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Bulgaria

Assistance For Private Poultry Producers

Final Report

Cooperative Agreement No. OTR-0192-A-00-9052-00

Submitted to:
U.S. Agency for International Development
Washington, D.C.

Submitted by:
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July 1993

Agricultural Cooperative Development International
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ASSISTANCE FOR PRIVATE POULTRY PRODUCERS IN BULGARIA

An Activity Under the Cooperative Initiatives Grant Program

Cooperative Agreement No. OTR-0192-A-00-9052-00

FINAL REPORT

January 14, 1994

The Bulgaria poultry activity was funded by Amendment 14 to the cited Cooperative Agreement dated September 28, 1992 at a level of $100,000 for activities during the period June 19, 1992 through June 18, 1993. Project activities were completed within that period and grant funds were fully expended. The proposal for this activity is Attachment 1.

PURPOSE

The purpose of the activity was to assist small private poultry producers in two locations, Burgas and Pleven, to assess the future viability of their operations and to assist them in evaluating options for the promotion of their economic well-being. In the end, the project was able to assist the Burgas group to identify a course of action that would lead to profitability, long-term viability and grower participation through a combined program of privatization, merger, new investment, marketing strategy, training, and managerial and technical assistance. All were rigorously shown to be affordable within the projected revenues of poultry sales. The solution also appears to be politically and administratively feasible. So far, however, the full plan has not been fulfilled primarily due to the inability of the parties to secure investment capital on acceptable terms. Nevertheless, significant improvements have been made in poultry operations in Burgas which have revived opportunities for the local producers. The Pleven group was dropped from the project early on at the advice of the Poultry Industry Specialist.

The project proposal says, in part:

> One possible way to achieve control would be for them [poultry producers] to buy their local feed mill, hatchery, and poultry processing plant through the privatization process. Of course, the producers do not have the capital for such purchases on their own. Local interest rates are currently running at about

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> 64%. Under certain circumstances, AID, the World Bank and the Bulgarian-American Enterprise Fund are potential sources of the needed capital.

The proposal also says:

> Naturally one must first determine whether any of the local assets are worth buying and at what price. It is entirely possible that such assets would not be a good purchase at any price or that they will not be available at a reasonable price. More regrettably, but also possible, the producers may not be able to find the financing for a potentially good deal.

Up to now, it appears that the most regrettable circumstance has obtained. ACDI with funding under the subject project, participated with the Pragma Corporation with funding under the AID-financed Restructuring Agriculture and Agribusiness -- Private Sector (RAAPS) project, to produce an in-depth study entitled "Feasibility Analysis of an Integrated Poultry Production and Marketing Complex in Bulgaria" [219 pages, available from Pragma Corporation but not included herein]. This study demonstrates the feasibility of privatizing and merging the local feed mill, hatchery, and poultry processing plant and operating them as a single company as suggested in the original ACDI proposal. Under the plan developed, producer interests would be protected by partial ownership, favorable grower contracts, and procedures guaranteed under the terms of the privatization. Discussions with Ministry of Agriculture and privatization authorities indicated political and administrative feasibility. A U.S. poultry company, ROCCO, Inc. was prepared to invest, to some level, and to provide managerial and technical guidance to the proposed new company on terms that were apparently acceptable to the parties as well as to the Government of Bulgaria.

Unfortunately, after lengthy investigation and negotiation, A.I.D., the World Bank, the Bulgarian-American Enterprise Fund, and the EBRD proved to be unavailable or unattractive sources of capital finance for the project although the latter two expressed interest in participating on terms unacceptable to the parties. Local banks, too, though expressing interest to participate were unable to provide financing on acceptable terms.

Thus, the project has not achieved its major potential to date. Nevertheless, ACDI continues to search for new partners and alternative sources of funding that may eventually lead to further development. In the meantime, however, significant benefits have already resulted from the project:

1) At project start-up poultry production had become moribund. Now many of the producers forced out of production earlier by the lack of market are now back in production.

2) Personnel from all three companies serving the poultry industry in the vicinity of Burgas (feed mill, hatchery, processing plant) have received training in commercial poultry industry management with an emphasis on marketing that has led to specific changes in product mix, salesmanship, and cost control that have made these companies more competitive within Bulgaria.

3) In preparation for a joint privatization plan, the three companies have been forced to study and work together in ways they never before considered. Thus, they have become more aware of each others businesses and problems. This has led to a tighter integration of operations which is already paying dividends even prior to actual privatization and merger.

4) All of the key managers of the three companies and many of the poultry producers have been exposed to technical improvements they are incorporating into their operations. More importantly, they have been instilled with hope and optimism for the future knowing there are steps they can take on their own initiative to make their industry more competitive.

IMPLEMENTATION

The implementation plan called for activities as follows: Organization Development; Poultry Industry Review; Poultry Cooperative Workshop; Participant Training; Legal Review; and Trade Mission. Each of these activities was carried out except the trade mission. The ACDI/Pragma feasibility study referenced above indicated that the predominant market for our target producers would be domestic and that international sales would be incidental and not key to profitability. In addition, we came to recognize that securing financial resources would be much more key to project success. Thus, we opted to put our resources into the detailed feasibility study referenced above in conjunction with Pragma and to focus on domesting marketing instead of the trade mission. The prospective U.S. investor, Rocco Inc., also financed legal and audit reviews from their own resources bearing more on the due diligence of a prospective investor than on the general economic and legal reviews conducted by the project.

