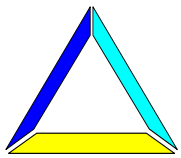
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T26

Extension Services Development in Ukraine

Summary

Creating the conditions for a functioning system of both public and private extension services in Ukraine is an important element of further reformation of agriculture and rural development. Under the new economic conditions, the need for improvement of technical and managerial skills of Ukrainian farmers has increased significantly. It is advisable to spend limited budget money not on price support and subsidies for agricultural producers, but on the improvement of agricultural productivity through extension of knowledge. We recommend the following steps:

- To adopt, as soon as possible, the law "On agricultural extension services activities" that has passed the first reading in the Parliament. This law will create the legal framework for the extension services development;
- To redirect the activities of existing regional agricultural departments towards providing extension services;
- To insure that the development of private extension services is not hampered by bureaucratic obstacles, e.g. compulsory certification;
- To allow farms to use VAT compensations to pay for extension services;
- To contribute to the system of agricultural education by introducing new courses in order to prepare extension service consultants; organizing training and retraining for farmers; creating the network among the universities and private extension service companies.

The objectives of the extension services should include providing advice in the fields of:

- Production technologies;
- Improving farm management, such as providing help to organize and implement a managerial accounting system;
- Establishing non-farm businesses in rural areas.

1. Introduction

In Ukraine many farms are highly inefficient, and there is a wide gap between the actual farm productivity and what could be produced with better know-how. This productivity differential is not simply a question of a lack of operational funds and capital, as what many farm lobbyists would like us to believe. Instead, it arises due to the unawareness of many farm managers about the latest scientific progress in crop and animal science, cost-reducing technologies ('technology gap'), and a lack of managerial skills ('management gap'). As a result, many farms in Ukraine produce far less output than they could with the existing inputs.[1] In order to facilitate the necessary spread of knowledge, the development of extension services should be a prominent area of state agricultural policy.

The transformation of Ukrainian agriculture is mainly characterized by the restructuring and sometimes break-up of large agricultural enterprises. Up to now about 43,000 private family farms have been registered, and about 5,5 m households or about 15 m people are self-employed on their small land plots. However, only some of them have received an appropriate education, while many have no preparation for this work except the experience from their former jobs on the collective agricultural enterprises. Nevertheless, these producers are responsible for up to 60% of total agricultural production, including 52.4% of crop production and 70.9% of livestock production, and have an urgent need for information about proper farming, farm management and marketing of agricultural products[2]. Unfortunately, up to the present time the structure of state management of agriculture has hardly been changed from a time of planned economy when large collective farms dominated in agriculture. Consequently, small and medium-sized farmers have only a very limited access to knowledge. This is why the development of extension services is a crucial issue for rural development.

Under the new economic conditions the need for improvement of technical and managerial skills of Ukrainian farmers has increased significantly. However, only large agricultural enterprises would be able to employ and pay for personalised advice offered by private consulting firms, while an appropriate alternative for small farms does not exist. Small farmers have other needs regarding the sort of knowledge, and need to be offered alternative, which are more cost-efficient, that personalized advice.

Another important issue of extension services is education and training. It is also connected with restructuring of large agricultural enterprises. Existing system of agricultural education in Ukraine was organized to satisfy the needs of the large agricultural enterprises in such fields as economics, accounting, agronomy, crop and livestock production, engineering and construction, veterinary etc. So, this system is characterized by a degree of specialization that is by far too narrow to serve the needs of modern farm management. Farmers should have some knowledge in economics, agronomy and animal husbandry, and have the possibilities to get some special services like accounting or veterinary services from outside sources. Thus, the

[1] This has been clearly demonstrated in studies of farm efficiency in Ukraine such as that prepared by the German Advisory Group in Paper T4, July 2003, "Efficiency and Productivity Growth in Ukrainian agriculture." This is not to say that farms in Ukraine could not use much more capital than they presently have. But lenders will be not eager to provide capital (i.e. more inputs) to farms that cannot demonstrate that they are able to make the most efficient use of the inputs that they already have.

