effort at commercial farming. Chechnya and Ingushetia remain the exceptions to this pattern: much idle land remains so due to land mines, plus the population displacements. Throughout the region, idle arable land is wasting due to ownership issues.

Land tenure is a complicating feature of each political unit. Reportedly, the time and expense of registering land precludes many would be land owners from doing so. This uncertainty of property rights precludes any significant investment in the land (i.e., irrigation systems are not in place; orchards are not planted or grafted with improved varieties, etc.). The issue of land ownership, registration, and property rights is a common problem throughout the former Soviet Union. It is not so much an issue of ownership as it is the nature of tenure: if you have a five-year lease of land, you may grow field crops or grain, but you wouldn’t plant an orchard. Alternatively, if you have a 50-year lease, your outlook will be long-term. That is, a long-term lease is effective ownership for the purpose of a farmer’s contemplating alternative uses of his energies and investment capital.

The USAID Russia scope of work indicated a particular interest in inter-regional trade and its potential for improving agricultural performance in the region. It has been said that improving inter-regional trade would tend to reduce potential hostilities in the region. However, the assessment team concluded that inter-regional trade is currently not of significant importance given that each of the region’s units produces more or less the same fruit, vegetable, meat, and dairy products, and markets generally do not exist to any meaningful extent between any two units. One exception may be the grain (mostly wheat) that is bought in the region (mostly southern Stavrapol) and sent to the export elevators on the Black Sea at Novorossisk in Krasnodar krai. There are also other examples of products that are produced and marketed throughout the region and the rest of Russia. A sampling of these products includes Dagestan’s wine production, North Ossetia’s spirits and vodka production, Karachayevo-Cherkessia’s processed meat products, and Kabardino-Balkaria’s canned fruits and vegetables.

Extremely high unemployment of young people is a legacy of the disruptions in the post-Soviet era. This is due to two major factors: the cessation of manufacturing upon the demise of the Soviet state, and the breakup of sovkhoz and kolkhoz as economic and social entities.

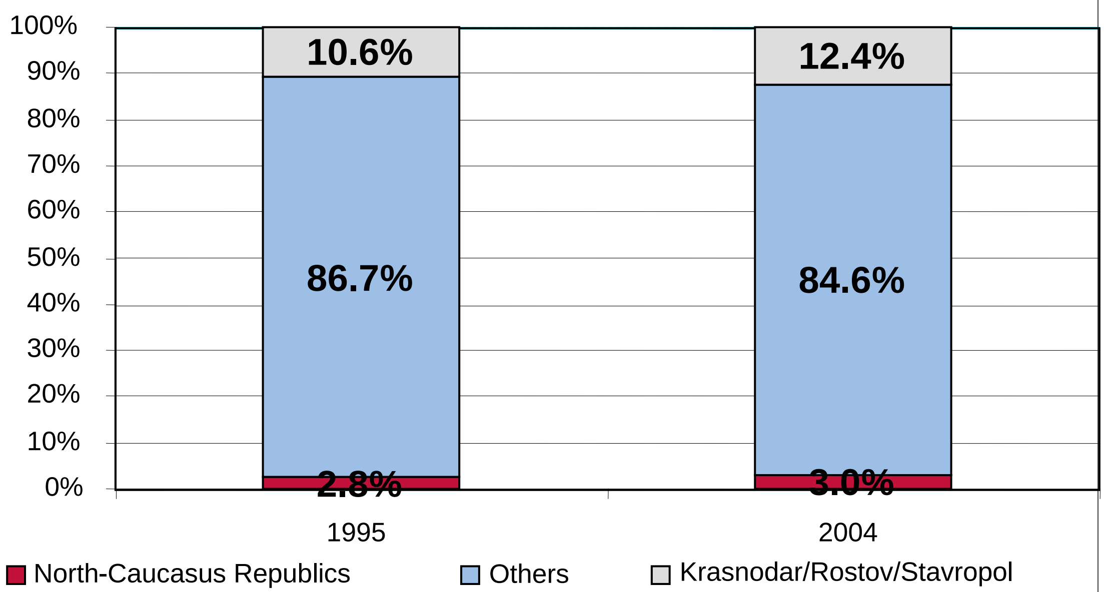
This is an overview of the North Caucasus region’s agricultural economy. The farm family might fairly be described as subsistence or subsistence-plus. Food processors operate at a fraction of plant capacity. The agricultural economy could probably be more productive at all levels were it not for certain endemic structural problems that are beyond the scope of any donor agency’s ability to mitigate. But there are interventions that can have a positive impact on some of these problems. These interventions are cited in the recommendations of this report.

3.1 STRUCTURE OF THE SECTOR – NATIONAL AND REGIONAL ANALYSIS

How is the agricultural sector structured in the North Caucasus? How important is it to the National Russian economy? What has been the rate of growth in the region during the last five years as compared with the rest of Russia? How does agricultural production in the North Caucasus contribute to GDP? What percentage of employment is in the agricultural sector?

The North Caucasus region has historically been relatively underdeveloped and has never played a significant role in the Russian agricultural and agribusiness sector, although it does possess a relatively large labor force. The North Caucasus region only accounts for approximately 4.3 percent of Russia's overall agricultural production. This suggests that the region is predominately agriculturally dependent on other regions of Russia and that most of the agricultural production is marketed and consumed within each of the respective oblasts or republics. This is in sharp contrast to neighboring Krasnodar, Rostov, and Stavropol, which together account for approximately 11–12 percent of Russia's total gross agricultural output. While the region only accounts for 4.3 percent of agricultural production, it possesses 5.3 percent (10.3 million hectares) of agricultural land and the region accounts for 9.7 percent of Russia's total population living in rural areas. The following graph depicts this disparity and the low level of agricultural output contributed by the North Caucasus region.

FIGURE 3.1 NORTH CAUCASUS SHARE OF RUSSIA'S TOTAL AGRICULTURAL OUTPUT



Source: ROSSTAT

While the North Caucasus republics have been beset by a myriad of political, social, and economic problems, agricultural production is on the rebound and many of the republics have started to attain levels that are equal to or greater than 1995 agricultural production levels including Ossetia, Kabardino-Balkaria, and Dagestan. Dagestan and Karachayevo-Cherkessia are close to attaining 1995 levels. In addition, all of the North Caucasus republics have achieved steady growth in agricultural production over the last five years. This is illustrated in the production increases for the region presented in the table below.

TABLE 3.1 GROSS FARM OUTPUT IN 1995 PRICES					
	2000	**2001**	**2002**	**2003**	**2004**
North Caucasus republics	7460.3	8393.8	8840.7	9063.8	9905.5
Annual percent increase (from previous year)		12.51%	5.32%	2.65%	9.28%

Source: ROSSTAT

While agriculture as compared to the rest of Russia does not seem significant, it is in fact a very significant contributor to the overall economy and economic well-being of the North Caucasus region. It is also an important source of income for both those commercially engaged in agriculture and other members of society that cultivate "household plots" for personal consumption and supplemental income. Additional statistical data on the North Caucasus agricultural sector is located in Annex B.

3.2 STRUCTURE OF THE SECTOR – EXISTING VIABLE AGRICULTURAL PRODUCTION

What do farming communities currently grow, either for home consumption or for sale in the local markets? What do large-scale agricultural producers grow in the region? Are these products for export from the region? What agricultural processors currently exist in the region and how large is the producer network supplying these processors? What options exist for access to the producer-to-processor network?

The collapse of the Soviet Union and market reforms in Russia were accompanied with a dramatic contraction and disappearance of large-scale agriculture in the region. This is highlighted from an analysis of both labor and output statistics. The total number of collective agricultural workers in the region decreased from 253,000 in 1995 to 114,000 in 2004. This is a decrease of approximately 55 percent. The rest of the Southern Region of Russia decreased from 891,000 to 548,000, a decrease of approximately 38 percent. The majority of agricultural production has shifted from large-scale farms to small-scale household plots and private farms. The share of small-scale plots currently varies from 60 percent in Adygea to 90 percent in Ingushetia. This compares with just 39 percent in Krasnodar and an average of 56 percent for all of Russia.[3] The disappearance of large scale commercial agriculture has not been accompanied with the rapid development of the private farming sector, resulting in most of the production concentrated at small, inefficient household plots and private farms. This concentration has also made it difficult to gauge the true agricultural production of the region as many of these small scale producers do not report their agricultural production and utilize the majority of their output for personal consumption.

The North Caucasus agricultural sector can be divided into two parts, mountains and plains. The plains have historically been cultivated by mostly Slavs. These were typically large scale commercial farming operations. The collapse of these enterprises was accelerated by many factors including the conflict in the region, the migration of Slavs from the region, political tensions, and lack of government support. This has resulted in a conversion towards more family or local market production by local ethnic groups with less large scale farming experience.

While there are variations in the structure of the agricultural sector in each of the oblasts and republics of the North Caucasus, there are some general commonalities. The region is primarily engaged in producing horticultural crops, livestock and dairy products, and cereals. Household and private farmers

[3] Statistics from ROSSTAT.

predominately produce horticulture and livestock products. Horticulture is comprised of potatoes, fruits, berries, and vegetables. Livestock and dairy consists of meat, milk, poultry, etc. Small-scale producers estimate that between 50 and 90 percent of production is for personal consumption, distribution to relatives, and additional income. Products that are sold commercially are almost exclusively marketed to local traders and processors.

Large-scale agriculture has dramatically deteriorated throughout the region over the last 10–15 years. However, there are still some large scale producers. These producers are predominately engaged in commercial agricultural production of cereals (wheat, barley, corn, oats, buckwheat, millet, etc.), oilseeds (soybeans and sunflower), potatoes, horticultural, and livestock/dairy products (cattle, sheep, poultry, horse, yak, etc.). The majority of the large-scale producers market their products to local processors, traders, and through local markets.

Each of the republics has a handful of agribusiness and food processors serving the local market. Most of these processing facilities are operating significantly below their full capacity and lack access to a consistent supply of high quality inputs and raw materials. While there may be opportunities to strengthen the producer-to-processor networks, this has proven challenging in other parts of Russia. There is also growing competition within Russia from well organized large-scale food processors that are producing a whole range of high quality, consistent, and well packaged products marketed throughout the Russian Federation.

A detailed description of the structure of the agricultural sectors in Chechnya, Dagestan, North Ossetia, Kabardino-Balkaria, Ingushetia, and Karachayevo-Cherkessia is found in Annex C.

3.3 CONSTRAINTS – PRODUCT PROCESSING AND DEVELOPMENT

What existing agricultural processing needs are currently unmet? What imports from other parts of Russia could be processed in the North Caucasus region? What kind of agricultural products were previously exported from the region? Is the infrastructure still in place to reestablish production?

There are still functioning food processing operations throughout the North Caucasus (e.g., canneries for fruits and vegetables). Most, however, are only operating at a fraction of built capacity. In the Soviet times, and even shortly thereafter, the sovkholz and kolkhoz still functioned and could provide a relatively consistent supply and quality of raw material inputs (fruits and vegetables) to keep a plant busy. The disruptions of these farms have removed this steady source of inputs. The processors' biggest challenge is accessing a consistent supply of quality inputs and transporting those products to market. They also face stiffening competition from larger more sophisticated domestic and international food processing operations based in Krasnodar and Rostov. There are several successful corporate food processing operations neighboring the region including Cargill, Nestle, Bonduelle, Wimm Bill Dann in Krasnodar; and Glencore and Bunge in Rostov.

The North Caucasus region has focused primarily on the processing and manufacturing of essential food items for local consumption (e.g., bread) and has limited capacity in meat slaughter and processing, milk processing, vegetable oil production, and other key food products. However, there are examples where the region has opportunities.

- Kabardino-Balkaria is ranked relatively high in many food industries including fruits and vegetable canning, flour and flour-based confectionary, pasta, and mineral water. Kabardino-Balkaria produces 3.2 percent of Russia's canned fruits and vegetables and is a leader in canned pickles production.