Organization Development

This activity was envisioned as intermittent interaction with the poultry producers in Burgas and Pleven by ACDI's Country Representative and poultry expert Nikolina Duneva. They were to help producers to identify and prioritize most pressing problems and to serve as advocates of the producers' interests in all aspects of the project. After the initial Poultry Industry Review, they concentrated their efforts on Burgas, meeting frequently with producers and industry officials in that area. They also served as translators and advisors for

all the external consultants and organized and contributed logistically to each of the studies and training events.

Poultry Industry Review

This review was "to determine whether, and under what conditions, private poultry producers can operate at a profit." The consultant was also asked to express an opinion "as to what poultry and feed facilities might be worth purchasing and at what price." This study was carried out by Mr. R.H. Strickler, owner and chairman of Rocco, Inc., a life-long poultry industry entrepreneur and former VOCA Volunteer. The report of this review is Attachment 2.

In summary, the report recommended focusing on Burgas, and expressed a favorable opinion that the three companies operating in that region could be "the low-cost producers" of poultry products in Bulgaria if privatized, merged, and technically and managerially improved. A corporate form of enterprise was recommended with a revised Independent Producers Contract designed "adequately to protect and provide incentive for this very important segment of the enterprise."

In-Country Training

An Agribusiness and Marketing workshop was conducted in Bulgaria from June 1-3, 1993 in conjunction with ACDI's Agricultural Business Exchange Program, the U.S. Department of Agriculture, the Canning Research Institute, the Maritza Vegetable Research Institute, and the University of Food Industry, all located in Plovdiv. 125 participants, including the Deputy Director and the Chief of Marketing of the Burgas Poultry Processing plant attended seminars on: product development, presentation and packaging; the benefits of joint ventures; food quality, safety and inspection; food labeling and safety requirments; Bulgarian export requirements; the U.S. processed food market; and U.S. customs regulations.

Participants rated the workshop highly and requested that additional seminars, giving more detailed information on these and other topics be held in future.

Participant Training in the U.S.

The proposal envisioned participant training for four individuals in poultry industry management, especially poultry marketing. Such training was provided to five individuals employed by the three target poultry companies in Burgas, each receiving a customized course of instruction of six weeks each designed jointly by ACDI's training department and ROCCO, Inc. The participants were:

Panaiot Panaiotov, General Manager, AVES Poultry Co.
10/23/92 - 12/3/92

Jelcho Minchev, General Director, Akvila State Co.
4/24/93 - 6/6/93

Vassil Shomov, Feed Mill Manager
6/6/93 - 7/16/93

Ivan Vakrilov, Production Manager
7/16/93 - 8/29/93

Dimitar Haidutov, Veterinary Doctor
7/16/93 - 8/29/93

Legal Review

The legal review was conducted by James R. Baarda, Vice President, National Council of Farmer Cooperatives who is an agricultural economist, lawyer and cooperative law expert. The report of this review entitled "Consultancy Report on Organizational Structure of Integrated Poultry Company for the Assistance for Private Poultry Producers in Bulgaria Project" was completed in September 1992 and is Attachment 3 herein.

In summary, this report confirmed the advice of the Poultry Industry Review to create a single integrated poultry company as a Bulgarian shareholding company through the privatization and merger of the three previously referenced poultry companies in the Burgas area. The report also suggested that:

> Financial needs should be determined and possible sources identified.
> Necessary economic and financial feasibility studies should be commenced in preparation for the process.

Trade Mission

As noted above, the trade mission was never implemented. Based on the advice of our industry and legal consultants, ACDI turned its attention next to the need for more in-depth domestic marketing. Since our own project resources were inadequate to perform the type of in-depth analysis required, ACDI began to search for other parties that might have an interest in supporting such work. It was determined that the required work fell within the scope of the AID-funded RAAPS project operated by a consortium led by the Pragma Corporation.

ACDI and Pragma quickly agreed to cooperate on the needed feasibility studies and USAID concurred on this joint approach.

The feasibility study produced a detailed marketing plan that indicated solid feasibility based on domestic rather than export marketing. This did not preclude export marketing, but identified domestic marketing as key to feasibility. Also, information in the feasibility study led us to believe that the most important factor for achieving full project potential would be the ability of the new company to secure needed financing on reasonable terms.

Conclusion

To date, this project has not reached full potential due to the withdrawal of Rocco, Inc, as investment partner, resulting from failure to obtain project financing on acceptable terms. Letters from Rocco, Inc. explaining their position are appended as Attachment 4.

Nevertheless, all three companies have taken steps toward privatization. Talks continue among them concerning merger. They are working more closely with one another in their ongoing operations. Their key management staff have been trained in the operation of poultry enterprises under competitive market conditions. They have incorporated technical improvements into their operations based on their observations in the U.S. and they have acquired a vision of future possibilities that invigorates their work. Poultry production has resumed in the area and the poultry industry in the Burgas region may already be the low-cost producer in Bulgaria. Furthermore, industry leaders are continuing to explore options that may ultimately lead to fulfillment of the potential identified during the course of this project.

