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Consultancy Report

Privatization of Integrated Poultry Enterprise

Bulgaria: Assistance to Private Poultry Producers
Contract Number: OTR-0192-A-00-9052

Prepared by:
Kenneth L. Peoples

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

June 14 to 22, 1993

The Peoples Group, Ltd.

ACDI--BULGARIA BANK TRIP
PRIVATIZATION OF INTEGRATED POULTRY ENTERPRISE
PROJECT FINANCING TRIP REPORT
JUNE 14 TO 22, 1993

To: Don Crane
Jim Phippard
Dave Davies

From: Kenneth L. Peoples
ACDI Team Leader

Other Participants: Panyot Panayotov, General Director
Aves Poultry Firm, Bourgas, Bulgaria

R. H. "Twig" Strickler
David Strickler
Rocco, Inc., Harrisonburg, VA

Dr. Thomas Fattori
Pragma Corporation, Falls Church, VA

Christo Petkov
ACDI Representative, Bulgaria
Nelly Cherneva
ACDI Secretary/Interpreter, Bulgaria

Interpreter: Kamelia Bogdanova

Background Information

Upon arrival in Sofia on Sunday evening, all participants met to discuss the presentation approach for meeting with the Bulgarian and other bankers. The Stricklers had been well received in their meeting during the previous week in Bourgas and Varna meeting with local offices of various Bulgarian banks, including Commercial Bank, Bank for Agricultural Credit, First Private Bank, Tourist Sport Bank, and Trade Bank to name a few. R.H. Strickler took extensive notes and agreed to prepare brief call reports for ACDI on these meetings with full names, addresses and phone numbers of bankers called upon.

During these call meetings, Mr. Panyotov explained the technical efficiency model developed as part of the Feasibility Study completed by Dr. Fattori and myself. R.H. Strickler described his family's company and the technical and other expertise that Rocco, Inc. brought to the venture. All of the bankers expressed strong

2200 Wilson Boulevard
Suite 102-221
Arlington, Virginia USA 22201
703.538.2410

interest in the project. One even agreed to recommend to his bank a loan up to the bank's lending limit. Mr. Strickler's report will discuss these calls in more detail.

We decided to adopt a similar approach with the bank call meetings scheduled for the week in Sofia. Mr. Strickler would open the meeting with a discussion about his company and how Rocco, Inc. became involved in the project. Mr. Panayotov, when available, would then explain the technical model. Thereafter, I would discuss the financing needs for the project and explain the basis for the amounts requested. Mr. Strickler would end the presentation discussing the training being provided by ACDI and Rocco, Inc., the quality of the proposed Burgallus management, and visible changes since the project had begun. Finally, the meeting was opened to any questions for anyone. Almost all of the banks had received a copy of the executive summary of the Feasibility Study prior to the meetings. For those who had not received such summaries, I additionally explained the investment approach developed by Tom and I.

In discussing how to present the project's financing needs, we concluded that breaking the credit lines into functional areas would be more easily understood by the Bulgarian bankers, enable the bankers to make proposals to finance some lines but not all, and facilitate collateral security to support the different lines. It was also concluded that the only way to insure that the project was successful was to become involved in the grain business by purchasing a year's supply of Bulgarian corn at summer harvest and make periodic imports of soy meal and sell any soya not needed by Burgallus. Hence came the requests for $2.5 million for working capital line, $2.5 million for capital investment line, and $10 million for feed purchase line. All credit lines would be sought as revolving credit lines to be drawn upon only as needed. For repayment, the working capital line would be repaid as sales revenues were received, the capital investment line would start to be repaid between the second and third years, and the feed purchase line would be repaid as the grain were used from storage similar to American grain credit lines.

Generally, the presentation was well received by every banking group. Having Mr. Panayotov present the technical efficiency model was particularly effective. The entire presentation and meeting lasted approximately two hours. Of the Bulgarian banks, only one, United Bulgarian Bank, asked any pertinent or probing questions. Copies of the entire Feasibility Study were provided in either Bulgarian, English or both as the bank officers requested. A copy of the Feasibility Study in Bulgarian was also delivered to the Ministry of Agriculture and the Privatization Agency with a cover letter from Pragma (copy of cover letter attached).

We decided that the bank calls would be followed up with a letter from Mr. Panayotov detailing again the financing needs sought for the project and a request for their best financial proposal in both dollars and leva. I prepared a draft letter that was critiqued by

all participants and then made final on Aves letterhead signed by Mr. Panayotov on Thursday. The letter also asked for any assistance the bank may want to provide in facilitating with the government the privatization of the three companies into the integrated poultry enterprise. Proposals were requested by July 1 to emphasize the importance of timing and the need to have conditional financing commitments prior to submission of a privatization proposal to the Bulgarian government. The letter was translated into Bulgarian and sent in English or Bulgarian depending upon the addressee (copies of the letter in English and Bulgarian are attached).

During the week, the Stricklers also had meetings with the firms conducting the legal and accounting audits and the partner of a prospective marketing candidate for Burgallus. Some of these meetings are discussed below. Dr. Fattori and I gave a special briefing for US AID representative Jerry Zarr, which was well received. David Strickler met with the Bulgarian US Sprint representative about options for obtaining better Rocco--Burgallus telecommunications.

