

MARSHALL PLAN CONCEPTS AND TECHNICAL ASSISTANCE IN KHARKIV, UKRAINE

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Abstract

The Marshall Plan was probably the world's most successful assistance program. The Technical Assistance Productivity Program, one of its components, brought 25,000 Europeans and several thousand other people from developing countries to the United States to learn about the latest techniques in management, technology and marketing. Study tour participants adapted American techniques and increased productivity at home. The United States Agency for International Development funded a series of similar study tours for businessmen from Kharkiv, Ukraine to the United States. This paper describes those study tours and their very positive results.

Marshall Plan Technical Assistance Program

One of the major challenges facing all development agencies, including USAID, is to stabilize developing and failing nations. One way to do this is to help make their economies viable. This will help developing nations improve incrementally and truly transform themselves.

The original Marshall Plan Technical Assistance Program was designed by James Silberman, Chief of the Productivity and Technological Development Divisions of the U.S. Department of Labor. Silberman meticulously defined the steps in the program and its basic technical assistance principles to get results; these principles, designed to transform societies, underpin current USAID programs, particularly the one described in this paper.

The Center for Economic Initiatives is the only organization to have adopted the eight Marshall Plan principles in its development work and extensive follow-up activities. The following principles characterize the approach for the original Marshall Plan and for CEI today.

1. *Select the best industries*, those that are likely to have the greatest economic impact on the local economy and standard of living. CEI's experience has shown that these industries include agriculture, construction, manufacturing, information technology and food processing. Banking and government regulations are also good candidates for investment.
2. *Gain commitment to change* at the top levels of key companies and government agencies. Make clear that tour participants have a responsibility to their organizations and their industries to implement new ideas and improvements.
3. *Choose the right people* strategically, by selecting future leaders and levers for change. The applicants must be decision-makers who can make things happen back home after the tour.

4. *Include a range of decision-makers* from private, public, and educational sectors. Government leaders often do not understand the problems of industry and agriculture. In this program, they have an opportunity to see which policies work and which do not.
5. *Create a mix of skills, experience and perspectives* by including people with functional and management experience from production to marketing. Include technical specialists, owners, and marketing specialists who can exchange information and ideas.
6. *Discuss* new ideas learned *daily* during the tour. Meetings led by the participants themselves will help identify ideas that can be tried at home and those that are less likely to work.
7. *Disseminate findings actively* in a detailed participants' report describing their findings, ideas, solutions, and insights. CEI has found that each participant discusses tour findings with more than 300 people after having returned home. Some give lectures to professional groups, about half publish articles in newspapers and trade journals and many show their tour video to professional colleagues.
8. *Follow-up* after the tour by visiting the participants personally to find out what ideas they have implemented. Document their lessons learned in case studies for use by others in the industry. Use your findings to improve future study tours.

CEI has been working in Kharkiv, Ukraine where it was funded by USAID to carry out 17 study tours for industrial and agricultural representatives from the former Soviet Union, to give them a first-hand look at modern technologies, management and marketing techniques in the U.S. Participants could adapt what they learned to increase productivity and compete successfully in a free-enterprise marketplace. CEI adopted the principles outlined above. The results and benefits were far greater than anyone had predicted; indeed, the Kharkiv government has reported an increase of more than 4% in GDP thanks to these tours and their subsequent impact.

CEI Study Tours

CEI is located in Cincinnati Ohio, a major airline hub easily reached from Europe and Asia. Its location is ideal as a hub from which to organize study tours. Cincinnati is easy to access and enjoys very reasonable Midwest prices that keep program costs to a minimum. An industrial city in an agricultural area, Cincinnati is close to half of all U.S. industry, which is located within 500 miles of Ohio. The rich agricultural Midwest also offers outstanding examples to study tour participants of agricultural and food processing study tours and welcoming mid-western organizations.

Study tours for Ukrainian business leaders are very carefully planned. They have a clear purpose and clearly defined objectives. Participants visit their counterparts in the U.S who explain their operations and answer detailed questions. Tour members examine production, marketing, wholesaling, retailing, financing and regulation first hand, taking voluminous notes and preparing reports to see how they can adapt what they learn to their own situations.

Study Tour Basics

Every enterprise participating in CEI study tours has been able to make at least one significant improvement at home; most have made several. Perhaps even more impressively, government policies have changed as a direct result of the program and educators have developed new class syllabi. For example, construction projects are now put out for competitive bidding, the prices of selected bread products were deregulated, and new livestock procedures are now being taught at the university level. The study tours produced the following results.

Increased Milk to Market

Dairy processors in Ukraine had complained that they did not have enough raw milk. After visiting Archer Daniels Midland, the large soy processor in Decatur, Illinois, Alexander Radchenko, president of the largest Ukrainian dairy on the mission, decided to promote soy as a milk substitute. He has done so with great success. Radchenko reported that more than 90% of the soy milk now goes into condensed milk, commonly used in Ukraine, and into other dairy products.