ATTACHMENT 1

Assistance for Private Poultry Producers in Bulgaria

A Proposal Under the Cooperative Initiatives Grant Program

Agricultural Cooperative Development International
50 F Street, N.W., Suite 900
Washington D.C., 20001

ASSISTANCE FOR PRIVATE POULTRY PRODUCERS IN BULGARIA

A Proposal Under the
Cooperative Initiatives Grant Program

FOREWORD

This is a proposal for a grant of $127,647 to be funded over two fiscal years, 1992 and 1993, under the Cooperative Initiatives Grant Program. The project is designed to assist 900 small private poultry producers who have already made substantial personal investment in poultry houses and equipment to determine whether formation of cooperatives might provide them with the degree of control over supplies and markets they need to become efficient, profitable poultry producers. Information on which this proposal is based was collected during the week of February 16, 1992 by Dr. Nikolina Duneva, a poultry expert attached to the Bulgarian Institute of Aviculture, Christo Petkov, ACDI Country Director for Bulgaria, and Donald Crane, ACDI Senior Vice President. The team visited poultry facilities and supporting institutions in Kostinbrod, Stara Zagora, Burgas, Varna, Pleven, and Sofia. A copy of the itinerary and a map showing the visited locations are attached.

THE PROBLEM

In the vicinity of Burgas, Bulgaria, a sea port on the Black Sea, are 650 private poultry producers. Each farmer has constructed a poultry house capable of producing 20,000 to 50,000 broilers per year (4-10 thousand birds per flock, 5 flocks per year). Actual total production, however, has only reached a maximum rate of 9,000 metric tons per year. Currently none of these facilities are in production due to unfavorable economic conditions.

The currently permitted maximum price of broilers of LV 12 ($0.60) per kg liveweight combined with an average cost of feed of LV 3.05 ($0.15) and a conversion ratio on the order of 3:1 dictates a loss situation according to the producers.[1] The Ministry of Agriculture estimates current production costs of LV 13.9 ($0.69) per kg liveweight.

[1]The Bulgarian Lev, abbreviated LV, is currently trading at about $1 = LV 20.

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At the same time, the fixed domestic price for dressed whole broilers of LV 24 per kg ($1,200 per metric ton) compares well with export prices which have been ranging from $990 to $1050 per metric ton. Nevertheless, the processing plants claim to be losing money and most are heavily indebted.

Meanwhile, domestic demand for poultry meat is said to be declining and this is generally attributed to the high price of poultry relative to income. The controlled price of pork may be contributing to this situation by altering relative prices to the disadvantage of poultry. In any case, both pork and poultry industries are in an overcapacity situation due to the disruption of the Soviet market. According to USDA statistics, Bulgaria exported 170,000 metric tons of poultry meat in 1990 and Bulgarian sources estimate that more than half of this went to the Soviet Union.

When in operation, the farmers near Burgas are served by the Aves Poultry Firm, a state-owned enterprise. Aves maintains parent lines and supplies the farmers with day-old chicks, feed, and veterinary services on a credit basis. Costs are recovered when the producers sell their broilers to the processing plant, a different state-owned company.

The farmers we met with (about 20, of whom 5 were invited by Aves to talk with us and 15 or so tagged along) expressed general satisfaction with services provided by Aves. Aside from the market price of poultry, their major complaint was the low quality and high price of feed. The group of producers expressed the view that the state-owned feed mill was badly managed and producing unnecessarily poor-quality feed. The manager of Aves has acquired a least-cost ration computer program and is using it to improve his bargaining position with the feed mill, but he is nevertheless dealing with a monopoly.

While some producers expressed the opinion that the genetic potential of the breeder flock could be improved, they did not put this in the same category as the feed problem.

The poultry processing plant in Burgas had been operating at only about one-third capacity since a fire in its chiller section. The producers complained about being docked for quality deficiencies which they don't understand and don't believe are real.

Without further study by a poultry industry expert, it is impossible to know whether there is any possibility for these small private producers to overcome the difficulties they are facing. However, if Bulgaria is to build a solid democracy with economic pluralism, these private producers, who have already proven their entrepreneurial spirit by learning the poultry business and investing in private production facilities, are precisely the type of people who will be needed to make it happen.

In Pleven, a city in north central Bulgaria, there is a Local Union of Poultry Breeders with membership of 250 private producers who are reportedly still producing. The chairman of the union claims to have made a profit of LV 210,000 ($10,500) raising broilers by renting a large poultry house from a state enterprise. He says he did this by achieving a feed

conversion ratio of 2.6:1 compared to a rate over 3:1 for the state enterprise and by reducing the mortality rate by 5 percentage points. This suggests that locally attainable improvements in production practices may be sufficient to restore profitability to the industry.

THE PROGRAM

This is a proposal to assist small private poultry producers in two locations, Burgas and Pleven, to assess the future viability of their operations and to assist them in evaluating options for the promotion of their economic well-being. Thus, there is an initial target group of beneficiaries of 900 private poultry producers. However, success in this project could ultimately benefit a much larger number of farmers in two ways: (1) by expansion of the initial two groups; and (2) by imitation by other farmers elsewhere. Furthermore, emergence of successful private poultry producers and cooperatives (or other mutual support groups) could well contribute to the development of Bulgarian democracy and economic recovery beyond the poultry industry.