On Thursday, Mr. Panayotov had a very important meeting with the Ministry of Agriculture where an agreement with Akvila for the government to absorb the long term foreign currency denominated debt was signed. This agreement must still be approved by the Council of Ministers where the Minister of Finance has been strongly opposed to such debt assumptions. Also, the amount must be within that approved by the legislature as part of the national budget bill. Mr. Panayotov is certain that Akvila will receive a significant portion of funds dedicated to agriculture to absorb this debt.

Recommendation

Although a great deal of valuable information was obtained during this trip, the path for financing the poultry enterprise is not clear. Several financing approaches may be pursued. None appear certain at this point. The Bulgarian banks have been very receptive but do not appear to know how to analyze such a project or how to price it. Western bankers traditionally have helped their clients structure their financings. In this case, the customer may have to help the bank learn how to make the loan.

The greatest difficulty will be obtaining the large feed line of credit and obtaining all credit lines on a revolving basis. The only potential sources for financing the project appear to be: 1) the EBRD in conjunction with a local Bulgarian bank; 2) the World Bank in conjunction with a local Bulgarian bank; 3) the IBID, it received substantial loan funds from Kuwait; or 4) a consortia of Bulgarian banks. Each will be reviewed in detail.

EBRD Financial Proposal

While the World Bank insists that it will not take any credit risk with respect to borrowers other than financial institutions, it is not clear what the EBRD is willing to finance. The bank was established to take more of a merchant banking, private sector development approach to financing. Whether this will translate into direct lending remains to be seen.

The best approach for Burgallus would be one of a local Bulgarian bank providing the working capital line of credit with an international financial organization providing the capital investment and feed purchase lines funneled through the local bank for servicing and management. In this scenario, EBRD would take the credit risk and the local bank would provide the servicing for the capital investment and feed purchase lines.

This approach should be attractive to the EBRD, particularly with respect to the United Bulgarian Bank in which EBRD is investing and facilitating its privatization. In this case, the EBRD would have a good lending project that could be used instructively in the process of transforming UBB banking staff to Western commercial banking standards. This project has sound business and financial plans to support the loan and ready budgets and financial projects to monitor loan performance. UBB staff could be both trained through this loan project and observed in their administration of this loan. The model could be used for additional UBB loans.

The EBRD Deputy Resident Representative saw the potential for this approach, but recognized that the right EBRD officials in London had to see this as well. Unfortunately, Pierre Mallenger, head of financial institutions lending for Bulgaria, was unable to attend the London presentation. Another letter should be sent to EBRD London offering other approaches and financial terms with the hope of presenting this idea when the right officials are available.

A variation of this approach would find the local Bulgarian bank providing the working capital line from its own funds and the remaining lines from on-lending funds of the EBRD. This is less attractive because the local bank cannot likely exceed its lending limits regardless of the source of the loan funds, and in this scenario, the local bank is likely to add a substantial spread to the cost of the on-lending funds before the loan is made to Burgallus.

Financing terms are important. The straight on-lending of international banking funds with added local spreads makes loan funds very expensive--to the 15 to 20% range in hard currency terms. The EBRD can only accept one-third of the total financing needs, though this can be for as much as a five year period. It may be useful to extend the model for five years (not for privatization purposes) and give the EBRD an equity position that is determined from the outset to pay out like debt in the fifth through tenth years. This would give the EBRD substantial total

return but minimize the early financing costs.

During the London presentation, Ms. Banford invited us to offer alternative financing approaches to make it attractive to the EBRD. I suggested that we may indeed do that and seek an additional meeting. Certainly, making it clear that there is some flexibility is important. I believe the best approach is to prepare a letter for the EBRD staff in London with additional approaches that would enable the loan officers to meet the strict lending policies of the bank and still provide Burgallus with financing. Notwithstanding the current bank reorganization, it still appears at this point more likely that the EBRD will be able to make a decision by October than others. Mr. Stancioff should be included in any EBRD correspondence.

World Bank Financial Proposal

The approach here would be similar to that for the EBRD with a local Bulgarian bank providing the working capital line of credit with the World Bank providing the capital investment and feed purchase lines funneled through the local bank for servicing and management. The World Bank has designated the Tourist Sport Bank, the International Bank for Investment and Development, and the First Private Bank for eligibility of on-lending funds. Loan agreements with these banks have not been negotiated as yet and it could be some time before funds are actually available.

World Bank officials have insisted, however, that the bank does not take any local credit risk. While this may be general policy, exception are made if the bank wants to make the loan. It is doubtful, however, that the right people in the bank could be convinced that this is a loan that should be made in time to make the Burgallus project successful. The small size of the loan makes strong macro implications and results difficult to demonstrate to many.

Mr. Herman and Mr. Juster stated that Mr. Pernia is in charge of lending projects that would be able to provide funds within the time frames needed by Burgallus. Initial discussions with Mr. Pernia reveal that the Bulgarian government has yet to sign the agreement to make the funds available. Even after signature it would be 90 days before any funds were available. Nevertheless, a presentation to Mr. Pernia and his other colleagues may be important. The more people within the bank that are aware of and support the general concept that this is a project that should be financed the easier it would be to obtain World Bank funding.