- Dagestan possesses well known and regarded brandy (konyak) plants, which successfully compete with Moldavian and Armenian brandies. Dagestan is also a leader in bread production and the third largest in the Southern Administrative District after Krasnodar and Rostov.
- Kabardino-Balkaria and Karachayevo-Cherkessia each have noticeable milling capabilities with one mid-size plant in each republic. However, each of the mills is relying on milling wheat that they import from other regions.
- Kabardino-Balkaria and Karachayevo-Cherkessia also hold a significant share of the mineral water market. Together they provide 40 percent to the Southern Administrative District and hold a 15 percent market share the overall Russian production of bottled mineral water.
- Karachayevo-Cherkessia has a large meat processing plant, which accounts for 41 percent of the Southern Administrative District's canned meat production.
- North Ossetia has aggressively entered the grain spirits and vodka market. Through the regional government's tax incentives, many medium and large plants have been established. North Ossetia annually produces 7 million deciliters of vodka and other spirits. This is 37 percent of the Southern Administrative Districts total output and three and a half times more than produced by Krasnodar. North Ossetia has also begun to produce a good quality champagne product. Most of the other republics are also engaged in spirits production.

Given this situation, it may be prudent for USAID to focus on 1.) areas of comparative advantage for each republic as outlined above, and 2.) the local processing of dairy and meat products as well as bakeries. USAID Russia has had success in working with SME meat and dairy processors in upgrading their operations, adopting new techniques, and producing a variety of value-added products. USAID Russia has also been successful in working with bakeries throughout the Russian Federation to produce "more than just bread" and to offer a range of new value added products for the local market. Linkages between SME agribusiness processors and small-scale producers may be promising. ACDI/VOCA, through the USAID Russia funded North Caucasus Rural Credit Cooperation and Agribusiness Development Program (NC-RCC&AD), is currently providing support to small scale processors in the region.

3.4 CONSTRAINTS – AVAILABLE MARKETS

What markets for fresh agricultural produce currently exist, both inside the region and outside for region-produced items? What barriers exist for further market creation or expansion? What markets for processed agricultural goods exist?

There exist markets throughout the Russian Federation and the Commonwealth of Independent States (CIS) for anything the North Caucasus region might produce. However, as mentioned elsewhere in this report, the rest of Russia has modernized, and produces import-substitution quality and packaged goods that can compete with any world class products. The North Caucasus region has fallen too far behind the state of the art product quality and packaging, that it will be at a continuing disadvantage vis-à-vis the more modernized sectors of Russian agriculture. Therefore, private farmers, large-scale producers, and food processors have continued to focus locally, selling their goods through local markets, to traders, and processors. These limited markets constrain competition for producer and processor products resulting in depressed prices. The high unemployment in the region also contributes to this constraint as residents are unable to afford the fruits, vegetables, and food produced locally. These factors have contributed to households and private farmers to retain the vast majority of their harvest, milk, and meat products for personal consumption and for distribution to relatives rather than producing for sale within the local market. This further limits the products available locally and makes it difficult to assess the true contribution that local agricultural production has on the overall economy.

The combination of the deterioration of large-scale collective agriculture with delay in land reform has led to a deepening specialization of household plots and private farmers to concentrate on the cultivation of a narrow group of crops and livestock products.[4] While large scale farms (predominately located in the plains) used to produce a wide range of crops, the smaller producers now cultivating those lands currently concentrate on only two or three crops. The same is true for livestock production. Large scale farms traditionally maintained diverse multi-type animal operations and today the smaller scale producers only maintain a small group of animals. This has had both positive and negative impacts. In Dagestan, many family farms are engaged in poultry production with hundreds or even thousands of live birds sold in the local market. While this is an interesting working model, the birds have been susceptible to disease, namely bird flu. Dagestan was one of the hardest hit regions of Russia and many experts have attributed this to the large number of small farms that are currently engaged in poultry production that are not applying appropriate practices. In Kabardino-Balkaria, narrow specialization has resulted in overproduction of certain crops. For example, this past summer there was an overproduction of cucumbers that depressed prices and dramatically affected the market.[5]

While there are some negative consequences of crop specialization, there are some instances where it has made sense to specialize; this is particularly true in regards to the fresh fruit and vegetable market. Dagestan is ranked number two after Krasnodar in Russia for grape production. Dagestan produces 28 percent of Russia's grapes, mostly for wine production.[6] Dagestan and Kabardino-Balkaria supply 14 percent and 5 percent respectively of the Southern Administrative District's total stone fruit production, while Kabardino-Balkaria supplies approximately 17 percent of seed fruits. Dagestan is the leading Russian supplier of fresh cabbage (more than half of the total Southern Administrative District production) and supplies more than a quarter of the Southern Administrative District's fresh tomatoes. Kalmykia is also a noticeable supplier of fresh seasonal tomatoes and Kabardino-Balkaria is a leader in the production of cucumbers.[7]

USAID's comparative advantage versus humanitarian and relief organizations is in supporting the commercial production of agricultural, agribusinesses, and agro- and food processors. USAID's focus should be oriented to programs that support private farmers that produce and market commercially and begin the transition from self-sufficiency farming to farming based on market analysis and available markets.

3.5 CONSTRAINTS – TRANSPORTATION ISSUES

How do current small- and medium-sized producers get their products to local or regional markets? National and international markets? What processing centers currently exist and is their transportation infrastructure able to absorb increased production and movement? How do current processors transport their goods? What constraints do they face for further expansion?

Private farmers, large-scale producers, and processors all indicated that they predominately use their own vehicles to transport their products. There is limited inter-regional trade, but those that were surveyed highlighted the serious problem of corruption and bribes associated with transporting products to other

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4 Uzdenov Sh. et al, The Role of Household Farming in Relation of National Priority Project in the Field of Agriculture, Zootechnia, N6, 2006.

5 Komsomolskaya Pravda newspaper, July 26, 2006.

6 ROSSTAT

7 ROSSTAT

republics. Another serious constraint is the lack of access to functioning vehicles and refrigerated transport as well as the increasingly high cost of fuel. These constraints force the household plots, private farmers, and small and medium-sized producers to market their products locally, usually through local traders and processors. This generally limits the marketing channels available to the smaller producers and results in lower farm gate prices.

The assessment team does not believe that USAID is in a position to impact the issue of corruption and bribes paid to the road police (state motor vehicle inspection service). This is unfortunately a problem throughout Russia and one that requires a national campaign and effort on the part of the national government. However, USAID Russia could have an impact with the small producers through the organization and support of consumer cooperatives and increased access to new markets. Production and marketing cooperatives would enable small-scale producers to market jointly their products and to arrange transport as a group. This could reduce transportation costs and provide cooperative members with increased leverage on local traders.

USAID Russia could also investigate creative and innovative solutions to financing the purchase of new vehicles and improved access to refrigerated transport. This would be targeted to larger food processors and SME agribusinesses.

3.6 CONSTRAINTS – LEGAL AND REGULATORY ISSUES

What administrative and legal barriers exist prohibiting increased agricultural production and processing? At what level do these barriers exist? What are the main issues of land tenure that prevent land owners to substantially invest in the property or production? Can the success of current, viable producers be generalized for others in the region?

There are a myriad of national and regional legal and regulatory issues that constrain producer and processor operations. Many of these issues are addressed in other sections of this report and include unclear land ownership and property rights; cumbersome land registration procedures; extensive federal and regional taxes and duties; cumbersome business registration; and product certification procedures to name just a few. Many respondents indicated that they are waiting to see what results, if any, will come from the new federal law "On Agricultural Development." There are also a range of special agricultural support programs that have been initiated at the oblast and republic level.

Reportedly, many of the inter-ethnic conflicts and tensions in the North Caucasus and neighboring areas have traditionally been rooted in the limited availability of productive land and the competition to control limited resources. Land privatization in the region has been slow in seven of the regional republics including Adygea, Dagestan, Ingushetia, Kabardino-Balkaria, North Ossetia, Chechnya, and Bashkhorstan. Land privatization was not initiated in these republics until 2003.[8] To further illustrate this point; in Dagestan household plots are currently cultivated on state-owned land. In addition in Dagestan, collective farms possess 71 percent of the land while only contributing 11 percent of total agricultural output.

> In 2004, Kabardino-Balkaria's Regional Parliament proclaimed agricultural land as state-owned while land privatization was postponed for 49 years. According to local farmers, the land lease rates were established at exceedingly high terms and thousands of hectares of fertile land is currently underutilized as a result.

A serious problem still exists in Chechnya and Ingushetia where land mines are still present on some of the

8 Shagayda N. Institutional limitations on land turnover as barriers for land redistribution among different groups of agricultural producers. VIAPI, 2005.

agricultural land, prohibiting the cultivation of this land.

Land tenure is a complicating feature of each political unit. Reportedly, the time and expense of registering land precludes many would be land owners from doing so. This uncertainty of property rights precludes any significant investment in the land (i.e., irrigation systems are not in place; orchards are not planted or grafted with improved varieties, etc.). The issue of land ownership, registration, and property rights is a common problem throughout the former Soviet Union. It is not so much an issue of ownership as it is the nature of tenure: if you have a five-year lease of land, you may grow field crops or grain, but you wouldn't plant an orchard. Alternatively, if you have a 50-year lease, your outlook will be long-term. That is, a long-term lease is effective ownership for the purpose of a farmer's contemplating alternative uses of his energies and investment capital.

While the assessment team does not believe that USAID has a comparative advantage nor the resources to address many of these systemic legal and regulatory issues, the assessment team does believe that USAID should continue to address these constraints in collaboration with other donors and the working groups established to coordinate donor assistance to the North Caucasus.

The land issues may be best addressed at the Southern Federal Okrug level, which is a subdivision of the country based on the President's system of governance. Russia is subdivided into 7 Federal Okrugs with the Southern Federal Okrug including Adygea, Dagestan, Ingushetia, Kabardino-Balkaria, Kalmykia, Karachayevo-Cherkessia, North Ossetia, Chechnya, Krasnodar krai, Stavropol krai, Astrakhan, Volgograd, and Rostov.

3.7 CONSTRAINTS – EDUCATION AND EXTENSION RESOURCES

What skill gaps currently exist in agricultural education with regional education centers? What educational exchange programs currently exist? Does an agricultural-exchange alumnus currently exist in the region? If so, where and when did this exchange program take place?

There are many constraints that are impacting the training and education of the next generation of agriculturists in the Russian North Caucasus. The biggest is simply a disinterest by youth in working in the agricultural sector. Those young people that are pursuing an agricultural education are now deciding to pursue employment in other parts of Russia. Thus, with the exodus of the new skilled professionals who might lead the agricultural sector, something must be done to make it more attractive for them to stay.

The Stavropol Agrarian Institute is a leading educational institute in the region and currently has an exchange program with the University of Maryland. There are also several other institutes in Kabardino-Balkaria that USAID could consider supporting including Kabardino-Balkaria Research Institute of Agriculture, North Caucasus Research Institute of Mountain and Hill Horticulture; and Kabardino-Balkaria State Agricultural Academy. This does not mean that others do not exist. The assessment team would recommend that a more in-depth analysis be conducted on the quality of the education, the courses offered, and the ability of these institutes to support graduates in identifying employment. There do appear to be opportunities to encourage graduates through internships and other programs to seek employment with agricultural producers and processors in the region.

With the exception of Stavropol krai, North Ossetia, and Kabardino-Balkaria, a useful extension service does not exist. We believe that further investigation of this liability would be useful. See recommendations in this regard. Vocational/technical training facilities are lacking throughout the region. We suggest in the recommendations that various methods of addressing this issue may be available, or be made available. Certainly, a trained youth who emigrates from the region because he/she has a skill that is valuable elsewhere, is still a plus, even though that talent may exit the region. Large scale producers and processors reportedly do have access to technical advisory services.