The farmers in Pleven are already organized in a Union. In Burgas, the only organization is through the Aves Company. Thus, the first step would be to discuss with the Burgas producers whether they would like to form some sort of association for mutual problem solving. We would explore with both groups whether it would be advantageous for them to create cooperatives.

For these private producers to be successful, they must gain more control over their supplies and markets. They are currently dealing with monopolies from a position of weakness.

One possible way to achieve control would be for them to buy their local feed mill, hatchery, and poultry processing plant through the privatization process. Of course, the producers do not have the capital for such purchases on their own. Local interest rates are currently running at about 64%. Under certain circumstances, AID, the World Bank and the Bulgarian-American Enterprise Fund are potential sources of the needed capital.

The model being developed by ACDI's Commercial Small Farm Development Project in Sri Lanka could possibly prove useful in this case. There, a non-profit company has been created for the purpose of making equity investments in land and facilities in trust for farmers who will gradually buy out the company's investment through a planned program of retained earnings.

Naturally, one must first determine whether any of the local assets are worth buying and at what price. It is entirely possible that such assets would not be a good purchase at any price or that they will not be available at a reasonable price. More regrettably, but also possible, the producers may not be able to find the financing for a potentially good deal.

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Thus, alternative options should be developed in case it proves impossible to purchase local facilities. Furthermore, such alternatives could turn out to be of greater merit in their own right.

For instance, with 35 feed mills in the country, it might be possible to find one manager somewhere ready, willing and able to produce standard quality feed. If so, it might be worthwhile for a producers cooperative to purchase, transport and distribute such feed to its members.

Another possibility would be to put up smaller mills near the private producers for mixing imported concentrates with local grain. One obstacle to this approach is that it is customary for the large feed mills to purchase the entire grain crop at harvest. A coop would, therefore, have to create enough storage for its annual requirements and bear the 64% interest rate or develop some sort of forward contracting.

These are merely suggestive of the types of issues that will be explored through the project. An interesting aspect of the Burgas site is that it is the largest port in Bulgaria in terms of volume of cargo. This could provide an edge in terms of imported feed components and export of poultry meat. This would be especially true if a way can be found to benefit from the free trade zone in Burgas.

We met with the Burgas Chamber of Commerce and Industry as well as the Burgas Free Zone Joint Stock Company. Both were most anxious to be helpful to the extent they are able. They pointed out that one of the territories of the zone adjoins the Aves Company and might be extended to include the company grounds if it were in the national interest to do so. They also suggested that the undeveloped adjoining territory already within the zone could possibly be developed for poultry, if a suitable proposal were tabled.

The types of assistance we believe are necessary include: (1) helping poultry producers to assess and address their own problems; (2) helping producers develop strategies for gaining more control over supplies and markets; (3) helping producers to evaluate the worth of local support facilities and possibly to develop proposals or offers for such facilities; (4) helping producers and marketers to assess local and foreign market prospects and, possibly, to organize overseas market development missions, especially in Russia and other republics of the former Soviet Union where normal marketing channels have been interrupted but where demand still exists.

We are requesting a grant of $127,647 to be expended over fiscal years 1992 and 1993. Though the resources are modest compared to the magnitude of the problem, we believe that we can accomplish a discrete program that will help to define an important problem and point the way towards solution. We believe the potential benefits make this an effort well worth undertaking. We would provide a top industry specialist from a major U.S. poultry cooperative or appropriate alternative source. This person would help to analyze options available to the small producers and would participate in the development and implementation

BEST AVAILABLE DOCUMENT

of a week-long workshop for producers. A legal advisor would help to determine whether registration as a cooperative under the existing cooperative law would be most advantageous to the small producers and would investigate other pertinent legal questions. We would also lead a trade mission from Bulgaria to Russia to determine whether private commercial channels can be developed for the export of Bulgarian poultry to Russia replacing the now-defunct government-to-government trading channels.

RESOURCES

ACDI maintains an office in Bulgaria headed by Christo Petkov. Mr. Petkov has a degree in law and served as the chief of the International Department of the Agricultural Academy of Bulgaria from 1982 to 1991. He recently spent a year in the United States as a Humphrey Fellow at Cornell and is a strong advocate of the free market. The initial assessment of the poultry industry which forms the basis of this proposal was planned and arranged by Dr. Nikolina Duneva, a poultry nutrition and physiology specialist attached to the Institute of agriculture at Kostinbrod. Resumes for Mr. Petkov and Dr. Duneva are attached. Together these two would be responsible for helping the farmers to organize and for program planning and logistics.

They would be supported within the project by short-term consultants as necessary in the technical, business and marketing aspects of the poultry industry, cooperative organizations and development, and legal assessment with respect to cooperative formation, potential advantages of using the free trade zone in Burgas, and possibly assistance in negotiating to obtain state-owned poultry and feed facilities through the privatization process..

The program would also be supported by ACDI's existing regional Agricultural Business Exchange Program (ABE). The training plan for Bulgaria for FY 92 calls for six participant trainees and a workshop. We would focus the workshop on how cooperatives can serve the needs of private poultry producers and other issues of relevance to our target group. We would set aside four of the training slots for poultry industry people whose participation would be judged to be most helpful in promoting the development of private poultry production. Additional resources from ABE could be programmed for FY 93 if necessary.