[2] Ukrainian agriculture in 2002. Derzhkomstat of Ukraine, Kyiv 2003.

structure of agricultural education in Ukraine should be changed. On the one hand, there is a need for creation of special training and schools for farmers and householders, and, on the other hand, for redirection of higher agricultural education towards the preparation of specialists for extension services.

The main goal of this paper is to examine the current formation of extension services in Ukrainian agriculture, and to outline the possibilities and potential for its development. The paper is structured as follows. Section 2 explains the need for extension services, section 3 describes the existing situation of extension services, section 4 discusses the possible steps that can be done in order to develop extension services, and section 5 contains the conclusions and recommendations for the policy makers in a field of extension services development.

2. The Need for Extension Services

The customers for extension services can be divided into four large groups.

The first group is **large agricultural enterprises** created to replace the former collective agricultural enterprises (CAE). The average size of such farms is about 1800 ha, with the CAE being the only employer in many villages. In comparison to similar farms in western countries, restructured CAEs have much more employees. Today they cannot simply reduce the number of employees in short–term as this would increase the social problems in rural areas. According to official statistics, 54% of those agricultural enterprises were making losses in the year 2002.[3] The consultancy needs of this group would include advice in the area of:

- Production technologies;
- Improvement of farm management (accounting, farm budgeting, business planning)[4].
- Marketing of agricultural products.

Generally, there is already a lot of knowledge on large farms, but it is dispersed among many specialists, and simply outdated in many cases. To solve these problems, both external advice and re-training of specialists would be appropriate.

The second group is **private family farms** with average size of about 70 ha. This group emerged in the nineties when some of former CAE members wanted to become farmers, and some were forced into this job because the CAE did not pay salaries and private farming was the only way to earn a decent income. Most of these farmers lack an appropriate education since a professional profile like this did not exist in the SU. The requirements of the small farmers differ from the large farms. Most of them can't afford to hire the specialists for the different tasks on the farm, so the farmer needs to have access to broad knowledge. They have to be manager, agronomist, zootechnician and bookkeeper in one person. Therefore, this group needs less specialized but wider support covering all questions regarding farm management.

The third group consists of **households** with plots from 0,5 to 2,0 ha. The household farms are in a similar situation as the previous group, except that they are much

[3] Main economic indicators of agricultural enterprises in Ukraine for 2002. State Committee of Statistic of Ukraine, Kyiv, 2003, p.15.

[4] This objective would include developing special software, training extension specialists (1 for each region) to be able to work with that computer program, so they would be able to train and retrain farm specialists and/or farm managers to implement such software on their farms.

smaller and have even less education. Many of them produce for niche markets such as fruits, vegetables, potatoes, or honey for rayon towns and oblast cities. They need help from extension services first of all in technology, marketing and information on what is necessary for receiving small loans. For this group it is most important that the costs of getting access to knowledge is low enough.

Finally, the last group are people who want to develop **small businesses** in rural areas. Those who have travelled in Western Europe and North America will tell that while passing through any small town or village you will pass by filling stations and cafes, small retail stores and workshops. Clearly, a very large number of people are making their living in rural areas with other activities than farming. Many of them either own or operate a small business, or work for one. One of the most serious problems in rural Ukraine is unemployment or "underemployment." There are too many workers on former collective farms, more than are really needed for the purpose of agricultural production. Managers of former collective farms are reducing their workforce, and recognize that only about one fourth of employees currently active on the farm are really needed for farm operations. Farm managers realize that the cost and productivity of labour is one of their most urgent problems as they strive to become profitable.

There were many non-agricultural activities under the umbrella of former collective farms, and those businesses employed many people. The more creative and business-oriented farm managers are working hard to establish new enterprises on their farms, partly to increase profits and partly to create jobs. Some examples for small non-agricultural businesses in rural areas are: retail shops; cafes, cafeterias and restaurants; green tourism; flourmills; grain processing and packaging plants (e.g., kasha); bakeries; pasta manufacture; oil seed processing; vegetable oil packaging and marketing; slaughterhouses; meat processing; milk processing and cheese manufacture; mineral water production and bottling; saw milling; furniture manufacture; farm vehicle and machinery repair; fish and vegetable canning; feed milling; construction; clothing manufacture.