There have been several exchange programs implemented by USAID and the USG that have brought Russian agribusiness and agricultural specialists to the United States on study tours. A sampling includes the Cochran Fellowship Program (USDA), the SABIT program (Commerce), the Russian Leadership Program (Library of Congress), and the Center for Citizens' Initiative Productivity Enhancement Project (PEP). While the assessment team is aware that many of these programs have considered establishing alumnus networks in Russia, we were unable to determine if an exchange alumnus network exists in the North Caucasus. While US study tours have proven to be effective in demonstrating new technologies, techniques and innovations to Russian counterparts, the assessment team believes that in-country study tours would be more effective and lower cost.

3.8 CONSTRAINTS – POTENTIAL FOR CONFLICT MITIGATION

Does the growth of small-scale agricultural production and processing have the potential to mitigate conflict in the region by increasing food security for the neediest individuals? Is this a viable job market for youth in the region? Is corruption too great to allow access to this market? How can youth be integrated into the agricultural economy? What potential exists for cross-border trade within the North Caucasus' regions to help foster trust and to build a working relationship? Do current local and regional governments support expanded production with incentives and technical assistance?

The larger agricultural producers and processors indicated that there are employment opportunities for youth should they obtain the necessary skill and have a willingness to work in the agricultural field in the North Caucasus. The challenge is that many of these larger producers and processors are experiencing a myriad of structural problems that have left them virtually bankrupt or significantly underutilizing their capacity. While the assessment team is skeptical that an improvement in the agricultural production sector alone can improve employment for youths in the region, there are opportunities to train youths who are willing to work within the agricultural sector. While there are some opportunities with larger producers and processors, this is not the case with small-scale producers. Private and household farms simply increase the labor input of family member if production increases and typically do not hire additional employees.

One potential opportunity discussed with USAID Russia to target youth is the potential for establishing a program, modeled on the US 4-H program, targeted to young people. In the United States, 4-H is part of the Cooperative Extension Program and operated by each state's land grant university. It is the largest out-of-school program in the United States.

We also distinguish between humanitarian assistance and programs that focus more on economic growth and job creation. Many humanitarian assistance agencies and nongovernmental organizations (NGOs) presently do good work in the region delivering humanitarian assistance to internally displaced persons (IDPs) and other affected persons in the region. USAID's efforts can compliment this assistance by learning from their experience and collaborating with these programs. However, it is our determination that USAID Russia is better suited to address income generation and employment issues through more formal segments of the economy including private farmers, cooperatives, large-scale producers, SMEs, and larger agro-processors.

The ability for cross-border trade within the North Caucasus to "foster trust and build a working relationship" is unlikely. However, USAID could play a role in fostering greater cooperation, collaboration, and the exchange of ideas by linking North Caucasus agricultural entrepreneurs, managers, and technical experts with similar professionals and successful enterprises located in other parts of

Russia. These linkages have the potential to foster strong relationships and begin the process of breaking down the negative stereotypes and perceptions that many in Russia have in regards to the North Caucasus region.

The on-going World Food Program assessment is addressing the issues of food insecurity for the neediest individuals. At the time of writing this report, the assessment team had not received the final WFP report. However, members of the assessment team did meet with the WFP representatives, and we agreed to exchange information. Given the on-going WFP assessment, we decided—in conjunction with USAID Russia—to defer to the WFP in regards to issues of food insecurity and the potential that future activities targeted to the neediest individuals can have on mitigating conflict in the region. The assessment team encourages USAID Russia to explore collaboration with the WFP.

4.0 RECOMMENDATIONS

There are a myriad of typical Russian agricultural sector problems present in the North Caucasus as well as additional constraints that have arisen as a result of the conflict experienced by the region over the last ten years. Most of these constraints have been outlined in the assessment report. The assessment team has followed USAID's guidance to provide practical recommendations on potential activities that USAID Russia could implement to alleviate these constraints, while recognizing that USAID has modest and/or limited funding for these activities.

When reviewing the constraints and the opportunities it has become clear to the assessment team that in order to design a new agricultural activity in the region, USAID Russia will need to determine whether it wants to emphasize sector reform and growth, income generation, or employment. This decision will have implications for any new program designed and will also impact the resources that would be required for a new activity.

Sector reform and growth will be the hardest objective to achieve in a short period of time with limited funding. It would require the selection of the appropriate sub-sectors and value chains and additional analysis on those value chains to identify the gaps, constraints, and opportunities present in each. The assessment team members have had experience with these types of programs and are doubtful that there would be sufficient buy-in and capacity of the regional stakeholders to implement the activities traditionally employed in these types of programs. Sub-sectors or value chains that could be considered include livestock/dairy, horticulture and grains.

The issue of income generation vs. employment is an interesting one for the mission to consider. While programs could be designed to achieve both income generation and employment, the findings of the assessment underscore that the targeted beneficiaries to achieve each objective would likely be different. Income generation activities are more suitable for small-scale producers and processors including individuals cultivating household plots, private farmers, bakeries, and small-scale dairy and meat processors. The individuals cultivating household plots and private farmers consistently responded to our questionnaire that they do not have any need to hire additional labor and simply rely on their family and relatives to work the farm. If they do hire additional labor it is seasonal work and very low paying. Therefore, activities targeted to this segment of the market should involve the commercialization of these farming and processing operations with an effort to move from personal consumption to income generation. Many of the humanitarian relief organizations operating in the region have been implementing income generation activities targeted to IDPs and other affected individuals. It is our belief that USAID's comparative advantage is in targeting the more formal farming and processing operations by designing activities to support private farmers and SME agro-processors.

The larger agricultural producers and processors indicated a need for a better trained and skilled labor force to meet their increasing demands. Activities targeted to these enterprises, if successful, could result in increased labor opportunities provided the labor force has the skills that are demanded. However, it should be noted that a job in Russia does not automatically equate to income. Many bankrupt and restructuring agricultural enterprises, which define many of the larger producers and processors in the North Caucasus, are unable to pay their staff on time and in some instances miss salary payments completely. Also, as processors increase efficiency it may result in the need for fewer employees. It is incumbent upon USAID that should it undertake to work with the larger enterprises that monitoring be done to ensure that the jobs created result in wages being earned and paid.

Given this backdrop the assessment team used the following criteria as a guide when reviewing the constraints to identify potential solutions:

- The proposed activity needs to directly address one or more of the constraints identified in the assessment.
- The proposed activity needs to either address the potential for increased jobs or increased income.
- Only activities that would require modest or limited funding are proposed.
- Activities that emphasize training and potential employment of youth were given preference.
- Activities that involve Russian organizations as implementers and can take advantage of Russian talent and successes in Russian agriculture were preferred.

Based on these criteria, the following recommendations were selected as potential activities for USAID Russia's consideration.

1. **Constraint**: Lack of access by larger producers and processors to skilled labor that are well-trained, educated, and willing to remain and work in the region. The region as a whole is experiencing high under-employment and under-educated/trained young people. There is a high migration rate for youth leaving the region and those that have received a good education are declining to remain in the region to work. The agricultural sector is also viewed as an unattractive career to youth. The youth that do remain in the region and that are not working are a drain on state resources and are at risk.

   Solution: Develop, in conjunction with local/regional educational institutes, vocational technical (votech) training programs that will make youths more employable within the agricultural sector. Identify local or regional educational institutes that could have the capacity for delivering training in skills that would have been identified by potential employers (food processors, flour mills, medium and larger farms). Though it is desirable to have such graduates obtain work locally, their becoming employable generally is a desirable outcome. Even as they leave the region and obtain gainful employment elsewhere in Russia, that will be a desirable outcome. Often these "domestic Diaspora" account for significant remittances to their families who remain in the region.

2. **Constraint:** Lack of employment opportunities for recent graduates of training programs.

   Solution: Establish an internship program at participating agro-processing companies, or the larger farms, which would pay the employer a certain amount to subsidize the employment of a training program graduate for a limited period of time (e.g., six months, one year). This would require sufficient monitoring to ensure that the interns would not just be "slave labor" but are given an opportunity to apply the skills they have learned into practice. Ideally, this monitoring of employers utilizing interns would be accomplished by NGOs that operate in the same regions.

3. **Constraint**: Lack of exposure to new ways of doing things. Technological obsolescence.

   Solution: Develop a program of study tours for regional personnel (not just youth) to visit successful Russian farm and agro-processing operations. It is generally accepted now by donors that the benefit derived from targeted participants actually seeing modern technologies and processes at work has a far greater impact than simply classroom lessons. Restricting the training to Russia or at least to successful CIS operations can make such a program very cost effective and also mitigate the traditional comments heard from returning study tour participants, "Well what I saw was very interesting but it is just not possible to implement those innovations and techniques in Russia." USAID Russia, through its other economic growth programs, has an extensive network of successful and sophisticated enterprises that have received USAID assistance in the past. USAID Russia should identify progressive enterprises operating in the North Caucasus that with the necessary encouragement and tools would be willing to adopt new techniques and innovations. Key staff from these enterprises would then participate on a study tour of successful Russian agribusiness and farming operations in other regions of Russia.

There is also an ancillary benefit to this concept. The rest of Russia generally has a negative perception of the North Caucasus region. There were even many institutes and consultants that QED considered for the assessment team that declined to participate due to the political nature of working in the region as well as their negative views on the region and security concerns. Linkages between North Caucasus-based entrepreneurs, managers, and technical experts with Russian professionals in other parts of the country may serve to start breaking down some of these stereotypes and build strong relationships.

4. **Constraint**: Lack of technology transfer to small- and medium-sized farms in the region.

   Solution: Create a pilot program with one or more forward looking political units (oblasts or republics) to establish a meaningful agricultural extension service. Some preliminary work would be needed to determine what, exactly, was needed by local farmers and the best mechanisms to deliver those services. One caveat to this concept is that in all of our solutions we recommend a reliance on Russian specialists when possible. Russia has a wealth of highly educated and skilled experts and professionals and efforts should be made to utilize Russian NGOs, institutes, extension services, business centers, and consultants as much as possible. One approach may be to encourage the business service providers that were participants in USAID Russia's Integrated Business Services and Entrepreneurial Business Services programs to expand their operations and services to the region. While extension services would focus on improved agricultural and farming practices, the business service providers are adept at improving business operations and offering technical assistance and training on business management, business planning, marketing, and other critical business skills.

5. **Constraint:** Lack of access to "affordable" credit.

   Solution: Increasing USAID support for the ACDI/VOCA-managed North Caucasus Rural Credit Cooperation and Agribusiness Development Program (NC-RCC&AD). Commission a study to determine if, in fact, credit availability (both short-term and medium-term) is a constraint, and to determine which, of several options, might be effectively pursued by the mission. USAID Russia has pursued over the past several years the utilization of the Development Credit Authority's (DCA's) ability to issue partial guarantees to induce equipment manufacturers (e.g., John Deere, Caterpillar, Agrico) to extend medium-term credit for equipment purchases and leases. Some of these discussions are still underway, and some of these schemes have been utilized in other host countries. While the ACDI/VOCA activity is effective at supporting credit cooperatives and increasing access to credit by private farmers, the DCA program could be utilized to address the inherent need to upgrade technology and equipment throughout the region.

ANNEX A: SCOPE OF WORK

SOLICITATION, OFFER AND AWARD	1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15CFR350)	RATING	PAGE OF 1 6

2. CONTRACT NO.	3. SOLICITATION NO.	4. TYPE OF SOLICITATION	5. DATE ISSUED	6. REQUISITION/PURCHASE NO.
See Page 2	118-06-0003	☐ SEALED BID (IFB) ☒ NEGOTIATED (RFP)	May 18, 2006	

7. ISSUED BY CODE	8. ADDRESS OFFER TO (*If other than Item 7*)
CONTRACTING OFFICE **USAID/RUSSIA** **PSC 77** **APO AE 09721**	**Orion Yeandel, Contracting Officer at oyeandel@usaid.gov** **Or Alexander Borzov at aborzov@usaid.gov**

NOTE: In sealed bid solicitations "offer" and "offeror" mean "bid" and "bidder"

SOLICITATION

9. Sealed offers in original and ________ copies for furnishing the supplies or services in the Schedule will be received at the place specified in Item 8, or if handcarried, in the depository located in Contracting Office, USAID/Russia until 5 PM local time June 19, 2006 (Hour) (Date)

CAUTION – LATE Submissions, Modifications and Withdrawals: See Section L, Provision No. 52.214-7 or 52.215-10 All offers are subject to all terms and conditions contained in this solicitation.