If a decision is reached to assist private producers to acquire supply and/or processing facilities, it will be necessary to seek additional financing for that purpose. We believe that A.I.D., World Bank, and the Bulgarian-American Enterprise Fund are all possible sources of such financing, depending upon the nature of the proposal and availability of funds.

IMPLEMENTATION PLAN

Activities of the proposed grant are to be carried out over two fiscal years with funds under the Cooperative Initiatives Grant Program: $50,397 for FY 92 and $75,553 for FY 93. The project will comprise six activities over an eighteen month period beginning April 1, 1992: Organizational Development; Poultry Industry Review; Poultry Cooperative Workshop; Participant Training; Legal Review; and, Trade Mission.

Organization Development. Immediately upon approval of the subject grant, Christo Petkov, ACDI's Bulgarian Country Director, assisted by poultry expert Nikolina Duneva, will begin to interact with the two target groups of small private poultry producers in Burgas and Pleven. They will explore with producers in Burgas whether they wish to form an association and, it so, to help them organize. They will help producers in both locations to determine and prioritize most pressing problems and to consider possibilities for self-help solutions. Working with the producers, they will also plan and support all the other activities of the project. This work will be intermittent as needed and will require approximately 298 person days.

Poultry Industry Review. A poultry industry generalist will visit Bulgaria for three weeks as soon as possible, hopefully no later than April 12, 1992. This consultant will visit most major poultry and poultry feed facilities before spending a week each at Burgas and Pleven. The objectives will be to determine whether, and under what conditions, private poultry producers can operate at a profit. The consultant will express an opinion as to what poultry and feed facilities might be worth purchasing and at what price. Other issues the consultant will address include:

* which, if any, export markets should be pursued;

* whether the Burgas Free Zone could be employed to the advantage of private poultry producers;

* whether importation of concentrates for poultry feed makes economic sense and whether there is any way for the private producers to manage this for themselves;

* whether there is any likelihood of interest by foreign joint venture partners; and,

* any other issue that the consultant identifies that may have a material bearing on the objective of the review.

Poultry Cooperative Workshop. ACDI and Land O'Lakes will provide a one-week directed workshop for poultry producers and other appropriate parties in July under ACDI's Agricultural Business Exchange Program. The poultry consultant who was involved in the poultry industry review will assist in the planning and implementation of this workshop. The

primary objective of the workshop will be to inform producers of the services provided by poultry cooperatives in the United States and elsewhere and to explore with the participants the relevance of such an approach in Bulgaria. The workshop will also address topics in poultry marketing (domestic and international), poultry nutrition, health, and husbandry, and business management at both producer and organizational levels.

Participant Training. Four individuals, most likely two each from Burgas and Pleven, chosen for their potential to further the development of private poultry production, will be provided customized training in the United States in August or September under the Agricultural Business Exchange Program. This training will include relevant topics of poultry industry management, especially poultry marketing, as well as cooperative organization and management.

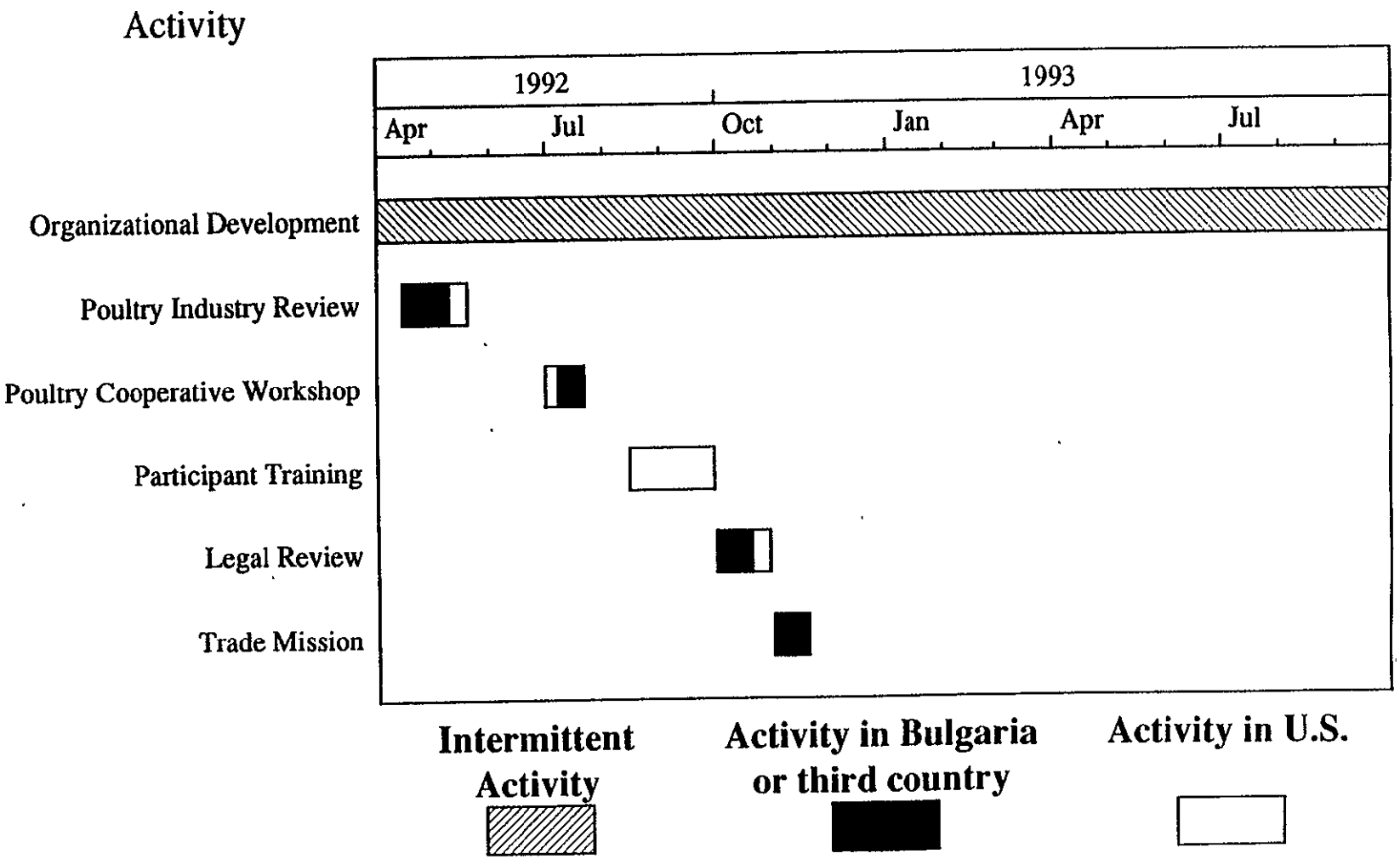
Legal Review. As early as funds become available in Fiscal 1993, a legal expert will be asked to advise on poultry cooperative formation, how poultry producers can take best advantage of tax and other legislation and government programs, whether any points of law should be lobbied for or against, and potential advantages of the Burgas Free Zone.