Some of these enterprises are operated in a very businesslike manner. Their products enjoy a good market off the farm, they may be distributed through multiple retail outlets, and management may have plans to expand production and increase earnings. Some farm enterprises have joint-venture partnerships with private companies, bank or innovation fund credits, or even foreign partners. In some cases, these enterprises are registered as independent business entities; some of them are newly created private enterprises. But all of them do need better knowledge in technology, management, planning, bookkeeping, and marketing, which can be provided by extension services.

3. Review of existing situation with extension services formation in Ukrainian agriculture

Types of services

During the Soviet era, the local agricultural departments provided a type of extension service in the fields of economics, accounting, agronomy, agricultural machinery use, engineering, and construction. Now the number of the specialists in such departments is about 10 to 12 people in comparison with previously 50 to 60 people. These local agricultural departments provide consulting for the reformed collective farms mostly in

the fields of property sharing, farm restructuring, accounting, and some aspects of production technology. They do not work with small farmers and householders at least for two reasons: they do not have the capacity to cover the needs of more than 10,000 small farmers and householders who live and work in a region in addition to about 25 large farms; and they do not have the special knowledge to fill the needs of small agricultural producers. Hence, there is a vacuum regarding the services that should be provided to small farmers and households.

In the middle of the nineties the first extension services were established in Ukraine under different donor's projects to fill this vacuum and to support the new private farms that emerged after Ukraine's independence. Different projects from different donor organizations followed various approaches to build up these services (see annex). Very often the example of the home country of the donor organization was used as a pattern for the new structure. There were basically four types of extension services functioning in Ukrainian agriculture. Despite their different approaches they share many common aims. Their main target group is small farmers and householders.

University-based services

The first type is the extension service on the base of a university. A specialized department of the university provides the service whereby the instructors are the consultants. In some cases they have branches in the regions in order to be closer to the farmers. The biggest challenge for the consultants is the difference in the levels of education between the farmer and the consultant. The teachers from university usually have a very specific but theoretical knowledge but the farmers come with very practical questions. Sometimes a farmer even may not know who will be the right specialist for his problem. The consultant must find the right level of communication between the farmer and the consultant. Unfortunately, the agriculture universities do not have the specialists for consulting household producers. The advantage of the university is the good infrastructure. They have the specialists, training facilities and access to the computers, Internet and communication. Only in the regions they have to establish a new infrastructure.

Private services

The second type is newly founded private organisations, with a head office in the Oblast centre and sub offices in some regional centres. Besides providing services for farmers they sometimes provide legal and other help for the rural population. This type of services requires more effort in the beginning since it starts from zero. But it gives the possibility to set up a tailored organisation. There are no commitments and a free choice of staff, facilities and location. The centres can choose their fields of activities depending of the needs of their customers.

With Investor

The third type is a specialized extension service that was established in cooperation with a foreign investor in order to support his investment activities. In their field of activity they can show quick results because they have a defined task and there is a potential buyer for the produced goods. Because the service is established with a certain task it might be difficult to add new fields of activities to it but some services did it though.

Private consultant

To complete the list of services and projects that assists agriculture the private consulting services should be mentioned. These services are provided by individuals or by a group of consultants. They do not rely on public financing and their aim is to cover all costs from the payment of their customer. Very often they are highly specialized in a certain subject, e.g. taxes, management, land and assets privatization of former CAE, veterinary.

Some extension services merged from the second group in this group. They started under a project with the same intention like described above. But after their project finished they had to stop their work with small farmers and public services due to the lack of financial support. Since the small farmers were not able to pay they had to look for other customers. Now they do not offer any more public services but work like private commercial consultants, and their clients are larger farms.

Cost aspects of alternative forms of extension

In all cases extension service can increase efficiency and quality of farm work. But which service is the right service for the different customers? Generally the knowledge can be transferred in individual consultations which is more effective but expensive, or in groups, through seminars or field days, which is less effective for the individual but cheaper. With consultations for groups of farmers, one person can reach more people in the same time. This can be vocational training for young farmers, special seminars for re-training, demonstration plots or field days. In addition to this, the dissemination of magazines and brochures, rural libraries, internet, video, and radio programmes are also a way to reach many people in rural areas, and each with different intensity, effectiveness, and costs.