IBID Financial Proposal

The IBID may be one of the local Bulgarian bank able to provide

funding for this loan. Most likely, the bank has the lending limit to provide the working capital line. It is also designated to receive World Bank on-lending funds following negotiation of agreements with the bank. Finally, there is some discussion that Kuwait may provide this bank with funds for lending to Bulgarian agriculture. If so, this bank may be able to provide an attractive package. With Western owners and some Western management, this bank may be able to consider the project more expeditiously.

Bulgarian Bank Consortia

Due to the low individual capitalizations of Bulgarian banks, no one bank is likely to be able to fund the Burgallus lending needs individually. One could consider a traditional lending syndication where a lead bank extends the credit and participates portions out to other lending institutions.

While this may be possible, the difficulty of trying something so new as this to Bulgarian banking within the limited time frame is doubtful. It is likely to be difficult to process the Burgallus loan through one Bulgarian bank and much more so through a syndicate. This view may change depending on the responses that are received from the financing requests to the banks.

Conclusion

For the international financial institutions, it should be stressed that this privatization has many beneficial features to the Bulgarian economy. They should want this project financed:

- Local Bulgarian grain markets are stabilized substantially with a large purchaser going into the market at harvest to buy its annual supply.
- Bulgaria saves valuable foreign exchange if the recent past practice of selling grain exports at low prices and importing grain at high prices is reversed.
- Burgallus will stem the tide of closing food processing facilities and avoid the use of valuable foreign exchange for food imports.
- The Bourgas area will not only retain significant employment from the continuation of this poultry enterprise, but also employment in the enterprise will rise over the three year period and numerous grower families will return to profitable farming.
- This project can be duplicated many times throughout the agri-business industry. It is traditionally very

difficult because of the low margins experienced in this industry to attract purchasers of declining meat processing facilities.

This greatest possibility for early funding of the Burgallus project appears to turn on the willingness of the international banking organizations to finance Burgallus. Financing should be pursued through both and through the IBID which may have alternative fund sources. This does not mean that financing could not be obtained through the Bulgarian American Enterprise Fund also, but BAEF cannot provide all of the financing needs. BAEF should always be kept in mind if a large portion of the funds are available elsewhere.

Discussions should be opened with the Overseas Private Investment Corporation to obtain information on available insurance and any funds OPIC may have to invest in such projects. Additional feasibility funding or investment funds may be available from OPIC. Insurance will help with the international banking organizations. The World Bank also has an international insurance company that may also provide insurance.

Other Financial Sources Considered

In addition to the firms with which we met, I contacted NV Rothschild, London; Bank of America, London; Rabobank, New York; Societe Generale, Sofia; National Westminster, London; Goldman, Sachs, London; and Union Bank of Switzerland, London for their interest or for contacts that may be interested. Any bank that is involved in the London Club discussions with the Bulgarian government will not extend any further credit in Bulgaria until repayment of past debt is resolved. This would include almost all European money center banks. I learned that Bank Leumi, the Israeli international bank was interested in lending to a sound Bulgarian project, but I did not contact anyone in that bank.

No one is aware of any investment or merchant bank providing venture capital, equity or other financing in Bulgaria. In any event, the Burgallus project is too small for most to consider. Bank of America has no Bulgarian debt and is providing its US customers with financing in Eastern Europe in special situations. However, Bank of America is not currently interested in financing new customers in Bulgaria. They would like to be kept in mind for future financings. The Sofia office of Societe Generale consisted of one representative who was not prepared to offer financing for a project like Burgallus. Societe Generale of New York has expressed interest in such projects and may be worth pursuing in New York at a later date. The International Finance Corporation of the World Bank may be another source to contact. The IFC was not interested in Bulgaria several months ago when I first inquired, but it may be now.

Though debt swapping has been suggested on several occasions, this does not appear to be a current option. The Bulgarian government has not agreed to allow such debt swaps officially, and it is unlikely that it will do so until the London and Paris Club debt discussions are resolved. Jack Ross of The Debt for Development Coalition has sources of Bulgarian debt ready for swapping and believes it can be done now privately. I doubt that this can occur until the company is privatized. If the Akvila debt is removed, debt swapping will not improve its financial condition directly.

Other sources can always be considered. For example, it may be that one of the international grain companies may provide financing for purchases from their facilities. In most cases, they, like most international banks, would look to the US investor for collateral guarantees or security. For a variety of reasons, the US investor is not willing to enter into such arrangements. Nevertheless, it does not hurt to inquire.

Other Items

Burgallus must obtain an open import permit for soy meal and other feed ingredients as a condition of the privatization. These permits could be limited to the projected needs of the poultry enterprise for the three year period if confirmed small quantity sources for soya meal were located. Otherwise, the permits would have to include amounts sufficient for importing full shiploads periodically.

ACDI--BULGARIA BANK TRIP
PRIVATIZATION OF INTEGRATED POULTRY ENTERPRISE
BANK CALL REPORTS
JUNE 14 TO 22, 1993

The following information was obtained during meetings with the named bank officials or from later conversations with these officials during the trip. This information includes raw, frank assessments of Bulgarian financial conditions, particularly with respect to agriculture, and the prospects for privatization of Bulgarian state and municipal agricultural enterprises. As the information was given in confidence to attendees for the benefit of their respective organizations, these call reports should be kept confidential.

