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**Consultancy Report**  
***Quarterly Report July 1, 1993 - September 30, 1993***

***Food Systems Restructuring Project***  
***Contract Number# CCN-0006-A-00-3072-00***

Prepared by:  
***Steve Gardner***

Prepared for:  
**Agricultural Cooperative Development International**  
50 F Street, NW, Suite 900  
Washington, DC 20001  
Phone: 202/638-4661  
Fax: 202/626-8726

**July 1, 1993 - September 30, 1993**

**AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL  
FOOD SYSTEMS RESTRUCTURING PROJECT**

GRANT NO. CCN-0006-A-00-3072-00

PROGRAM PERFORMANCE REPORT

JULY - SEPTEMBER 1993

**PROJECT PERFORMANCE**

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**I. Summary**

ACDI's implementation of the Food Systems Restructuring Project (FSRP) began on May 6, 1993. For reporting purposes the first quarter was shortened to end on June 30, 1993. This second quarterly report covers July 1 through September 30, 1993. The FSRP accomplished all of its goals for the quarter. Highlights of project progress during the quarter are given below:

- Began developing potential subprojects for a vegetable and fruit processing plant near Talgar (Almaty Oblast) and an elevator/food processing complex at Zyryanovsk, East Kazakhstan.
- Developed a broad network of contacts in Almaty Oblast including food processing enterprises, banks, central and regional government administrations, engineering firms, an accounting firm, academic institutions, private farmer and business organizations, various NGO/PVOs, and embassy personnel to obtain critical information for agribusiness investment decisions.
- Hosted the ACDI Board of Directors Mission to Kazakhstan.
- Hired the Subgrant Coordinator to work out of the Washington Office.
- Canvassed ACDI/NCFC member agribusinesses for interest in the project.
- Opened an office in Almaty.

Kazakhstan's major food systems problem continues to be a lack of adequate food processing equipment, especially for packaging. Foreign agribusinesses remain reluctant to invest in the food processing enterprises. However, government officials may soon be changing the tax laws to give new food processors a short-term tax holiday.

## **II. Comparison of Actual Accomplishments with Period Goals**

### **a. Project Purpose & Strategy**

The purpose of the FSRP is to increase U.S. agribusiness involvement in the food systems sector in Central Asia and achieve positive economic impact on the private food systems sector with primary emphasis on value-added food processing and marketing.

The strategy is to send U.S. agribusiness specialists to Central Asia to provide an array of technical assistance to emerging private food processing enterprises and turn those linkages into viable business relationships. Subgrant funds serve as financial incentives to U.S. firms investing in the value-added food processing and marketing infrastructure of Central Asia.

The project seeks to identify local food processing and/or marketing enterprises with a need for new technologies and a willingness to enter into a business relationship with a U.S. agribusiness. The discovery process focuses on private or genuinely privatizing enterprises with a reasonable chance of entering into a viable, sustainable business relationship with a U.S. agribusiness.

### **b. Highlights & Actions During the Quarter**

The project met all of its goals for the quarter as outlined in the original implementation plan. Significant field and Headquarters activities are detailed below.

#### Project Director Activities

Project Director, Gerald Bahensky, started implementing the project in Kazakhstan by looking at food processing/marketing enterprises in three oblasts during the quarter. After identifying two of the most promising Kazakhstani partners for potential subprojects, he began preparing in-depth corporate profiles on those companies to share with ACDI/NCFC membership.

The first enterprise is the Michurin Collective Farm located near Almaty, a large diversified farm scheduled to be privatized

by the Spring of 1994. Michurin has 2,028 employees, covers over 10,000 hectares of crop land and orchards, and produces fruits, vegetables, grains, potatoes, forages, dairy, poultry, sheep, and cattle. The farm has a history of being open to foreign business relationships, and management recognizes that to attract U.S. investment it will need to privatize. Michurin would like to attract U.S. investment to modernize its fruit and vegetable processing facilities, add refrigerated storage, and improve packaging.