The individual consultant plays a key role when it comes to extension services on a personalised level. The qualification of a consultant should be high, he needs a fast intellectual grasp to understand the problem of the customer and he must permanently look for news. People with this qualification have also other job opportunities, e.g. on larger farms. Therefore, their salary must be high enough to be competitive to job offers from others. Including taxes and social payments, the monthly salary should be at least, say, UAH 1000. He needs an office with telephone, fax and computer, and a car. For the running costs and depreciation UAH 3000 were taken into account.

Let’s assume that total working hours in one month is 200 hours. However, the consultant is only about half of his working time available for the customer, at best. The other half is necessary for preparation, driving time etc. If the total costs were UAH 4000 per month, and the consultant works 100 hours with the customer, one hour of consultation would have to cost UAH 40, and including VAT, roughly UAH 50.

For a better understanding of different approaches for consultant services a comparison of two different client farms should be demonstrated. At first the cost of one hour will be determined, and an example of the cost of consultation will be shown. Let the first farm be a family farm with 10 ha, growing three different crops. The second farm is a large farm with 1000 ha and five different crops. The small farmer needs 3 hours of consultation for each crop per year, in total 9 hours or UAH 450 per year, which means costs of UAH 45 per hectare. Let us now assumes that the

consultant spends 10 hours per crop on the large farm. In total, the farm has to pay for 50 hours or UAH 2500 per year. For a single hectare, the costs are only UAH 2.5, which is much lower than for the small farm, even though the intensity of the consultations was much higher!

On the other hand, a one-day-seminar would cost about UAH 20 per person. This is cheaper than the individual consultation, but less effective for the customer, and he also has to cover the costs of making his way to the seminar instead of having the consultant coming to his farm. The small farmer now needs to decide if it is worth to hire a consultant for direct consultations, or if it is enough to participate in a seminar. In both cases he will only make use of the service if he sees an advantage for him. Only if he can increase the income to cover the expenses for the service, he will make use of the service. Obviously for the large farm it is easier to amortize the costs for the consultation. For family farmers it might be better to participate in seminars or field days.

For some questions it is not necessary that the consultant goes out to the village. Most management-related or legal questions can be discussed in his office. The same applies for the public consultation. But a dense network of offices is a prerequisite that people will use this service.

The legal situation

On November 25, 2003 the Ukrainian Parliament adopted the first reading of the law "On agricultural extension services activities". According to this law, all activities in extension services are divided into public and private services. Private services aim at improving the profitability of an individual, while public services should improve the living standards of the rural population. The financing of public services is envisaged to be carried out through national and local state budgets. The law anticipates also a certification of individuals and legal entities that will provide extension services. Hence, the formal legal framework for extension services development will be created soon. However, it is only the first step on the way to creation of extension services in Ukraine.

Public spending on extension and advisory services includes expenditures on maintenance of research laboratories and crop protection stations that provide consulting services to farmers and disseminate information. However, despite the importance of extension services, fiscal restraints have led to a financial crisis in agricultural extension in Ukraine. Indeed, expenditures on extension and advisory services accounted for only 0.04% of total agricultural support in 2002 (UAH 1.5 m), and no money at all has been allotted for this purpose in 2003 and in 2004! Some local administrations provide some financial and logistical support for extension services. Even if they are willing to give more support they have limited possibilities due to the budget regulations. The law "On agricultural extension services activities" should give them more possibilities.

Finally, the introduction of a certification of extension services should not be used to deter the establishment of new private services. It should thus not be compulsory. The most important two attributes of a good consultant are his formal education, and his good reputation for giving advice. This is at best evaluated by the farmers themselves instead of state administrations. On the other hand, a certification on a voluntary basis, carried out by boards consisting of various interest groups, may well contribute to a better quality of agricultural extension in Ukraine.