June 14, 1993

George V. Talev
Member of the Board
Chief Credit Officer
55 Christo Botev Boulevard
1606 Sofia
Tel: (359-2) 51 06 88 FAX: (359-2) 51 07 45
Ivan Milanov
Bank for Agricultural Credit Ltd
3, Industrialna Boulevard
8000 Bourgas
Bulgaria
Tel: (359-56) 47 534 FAX: (359-56) 43 126

Attendees: The Stricklers, Dr. Fattori, Ms. Bogdanova, Mr. Petkov, and myself. Mr. Panayotov arrived until the middle of the meeting.

Since Tom and I had presented the technical efficiency model with George on the previous trip, we did not go over the model in detail except to discussion refinements and the credit lines for the project. We stated that if any agri-business project were financed by Bulgarian banks this one should receive serious consideration.

George asked about the attitude of the Bulgarian-American Enterprise Fund. R.H. Strickler responded that he and Tom had met with Frank Bauer for almost four hours in Chicago and expressed strong interest and would have another meeting at week end.

George stated that no unsecured Bulgarian lending was occurring at the moment. Of course, some security was different in Bulgarian than other Western countries. For example, the right to build (a legal Bulgarian right was taken as security in some cases). He suggested that the credit lines that BAC may be able to offer would not be attractively priced for the Burgallus project. For example, he said that BAC Bulgarian lev credit lines were currently running

about a 15 point margin over the base rate set by the Bulgarian National Bank or 60% to 65% to the customer. Dollar loans were 18 1/2% to 19 1/2% to the customer with a margin spread of 6%. George said he had little ability to offer lower rates.

About this time, Mr. Panayotov entered the meeting.
Price Waterhouse has audited BAC financial records in preparation for World Bank on-lending. However, George said that the World Bank was unwilling to take any risks and wanted 3 1/2% over its cost of funds. He said that BAC did not need these funds at the moment as it had plenty of liquidity.

Though every country protects agriculture, George stated that Bulgarian banks were not going to offer reasonable rates for this project. George was interested in the project buying out a bad table egg project funded by the BAC near Burgallus. Mr. Strickler declined any interest.

George stated frankly that Bulgarian banking was not standard banking. Bulgarian banks expected and received payments to individual directors or loan officers to facilitate the extension of loans. No banking deal of any substance was consummated without these payments. Mr. Strickler adamantly stated that his company did not do business that way.

Mr. Strickler had a discussion on the amount of the proposed US investor cash investment. Mr. Strickler pointed out that Little and Company or others could quantify the value of Rocco's contribution of bringing the Bulgarian companies from 25 years behind to 90 percent of world standards within three years. The results would show strong value. George stated that for himself the project should be financed because of Rocco,Inc.'s presence but that that would not necessarily make a difference to the BAC board. He suggested that the credit lines be combined as they would be confusing to Bulgarian bankers.

George stated that the bank paid interest on customers' balances held at the bank from 3.5% to 6.5%.

George later told me that no Bulgarian bank would seriously assist the privatization of the project without special payments, and that such requests in our letter were inappropriate. He also had additional conversations with Mr. Duster of the World Bank, who confirmed to him that the World Bank would take no risk in any local lending. He also said that the Bulgarian government was placing serious pressure on banks to lend to agriculture to the point of making it illegal for bankers to deny agricultural loans (We could not find any confirmation to such a law). He said that it would be very difficult for him to make Rocco a reasonable financial offer given the constraints on him by the bank. He was hopeful that if the poultry enterprise would absorb the failed table egg loan that he could persuade the bank to make a more

favorable offer. I suggested that taking over a losing operation made no sense to either Mr. Panayotov or Mr. Strickler.

George was extremely discouraged about the state of Bulgarian banking with bank boards approving loan that should never been extended. He said that he was aware of a dollar denominated loan to a construction firm where most of the funds were redeposited in interest bearing lev accounts with the bank. Special payments to bank officials ensured these loans would be made. He said that only with such a payment would the poultry enterprise as a Bulgarian company be able to obtain funds from a Bulgarian bank.

Ventzeslav Dimitrov
Resident Manager
Moore Stephens
NDK Administration Building
10th Floor
1 Bulgaria Square
1414 Sofia
Bulgaria
Tel: (359-2) 54 33 41; 54 33 42; 51 90 20 FAX: (359-2) 54 10 51

Attendees: The Stricklers, Ms. Bogdanova, Mr. Panayotov, and Dr. Fattori

The Stricklers reviewed accounting issues relevant to privatization and future operation similar to those raised with Mr. Boyanov. Mr. Dimitrov expressed his interested in facilitating this project at the appropriate time and suggested his wide-ranging government and professional contacts would be useful in this regard.

Borislav Boyanov, Esq.
12, Parchevich Street
1000 Sofia
Bulgaria
Tel: (359-2) 51 88 81; 51 88 83 FAX: (359-2) 44 18 58

Attendees: The Stricklers, Dr. Fattori, Ms. Bogdanova, Mr. Panayotov, and myself.

The Stricklers outlined a number of issues that they expected to be addressed during the course of the legal audit. First, the Rocco firm and family wanted no personal or corporate exposure before the investment in Burgallus. It was understood that Bulgarian law may hold directors liable for damages to the Bulgarian corporation. Some mechanism must be developed to limit corporate and personal exposure.

Second, the proposed stock plan for the Bulgarian management is

considered non-negotiable to the US investor. Bulgarian law must be reviewed to ensure its legality.

