

**QUARTERLY REPORT TO
THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
ON THE
AMERICAN COOPERATIVE ENTERPRISE CENTER
CENTRAL EUROPE
THIRD QUARTER 1992**

To: Project Officer: Loren L. Schulze
Grant No: EUR-0024-G00-1068-00

From: Peter D. Mishek
Director, ACE Center Europe

Date: November 2, 1992

During the third quarter of 1992, the American Cooperative Enterprise Center (ACE Center):

- * Began the process that will result in a new farmers cooperative in Poland;
- * Published our first journal, The ACE Center Business Journal;
- * Hosted an inauguration and investment information mission;
- * Marketed and arranged for two management workshops for businesses partners in Slovakia and the Czech Republic.

We also completed the first phase of a transformation plan for two cooperative foreign trade organizations.

We began our UWCC workshop to identify project participants in Hungary and Poland.

In the third quarter, the emphasis was on programming, project development and trade.

1. To locate two projects or other opportunities for our investor partners to begin activities;
2. Finish administrative set up and registration in the Prague and Budapest offices. In Poland, hire a contact person and complete an office sharing arrangement so that facilities are available for projects; and,
3. Show some project results and complete some trade activity.

Our fourth quarter operational objectives include:

- 1. Begin an animal feed project with a local organization and one of our ACE Center partners.**
- 2. Begin a farm supply marketing project with local organizations and our ACE Center Partners.**
- 3. Initiate trades between U.S. cooperatives and Central European firms.**
- 4. Work on the agricultural banking project.**
- 5. Begin an Artificial Insemination project in Slovakia.**
- 6. Locate two suitable agricultural processing facilities with which our members and local companies can do business.**
- 7. Complete a food processing project which will bring in raw and semi-processed products from other developing countries and the USA and making food products for local consumption.**

Objective 1. To locate two projects or other types of opportunities for our investor partners to begin activities;

POLAND:

Poland's new government has improved the climate for investment. The new government has refused to compromise on certain labor and economic reform issues and for the moment appears to have popular support for their stance. This government was also able to report a large increase in the number of foreign joint ventures over a year ago (in excess of 7,600). Germany with the strong D-Mark accounted for over 37 percent of new joint ventures. The majority of these ventures are with branch offices of foreign firms. In 40 percent of these ventures, the foreign ownership share was about 10 percent. In 15 percent, the foreign ownership share was greater than 70 percent. The total investment of the foreign firms was 204 million USD or on average \$26,500.

The Polish Ministry of Privatization included one U.S. based (but Italian owned) agricultural firm as a "serious investor", Central Soya. Central Soya also has operations in Hungary. The European Bank for Reconstruction and Development (EBRD) approved a \$16 million dollar loan to a Polish entrepreneur who is starting a company which will process chicken products including chicken sausage and ham. The plant is 27% owned by Epstein Engineering of Chicago. Agricultural production was severely hit by drought this year so it

remains to be seen what impact this will have on the economy. The investment climate is improving in Poland.

ACTIVITIES

During the third quarter, the ACE Center and 21st Century Genetics completed the initial phases of the "Polish Breeders Association" (PBA) project. Earlier, we had signed a "Memorandum of Cooperation" in which the ACE Center and 21st Century Genetics would assist the association to form a cooperative business with self-sustaining business operations. This quarter, the ACE Center along with 21st Century Genetics constructed and presented a business plan with the association that will allow the start of operations as early as January or February of 1993. The PBA agreed to the business plan by signing after a series of informational meetings in September. Both 21st Century and the ACE Center will provide on-going business and financial and management advice to the organization. The "Independent Self-Governing Production Organization of Cattle Breeders" has about 4000 farmers loosely organized to improve cattle breeding techniques, feed, and other inputs necessary to assure quality milk and improved incomes for farmers. One such way to improve cattle breeding is through artificial insemination services. The business plan creates a new enterprise which will allow the maximum marketing effectiveness at the least cost. The new company will be a future partner for U.S. artificial insemination (AI) firms.

During November we will hold member "information" meetings in which:

1. The business plan will be explained to the membership;
2. The membership will be enrolled in the new breeding organization; and
3. The initial equity contribution will be made to the Polish Breeders Association.

In addition, the ACE Center will work with the PBA to register the new organization and solicit additional financial resources for the company. The ACE Center with PBA will be recruiting a general manager for the new organization and sending him to 21st Century in the USA for orientation and training.

During August we met Polish cooperatives about the prospects for trade with U.S. companies in the area of crop and livestock supplies. We agreed that when there were "concrete" proposals from U.S. or other companies they would be interested in holding trade meetings. During this quarter, we obtained those proposals. Therefore, this November we plan to have trade meetings in Poland to sell some farm supplies from U.S. manufacturers (such as twine) and we will also be looking at Polish-made goods for sale in the U.S. and other markets.

CZECH AND SLOVAK FEDERAL REPUBLIC:

The overriding topic of conversation is the tax system in the CSFR. First, the high rate of taxation has left some foreigners wondering who will bear the incidence of the new taxes and second, whether the new system will ever be implemented given the break up of the federation. In agriculture, harvests were not as poor as many had anticipated. There is

still a great deal of pressure on the existing farm units and the emerging private agriculture sector. The collectivisation which many felt would persist due to insufficient entrepreneurial farm owners has begun to unravel. Transformation laws have been written which do not allow title to private land to be transferred after the death of the owner. Existing management has in many cases either given up or resorted to intimidation to hold their farm assets intact.

The foreign companies appear less concerned with the split in the CSFR Republic than the U.S. Government.