The second enterprise is the Zyryanovsk Grain Elevator in East Kazakhstan, a large grain elevator serving about sixty private farmers and several state and collective farms. Although currently state owned, the elevator plans to form a joint stock company. The elevator manager and regional administration strongly favors forming a business relationship with a U.S. food processor.

The elevator is on rail and connected to the former Soviet rail system. It has a primitive feed mill, a small flour mill, and a crude sunflower oil processing line under construction. A critical shortage of vegetable oils exists in Kazakhstan and top level officials associated with agriculture have as a priority the establishment of such an industry. Local officials welcome U.S. investment in equipment, technology, training, and packaging for a small-scale sunflower oil processing plant.

Since arriving in Kazakhstan, Mr. Bahensky has established contact with a number of key agribusiness people including representatives of four agricultural banks, two regional administrations, AGRO (a national private farmer organization), KENES (a private small business association), various central government agencies, two engineering firms working with the food processing industry, Price Waterhouse (an organization with extensive experience in international business relationships in Kazakhstan), and nine different food processors. The agricultural banking representatives have been particularly helpful with identifying potential partners for the FSRP.

Mr. Bahensky took advantage of ACDI's office in Moscow by enlisting the assistance of NIS Director of Operations, Ernest Bethe III. Mr. Bethe travelled to Almaty to assist with opening/staffing the Almaty office. Mr. Bahensky has also contacted other implementors of the Farmer-to-Farmer program to develop leads for the FSRP.

#### Missions Related to the Project

In July, Mr. Bahensky, joined the USDA Investors Mission to the Russian Far East travelling to Vladivostok, Nakhodka, Vostochny, Sahkalin Island, Amurskaya, and Khabarovsk. The

mission gave him valuable insight regarding NIS agribusiness and how to network effectively in the NIS. He identified two strong potential partners for dairy, meat, and vegetable processing subprojects while on the trip. Upon learning that ACIDI's project would focus on Central Asia, Mr. Bahensky forwarded the names and numbers of contacts made during the mission to TriValley Growers FRSP personnel.

In August, ACIDI's Board of Directors Mission travelled to Kazakhstan. The mission gave the participants an opportunity to examine the projects ACIDI has underway in Kazakhstan, as well as agricultural and agribusiness conditions and potential agribusiness projects in the region. The delegation toured food processing plants, interviewed various governmental and embassy officials, and met with a small private bank specializing in agricultural lending.

### Headquarters Activities

ACIDI/Washington hired Stephen Gardner as the Project Manager/Coordinator. Mr. Gardner compiled information on ACIDI/NCFC member agribusinesses and canvassed them for general interest in the project. Mr. Gardner and ACIDI's Executive Director of NIS Operations, Michael Moran, have fielded inquiries and held discussions with at least twenty unsolicited U.S. agribusinesses interested in the project, many of whom were referred by USAID.

ACIDI's new Vice President for Agribusiness and Trade Promotion, Ken Bader, also contributed to the project by joining ACIDI's Board Mission to Kazakhstan and working closely with Headquarters staff on the newly revised implementation plan.

ACIDI/Headquarters met with AID/Washington on September 14, 1993. At that meeting, ACIDI agreed to focus its implementation of the FSRP on Central Asia. Following that decision, Mr. Bahensky opened a temporary office in Almaty, and hired local staff to begin working on the project.

### **III. Actions Planned for Next Quarter**

- Conduct Rapid Business Opportunity Assessments (RBOAs) on enterprises in Jambul, Chimkent, and Taldy Kurgan Oblasts and forward brief corporate profiles based on the RBOAs to Headquarters upon completion. Also, complete six in-depth corporate profiles on agribusinesses selected as most likely to succeed under the FSRP.
- Work closely with Farmer-to-Farmer cooperators and seek leads regarding agribusiness activities with emerging

Central Asian agribusinesses that may have potential for business linkages with U.S. agribusinesses.

- Prepare an outline for U.S. agribusinesses which indicates how to do business with firms in Kazakhstan to present to members at the annual National Council of Farmer Cooperatives (NCFC) Conference in January.
- Prepare subgrant proposals based on completed in-depth corporate profiles to send U.S. agribusiness specialists for technical troubleshooting, targeted training, and business plan/product profile development in Kazakhstan. Mr. Bader will assist with marketing the subprojects to ACIDI/NCFC members.