Third, timing is critical to ensure that a year's supply of feed corn can be purchased at the optimal harvest time. The audits, financing, and privatization must be accomplished as soon as possible.

Fourth, the proposed repurchase of the government's interest in the Feasibility Study suggested a repurchase price of $10 million and after 3 years. The Stricklers believed that the time limitation was too stringent and should be deleted. The $10 million repurchase price should relate to the book value of the company.

Fifth, environmental problems of the three Bulgarian companies prior to the privatization would not be Rocco's concern. This is non-negotiable.

Sixth, there must be some mechanism to insure that after the repurchase of the government's interest, Burgallus is given a long term lease (about 99 years) or allowed to own any land of Burgallus.

Seventh, potential lay-offs of current employees must be thoroughly reviewed with respect to their rights and remedies, including rights and remedies of the former unions.

Eighth, are there any implications due to the absence of a tax treaty between Bulgarian and the United States.

Ninth, guidance must be provided in the area of technology transfer, particularly protecting that technology from improper use by companies other than Burgallus.

Tenth, how can the Burgallus company protect itself from the lack of effective bankruptcy laws? Lack of uniform commercial code?

Eleventh, will the new Burgallus company be able to continuing using the State insurance companies? Are there private alternatives?

And Twelfth, the long term foreign currency denominated debt of the Akvila Processing Company must be removed. What alternatives are available if the government refuses to assume this debt?

Afterwards Dr. Fattori and myself reviewed a number of items regarding the scope of work for the legal audits. A complete copy of the Feasibility Study was delivered to Mr. Boyanov that day. A few provisions in the proposed scope of work and contract were thoroughly discussed with proposed solutions that were worked out before the end of the week.

Later in the week, Mr. Boyanov stated that this was the most thorough study he had reviewed regarding investment in Bulgaria. He also stated that while the standard special payment to bank officials was 15% of the loan amount, such payments would not be expected of a US investor.

June 15, 1993

Gabriel Labbad
Executive Vice President and General Manager
Ms. Agnessa Ilieva
Executive Director--Commercial Department
International Bank for Investment and Development
10, Graf Ignatiev Street
1000 Sofia
Bulgaria
Tel: (359-2) 88 881 FAX: (359-2) 80 16 85

Attendees: The Stricklers, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, Mr. Petkov, and myself.

Mr. Labbad greeted us and then turned us over to Ms. Ilieva. The Burgallus project and proposed financing needs were presented as planned. Ms. Ilieva asked a few minor questions about the Technical Efficiency Model.

Ms. Ilieva stated that the staff would thoroughly review the Feasibility Study and the follow-up letter when received. It would take a week or two to conduct the analysis and then must be presented to the bank board. Any decision would be conditioned upon the results of the accounting audit, which the IBID considers most important.

No comments were made on the amount of the financing request or availability from the bank. However, she was very positive about the Technical Efficiency Model and the presentation. She stated that the bank had not been presented with such a thoroughly prepared request. She mentioned that the World Bank had approved the IBID for receiving on-lending funds and was negotiating the line of credit with the World Bank. When these funds are available, this may be a project for their use.

A Bulgarian version of the complete Feasibility Study was delivered to Ms. Ilieva the following day. The follow-up letter from Mr. Panayotov was hand delivered by Mr. Petkov.

Mr. Petkov made me aware that Kuwaiti interests were talking to the IBID about providing $20 million for lending to Bulgarian agriculture. If these funds were indeed provided, this bank may be able to provide the project's total financing needs.

Ms Ivanka Vassilchenko
Managing Director
Accounting Division
Tel: (359-2) 31 81 92; 31 80 51 FAX: (359-2) 33 40 01
Stephen B. Strauss
Senior Financial Advisor
Tel: (359-2) 31 80 51; 33 51 87 FAX: (359-2) 33 40 01
United Bulgarian Bank
70, Maria Luisa Boulevard
1202 Sofia
Bulgaria

Attendees: The Stricklers, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, Mr. Petkov, and myself.

The Burgallus project and proposed financing needs were presented as planned. Ms. Vassilchenko asked a number of questions during the Technical Efficiency presentation and seemed very interested in the project. She commented that the former Stroy Bank in Bourgas would be a major UBB branch in the future and would be the branch to service this loan if made. The UBB is still going through the merger process that may slow this bank's consideration of the project.

Ms. Vassilchenko stated that the bank would carefully consider the project and respond to the letter request as soon as possible. She was favorably impressed with the presentation. A Bulgarian version of the Feasibility Study was provided to Ms. Vassilchenko and an English version was provided to Mr. Strauss.

Mr. Strauss later informed me that the EBRD investment in the UBB is progressing with the firms Morgan Grenfeld and Ernst and Young in the process of conducting due diligence. The current schedule is to have the documentation completed in the early fall with full investment to take place by year end. This would increase the bank's capital by one-third. Currently, non-government investors constitute 8% of UBB's capital. It is possible that a UBB--EBRD combination package could finance Burgallus' entire funding needs. However, this would have to be carefully managed and worked through the bureaucracy.

At a chance dinner party, I met the Co-Presidents of the UBB and one board member who asked me about the project. I gave them a brief summary. They asked a number of questions about the current and future poultry market and the revenues and profit expectations. All seemed very interested in the bank studying the financing request.