4. What should be done to support the development of extension services?

Ensuring diversity among extension services

In our opinion, one of the better scenarios for establishing a publicly financed extension service in Ukraine would be to boost the development of all of the types of services simultaneously. First, existing regional agricultural departments should be redirected towards the activities of providing extension services. The advantage of this type of service would be the governmental support, financial endowment, uniform development, full control over the provided services (quality control), integration with educational system, and the use of universities' resources. At the same time, the consulting companies, individual consultants, and investor-sponsored extension services maintain their independent status and provide extension services on a (more or less) commercial basis. In addition to this, the state may tender a certain service (e.g. the development of a software product to run managerial accounting systems on a farm, different types of trainings for the rural population), and hires the service with the best offer. The advantage of such an approach is that the system of extension services remains open with a healthy degree of competition and private initiative in this business.

Customer confidence is an important factor for the success of each consulting activity. Only if the customers are convinced that the service serves their interests, they will make use of it. In this connection the consultants themselves play an important role. Only if they provide reliable and independent information they will establish good contacts with customers. This is a key factor to remember while organizing state-funded extension services as a department of the MAP.

Ensuring sustainability of existing services

The success of extension services depends on the quality of knowledge transferred, and on the cost-efficiency of that transfer. The efficiency depends very much on the distance to the farms and the mobility of the consultants. A consultant who can go to the villages can reach more customers than if he would wait that the customers come to his office. In order to ensure a measurable impact on the development of the rural areas, a sufficient amount of people must be within reach. Therefore it is necessary to have a nationwide basic service with short distances to the customers to reach as many as possible farms and people in rural areas. At the moment, 17 out of 25 Oblasts are covered by extension services from different donor organizations. The duration of each project is limited, and in order to keep the services running, they need to be financed from both the state budget and from own revenues. The experience of most of the existing extension services shows that only a small part of them can be sustained from payments of the customers due to their low ability (and readiness) to pay. This transition could lead to several problems. Existing services might be closed, or they might have to redirect their activities. In both cases this means that a certain amount of knowledge and infrastructure will disappear, and later have to be re-established. If policy makers show their commitment to support the idea of an extension service, the existing services will get the confidence that they will continue their work after the donors' financing is over. Hence, it is important to adopt the legislation soon. An expertise provided by Ukrainian and foreign experts shows

that the existing draft law "On agricultural extension services activities" is a good start for development of the legal framework for extension services in Ukraine[5].

Other priorities

In additional to this the government should do the following:

- Insure a competitive environment for the extension services by creating conditions for further development of private extension services.
- Contribute to the training for extension services activity in the system of higher and specialized middle education. Experience shows that farmers with higher education achieve higher yields by employing more appropriate production methods. Furthermore, education contributes to rural poverty alleviation, as it gives rural residents improved opportunities for off-farm employment. Finally, a farmer who is comprehensively well educated in farming will have it much easier to assess, accept, and make use of external advice from extension services.
- To allow farms use VAT compensation which is accumulated on a special account to pay for extension services. For the time being, farms can use these funds only to buy equipment, machinery, and fertilizer for production purposes.

It should be mentioned that research, general and specialist training, extension and advisory services, including transferring information and the result of research to producers and consumers, are a part of the "Green Box" measures in the framework of WTO requirements on support of agriculture.[6] This means that no restrictions and limits exist for such a type of support for agricultural producers. Furthermore, this type of support provides favourable conditions for a long-term, steady and sustainable agricultural development, the improvement of the rural population's welfare, and the development of market and social infrastructure.

5. Conclusions and recommendations

Development of extension services in Ukraine is an important element for further reformation of agriculture. Under the new economic conditions a need for improvement of technical and managerial skills of Ukrainian farmers has increased significantly. In addition to this, Ukrainian rural areas are underdeveloped which requires special extension services for rural development. It is important to notice for policymakers that agriculture is only one part of the rural economy, and that the diversification of that economy is crucial for Ukraine as a whole.

For present time at least three types of extension services exist in Ukraine: on the base of a university; independent private consulting company with a head office in the Oblast centre and sub offices in some regional centres; a specialized extension service that was established with a foreign investor in order to support his investment activities. Today eight Oblasts have no extension service. It would be a good possibility for the government to show its commitment towards public financed extension service to start pilot projects in those oblasts. The government should co-finance public extension services and redirect activities of the local agricultural

[5] Extension services in Ukraine. Propozytsiya, # 1, 2004, pp.16-17.
[6] Shifting agricultural policy towards measures envisaged by the Green Box. German Advisory Group, Institute for Economic Research and Policy Consulting, Policy paper T 6, Kyiv, September 2003.

departments on providing public services and play a bigger role in the extension services.