10. FOR INFORMATION CALL	A. NAME	B. TELEPHONE NO. (*Include area code*) (NO COLLECT CALLS)
	Orion Yeandel, Contracting Officer	**7(495) 728-5282**

11. TABLE OF CONTENTS

(√)	SEC.	DESCRIPTION	PAGES	(√)	SEC.	DESCRIPTION	PAGES
		PART I – THE SCHEDULE				PART II - CONTRACT CLAUSES	
	A	SOLICITATION/CONTRACT FORM			I	CONTRACT CLAUSES	
	B	SUPPLIES OR SERVICES AND PRICES/COSTS				PART III - LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.	
	C	DESCRIPTION/SPECS./WORK STATEMENT			J	LIST OF ATTACHMENTS	
	D	PACKAGING AND MARKING				PART IV - REPRESENTATIONS AND INSTRUCTIONS	
	E	INSPECTION AND ACCEPTANCE			K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	
	F	DELIVERIES OR PERFORMANCE					
	G	CONTRACT ADMINISTRATION DATA			L	INSTRS., CONDS., AND NOTICES TO OFFERORS	
	H	SPECIAL CONTRACT REQUIREMENTS			M	EVALUATION FACTORS FOR AWARD	

OFFER (*Must be fully completed by offeror*)

NOTE: Item 12 does not apply if the solicitation includes the provisions at 52.214-16 Minimum Bid Acceptance Period.

12. In compliance with the above, the undersigned agrees, if this offer is accepted within ______________ calendar days (*60 calendar days unless a different period is inserted by the offeror*) from the date for receipt of offers specified above, to furnish any or all items upon which prices are offered at the price set opposite each item, delivered at the designated point(s), within the time specified in the schedule.

13. DISCOUNT FOR PROMPT PAYMENT (See Section I, Clause No. 52.232-8)	10 CALENDAR DAYS	20 CALENDAR DAYS	30 CALENDAR DAYS	CALENDAR DAYS
	%	%	%	%

14 ACKNOWLEDGMENT OF AMENDMENTS (The offeror acknowledges receipt of amendments to the SOLICITATION for offerers and related documents numbered and dated:	AMENDMENT NO.	DATE	AMENDMENT NO.	DATE

15A. NAME AND ADDRESS OF OFFEROR	CODE	FACILITY	16. NAME AND TITLE OF PERSON AUTHORIZED TO SIGN OFFER (*Type or print*)

15B. TELEPHONE NO. (*Include areas code*)	☐ 15C. CHECK IF REMITTANCE ADDRESS IS DIFFERENT FROM ABOVE – ENTER SUCH ADDRESS IN SCHEDULE	17. SIGNATURE	18. OFFER DATE

AWARD (*To be completed by Government*)

19. ACCEPTED AS TO ITEMS NUMBERED	20. AMOUNT	21. ACCOUNTING AND APPROPRIATION

22. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION	23. SUBMIT INVOICES TO THE ADDRESS SHOWN IN (*4 copies unless otherwise specified*)	ITEM
☐ 10 U.S.C. 2304 (c) ☐ 41 U.S.C. 253 (c)		

24. ADMINISTERED BY (*If other than item 7*) CODE	25. PAYMENT WILL BE MADE BY CODE

26. NAME OF CONTRACTING OFFICER (*Type or print*)	27. UNITED STATES OF AMERICA. (*Signature of Contracting Officer*)	28. AWARD DATE

IMPORTANT – Award will be made on this Form, or on Standard Form 26, or by other authorized official written notice

NSN 7540 01 152_8064
PREVIOUS EDITION NOT USABLE

33-134

STANDARD FORM 33 (REV. 4-85)
Prescribed by GSA
FAR (48 CFR) 53.214(c)

Issuance Date: May 18, 2006
Closing Date: June 19, 2006
Closing Time: 5 p.m. Moscow Local Time

Subject: Proposed Task Order under Instability, Crisis and Recovery Programs (ICRP) IQCs

Academy for Educational Development	DFD-I-00-05-00244-00
AMEX International, Inc.	DFD-I-00-05-00245-00
ARD, Inc.	DFD-I-00-05-00248-00
Development Alternatives Inc.	DFD-I-00-05-00250-00
Management Systems International, Inc.	DFD-I-00-05-00251-00

Activity Title: Agricultural Assessment in the North Caucasus

The Agency for International development, USAID/Russia seeks expression of interest for the subject activity. Attached is a statement of work for a task order to be issued under one of the subject IQCs. Please provide this office, no later than June 19, 2006 with a technical and cost proposal for accomplishing this work. The proposal should, at minimum, contain the following:

1. The proposed time schedule for the work is July 5, 2006 trough August 25, 2006. Please provide confirmation of your firm's availability during this period.
2. Please provide a list of proposed individuals and identify each by name and by position category as set forth in the contract. The position titles for all proposed personnel must coincide with those in the basic contract.
3. Any proposed changes to the proposed statement of work.

This request for proposals does not guarantee the award of a task order.

The Government may award a task order without discussions with offerors in accordance with FAR 52.215-1.

The Government intends to evaluate task order proposals based on technical approach, personnel and past performance and make award to the responsible offeror whose proposal represents the best value to the U.S. Government.

The submitted technical information will be scored by a technical evaluation committee. When evaluating the competing offerors, the Government will consider the written information provided by the offerors, and any other information obtained by the Government through its own research.

For overall evaluation purposes, technical factors are considered more important than cost/price factors.

PLEASE NOTE: Responses are expected to be submitted via e-mail as indicated on the cover page in Block 8.

If you have any further questions, please contact the undersigned or Alexander Borzov at telephone 7(495) 728-5282, facsimile 7(495) 960-2140, and e-mail oyeandel@usaid.gov or aborzov@usaid.gov .

Sincerely,

Orion Yeandel
Contracting Officer

Assessment of Agricultural Sector
North Caucasus
Scope of Work

Summary

The North Caucasus has been an area of sporadic and limited levels of agricultural production for many years. Recent conflicts have restricted the agricultural output of the region even further due to instability, fewer safe transportation routes, reduction of processing capabilities, and steady decline in the availability of agricultural education. In order to improve the situation, numerous national and international actors are offering assistance. They are working to increase agricultural production and value-added processing in the region, thereby increasing the economic viability of the entire area. What is needed is accurate, up-to-date information about the agricultural sector, as a whole, to target key areas for improvement. The North Caucasus faces many hurdles to development. Increasing the viability and profitability of agriculture and agribusiness in the region will go a long way toward enhancing the quality of life of local residents and reducing the likelihood of continued conflict. There may also be targeted ways that agribusiness development can directly work to bridge divides between communities and directly support conflict mitigation.

Sector Appraised

USAID Russia is seeking to identify areas in which meaningful assistance might be provided with modest financial resources. For that reason, USAID would like an assessment of the agricultural and agribusiness sector of the North Caucasus. The assessment should identify opportunities and constraints that will provide options for near-term technical assistance to the sector. This will include: individual farm production capacities; areas of probable competitive advantage; available transport to local markets and implications for marketing; probable distribution outlets for different products (fresh, processed, etc.) in regional and national markets; local institutional and physical infrastructure; regulatory issues such as land tenure restrictions; agricultural product processing; possibility of utilizing or enhancing existing educational and research resources to support the sector in the longer term; and the likelihood that expanding and developing the agriculture and agribusiness sector will mitigate on-going conflict in the region.

Geographic Scope

In this assessment, the geographic area reviewed should be focused primarily on Chechnya, Ingushetia, North Ossetia, Kabardino-Balkaria, Karachayevo-Cherkessia, Dagestan and southern Stavropolskiy Kray. Access-to-market analysis will of course include other areas such as Rostovon-Don, Krasnodar, and other internal markets such as Moscow, as well as existing and potential export markets via the Black Sea.

Purpose

The purpose of this assessment is to inform USAID and its partner organizations of the most promising near-term areas for support of agricultural development and agribusiness clustering in the North Caucasus. The outcomes will help to structure an assistance package that best incorporates on-the-ground realities with other USG priorities, such as reducing existing conflict, mitigating ethnic tension, and providing humanitarian assistance. This assessment will form the foundation of USAID's development rationale for programming in the economic growth sector, with a focus agricultural production, processing and agribusiness. Also, this assessment will be made available to local, regional, and national government officials to help inform policy makers and government authorities tasked with developing business and agricultural development strategies. Finally, the assessment will consider possible opportunities to use agribusiness development as a tool for conflict mitigation.

Questions to be asked

This assessment will look at the following areas:

- *Structure of Sector - National to regional level analysis*
    - How is the agricultural sector structured in the North Caucasus? How important is it to the national Russian economy? What has been the rate of growth in the region during the last five years as compared to the rest of Russia? How does agricultural production in the NC contribute to GDP? What percentage of employment is in the agricultural sector?
- *Structure of Sector - Existing viable agricultural production*
    - What do farming communities currently grow, either for home consumption or for sale in local markets? What do large-scale agricultural producers grow in the region? Are these products for export from the region?
    - What agricultural processors currently exist in the region and how large is the producer network supplying these processors? What options exist for access to the producer-to-processor network?
- *Constraints - Product processing and development*
    - What existing agricultural processing needs are currently unmet? What imports from other parts of Russia could be processed in the NC region?
    - What kind of processed agricultural products were previously exported from the region? Is the infrastructure still in place to reestablish production?
- *Constraints - Available markets*
    - What markets for fresh agricultural produce currently exist, both inside the region and outside for region-produced items? What barriers exist for further market creation or expansion?
    - What markets for processed agricultural goods exist? What are the restrictions to accessing local markets for new producers and processors?
- *Constraints - Transportation issues*
    - How do current small and medium sized producers get their products to local or regional markets? National or international markets?
    - What processing centers currently exist and is their transportation infrastructure able to absorb increased production and movement?
    - How do current processors transport their goods? What constraints do they face for further expansion?
- *Legal and regulatory issues*
    - What administrative and legal barriers exist prohibiting increased agricultural production and processing? At what level do these barriers exist?
    - What are the main issues of land tenure that prevent land owners to substantially invest in their property or production? Can the success of current, viable producers be generalized for others the region?
- *Educational and extension resources*
    - What skill gaps currently exist in agricultural education within regional education centers?
    - What educational exchange programs currently exist?
    - Does an agricultural-exchange alumnus currently exist in the region? If so, where and when did this exchange program take place?
- *Potential for Conflict Mitigation*

- o Does the growth of small-scale agricultural production and processing have the potential to mitigate conflict in the region by increasing food security for the neediest individuals? Is this a viable job market for youth in the region? Is corruption too great to allow access into this market? How can youth be integrated into the agricultural economy?
- o What potential exists for cross-border trade within the North Caucasus' regions to help foster trust and to build a working relationship? Do current local and regional governments support expanded production with incentives and technical assistance?

Methodology

A critical assumption by USAID is that much of the pertinent information for this assessment currently exists in widely varying qualities and locations. Therefore, to accomplish this assessment, the team will use a variety of methods including reviewing the large amount of available literature in Russian, interviewing national and regional-level agricultural experts, conducting key, on-site informant interviews in the selected North Caucasus republics, and conducting selected community interviews with producers, processors and marketers. This is not to be an academic assessment of the agricultural sector in the North Caucasus. Instead, this is a practical assessment of agricultural production processing and constraints on its expansion. USAID is looking for key, unmet needs in the agricultural sector that could benefit from USG funding and technical assistance, and ways that targeted assistance in this area can promote conflict mitigation.