June 16, 1993

Ms. Galina Kovacheva
Director, International Division
Tel: (359-2) 81 39 85 FAX: (359-2) 81 39 86; (359-2) 88 31 30
Ms. Milena Moutafchieva
Correspondent Banking Relations
Tel: (359-2) 88 831, Ext. 1516 FAX: (359-2) 88 31 30
Bank for Tourist, Sport and Other Products
4, Sveta Nedelya Square
1000 Sofia
Bulgaria

Attendees: The Stricklers, Dr. Fattori, Mr. Petkov, and myself.

R.H. Strickler presented the Technical Efficiency Model as Mr. Panayotov and Ms. Bogdanova were obtaining visas to visit the United Kingdom. I then presented the project financing needs.

Ms. Kovacheva expressed interest in the project and stated that the bank had not yet received such a thorough presentation or a project supported by such a model. She stated that after the bank staff studied the Feasibility Study in detail along with the follow-up financing request that they would make a recommendation to the bank's board of directors. This process would require a few weeks and the bank would be able to respond sometime in mid-July. Neither official had any questions. However, the meeting was cut short because the bank board needed the conference room.

A Bulgarian copy of the Feasibility Study was provided the following day. Both Ms. Kovacheva and Ms. Moutafchieva spoke very good English.

Kamen Ivanov
Resident Representative
Nicholas Stancioff
Deputy Resident Representative
European Bank for Reconstruction and Development
17, Moscovska Street
1000 Sofia
Bulgaria
Tel: (359-2) 87 66 12 FAX: (359-2) 80 30 36

Attendees: The Stricklers, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, Mr. Petkov, and myself. Mr. Ivanov was not available for the presentation.

The Burgallus project and proposed financing needs were presented as planned. Mr. Stancioff, a former agricultural commodities trader, understood and liked the project. He asked a number of pertinent questions about the technical efficiencies, imported

breeding stock, grain and other feed ingredients, and long term export prospects. He liked the project, but indicated that the US cash investment was too low for the EBRD. There was substantial discussion about the value of what Rocco, Inc. brought to the venture, but Mr. Stancioff was firm in pointing out the attitude of the EBRD. The bank wanted the investor to have a substantial stake to show commitment to the project. This is obviously a strong concern of any lender that must be carefully and clearly addressed.

Dr. Fattori and I had a later meeting with Mr. Stancioff to outline our approach for meeting with EBRD officials in London. He agreed that a meeting where all the experts were available would be useful but he cautioned about stressing too many areas as non-negotiable. Allow everything to be open to discussion.

Mr. Stancioff wanted to know how the London meeting went, so he could shepherd the project through the bank. He wanted a copy of the model so he could test it. Dr. Fattori provided a computer disk with the model under the understanding that it would be kept confidential and not released to anyone without his permission.

I had a chance meeting with Mr. Ivanov at a dinner party two days later. He was very informed already about the project and reiterated Mr. Stancioff's warning that the US investor's cash investment was too low for the EBRD. If it were raised to $500,000, then there should be no problem. He thought that the meeting in London was a good one, but it should be informative and allow everything, to the extent possible, to be open for discussion. He stated that he would like to have a good agricultural project like this one financed by the EBRD, but the current EBRD reorganization may make this very difficult, particularly in view of our stated time problems. He reiterated Mr. Stancioff's suggestion that participation by any international bank would bring EBRD to the table, but said this was not critical.

June 17, 1993

Mr. Frank Bauer
President and Chief Executive Officer
Robert D. McCarthy
Investment Manager, Bulgaria
Virginia G. Rollins
Investment Officer

Bulgarian American Enterprise Fund
3 Shipka Street
1504 Sofia
Bulgaria
Tel: (359-2) 44 18 62
FAX: (359-2) 44 30 18

333 West Wacker Drive
Suite 2080
Chicago, Illinois 60606
Tel: (312) 629-2500
FAX: (312) 629-2929

Attendees: The Stricklers, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, Mr. Petkov, and myself.

The Burgallus project was presented as planned. Mr. Bauer asked numerous questions during the technical presentation. He expressed concerns in ability to obtain breeding stock. He was very interested in the product mix and whether we were certain that a market existed for these higher value products. He had heard that a Dutch/Czech concern was importing chicken into Bulgaria at $1 per kilo.

He was very interested in the accounting audit and what had been found. We provided BAEF with a copy of the Feasibility Study and the scope of work of the accounting firm.

Mr. Bauer stated that he had informally provided Mr. Strickler with a proposal on what they may be able to do, subject to board review and approval and that that would probably not change significantly until more solid financial information were received and reviewed. However, that his staff would review the Feasibility Study in detail and return to us for questions as needed.

At a chance meeting at the Opera House later, Mr. Bauer told me that BAEF would have to have an equity position to be able finance this type of project and that did not seem to be acceptable. He said that it was clear that other banks would have to join as BAEF could only go to its limit of $2.5 million. He did not think the BAEF board would change that policy for this project. He was very positive and stated that this is the very type of agricultural project with US participation that BAEF should be financing.

Gerald Zarr
US AID Representative
NDK Office Building
5th Floor
P. O. Box 155
1463 Sofia
Bulgaria
Tel: (359-2) 54 61 48 FAX: (359-2) 54 31 11

Attendees: David Strickler, Dr. Fattori, and myself.