Trade Mission. A one-week trade mission led by the poultry industry consultant and ACDI's country director and including two industry representatives, most likely one each from Burgas and Pleven, will visit at least one promising Foreign market. At present this would most likely be Russia and the objective would most likely be to secure a broker on one or more commodity exchange through whom to offer Bulgarian poultry. However, both the destination and objective of this activity are subject to change based on the recommendation of the poultry industry consultant and the wishes of the group.

Assistance for Private Poultry Producers

in Bulgaria

Implementation Plan



ASSISTANCE TO PRIVATE POULTRY PRODUCERS IN BULGARIA

SUMMARY BUDGET

LINE ITEM	FY92	FY93	TOTAL
SALARIES	2,400	2,520	4,920
PAYROLL ADDED COST	912	958	1,870
TRAVEL/TRANSPORTATION	6,600	18,340	24,940
CONSULTANTS	25,634	22,057	47,691
OTHER DIRECT COSTS	1,500	2,600	4,100
TOTAL DIRECT COSTS	37,046	46,475	83,520
INDIRECT COSTS	13,559	30,568	44,127
GRAND TOTAL	50,604	77,043	127,647

ASSISTANCE TO PRIVATE POULTRY PRODUCERS IN BULGARIA

DETAIL BUDGET

LINE ITEM		FY92	FY93	TOTAL GRANT
SALARIES				
Base Pay	Mo.			
1) Country Rep.	2	2,400		2,400
2) Country Rep.	2		2,520	2,520
Total Salaries		2,400	2,520	4,920
PAYROLL ADDED COST				
HL&B Rate:	38%	912	958	1,870
Total Payroll Added		912	958	1,870
TRAVEL/TRANSPORT				
Consult. Trav TWT:	2	5,600		5,600
Consult. Trav TWT:	2		5,880	5,880
Trade Mission TWT:	4		4,800	4,800
Trade Mis Per Diem	20		6,160	6,160
Local Travel (G)		1,000	1,500	2,500
Total Travel/Transport		6,600	18,340	24,940
CONSULTANTS				
EXPATRIATE CONSULTANTS				
Fees, person days:	35	11,095		11,095
Per Diem:	37	8,399		8,399
Workers Comp	4.3%	472		472
Fees, person days:	25		8,321	8,321
Per Diem:	23		5,482	5,482
Workers Comp	4.3%		371	371
Subtotal		19,966	14,175	34,140
LOCAL CONSULTANTS				
Fees, person days:	80	1,600		1,600
Per Diem:	80	4,000		4,000
Workers Comp	4.3%	68		68
Fees, person days:	120		2,520	2,520
Per Diem:	100		5,250	5,250
Workers Comp	4.3%		112	112
Subtotal		5,668	7,882	13,550
Total Consultants		25,634	22,057	47,691

ASSISTANCE TO PRIVATE POULTRY PRODUCERS IN BULGARIA

LINE ITEM	FY92	FY93	TOTAL GRANT
OTHER DIRECT COSTS			
Commumnications	900	1,400	2,300
Other	600	1,200	1,800
Total ODC	1,500	2,600	4,100
TOTAL DIRECT COST, YR1	37,046	46,475	83,520
INDIRECT COST			
ACDI @ 36.6%	13,559	30,568	44,127
Total Indirect cost	13,559	30,568	44,127
GRAND TOTAL, YR1	50,604	77,043	127,647