ACTIVITIES

The Moravian Quality Food Project has been slow to develop beyond the initial assessment stage as both the cooperative and the state firms involved need to complete transformation and privatization in this calendar year. This project is an effort to upgrade and improve indigenous quality and delivery of food systems in parts of Czechoslovakia. ACE Center partners will provide training, technical assistance, and possibly invest in each operating division of the food company. The steering committee will meet in Moravia this quarter and revamp its implementation schedule for the new food company.

The ACE Center was also engaged in activities associated with the privatization of state businesses and transformation of cooperative enterprises. This quarter we examined and established relationships with over thirty businesses in agriculture and trade through direct contact or through workshops. In this way, we will identify prospective candidates for projects during the coming year.

Our first clients were two international trading cooperatives (FTOs), UNICOOP in the Czech Republic, and INTERCOOP in the Slovak Republic. We will examine the organizational structure, financial capacity, and marketing mix of the firms. The preliminary findings were presented to the cooperative boards during September. These companies will decide on a new course of action by early November. We are proposing a future marketing strategy for these FTOs that not only includes the participation of ACE Center partners but of other local firms which we identified through the UWCC workshops. We will complete these first two consulting projects by the end of October.

During October and November, the UWCC workshop participants will be visited and each will be assessed for participation in either the farm supply project, the feed project, or one of our food processing (food chain) projects. Generally, the participant's activities were in compatible economic areas with the ACE Center partners. Their facilities are of high quality, and many showed good management potential.

The ACE Center is currently working with a software company to develop a western style financial analysis package that is more attuned to cash flow and the new CSFR tax system. Preliminary negotiations have been completed but have had to be modified due to problems at the Czech firm. An American partner has yet to be identified. If this product comes together we expect product development will start late this year.

During the inaugural conference, officers of the Brno Co-op Bank met and exchanged information with CoBank representatives. We are still exploring further technical assistance with the management of the bank. In all likelihood, the ACE Center will propose the planning and establishment of an agricultural lending division at the bank this November. We hope CDF and Cobank can assist us once the proposal is completed.

HUNGARY

Like Poland, Hungary suffered a devastating drought which lowered production in most crops by approximately 25 percent. The Ministry of Agriculture is predicting an increase in revenue of nearly 20 percent this year. The reason for this is an increase in subsidized food sales to the former Soviet republics and an agreement with the EEC to lower tariff into Western Europe. Over 60 percent of Hungarian exports last year went to the European community. Conagra, Cargill, and Feruzzi have all bought or built operations in Hungary in the food processing industries. Of the total revenue that Hungary has derived from the sale of state owned enterprises, over 45 percent has come from the sale of state farms and food processing facilities. The government plans to keep large scale farms.

ACTIVITIES

Our Hungarian office has been concentrating on locating facilities for possible investment and visiting with different agricultural enterprises to learn what is possible for our ACE Center partners. During the past quarter, ACE Center personnel have visited and interviewed over fifty farms and ag enterprises. We have discussed investment and training (primarily, the UWCC workshops) and the possibility of management and technical assistance with these firms. One of our partners, Farmland Industries, has visited Hungary numerous times during the quarter. In a radio interview, Gordon Lormor, their International Manager, stated Farmland was ready to invest in Hungarian agricultural production and in meat processing facilities.

We expect that the feed project which is one of our fourth quarter objectives will be put together in Hungary.

Objective 2. Finish administrative set up and registration in the Prague and Budapest offices. In Poland, hire a contact person and complete an office sharing arrangement so that facilities are available for projects.

We completed an office sharing arrangement with ESOP Services in Warsaw. We also looking for office space and have a contact person in Torun, Poland. Ms. Beata Berthold is an excellent interpreter and translator as well as being quite knowledgeable about our existing projects in Poland.

We also worked on the training and orientation aspects of the ACE Center this quarter. Ms. Laura Greene, an NCBA Administrative Manager, came to our offices in Prague and in Hungary. She not only provided each office with an accounting manual but approximately one week of training in accounting procedures. The accounting staff will learn NCBA's Job Cost accounting system as well as the local accounting systems in each country.

In the third quarter our staff participated in intensive training in direct sales, surveying, and customer relations as they worked long hours to market the UWCC workshop. When the promotional work was finished they each attended many sessions of the UWCC Workshops which we arranged in Slovakia and the Czech Republic.

Ms. Eva Balogh, Administrative Associate in Hungary, also accompanied the Director on a week long session of training in direct sales and customer relations in Western and Southeastern parts of Hungary.

Objective 3. Show some project results and complete some trade activity.

During the third quarter, we believe we got off to a good start in business development and a large number of trade contacts were made during the inaugural conference and the workshops. We have identified a number of viable trade opportunities for our investors. The next step will be to fashion a suitable framework for the investor and recipient and make the whole thing acceptable so that it happens. In the area of trade development, we have met and interviewed more than two hundred companies during the last quarter in conjunction with the workshops, the inaugural events, and other trade initiatives. Our ACE Center partner's participation in trade shows and other projects should give us an opportunity to get some good trades on the books.

In October and November we have three visits by serious U.S. trading partners scheduled. In addition, we have the participation in "Foodapest" by four ACE Center partners. Two other U.S. companies (we hope will become ACE Center investors) have also expressed an interest in participating in the trade show with the ACE Center. We still expect to hold a series of commodity (product) group specific cooperative trading tables in Poland, CSFR, and Hungary this quarter. This will give local cooperatives an opportunity to highlight their products and give the ACE Center and its partners an opportunity to gauge the quantity, quality, and diversity of products produced here in Eastern Europe.

Respectfully,

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