#### **IV. Additional Observations and Comments**

The outlook for Kazakhstan agriculture in 1993 is good from a production standpoint. This will be the second consecutive good wheat crop. Although a late Spring frost diminished the apple crop in the southern areas, other fruit crops were plentiful. The fresh market for fruits, vegetables, and potatoes thrives in season, but large waste occurs after the season.

The weakest link in the agricultural sector is processing and distribution. Due to limited investment in drying and storage facilities, processing plants, equipment, and technology, most facilities are inadequate and obsolete. Packaging is specifically a problem. Even refrigerated milk has a shelf life of less than twelve hours. German and Italian firms are selling processing equipment, but a severe shortage of capital exists which discourages foreign investment. The lack of investment jeopardizes the continued availability and safety of food. Kazakhstan officials criticize foreign companies that only want to sell equipment, but openly encourage investment in their food processing industries. New food processing industries may soon be given a 5-year tax "holiday" on income. Government officials are also pressuring newly arrived foreign oil companies to invest in the country's social infrastructure.

Although privatization seems to have slowed, foreign investment may be able to accelerate that process. Regional administrators have stated that investment is a condition for privatization. They want to privatize industries, form cooperatives, and enter business ventures with foreign investors. In the meantime, Kazakhstan continues to have somewhat of a "frontier atmosphere" when it comes to private foreign investment in agribusiness. Presently, the existing command economy is fully engaged in providing only basic foods such as bread, milk and unprocessed meat.

It appears that further processing of basic foodstuffs can be profitable for most investors. Products such as fruit juices, canned fruits and vegetables, cheese, ice cream, pasta products, sausages, vegetable oils, and further processed potatoes are relatively insulated from state price controls. However, a low average per capita income limits the market, currently served to a large extent by imports from China and Europe. As average incomes throughout the NIS gradually increase, many of Kazakhstan's markets will be restored. Medium-term the economic outlook for Kazakhstan seems good. The eventual conversion of huge oil and mineral deposits into hard currency should spur the economy.

#### V. Expenditures through September 30, 1993

There have been no financial problems during the reporting period. Below is a summary financial statement of all project expenditures by subcomponent. The actual expenditure totals are based on estimates of expenditures through the end of the reporting period.

	Budget	Actual	Unliquidated
Salaries	735,400	32,093	703,307
Fringe Benefits	172,100	5,265	166,835
Allowances	131,700	1,765	129,935
Travel/Trans/PD	215,800	8,773	207,027
Consultants	196,300	0	196,300
Equipment	43,500	3,000	40,500
Other Dir. Costs	133,600	4,332	129,268
Indirect Costs	596,000	20,250	575,750
Subcontracts	2,775,600	0	2,775,600
	<u>5,000,000</u>	<u>75,478</u>	<u>4,924,522</u>
Cost Sharing	<u>1,448,491</u>		
Total Budget	<u>6,448,491</u>	<u>75,478</u>	

**ADMINISTRATIVE DATA**

Region: NIS/Central Asia  
Implementing Agency/Point of Contact:  
AGENCY FOR INTERNATIONAL DEVELOPMENT, NIS/TF/PSI  
Contractor: AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL  
50 F Street, N.W.  
Washington, D.C. 20001  
Phone: (202) 638-4661  
Period of This Report: July - September 1993  
Period of Last Report: May - June 1993  
AID Project Officer: Laurie Mailloux  
Date Authorized: May 6, 1993  
Estimated Completion: May 5, 1997  
Total Project Cost: \$5,000,000  
NIS Project Director: Gerald Bahensky  
Employees In Country: Three  
Project Office Address: ACDI, Office No. 2  
c/o Doctyk Hotel Business Center  
Ulitsia Kurmangazy 36  
480021 Almaty, Kazakhstan  
Office Phone/Fax: 011-7-3272-63-94-91