Contacts for Existing Information

- World Bank
- United Nations Development Program
- ACDVVOCA
- Stavropol Agrarian University

Useful Documentation

- *Agricultural Sector Assessments* (USAID)
- *Using Rapid Appraisal Methods* (USAID, TIPS *#5)*
- *Conducting Key Informant Interviews* (USAID, TIPS *#2)*
- *Rapid Appraisal Methods for the Assessment, Design, and Evaluation of Food Security Programs* (International Food Policy Research Institute, 1999)
- *Kosovo Cluster Business Support (http://www. usaidkcbs. corn!)*
- *Conflict Toolkit in the Office of Conflict Management and Mitigation (USAID)*

Deliverables

1. On or about August 11, the appraisal team will deliver to USAID a final report (not more than 45 pages, excluding appendices), answering the above questions, consisting of the following sections:
   - Executive Summary
   - Overview of methodology used
   - Summary of reviewed literature
   - Summary of interviews with national experts
   - Summary of community interviews
   - Appendices
     - o Bibliography of all materials used
     - o Interview questions for national experts

- Interview questions for community interviews
- Maps of appraisal areas, including communities interviewed

2. A presentation of findings delivered to USAID on or about August 1 1,2006.

Appraisal Team
In order to increase the capacity of local organizations to complete these sorts of international assessments, USAID recommends the contractor utilize local experts in the North Caucasus region as is suitable. The contractor must be aware that USG personnel are restricted from traveling to the region without specific authorization from the U.S. Ambassador. Similar restrictions are faced by contractors of the USG. Therefore, utilizing local expertise for much of the on-the-ground assessment will help alleviate the need for this clearance and a large security force and simultaneously build local capacity. This method is strongly recommended. Also, a member of USAID Russia will be made available to the assessment team to provide mission expertise and experience.

Schedule
This appraisal, including writing the final report and the presentation to USAID, will take place from July 5 to August 25, 2006, assuming conditions remain stable in the North Caucasus. We expect the majority of the on-the-ground appraisal to take place in two distinct trips to the region. We expect these trips to be approximately two weeks in length each, allowing for one month total on the ground in. Chechnya, Ingushetia, North Ossetia, Kabardino-Balkaria, Karachayevo-Cherkessia, Dagestan and southern Stavropolskiy Kray Another Moscow-based team member will conduct the literature review and interviews with national experts throughout the appraisal period.

[END OF RFP NO. 1 18-06-0003]

ANNEX B: NORTH CAUCASUS AGRICULTURAL STATISTICS[9]

[9] All statistical information has been obtained from ROSSTAT.

TABLE B-1 NORTH CAUCASUS AGRICULTURAL STATISTICS

Agricultural output	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Russia	100.0%	94.9%	96.1%	83.4%	86.9%	93.6%	100.6%	102.1%	103.4%	105.1%	na
Adygea	100.0%	99.9%	82.9%	76.7%	68.8%	69.6%	70.0%	66.5%	62.0%	70.7%	na
Dagestan	100.0%	99.2%	87.2%	56.2%	60.1%	64.7%	77.2%	82.7%	93.4%	101.2%	na
Ingushetia	100.0%	84.7%	84.8%	68.0%	58.8%	58.9%	73.8%	78.6%	86.4%	91.0%	na
Kabardino-Balkaria	100.0%	97.3%	97.8%	98.0%	107.5%	117.5%	134.2%	142.8%	147.5%	155.1%	na
Kalmykia	100.0%	86.8%	93.5%	53.2%	46.7%	64.9%	81.6%	88.6%	77.9%	101.4%	na
Karachaevo-Cherkessia	100.0%	97.8%	89.5%	84.4%	82.7%	91.3%	91.4%	97.1%	93.3%	95.7%	na
Ossetia-Alania	100.0%	92.0%	93.2%	88.2%	99.7%	100.2%	113.3%	118.7%	122.9%	141.4%	na
Krasnodar	100.0%	88.5%	85.3%	74.7%	86.1%	99.4%	110.1%	116.7%	108.3%	125.8%	na
Stavropol	100.0%	89.4%	86.4%	75.9%	73.8%	76.0%	86.6%	98.2%	86.5%	109.3%	na
Astrakhan	100.0%	75.7%	82.6%	66.1%	68.3%	73.9%	80.1%	83.3%	85.6%	89.0%	na
Volgograd	100.0%	94.6%	107.5%	82.6%	84.3%	93.2%	109.6%	111.8%	115.2%	127.7%	na
Rostov	100.0%	76.7%	76.4%	69.9%	80.5%	88.0%	106.8%	112.1%	109.9%	131.2%	na
Grains and legumes gross output, TMT	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Russia	63406.00	69340.00	88553.30	47770.00	54705.70	65505.71	85183.38	86612.10	67198.76	78091.81	78186.70
North Caucasus republics	1744.30	1522.10	1673.00	959.50	1308.96	1405.05	2059.28	2251.36	1482.93	2297.26	1885.68
Krasnodar/Rostov/Stavropol	13096.50	10881.50	13638.70	9432.10	12259.06	14088.30	18673.03	20948.38	12511.96	21460.08	21268.90
North Caucasus republics	2.8%	2.2%	1.9%	2.0%	2.4%	2.1%	2.4%	2.6%	2.2%	2.9%	2.4%
Others	76.6%	82.1%	82.7%	78.2%	75.2%	76.3%	75.7%	73.2%	79.2%	69.6%	70.4%
Krasnodar/Rostov/Stavropol	20.7%	15.7%	15.4%	19.7%	22.4%	21.5%	21.9%	24.2%	18.6%	27.5%	27.2%

Livestock and poultry for slaughter, TMT	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Russia	9205.5	8451.9	7656.5	7361.2	6689.9	6894.4	6884.8	7200.8	7563.2	7612.0	na
North Caucasus republics	337.3	326.0	310.1	287.3	251.8	255.1	264.3	280.0	286.8	309.0	na
Krasnodar/Rostov/Stavropol	964.3	918.0	782.2	698.6	678.4	748.3	772.0	816.5	891.4	901.2	na
North Caucasus republics	3.7%	3.9%	4.1%	3.9%	3.8%	3.7%	3.8%	3.9%	3.8%	4.1%	
Others	85.9%	85.3%	85.7%	86.6%	86.1%	85.4%	84.9%	84.8%	84.4%	84.1%	
Krasnodar/Rostov/Stavropol	10.5%	10.9%	10.2%	9.5%	10.1%	10.9%	11.2%	11.3%	11.8%	11.8%	

Gross farm output, 1995 prices, RUR billion	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Russia	314478.9	298440.5	302320.2	262414.0	273172.9	294207.2	316272.8	321016.9	325190.1	330393.1	na
North Caucasus republics	8747.6	8440.2	7924.9	6672.1	6883.9	7460.3	8393.8	8840.7	9063.8	9905.5	na
Krasnodar/Rostov/Stavropol	33204.4	28341.6	27569.5	24455.8	27007.6	29945.5	34242.0	36738.4	34255.5	40886.9	na
North Caucasus republics	2.8%	2.8%	2.6%	2.5%	2.5%	2.5%	2.7%	2.8%	2.8%	3.0%	na
Others	86.7%	87.7%	88.3%	88.1%	87.6%	87.3%	86.5%	85.8%	86.7%	84.6%	na
Krasnodar/Rostov/Stavropol	10.6%	9.5%	9.1%	9.3%	9.9%	10.2%	10.8%	11.4%	10.5%	12.4%	na

ANNEX C: OBLAST/ REPUBLIC DESCRIPTIONS

CHECHNYA

Overview

The population of Chechnya is approximately 1,100,000 with 34.5 percent urban and 65.5 percent rural. UNDP estimates that 334,500 are unemployed and that more than 800,000 people have been affected by the conflict and are either returning IDPs or currently displaced.[10]

The agricultural sector in Chechnya differs profoundly from the rest of the North Caucasus after two conflicts over a 15-year period has destroyed much of the agricultural infrastructure. Agricultural enterprises have become dilapidated; farm machinery and equipment have been stolen or destroyed; and agricultural and forest lands (and even some buildings) are not clear of land mines. The Food and Agriculture Organization of the United Nations (FAO) estimates that as of 2004, 130,000 people remained displaced in neighboring Ingushetia with an additional 160,000 displaced within Chechnya itself. However, large numbers of IDPs have been returning.[11] Thousands of IDPs and other vulnerable groups in Chechnya have become food unsure. Prior to the conflict, livestock and poultry production were widespread in Chechnya but most of these animals have been lost due to the conflict, and households and private farmers lack the inputs necessary to maintain whatever animals remain.

There is limited statistical information on the agricultural sector in Chechnya and none was available for inclusion in this report. However, FAO reported that the "the cost of the government-indexed subsistence food basket in Chechnya was 14 percent higher than the average in the Russian Federation." FAO also indicated in its report that most of the agricultural production in the region is subsistence based with limited access to production inputs including seeds, tools, veterinary treatment. Further exacerbating this problem is the inability of the populace to pay for the crops and agricultural products that are produced. The FAO report and others describe that the agricultural sector in Chechnya was comprised of livestock and small-scale poultry production prior to the conflict. However, many of these animals have been slaughtered or lost during the conflict. [12]

Challenges

Respondents identified the following key impediments to agricultural production including destruction of the agricultural infrastructure as a result of conflict; destruction or loss of agricultural machinery; destruction of livestock herds; lack of access to credit; lack of advisory and information services;

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10 Strategic Framework - Socio-economic Recovery in North Caucasus Republics, UNDP Russian Federation, September 2005, page 13.

11 FAO Chechnya – North Caucasus – Russian Federation 2005 program description (www.fao.org/007/y5805e/y5805e06.htm)

12 FAO Chechnya – North Caucasus – Russian Federation 2005 program description (www.fao.org/007/y5805e/y5805e06.htm)

transportation infrastructure destroyed and poor roads; lack of access to quality inputs (e.g., seeds); low soil fertility; lack of water supply; unstable gas and electric supply; and lack of local markets (retail, trade, and urban markets).

Structure of the Agricultural Sector

What do farming communities currently grow, either for home consumption or for sale in local markets?

Households and private farmers are engaged in livestock and crop production predominately for personal consumption to support family and friends. Most of this agricultural production is done on a subsistence basis and supported through humanitarian assistance programs. Therefore, there is limited production for commercial markets by household plots and private farmers.

What do large-scale agricultural producers grow?

Large-scale farming operations are limited and have deteriorated greatly during the last decade. Those that remain are engaged in crop and livestock production with 80 percent of their production used for internal consumption.

What agricultural processors currently exist in Chechnya and how large is the producer network supplying these processors?

There are three agricultural processors in Chechnya that only utilize about 10 percent of their production capacity.

Opportunities

- Transition the small-scale agricultural production from self sufficiency to commercial. Identify private farmers willing and able to produce for the market and support their efforts in obtaining access to credit and production inputs. Improve the quality of advisory (extension and business) services.
- Association and consumer cooperative formation should be encouraged.