Attachment 1

Itinerary for Bulgarian Poultry Industry Visitation
February 16 - 22

PROGRAM
for the visit of DON CRANE Sr. Vice President
ACDI in Bulgaria, February 15 - 22, 1992

February 15, Saturday

8.20pm	Meeting at the airport (flight from Budapest) Hotel accommodation - Sofia. Dinner - upon request Overnight in hotel "Sofia"

February 16, Sunday

9.30 am	Sightseeing of Sofia. Vitosha mountain.
12.00 am	Lunch (informal)
14.00 pm	Rest time and reading materials of poultry.
19.30 pm	Dinner at Christo Petkov's place. Present: Jeff Levine - VOCA, Ron Meekoff - Resident adviser to the Minister of Agriculture of Bulgaria, Martin Herman - World Bank Representative Overnight in hotel "Sofia"

February 17, Monday

9.00 am	Meeting with the Vice Minister of Agriculture Georgi Tanev.
11.00 am	Visit to the Poultry breeding institute.
13.00 pm	Visit to the Institute of Grain Food and Feed Industry
15.30 pm	ACDI office in Sofia.
20.00 pm	Dinner at "Gorublyansko Hanche" - folk dance and fire dance restaurant Overnight in hotel "Sofia"

February 18, Tuesday

8.00 am	Departure for Stara Zagora. Visit to poultry slaughterhouse Dinner (inofficial) Departure for Slanchev bryag. Sightseeing Slanchev bryag and Nesebar.
20.00 pm	Dinner at "Captain's meeting" in Nesebar. Overnight in hotel "Kuban"

February 19, Wednesday

7.45 am	Departure for Burgas. Meeting with poultry breeders. Visit to poultry house in Burgas. Meeting with private poultry producers. Dinner (inofficial) Visit to private poultry house.
16.00 pm	Departure for Varna. Hotel "Varna"
20.00 pm.	Dinner with local businessmen. Overnight in hotel "Varna"

February 20, Thursday

8.30 am	Visit to poultry plant for stock eggs "Slanchevo" (Sunny)
10.30 am	Departure for Pleven.

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17.00 pm	Accommodation in the Rest house of the Institute for viticulture and wine production.
19.00 pm	Meeting with the Director of the Institute, prof. Valchev. Wine tasting and dinner. Overnight in the rest house.

February 21, Friday

8.00 am	Visit to the poultry house and plant.
10.30 am.	Departure for Sofia. Lunch (inofficial)
15.00 pm	Meeting with Gerald Zarr USAID
16.30 pm	Meeting with Searl Vetter - BAEF (in ACDI's office).
19.30 pm	Dinner Overnight in hotel "Sofia"

February 22, Saturday

Departure. ETD unknown.

We shall be accompanied by Mrs. Nina Duneva - poultry scientist.
*Any necessary changes in the program will be undertaken accordingly.

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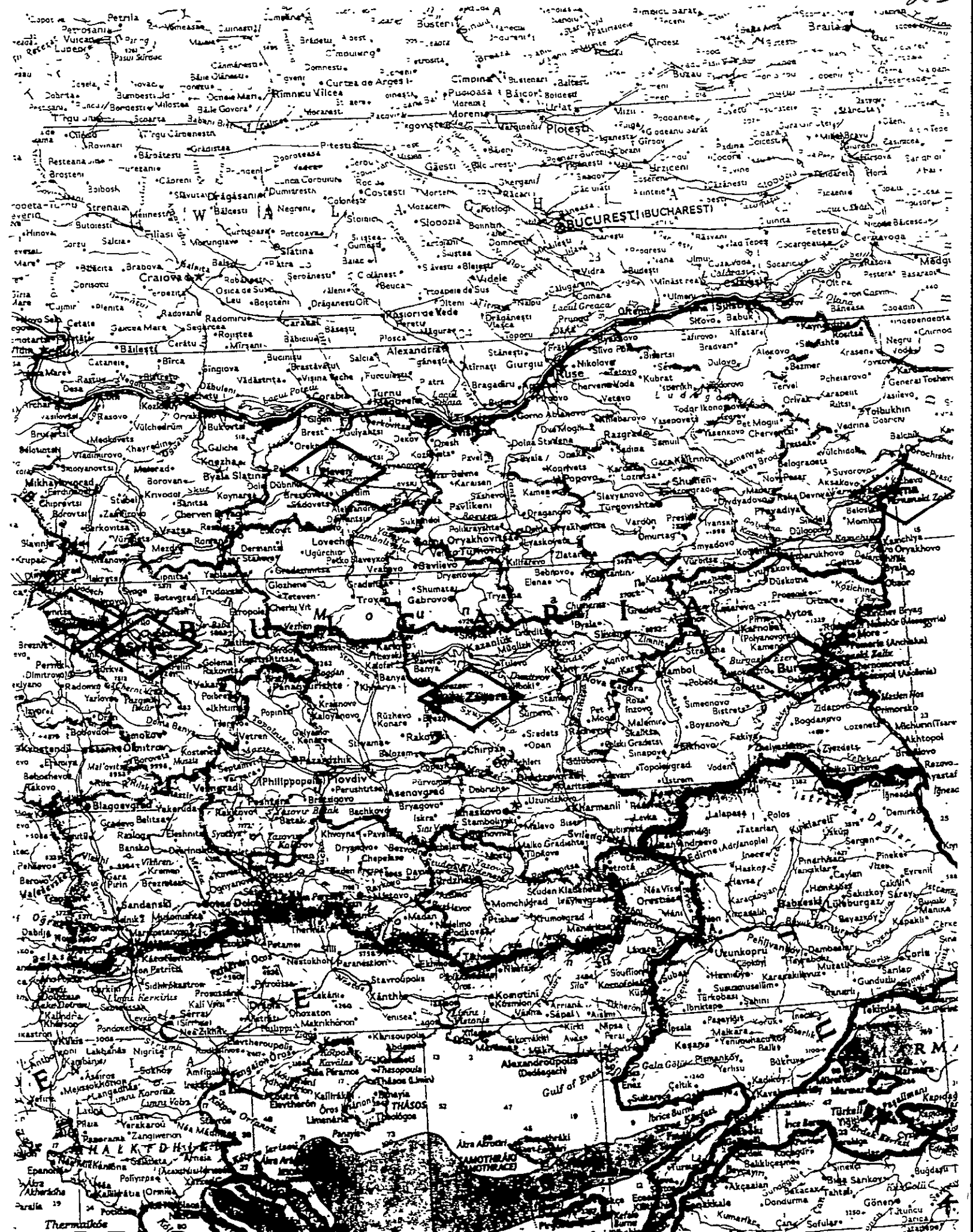
BUCUREŞTI (BUCHAREST)
Craiova
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Ruse
Turnu
Alexandria
Giurgiu
Oltenița
Silistra
Varna
Burgas
Plovdiv
Philippopolis
Asenovgrad
Stara Zagora
Sofia
Gulf of Enez
THASOS
Alexandroúpolis
Edirne
Istanbul