Dr. Fattori and I very briefly explained the Technical Efficiency Model and the Investment Approach recommended in the Feasibility Study for privatizing the three Bulgarian companies into an integrated poultry enterprise. We outlined the proposed approach for moving ahead with privatization, seeking the audits, obtaining conditional financial commitments.

Mr. Zarr suggested that we not wait but proceed to file a privatization request now to expedite the process, which would take a long time no matter what. He also suggested that he might be able to discuss the project with the government at the appropriate time. In general, Mr. Zarr was very supportive of the project and wanted to be helpful however he could.

John Fogarasi
Commercial Attache
US Embassy
US and Foreign Commercial Service
NDK Administration Building
1, Bulgaria Square
1463 Sofia
Bulgaria
Tel: (359-2) 65 94 64; 88 48 01, Ext. 307 FAX: (359-2) 80 38 50; (359-2) 80 19 77

I had a chance meeting with Mr. Fogarasi at a dinner party. We discussed the poultry project and what it would do for the Bourgas area and for Bulgaria. He was very interested in helping whenever he could. He provided a US Sprint contact and also suggested that we delay our trip one or two days to meet with Jim Gale, the OPIC representative coming to Bulgaria. I obtained his number so that we could meet with him in Washington.

June 18, 1993

Mr. Martin Herman
Tel: (202) 473-2634 FAX: (202) 477-1440
Mr. Joseph Duster
Tel: (202) 473-2264 FAX: (202) 477-1440
Europe & Central Asia Regional Office
Country Department I
The World Bank
1818 H Street, NW
Washington, DC 20433
USA

Attendees: R. H. Strickler, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, and myself.

Mr. Strickler and I briefly reviewed the project history and the week of bank presentations. We noted that probably no one Bulgarian bank would be able to finance the project alone due to their lending limits. Beyond that, none of these banks were likely to be able to offer reasonable interest rates that gave the project a chance of success.

Both expressed strong interest in the project and believe it has been the most thorough one of its type that they have seen.

Mr. Strickler asked what the World Bank would be able to do in financing this project. He stressed the reasons why the bank should want to see this project financed--stabilization of Bulgarian grain markets, reducing foreign exchange spent importing feed grains, improving the Bourgas economy generally, facilitating privatization that increased employment over time, and stemming the tide of livestock processing plant failures.

Mr. Herman stated that their division did not loan funds directly but through approved local Bulgarian banks. The IBID, First Private Bank, and Tourist Sport Bank had been initially designated for on-lending but that it would be some time before loan funds would be available for customers. They doubted whether these funds would be available within the project time frame. They stated that direct loans serviced through one of the approved banks could be accomplished and that we should work with the local banks. It is possible that funds could be approved sooner than expected. They stated that Joseph Pernia was in charge of the World Bank lending facility that may be able to finance this project directly and that we should meet with him in Washington.

June 21, 1993

Allen Andreas
Vice President and Chief Financial Officer
of European Operations
Archer Daniels Midland Company
Church Manorway
Erith, Kent DA8 1DL
United Kingdom
Tel: (44322) 443-000

Attendees: The Stricklers, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, and myself.

R.H. Strickler explained very briefly the proposed Burgallus operation and asked a series of questions about availability and sources of grain, particularly soy meal, and about minimizing foreign exchange and interest rate risk in a hyper-inflationary economy. We also inquired about the privatization of the corn processing facility in Razgrad and the impact that that may have upon the local demand for corn.

Mr. Andreas explained that ADM partnered with a Belgian firm to privatize the corn processing plant for $45 million--$25 million from the Belgian concern and $20 million from ADM. (The Belgian concern is owned by Staley of the US, which in turn is owned by Tate & Lyle of the UK). As for financing the transaction, the ADM approach is to invest equity into fixed assets and obtain local financing for working capital. One year or more is needed to complete construction before processing can occur. So to date, no foreign exchange or interest rate risk has been incurred. The United Bulgarian Bank will be its local bank when operations begin. The plant capacity will be 180,000 MT. The plant facility also has substantial grain storage. The plant will process a wide variety of products so that it will not have to depend so much for the sales of any one.

A. E. Toepfer, owned by ADM and others, could provide soy meal 48 today, even though demand in Eastern Europe was still primarily for soy meal 44. Toepfer would take soy from Brazil and Argentina into Rotterdam and transship by barge in manageable quantities up the Rhine and down the Danube to reach Bulgaria and other Eastern European ports. The lack of petroleum and trucks makes ground transportation too unreliable. Rail transport showed promise depending on how rates are regulated by the government. ADM could provide vitamins, minerals, bio-concentrates, and any other feed additives that may be requested, including Lysine. Some sales are direct; others are through distributors. Supply sources come from both the US and Europe--25 to 30% from US and 60 to 70% from Europe.

Likelihood of a sound profitable soy processing plant project in

Eastern Europe is non-existent. Cheaper soy meal is available in Brazil and Argentina than could be produced by any new facility anywhere in Eastern Europe including Russia. ADM has four entirely modern soy processing plants in the US that are moth-balled. Most soy processing plants in the world are only marginally profitable or at break even due to the enormous excess capacity financed by the World Bank and international banking community during the last two decades. No doubt Eastern European countries will demand their own facilities and someone will finance them, but they will not be profitable.