DAGESTAN

Overview:

The population of Dagestan is approximately 2,576,000 with 42.8 percent urban and 57.2 percent rural. UNDP estimates that the unemployment rate is 70 percent and as high as 84 percent in the rural areas. There are approximately 10,500 IDPs residing in Dagestan as a result of the conflict in Chechnya.[13]

TABLE C-1 DAGESTAN

Indicator	1995	1996	2001	2002	2003	2004	2005
Agricultural output (percent of 1995 output)	100.0%	99.2%	77.2%	82.7%	93.4%	101.2%	N/A
Grains and legumes gross output, TMT	266.7	294.6	257.47	350.4	319.66	327.49	317.82
Wheat gross output, TMT	175	208	147.53	208.68	134.53	149.72	135.37
Corn gross output, TMT	18	16	48.93	57.13	91.83	89.03	95.19
Potatoes, TMT	N/A	N/A	217.6	208.9	262.35	293.17	349.87
Vegetables, TMT	N/A	N/A	449.8	494.4	685.55	715.46	818.07
Seed fruits, TMT	N/A	N/A	25.3	21.8	34.67	42.36	40
Feed concentrate, TMT	N/A	27.930	32.564	16.612	20.628	17.265	N/A
Bread & bakery, TMT	N/A	203.9	166.413	177.187	193.96	199.387	201.855
Flour, TMT	N/A	57.6	14.528	10.877	5.807	2.414	0.423
Cereals, TMT	N/A	1.7	1.235	0.021	0.738	0.104	N/A
Fluid milk, TMT	9	9	7.494	28.013	21.197	10.327	12.53
Cheese, TMT	0.6	0.4	3.173	3.15	3.56	3.242	3.909
Sausage and related products, TMT	0.7	0.5	0.016	0.028	0.024	0.031	0.026
No. of cattle	691	675	725.3	760.1	821.7	813.7	843.5
No. of cows	317	316	346.1	362.5	380.8	363.9	385.4
No. of pigs	7	7	3.9	5.2	5.2	4.2	2.8
No. of sheep & goats	29	25	21.8	22.2	23.6	23.5	24.6
Poultry for slaughter (live weight) TMT	5	4.1	6.7	6.8	7.4	6	N/A
Table eggs production	179	159	266.1	203.5	282.3	149.5	146.5

Source: ROSSTAT

Dagestan's agricultural sector has been slow to rebound to 1995 agricultural output levels. However, steady improvement has been realized over the last five years with production increasing from a low of 77 percent in 1995 to 101.2 percent in 2004. Dagestan is a leader in the production of brandy, grapes, wine, and bread.

Challenges

The following key obstacles impede agriculture development in Dagestan including lack of access to loans (tedious lending procedures and corruption); inadequate and antiquated farm machinery and equipment; and inadequate access to irrigation and water use.

- Farm inputs (e.g., farm machinery, pesticides, fertilizer, seeds, etc.) are available but farmers have difficulty accessing them due to the high cost.
- While large-scale agricultural enterprises indicated they have access to extension and advisory services, small-scale farming operations indicated they do not have access to these services.

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13 Strategic Framework - Socio-economic Recovery in North Caucasus Republics, UNDP Russian Federation, September 2005, page. 13.

- Extortion by the State Motor Vehicle Inspection officers is the largest impediment to transportation of farm products.
- Dagestan is experiencing high unemployment but it is still hard to attract a good labor force due to low wages. Small-scale farming operations do not need additional workers and young people are moving to other regions to find higher paying jobs.

Structure of the Sector:

What do farming communities currently grow, either for home consumption or for sale in local markets?

Households and private farmers produce mainly grapes, fruit, vegetables, and cereals. Small-scale producers account for the majority share of republic's horticultural production. The average size of a private farm is two to five hectares. Most private farmers indicated they have not completed the land registration process.

The Dagestan Republic Government initiated a program in 2001 to revitalize the local wine industry. This has included the allocation of republic budget resources, the establishment of orchards, and restructuring tax indebtedness. As a result, 3000 to 4000 ha of new vineyards have been established and more than 1,000 ha of new orchards.

What do large-scale agricultural producers grow?

Large-scale producers (predominately state unitary enterprises and large scale collective farms) primarily produce grapes and cereals.

What agricultural processors currently exist in Dagestan and how large is the producer network supplying these processors?

There are approximately several medium and large processing plants in Dagestan focused on spirits, sparkling wines, mineral water, soft drinks, and bread. The state enterprise, Kyzliarskiy Konyak Plant, is one of the largest spirits producers in Russia and probably one of the largest food processing plants in the North Caucasus. It has a well recognized national brand and an annual turnover of about $30 million. OAO "Derbent Konyak Plant" is also well known and has annual turnover of $20 million. In addition, there is the OAO Derbent Plant of Sparkling Wines" and the OAO "Deneb" plant that produces mineral water and soft drinks. There are approximately 10 additional plants with a combined annual turnover of $2 million.

Opportunities

- Given the low density of the population, the excessive labor force, and lack of irrigated lands; focus should be placed on growing labor-intensive crops such as grapes, fruit, and vegetables and on livestock production.
- Association and consumer cooperative formation should be encouraged.
- Support to the key food industries in Dagestan (e.g., grapes, brandy, wine, mineral water, and bread)

INGUSHETIA

Overview:

The population of Ingushetia is approximately 470,000 with 42.9 percent urban and 57.1 percent rural. The official unemployment rate was 56.7 percent in 2002 and 43.7 percent in 2003. UNDP estimates that 83,000 people are unemployed and that there are approximately 29,000 IDPs residing in Ingushetia.[14]

As outlined in a recent Household Economy Survey of Ingushetia by the Danish Relief Council, Ingushetia's economy is largely dependent on the agricultural sector. In 1995, there were approximately 1,390 registered private farms with 15 percent of the arable land utilized by state agricultural enterprises. There are 20 large enterprises operating in Ingushetia including a mill and bread-making plant in Nazran. While many of the IDPs that found refuge in Ingushetia have begun to return to Chechnya, there is still a large contingent of IDPs that remain.[15] UNDP's strategic framework outlined that "while fruits and vegetables are produced, lack of understanding of, or access to markets for selling raw produce; lack of transportation to functioning processing facilities; and, inability to compete with imports often means harvests rot in storage or are fed to animals. In Ingushetia's main market…almost all food and fresh produce is coming in from Kabardino-Balkaria."[16]

TABLE C-2 INGUSHETIA

Indicator	1995	1996	2001	2002	2003	2004	2005
Agricultural output (percent of 1995 output)	100.0%	84.7%	58.9%	73.8%	78.6%	86.4%	91.0%
Grains and legumes gross output	80.2	40.8	57.44	53.55	38.78	67.93	38.5
Wheat gross output	32	22	24.69	10.67	5.57	16.52	13.14
Corn gross output	10	10	4.33	17.77	26.15	27.4	11.36
Potatoes TMT	N/A	N/A	47.5	50.9	55.53	62.95	59.15
Vegetables	N/A	N/A	4.6	4.8	5.96	9.02	6.89
Seed fruits	N/A	N/A	0.3	0.2	0.26	1.58	1.51
Bread & bakery	N/A	4.7	6.283	2.276	1.581	2.02	1.233
Flour	N/A	4.6	1.301	3.038	0.248	N/A	N/A
No. of cattle	691	675	56.3	52.8	55.4	53.3	51.5
No. of cows	67	65	63	63.1	63.2	63.5	64.1
No. of sheep & goats	2962	2849	2795.2	3174.5	3726.8	4286.5	4964.9
Table eggs production	5.1	6.1	15.9	0.05	11.9	3.7	3.6

Source: ROSSTAT

Statistical data collected on Ingushetia demonstrates that the republic is slowly recovering to 1995 agricultural production levels, having rebounded from 58.9 percent (of 1995 levels in 2001) to 91 percent in 2005. While there has been some moderate growth in the recent years, Ingushetia is still experiencing low levels of grain and wheat production. There has also been a significant reduction in the number of cattle in the republic with a decline from 691,000 in 1995 to 51,500 in 2005. Data on milk production was unavailable.

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14 Strategic Framework – Socio-economic Recovery in North Caucasus Republics, UNDP Russian Federation, September 2005, page 12.

15 Household Economy Survey of Malgobekskiy, Nazranovskiy and Sunzhenskiy Districts of Ingushetia, Danish Refugee Council, Funded by UNDP, June 2005, pages 4 – 5.

16 Strategic Framework Socio-Economic Recovery in the North Caucasus Republics, UNDP Russia Federation, September 2005, page 17.

Challenges

The following key obstacles impede agriculture development in Ingushetia, including inaccessibility of loans; high indebtedness; shortage of farm machinery; frequent natural disasters; difficulties in marketing agricultural products; low farm gate prices; high cost of inputs (fuel & lubricants and farm machinery); lack of access to production inputs (e.g., fertilizers and seeds); low technical capacity; and lack of price support policies and weak financial assistance from the Ministry of Agriculture and the Republic Administration. The most significant challenge cited was the price disparity between the high cost of inputs and low farm gate prices. Private farmers indicated that there are no training opportunities to upgrade their professional and technical knowledge and that farm information and advisory services do not exist. High animal feed transportation costs, lack of highly productive cattle breeds, decline in pasture lands, and poor quality of pasture lands were also cited. Food processors cited poor water supply, lack of quality inputs, lack of new technologies, and inadequate refrigeration as key constraints.

Structure of the Sector

What do farming communities currently grow, either for home consumption or for sale in local markets?

There are 1,390 private farms in Ingushetia with the majority engaged in growing cereals. Private farms account for 30 percent of Ingushetia's agricultural production.

What do large-scale agricultural producers grow?

Large-scale agricultural producers account for 70 percent of production and are predominately engaged in crop production.

What agricultural processors currently exist in Ingushetia and how large is the producer network supplying these processors?

There are three primary processing facilities in Ingushetia:

- State Unitary Enterprise (SUE) butter and cheese-making plant "Suzhenskyi"
- SUE "Nazran Flour Grinding Plant"
- SUE "Nesterovskoye" cannery

The production capacity of the three plants consists of five tons of milk per day and 150 tons of flour per day. However, these enterprises are currently only operating at 20 percent of capacity. Products include cheese, milk, cream, and flour. Flour is produced from raw materials imported from other regions, while dairy processing predominately relies on milk delivered from local household farms, private farms, and state unitary enterprises. Products are predominately marketed within Ingushetia including government agencies (military and prisons) as well as through local markets.

Potential Opportunities

- The establishment of a network of local artificial insemination centers to improve breeding of cattle and other livestock.
- The installation of incubator systems to manage commercial poultry flocks.
- Arrange summer camps for young livestock on a cooperative basis to reduce pasture overgrazing and to expand the number of cattle per household farm.
- Establishment and support of agricultural cooperatives (also an idea being pursued by UNDP).
- Upgrade the technical skills of youth, private farmers, and state unitary enterprises.

KABARDINO-BALKARIA

Overview

The population of Kabardino-Balkaria is approximately 900,000 with 56.6 percent urban and 43.4 percent rural. UNDP estimates the unemployment level is between 50 to 75 percent and that approximately 12,000 IDPs and forced migrants reside within the republic.[17]

TABLE C-3 KABARDINO-BALKARIA							
Indicator	**1995**	**1996**	**2001**	**2002**	**2003**	**2004**	**2005**
Agricultural output (Percent of 1995 output)	100.0%	97.3%	134.2%	142.8%	147.5%	155.1%	N/A
Grains and legumes gross output	413.5	353.5	611.37	648.49	494.33	641.24	419.08
Wheat gross output	216	184	340.52	316.99	158.66	195.21	175.79
Corn gross output	101	88	152.39	222.66	278.92	327.99	166.38
Potatoes TMT	N/A	N/A	155.9	170.2	179.53	190.32	186.42
Vegetables	N/A	N/A	224.6	234.5	344.96	301.27	288.57
Seed fruits	N/A	N/A	87.5	93.2	103.45	106.09	109.02
Feed concentrate	N/A	16.073	6.465	8.006	8.613	6.192	2.601
Bread & bakery	N/A	31.7	29.387	30.328	31.395	32.487	27.207
Flour	N/A	48.5	22.648	27.471	26.242	25.245	18.582
Cereals	N/A	2.7	0.357	0.503	0.51	0.249	0.064
Fluid milk	15	13	10.982	11.36	9.881	10.435	9.567
Cheese	1.3	1	1.45	1.189	0.963	1.086	1.17
Sausage and related products	0.3	0.4	0.241	0.267	0.31	0.342	0.277
No. of cattle	248	244	236.5	241.4	244.9	246.2	165.7
No. of cows	107	106	104.3	106	107.2	108.3	73
No. of pigs	40	42	43.8	43.9	43.8	43.3	38.5
No. of sheep & goats	375	351	291.3	321.2	326.6	329.6	335.9
Poultry for slaughter (live weight) TMT	6.2	6.1	12.5	15	15	15.4	N/A
Table eggs production	113	99	134.7	18	147.6	88.1	89.5

Source: ROSSTAT

Kabardino-Balkaria has achieved moderate success with agricultural output steadily increasing over the last five years and achieving 155.1% of 1995 production by 2005. The republic predominately produces cereals, horticultural and livestock/dairy products. Grain, wheat, and corn output has achieved 1995 levels over the last five years but overall production has experienced significant variations as has much of Russia. This is illustrated by a high of 648,490 TMT in grain and legume gross output in 2002 to a low of 419,000 TMT in 2005. Vegetable and seed fruit production has remained fairly constant over the last five years. The overall number of cattle has remained constant over the last ten years, while poultry production has increased from 6.2 in 1995 to 15.4 in 2005.