American calves are weaned within a few days of their birth whereas in Ukraine, weaning occurred only after three months. Whole milk fed the calf and did not reach the market. Soy milk is now being used to feed calves which are weaned from their mothers much earlier so that the cow's milk can be commercialized. Participants on the Livestock study tours have confirmed that they are using soy formula as a cost-effective substitute that actually improves the health of the calf and reduces the time to market of the cow's milk. Long lines of farmers await soy milk deliveries at dairies.

Reduced Calf Mortality

In the United States, newborn calves are placed in individual pens. Their mortality rate is typically 5%. In Ukraine they were not separated from their mothers, and the mortality rate was 15%. Anatoliy Gatsko of the Gagarin farm reports that when he adopted individual pens on his farm at a very low cost, he reduced mortality rates among his calves to U.S. levels.

Packaging and Branding

In Ukraine advertising is used to dispose of shoddy goods only. For example, one baker on a study tour described how he expanded into new territory with unpackaged bread, naively anticipating no marketing problems because of the superiority of the product. During the study tour, participants were shown how packaging, logos and branding help consumers understand and remember products. Not only have most companies on CEI training missions adopted logos for their products, but this baker now has also packaged and sliced bread, expanding his market successfully.

Cooling Systems

Ukrainian food processing plants, dairies, and other businesses typically used cooling systems placed on the floor for easy maintenance. In the United States, they found cooling systems in the ceiling, from which cold air sinks. The Ukrainians immediately moved their cooling systems to the ceiling and saved 30% on energy costs – a significant figure in a country that imports most of its energy. One dairy even froze their milk before turning up the temperature.

No-till farming

No-till farming means that cultivating fields without plowing them. Although Ukrainians had heard about no-till, they did not believe that it worked. When, during study tours, they were taken by American farmers out into the fields, they were able to see first-hand the value no-till. The Ukrainians adopted no-till farming as a result of this visit are now enjoying savings in tractor fuel of 50%. This is astounding in a country where fuel costs account for about 65% of the total costs of running a farm.

More Subcontracting

In Ukraine, manufacturing firms typically produce every component of their products. This leads to high costs and to the virtual impossibility of keeping technologically current. In the U.S., manufacturers purchase items from outside suppliers of parts of their production chain rather than manufacture everything themselves. This lowers costs, and gets the product to market sooner: for the

consumer, this means higher quality products at lower cost. The obvious advantages of American subcontracting practices have encouraged study tour participants and others to adopt them.

Electrical Systems

In a Ukraine manufacturing operation, electrical cables to machine tools are run under the cement floor and brought up to electrical boxes resembling fire hydrants. As a result, there are usually many electrical boxes on the factory floor. Moving machines between locations often requires running new cables and installing new boxes. In the U.S., electrical power comes through cables dropped from the ceiling making it relatively easy, quick and inexpensive to move machines.

Construction Organization

Construction tour participants have been impressed by the organization of work at U.S. construction sites. They noticed that only a few workers at each site were required to do their work and each knew what to do. Work proceeds smoothly as a result, by contrast to Ukraine, where job responsibilities were not as well defined. Moreover, any single job usually requires many more workers than in a comparable American setting, and labor squabbles result in chaos. After CEI study tours, many companies have been reorganized. Job responsibilities become clearly defined and workers who cannot adjust are replaced. Companies are using foremen to direct activities rather than relying on orders from a single executive director.

Widespread Benefits of the CEI program

The ratio of financial benefits to the cost of the USAID grant achieved by farms and firms participating in the CEI Marshall Plan type study tours are remarkable. The total financial gain reported by all study tour participants was \$18,037,845. The grant was \$167,000 for each of the six study tours for a total of \$1,000,000. This gives an 18:1 benefit/cost ratio that makes this program an extremely efficient way to enhance Kharkiv and Ukraine living standards and competitiveness.

The financial benefits achieved will continue year after year, while CEI tours are a one-time cost. There is no reason to believe that the U.S. technology and methods adopted by the Kharkiv firms will be abandoned or become obsolete very quickly. A 10-year projection of the cost/benefit ratio suggests an estimated total benefit of more than \$148 million, somewhat less than 10 times the initial financial gain of some \$18 million. For example:

1. For a livestock production study tour, farms achieved \$5,802,271 in increased production, sales profits, and cost savings; the CEI study tour cost \$167,000.
2. The Information Technology study tour for Slavutysh (Chernobyl) resulted in almost immediate enterprise cost savings and increased revenues of \$3,568,276.
3. The manufacturing and marketing fiscal results of the Household Goods and Appliances study tour brought revenue benefits of \$2,687,569 to nine firms.
4. The grain production study tour yielded \$992,410 in expanded farm output, sales, and cost economies, plus an additional \$1,569,535 in livestock benefits.
5. The Kharkiv and Slavutysh firms on the Construction study tours realized production and revenue increases of \$1,406,945 for Slavutysh (Chernobyl) and an estimated \$2,080,839 for companies in Kharkiv.

Conclusion

The financial results of CEI tours were outstanding, due in no small measure to the methodology that proved so successful in the original Marshall Plan. CEI has systematically applied this strategic

approach and basic principles across a range of programs in Ukraine and in Kazakhstan and Moldova which has created substantive change with an excellent cost/benefits ratio.