Existing system of agricultural education in Ukraine was organized to provide the needs of the large agricultural enterprises in such specialists as economists, accountants, agronomists, zootechnicians, engineers and constructors, veterinaries etc. So, this system is characterized by narrow specialization. However, the farmers and householders cannot hire all necessary specialists as it was done by the large collective farms. Farmers should have some knowledge in economics, agronomy, and zootechny and have the possibilities to get some special services like accounting or veterinary medicine from outside. There is a strong need for creation of special training and schools for the farmers and householders, and also redirection of a higher agricultural education on preparation of the specialists for extension services. In this content the experience of the countries with developed market economy may be very useful for Ukraine.

Non-agricultural business in rural area should be also a field for extension services activities. In rural areas, there are many non-agricultural activities, and these businesses employ many people. All of them need knowledge in technology, management, planning, bookkeeping, and marketing. This knowledge can be provided by extension services.

Summing up, we recommend the following steps:

- To adopt, as soon as possible, the law "On agricultural extension services activities" that has passed the first reading in the Parliament. This law will create the legal framework for the extension services development;
- To redirect the activities of existing regional agricultural departments towards providing extension services;
- To insure that the development of private extension services is not hampered by bureaucratic obstacles, e.g. compulsory certification;
- To allow farms to use VAT compensations to pay for extension services;
- To contribute to the system of agricultural education by introducing new courses in order to prepare extension service consultants; organizing training and retraining for farmers; creating the network among the universities and private extension service companies.

The objectives of the extension services should include providing advice in the fields of:

- Production technologies;
- Improving farm management, such as providing help to organize and implement a managerial accounting system;
- Establishing non-farm businesses in rural areas.

S.D., D.T., Lector A.K.,

January 2004

Annex

The Active Extension Services (on January 1, 2004)[i]

Region	The name of Extension Services	The sources of financing
City of Kiev	The Coordination and Training Center on Agricultural Extension Services. (NCTC)	Canadian International Development Agency (CIDA)
Kiev Region	Kiev Region Extension Service (URLP) Canadian-Ukrainian Project 'Facility for Agriculture Reform and Modernization Program' (FARM) Ukraine Rural Livelihoods Program (URLP)	Great Britain Department for International Development (DFID) Canadian International Development Agency (CIDA) Great Britain Department for International Development (DFID)
Autonomous Republic Crimea	Crimea State Agricultural Coordination Center on Training	State Budget
Vinnytsya	1. The Coordination Center of the USAID's Project 'Private Farms' Profitability Increasing due to Implementation of the Agricultural Extensions' 2. Private Farmer Training at The Postgraduate Center of the Vinnytsya State Agrarian University.	The United States Agency for International Development (USAID) The United States Agency for International Development (USAID)
Volyn	Volyn Agricultural Extension Service	Canadian International Development Agency (CIDA)

Dnipropetrovsk		Canadian International Development Agency (CIDA)
Donetsk	Donetsk Rural Extension Service (URLP)	Great Britain Department for International Development (DFID)
Luhansk	Luhansk Extension Service	Self financing
Lviv	Lviv Agricultural Extension Service	Self financing
Mykolayiv	Mykolayiv Extension Service	Self financing
Odesa	The Center of Social Development (URLP)	Great Britain Department for International Development (DFID)
Poltava	Poltava Agricultural Extension Service	The Government of Federal Republic of Germany
Rivne		Canadian International Development Agency (CIDA)
Sumy		Canadian International Development Agency (CIDA)
Ternopil		The Government of Denmark
Khmelnytsky	Project 'Ukrainian Private Farmers Income Increase due to Implementation of the Extension Services' (USAID)	The United States Agency for International Development (USAID)
Cherkasy	Project 'Private Farms' Profitability Increasing due to Implementation of the Agricultural Extensions'	The United States Agency for International Development (USAID)
Chernihiv	Chernihiv extension service	Self financing

[i] Ministry of Agrarian Policy of Ukraine, Department for reform of agricultural sector, Department of the agricultural extension services