Kabardino-Balkaria is ranked relatively high in many food industries and is a regional leader in fruits and vegetable canning, flour and flour-based confectionary, pasta, and mineral water. It produces 3.2 percent of Russia's canned fruits and vegetables and is a leader in canned pickles production. There is a mid-sized milling plant, though it relies extensively on imports of milling wheat from other regions. Kabardino-Balkaria also has a significant share of the mineral water market.

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17 Strategic Framework - Socio-economic Recovery in North Caucasus Republics, UNDP Russian Federation, September 2005, page 13.

Challenges:

Respondents indicated several problems inhibiting agricultural production within the republic.

- Private farmers cited the following as the key constraints: low farm gate prices for their products; high cost of inputs including energy, farm machinery and equipment, fertilizer and chemicals, and animal feed; lack of access to credit; and ambiguous land registration and legislation.
- Large-scale producers indicated their key constraints include inadequate size of their farming operations; inadequate protection of land rights; ambiguity of the land legislation and registration process; low-farm gate prices; high cost of inputs (energy, machinery, fertilizers, chemicals, animal feed); lack of access to credit; and antiquated machinery and equipment.
- Processors indicated the following constraints: lack of access to high quality and consistent raw materials and inputs; agricultural producers' inadequate capacity to produce competitive inputs; inability to purchase land; lack of qualified and skilled mid-level operators with an understanding in how to operate imported equipment; high railway transportation tariffs and rates; difficulty in transporting farm products during winter; and competition from counterfeit products.

Structure of the Sector

What do farming communities currently grow, either for home consumption or for sale in local markets?

Household plots and private farmers predominately produce horticultural products (e.g., fruits, berries, and vegetables) and livestock products (e.g., milk, meat, poultry, wool, and honey). Most of the respondents indicated that both household plots and private farmers produce for personal consumption first and then sell any excess products. The range of products sold varies from 50 to 90 percent of output depending on the crop and our livestock product. All farm products are mainly sold to local traders and food processors. It is interesting to note that private farmers did not indicate any problems with transportation nor any problems associated with the labor market. However, they did state that it was important to have at least one family member with an agricultural education in order to improve farming operations. While it was difficult to determine, inter-regional trade at the private farm level does not appear to be well developed.

What do large-scale agricultural producers grow?

Large-scale agricultural operations predominately specialize in cereal production (wheat, barely, corn, oats, peas, millet, buckwheat, etc.); oilseeds (sunflower and soybeans); fodder potatoes; and livestock production (cattle, sheep, poultry, horse, yak, and beekeeping). Large-scale producers market principally to food processors and traders.

Large-scale producers indicated that they do have access to information advisory services including researchers and subject matter specialists from Kabardino-Balkaria Research Institute of Agriculture; North Caucasus Research Institute of Mountain and Hill Horticulture; Kabardino-Balkaria State Agricultural Academy. Information is disseminated through workshops, trainings, and mass media. Researchers from Kabardino-Balkaria Research Institute of Agriculture provide one-on-one consultations to various producers throughout the republic. However, all respondents indicated these services could be improved.

All large scale enterprises indicated a need for young highly skilled and qualified employees with secondary professional education (mechanics, livestock workers, milkmaids, etc.). Young workers are not attracted to these jobs due to low wages.

What agricultural processors currently exist in Kabardino-Balkaria and how large is the producer network supplying these processors?

Kabardino-Balkaria has the most developed food processing sector among the North Caucasus region. Food processors predominately produce spirits, mineral water, canned fruits and vegetables, and cheese. A list of the key processors includes:

- ZAO “Real-Spirits” with annual turnover of $12 million.
- OOO “Mineral” produces mineral water with annual turnover of $10 million.
- OAO :”Kabbalminvody” produces mineral water and spirits with annual turnover of $9 million.
- OAO “Nalchik Helava Plant” is one of the largest confectionary producers in the region with annual turnover of $8 million.
- OAO “Urukhskiy Canning Plant” and OOO “Konservprod” are noticeable canned fruit and vegetable producers with annual turnover of approximately $3 million each.
- OAO “Prokhladnenskiy Cheese Factor” has approximately $3 million annual turnover.
- There are more than 20 additional plants with annual turnover that exceeds $2 million.

Potential Opportunities

- Support to the burgeoning food processing industry (e.g., canned fruits and vegetables, mineral water, and flour)
- Vocational and secondary education programs for young and mid-level workers in areas required by both large scale producers and food processors including mechanics, livestock workers, milkmaids, operators, etc.
- Expanded and improved advisory service delivery by Kabardino-Balkaria Research Institute of Agriculture; North Caucasus Research Institute of Mountain and Hill Horticulture; Kabardino-Balkaria State Agricultural Academy.
- Increased access to production credit by private farmers and large scale producers in order to purchase feed, fertilizer, fuel, etc.
- Improved production of high quality inputs by large scale farming operations and improved commercial linkages with the burgeoning and relatively successful local food processors.

KARACHAYEVO-CHERKESSIA

Overview

The population of Karachayevo-Cherkessia is approximately 500,700 with 44 percent urban and 56 percent rural. Stock-raising for the dairy and wool sectors is the republic's leading agricultural industry (60 percent of gross output). Karachayevo-Cherkessia produces 1.3 percent of all the wool in the Russian Federation. Principle crops include wheat, corn, barley, sugar beets, and sunflowers.

TABLE C-4 KARACHAYEVO-CHERKESSIA							
Indicator	**1995**	**1996**	**2001**	**2002**	**2003**	**2004**	**2005**
Agricultural output (percent of 1995 output)	100.0%	97.8%	91.4%	97.1%	93.3%	95.7%	N/A
Grains and legumes gross output	160	124.2	168.81	171.21	86.71	91.89	87.29
Wheat gross output	92	73	103.02	108.26	43.25	39.67	47.15
Corn gross output	15	11	9.11	13.18	12.58	11.45	10.28
Potatoes TMT	N/A	N/A	172.2	166.8	163.05	161.44	216.37
Vegetables	N/A	N/A	47.5	64.3	56.91	69.45	65.01
Seed fruits	N/A	N/A	1	10.3	10.63	9.78	11.34
Feed concentrate	N/A	1.826	0.089	0.005	0.000	0.000	0.600
Bread & bakery	N/A	17.4	3.101	2.235	3.712	3.593	3.008
Flour	N/A	2	2.398	1.848	10.016	3.831	8.859
Fluid milk	4	5	23.544	32.221	30.993	33.341	36.947
Cheese	0.8	0.6	0.545	0.366	0.309	0.212	0.17
Sausage and related products	1.5	1.2	0.604	0.438	0.724	0.941	1.259
No. of cattle	166	152	134.1	140.1	146.2	139.5	130.6
No. of cows	85	80	69.9	72.6	71.1	67.9	66.8
No. of pigs	14	14	14	16.2	16.6	14.9	13.4
No. of sheep & goats	501	442	277.4	316.6	347.2	441.7	367.9
Poultry for slaughter (live weight) TMT	10.7	10.3	6.6	5.1	4.6	4.7	N/A
Table eggs production	93	96	68.9	2.7	69.3	30	31

Source: ROSSTAT

The agricultural situation in Karachayevo-Cherkessia is extremely severe with the republic still producing at levels that are less than 1995 total agricultural output. The production of grain, wheat, and corn have all been severely curtailed with grain and wheat production at levels less than 50 percent of what was produced in 1995. Potato, vegetable, and seed fruit production have steadily increased over the last five years as has milk production. The number of cattle is approximately 20 percent less than 1995 levels and continues to decline.

Karachayevo-Cherkessia holds a significant share of the mineral water market, has a large meat processing plant (accounting for 41 percent of the Southern Administrative District's canned meat production), and has a mid-sized milling plant that relies extensively on imported wheat from other regions.

Challenges

Respondents indicated several problems inhibiting agricultural production within the republic.

- Private farmers cited the following as the key constraints: high cost of inputs vs. low farm gate prices; lack of access to credit and finance; lack of advisory and information services; and corruption (particularly the State Motor Vehicle Inspection officers at interregional posts).

- 90 percent of large-scale farms are essentially bankrupt or in the process of being revitalized. The main constraints outlined by large scale producers include: lack of access to credit; antiquated farm machinery and equipment; inadequate protection of ownership rights; input-output price disparity; corruption (heavy bribery required in order to transport farm products).
- Processors are experiencing increased competition and need access to reliable and quality inputs. They also need to upgrade their processing technologies and equipment.
- There is a key problem in the grain sector in the republic. Producers' grain is reportedly purchased as forage crops at very low prices by traders. These traders then store the grain in elevators and then market it at much higher prices (often as food grain) to neighboring regions via Novorossiysk.
- It was reported that trading firms have been impeding the formation of consumer cooperatives negatively impacting household and private farms.
- There is a lack of access to extension and advisory services limiting the adoption of improved farming technologies and practices.

Structure of the Sector

What do farming communities currently grow, either for home consumption or for sale in local markets?

Small-scale farming operations specialize in livestock (meat and milk) and crop (potatoes and vegetables) production. Household and private farmers account for 87 percent of total meat production; 97 percent of total milk production; 93 percent of potato production; and 72 percent of vegetable production for the republic. Household farms retain 73 percent of their production for personal consumption. Households also sell excess products to supplement their income and provide food assistance to relatives who live in urban areas. Private farmers retain 25 percent of their livestock products and 32 percent of their crops for personal consumption. Farm products are sold predominately to traders and processors.

Private farms indicated that they do not need to attract any additional labor. The average age of household farming is 35 years old.

What do large-scale agricultural producers grow?

Large-scale producers are currently in the process of re-organization with 70 percent of the producers bankrupt and another 20 percent in the process of recovery (revitalization). That basically leaves about 10 percent of the large-scale producers operating. Those that do operate are engaged in crop and livestock production including cereals, sugar beat, corn, sunflower; and cattle, sheep and pig production. Products marketed predominately to local processors and traders.

There is a vicious cycle present within the labor market. The poorer the farm, the less its operations are mechanized. This requires more farm workers but at generally lower wages.

What agricultural processors currently exist in Karachayevo-Cherkessia and how large is the producer network supplying these processors?

Processors indicated that they are utilizing about 25 percent of capacity. Some industries are experiencing increased competition, such as meat processing which has severe competition for final meat products. Processors generally lack adequate equipment for the processing of potatoes, vegetables, and cereals. Processors indicated they do have access to government subsidized loans.

- Karachayevo-Cherkessia has one of the largest domestic mineral water bottling plants, OAO "Merkurity," with an annual turnover of $20 million.

- ZAO “Visma,” another large mineral water bottling plant with annual turnover of approximately $10 million.
- OOO “Saturn” is a large dairy processor producing cheese, fluid milk, etc., with an annual turnover of approximately $10 million.
- OOO “KCh Spirits Factor” with an annual turnover of $8 million.
- There are approximately eight additional plants with annual turnover exceeding $2 million.

Opportunities

- Support to the burgeoning food processing industry (e.g., mineral water, canned meat, and flour)
- There is an opportunity to support the formation of production and credit consumer cooperatives for household and private farms.
- Improved provision of extension and advisory services for agricultural production.