ADM is interested in working with the Bulgarian project in a variety of mutually beneficial areas. Mr. Andreas would put Mr. Strickler in touch with people specializing in soy and other commodities so that Mr. Strickler could compare prices. Mr. Andreas could not provide any special advice on privatization except to say that the poultry project should have an easier time now that the Razgrad plant was finally privatized. He said that the government recognized that it must take action in the food area to ensure affordable food and fiber for its people.

Alistair Mearns
Partner
Moore Stephens
1 Snow Hill
London EC1A 2EN
United Kingdom
Tel: (4471) 334-9191 FAX: (4471) 528-9934

Attendees: R. H. Strickler, Mr. Panayotov, Dr. Fattori, and Ms. Bogdanova.

This luncheon meeting was primarily to have Mr. Mearns meet Mr. Panayotov and establish a good working relationship with the proposed Burgallus management.

Olivier Descamps
Team Leader, Merchant Banking
Majid
Nicola Banford

European Bank for Reconstruction and Development
One Exchange Place
London EC2A 2EH
United Kingdom
Tel: (4471) 338 7164 FAX: (4471) 338-6108

Attendees: R. H. Strickler, Mr. Panayotov, Dr. Fattori, Ms. Bogdanova, and myself. Mr. DesCamps did not attend the meeting. One EBRD official Magid left the meeting before we could obtain his

full name. Neither of the staffers gave us their cards.

It is clear that the EBRD is in organizational turmoil. Mr. Mallenger was not able to attend, but was suddenly called away out of the country. He heads the EBRD's investment in financial institutions, including the United Bulgarian Bank. A future meeting should ensure his availability.

I directed this meeting to present the Feasibility Study as the expert recommendations and with the Rocco firm now seriously considering the project. In this manner, more areas appeared to be subject to change and negotiation. We wanted to avoid having the EBRD staff silently shelve consideration of the project because of their dislike of any of the project's recommended points. Except for this change, the meeting was conducted similarly to the others.

Both EBRD staffers asked a number of questions about the Technical Efficiency Model and the Investment Approach. Ms. Banford like the suggestion that it would be difficult for the EBRD to provide the financing lines as presented due to banking lending policies. She suggested that we consider alternative approaches and present them.

Both officials seem interested in the project, though they were not familiar with the agri-business industry in general. Ms. Banford like the suggestion, for example, that this loan could be made in conjunction with the EBRD investment in the UBB and used as a test oversight and monitoring tool. This is the type of alternative as well as with alternative financing terms that should be presented.

We left the meeting stating that we would send a letter outlining some additional financing approaches and then request another meeting.

June 22, 1993

Roger Murray
President

Ad Blankestijn
Executive Vice President

Michael Mayald
Vice President

Richard K.M. Chang
Financial Analyst

Cargill Europe
Knowle Hill Park
Fairmile Lane
Cobham, Surrey KT11 2PD
United Kingdom
Tel: (44-0932) 861-000 FAX: (44-0932) 861-322

Attendees: R. H. Strickler, Dr. Fattori, and myself.

The Cargill group was very interested in the poultry project in providing needed feed or other requirements. They stated that they had looked at a similar project in the Ukraine. Cargill can provide Burgallus with soy meal from a facility in Istanbul, Turkey. Cargill has a large corn processing plant in Istanbul for production of high fructose syrup. Large freighters would off-load in Turkey and send a small boat with Burgallus necessary requirements to Bourgas. Mr. Blankestijn said that soy meal 46 and 48 with fat were used in Bulgaria now in limited quantities and would be available at roughly $240 MT CIF Instanbul with $20 shipping, insurance, and delivery to Bourgas.

Mr. Murray suggested that the biggest problem may be obtaining import permits to bring in sufficient soya meal. The lack of soya meal in Bulgaria probably has more to do with available foreign exchange and therefore the failure to grant import permits than the demand for soya. It is clear, however, that Bulgarian mills substitute sunflower to avoid the higher cost soya meal.

Mr. Murray and his colleagues were most open and frank about doing business in Bulgaria and other Eastern European countries. Government and company officials in most of these countries expected special payments to do what they were supposed to do anyway for their government or country. Because their wages were so low, this has grown up as an acceptable way of earning money. Cargill does not do business this way. Mr. Murray stated that exports of significant amounts of corn during harvest, so adverse to Bulgaria, occurred due to such payments. This was of great concern to Cargill due to the significant disruption that such activities caused to an orderly grain market. These practices significantly delayed free market developments.

Facilitating payments or small gifts to encourage work on non-work days or during breaks were permitted. Other payments are not

permitted by Cargill personnel. Otherwise, the end never comes. Most of these countries were beginning to learn that most Western companies, particularly US, do not business this way and were making exception.

Mr. Blankestijn stated that the poultry enterprise must focus ultimately on exports to balance the foreign exchange inflows and outflows. Until then, it would be a problem guessing where the government would peg the lev. For the moment, it appeared clear that the government was intent on maintaining the lev at a 25 to 27 range even though its true purchasing power was probably double. He was not sure how long this could be maintained.

Cargill currently does not operate in Bulgaria and so has not experienced foreign exchange or interest rate risk problems in this hyper-inflationary economy. He suggested that we contact Ben Counter, Coca Cola representative in Sofia. Mr. Counter has been involved in Bulgaria for several years and would be able to explain how he had deftly managed Coca Cola's operations in this respect.