NORTH OSSETIA

Overview

The population of North Ossetia is approximately 710,000 with 65.5% urban and 34.5 percent rural. UNFP estimates that 35,000 people are unemployed, and that approximately 20,242 IDPs and 20,058 forced migrants reside in North Ossetia.[18]

TABLE C-5 NORTH OSSETIA (OSSETIA - ALANIA)							
Indicator	**1995**	**1996**	**2001**	**2002**	**2003**	**2004**	**2005**
Agricultural output (percent of 1995 output)	100%	92.0%	113.3%	118.7%	122.9%	141.4%	N/A
Grains and legumes gross output	260.6	234	249.31	250.09	139.16	310.34	251.16
Wheat gross output	110	78	111.15	118.16	38.03	65.16	59.55
Corn gross output	97	116	74.49	74.21	77.24	218.61	169.85
Potatoes TMT	N/A	N/A	96.6	91.2	102.28	102.6	102.94
Vegetables	N/A	N/A	42.1	42.8	43	36.37	34.09
Seed fruits	N/A	N/A	4	4.1	15.21	8.29	10.24
Feed concentrate	N/A	5.660	9.597	9.988	6.822	5.210	0.922
Bread & bakery	N/A	41.7	24.117	23.976	17.587	14.046	10.783
Flour	N/A	26.9	13.547	11.353	4.745	3.565	0.702
Cereals	N/A	0.05	0.03	0.016	0.01	0.014	0
Fluid milk	20	17	7.004	6.226	5.052	3.617	2.648
Cheese	0.6	0.4	0.39	0.366	0.309	0.212	0.17
Sausage and related products	0.8	0.4	0.52	0.289	0.638	1.094	1.429
No. of cattle	141	128.2	129.5	129.6	130.4	131	131
No. of cows	67	66	63	63.1	63.2	63.5	64.1
No. of pigs	74	67	80.8	87.9	88.1	82.3	71
No. of sheep & goats	90	80	59.8	60	60.4	60.4	67.4
Poultry for slaughter (live weight) TMT	3.4	2.3	4.6	5.2	5.5	6.2	N/A
Table eggs production	78	69	85.4	15.2	98	50.3	52.6

Source: ROSSTAT

The agricultural performance of North Ossetia has generally been positive with agricultural output exceeding 1995 levels the last five years with steady improvement each year. While gross output of grain, corn, potatoes, and vegetables continues to increase, North Ossetia has experienced a decline in the production of wheat, which seems to have directly impacted bread and bakery production. There has also been a decline of fluid milk. The number of cattle has remained steady.

North Ossetia has aggressively entered the grain spirits and vodka market and accounts for 37 percent of the Southern Administrative District's production. This has been accomplished through government incentives and tax credits. North Ossetia has also begun to produce a quality champagne.

Challenges

Respondents indicated several problems inhibiting agricultural production within the North Ossetia.

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18 Strategic Framework - Socio-economic Recovery in North Caucasus Republics, UNDP Russian Federation, September 2005, page 13.

- Household and private farmers cited the following constraints to their production: high cost of agricultural inputs; inadequate farm machinery; lack of access to credit; low farm gate prices; and extensive government bureaucracy.
- Large-scale producers reported the following key constraints: inadequate agricultural machinery (particularly vehicles for transport); lack of access to credit; high cost of inputs; ambiguity of the land legislation and registration process; and lack of access to training and professional development services.
- Processors were generally upbeat about their own operations but cited a need to upgrade the capacity of domestic producers and for the state to strengthen its regional and regulatory support.
- There is severe unemployment and lack of skilled employees that affect both the large-scale producers and processors.

Structure of the Sector

What do farming communities currently grow, either for home consumption or for sale in local markets?

Household and private farms specialize in livestock production and the cultivation of horticultural crops. Crop production is more profitable than livestock production and thus crops are produced for sale while livestock is generally produced for personal consumption. Small-scale producers predominately market their excess products to local traders that generally offer low prices.

Small-scale farms purchase machinery, fuel and lubricants, pesticides, fertilizer, and seeds from the state trading companies and private traders. However, the majority of household and private farmers reported these inputs were inaccessible due to their high cost.

Small-scale producers generally transport their products using their own vehicles and do not encounter transportation problems. They also do not have a need to hire additional labor and rely principally on family members and relatives.

What do large-scale agricultural producers grow?

The large-scale agricultural enterprises in North Ossetia are predominately engaged in crop and livestock production. The primary agricultural products include wheat, barley, and corn for grain; potatoes, and vegetables; and milk and meat products

The primary agriculture and food market are grain collection centers and meat processing operations.

What agricultural processors currently exist in North Ossetia and how large is the producer network supplying these processors?

Agricultural processors in North Ossetia estimate they are only utilizing about 30 to 40 percent of their capacity due to lack of quality and consistent supply of inputs and raw materials. Approximately 90 to 95 percent of their products are sold through the North Caucasus region. Processors indicated they use the latest technologies and advanced equipment.

There are many mid-size and large plants producing spirits, vodka, and champagne. These plants produce 7 million deciliters of vodka and other spirits annually.

Opportunities

- Upgrade skills and capacity through vocational training, workshops, and extension services.
- Support household and private farmers through training, extension services, and explore the establishment of consumer cooperatives.

ANNEX D: POWERPOINT PRESENTATION

USAID | RUSSIA

FROM THE AMERICAN PEOPLE

Agricultural Assessment in the North Caucasus, Russian Federation

Peter Thatcher, The QED Group
Jeffrey Singer, The QED Group

September 15, 2006

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FROM THE AMERICAN PEOPLE

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ASSESSMENT OBJECTIVES

- Up-to-Date Assessment of the Agricultural Economy in the North Caucasus
- Key Areas for Potential Improvement
- Practical Options for Near Term Assistance (with limited funding)
- Not an Academic Report

Focus Areas: Chechnya, Ingushetia, North Ossetia, Kabardino-Balkaria, Karacheyevo-Cherkassia, Dagestan, and Southern Stavropol.

METHODOLOGY

- Rapid Appraisal
- Primary and Secondary Sources
- Key Informant Interviews (79 in seven Republics)
  - Private farmers, producers, processors, government officials, traders, merchants, and agricultural experts
- Interviews with Donor Organizations Active in Region
  - WFP, World Bank, UNDP, Southern Russia Investment and Development Agency
- Literature Review (published reports, studies, papers and articles)
- Statistical data collection and analysis

ANALYSIS

- Structure of the Sector – National and Regional
- Structure of the Sector – Existing Viable Agricultural Production
- Constraints – Product Processing and Development
- Constraints Available Markets
- Constraints – Transportation Issues
- Constraints – Legal and Regulatory issues
- Constraints – Education and Extension Resources
- Constraints – Potential for Conflict Mitigation

STRUCTURE OF THE SECTOR– National and Regional

- N.C. Account for Only About 4 Percent of Russia’a Overall Agricultural Production (Ag. Dependent)
- Krasnodar, Rostov and Stavropol: 11 – 12%
- Agricultural Production is Rebounding from Pre-conflict Levels
- Most of the Republics are Attaining or close to Attaining 1995 Agricultural Production Levels
- Gross Farm Output Increasing: 2001 (12.51%), 2002 (5.32%), 2003 (2.65%), and 2004 (9.28%)

STRUCTURE OF THE SECTOR – Agricultural Production

- Region Primarily Producing Horticultural Crops, Livestock and Dairy Products, and Cereals.
- Household and Private Farms: Horticulture and Livestock (50 – 90% of production for self consumption)
- Large-scale Producers: Cereals, Oilseeds, Potatoes, Horticulture, Livestock/Dairy Products (Market to local processors and traders)
- A Handful of Agribusiness and Food Processors in each Oblast or Republic.

STRUCTURE OF THE SECTOR – Agricultural Prod. (Cont.)

- Horticulture: Potatoes, fruits, berries, vegetables
- Cereals: Wheat, Barley, Corn, Oats, Buckwheat, Millet, etc.)
- Oilseeds: Soybeans and Sunflower
- Livestock/Dairy: Cattle, Sheep, Poultry, Horse, Yak, etc.

- Detailed information on each Oblast/Republic Provided in Annex B.

CONSTRAINTS – Product Processing & Development

- Under-utilization of existing food processing enterprises.
- Competition from more modernized Russian food processors and imports.
- Inability of residents to pay for higher quality products.
- Lack of access to a consistent supply of high quality inputs and raw materials.
- Lack of access to skilled labor

CONSTRAINTS – Available Markets

- Limited comparative advantage for the region in producing agricultural and food products
- Competition from more modernized Russian food processors and imports (product quality and packaging)
- Current focus on local markets
- High unemployment contributes as residents are unable to afford fruits, vegetables, and food produced locally
- Small-scale producers retain the majority of their products for self use instead of producing for the commercial market. This limits the products available locally

CONSTRAINTS – Transportation Issues

- Private farmers, Producers, and Processors predominately use their own vehicles to transport products
- Serious problem of corruption and bribes associated with transport
- Lack of access to well functioning vehicle and refrigerated transport
- High cost of fuel
- Constraints contribute on a reliance on locally marketing products rather than looking beyond their respective oblast, republic, and the region

CONSTRAINTS – Legal and Regulatory Issues

- Unclear land ownership/tenure and property rights (and how it contributes to ethnic tensions)
- Limited land availability and under-utilization of available land
- Cumbersome land registration procedures
- Cumbersome business registration and product certification procedures
- Federal and regional taxes and duties/corruption
- Extensive government regulation

CONSTRAINTS – Education & Extension Resources

- Disinterest of youth in working in agriculture
- Lack of funding by educational institutes to upgrade curriculum
- Extension services are defunct (except Stavropol, N. Ossetia, and Kabardino-Balkaria)
- Lack of access to business development services

CONSTRAINTS – Potential for Conflict Mitigation

- Collaboration with WFP Assessment (food insecurity)
- Opportunities (but limited) for employing youths in the agricultural sector
- Distinction between Humanitarian Assistance and Development Assistance
- Negative perception of the region by outsiders
- Tensions within the region (land, etc.)
- Agricultural programs can have some limited impact but not a cure all for long-standing tensions

CRITERIA FOR RECOMMENDATIONS

- Must address one or more of the constraints in the assessment
- Proposed activity needs to either address the potential for increased jobs or increased income
- Only activities that require limited funding are proposed
- Activities that emphasize training and potential employment of youth were given preference
- Activities should involve Russian organizations as implementers and take advantage of Russian talent

PROGRAM EMPHASIS AND OBJECTIVES

- SECTOR REFORM & GROWTH
- INCREASED INCOME
- INCREASED JOBS

RECOMMENDATION I: Vocational and Technical Training

Constraint: Lack of Access by Producers and Processors to Skilled Labor that are well Trained and Educated. High Under-employed, and Under-educated/Trained Young People.

Solution: Develop with Local/Regional Educational Institutes, Vocational Technical and Training Programs that will Make Youths More Employable in the Region.

RECOMMENDATION II: Internship Program

Constraint: Lack of Employment Opportunities for Recent Graduates of Institutes and Training Programs in the region.

Solution: Establish an Internship Program at participating agro-processing and larger farms.

RECOMMENDATION III: In-country Study Tours

Constraint: Lack of Exposure to New Ways of Doing Things and Innovative Ideas (Being Implemented in Russia). Technological Obsolescence. Negative Perception of the N.C.

Solution: Develop a program of Study Tours for Regional Personnel to Visit Successful Russian Farm and Agro-Processing Operations.

RECOMMENDATION IV: Agricultural Extension and Business Development Services

Constraint: Lack of Technology Transfer and Business Services to SME Farms and Processors in the Region.

Solution: Establish Agricultural Extension Services in Selected Oblasts/Republics. Facilitate the Provision of Business Services to SME Farms and Agro-Processors.

RECOMMENDATION V: Improve Financial Services

Constraint: Lack of Access to "Affordable" Credit

Solution: Increase USAID support for the ACDI/VOCA North Caucasus Rural Credit Cooperation and Agribusiness Development Program (NC-RCC&AD). Investigate the possibility of using DCA to induce equipment manufacturers to extend medium-term credit for equipment purchases and leases.

ANNEX E: QUESTIONNAIRE RESPONSES[19]

[19] The questionnaires have been provided to USAID for its review and information. However, based on the request of many of the respondents, the questionnaires are not for public distribution and are for the sole use of USAID and its program planning.

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