Attachment 2

Resumes for
Christo Petkov and Nikolina Duneva

Name: CHRISTO PETKOV

Position: Project Manager

Education: Faculty of Law, Sofia University
Professional Training Program, Hubert H. Humphrey North-South Fellowship Program, Cornell University, Ithaca, New York, 1990 - 1991.

Areas of Expertise: Agricultural development; business management.

Experience: **Chief, International Department of the Agricultural Academy of Bulgaria**, 1982 - Present. Prepared projects, contracts, protocol, visa and passport formalities and trade negotiations for the Bulgarian agrarian community.

Assistant to the Deputy Minister for International Trade and Relations, Ministry of Agriculture of Bulgaria, 1979 - 1982.
Responsible for trade among socialist countries. Secretary of the German-Bulgarian working group on agriculture. Participated in establishing German-Bulgarian working group on agriculture and in establishing Agrocommerce, a foreign trade company computerization project for trade reports and strategy analyses documents.

Chief of Personnel and Visa, Technoexportstroy, 1976 - 1978.
Negotiated contracts for hospitals and clinics with Libyan authorities; obtained labor permits and working visas for the Bulgarian personnel.

Secretary for Bulgarian Press, Japanese Embassy in Sofia, 1973 - 1976.
Translated, reviewed and analyzed current events in Bulgaria and prepared weekly summaries for the Ambassador and the diplomatic staff.

Volunteers in Overseas Cooperative Assistance (VOCA), 1990 - 1991.
Internship with VOCA through the Hubert H. Humphrey North-South Fellowship Program. Served as a liaison between VOCA and the Bulgarian Embassy. Involved in the briefing and debriefing of volunteers for Eastern and Central European countries.

President and Founder, Agrino, May, 1990 - Present.
Established the first private companies in Bulgaria to encourage agricultural development in Bulgaria by providing access to farming equipment and supplies.

Languages: Mother-Bulgarian, Russian, English

Name:	NIKOLINA GEORGIEVA DUNEVA
Position:	Poultry Consultant
Education:	Agricultural Academy graduated in 1974, specialty animal breeding 1989-Defended thesis "Influence of the level of raw protein and vitamin 'A' in compounded fodder on productivity of parents for broilers and their posterity" High School: 29th in Sofia
Areas of Expertise:	Poultry feeding, physiology, and breeding
Experience:	1983-1992 Head of feeding, physiology and biochemistry department of Poultry Institute in Kostinbrod 1975-1983 Scientist, research in the National Control and breeding, Poultry Center, kostinbrod. Subject: Testing of the genetic poultry potential (broiler and eggs production) of the leading poultry companies in the world.
Languages:	Mother-Bulgarian, Russian, English

ATTACHMENT 2

Poultry Industry Review

DOGWOOD HILL FARMS
R. F. D. No 6
HARRISONBURG, VIRGINIA 22801

July 28, 1992

Mr. Donald Crane Sr.
Vice President
Agricultural Cooperative Development International
50 F Street, NW, Suite 900
Washington, DC 20001

Dear Mr. Crane,

I have completed my assignment as a Poultry Industry Specialist for ACDI in Bulgaria.

Mrs Strickler and I arrived in Bulgaria on June 21, 1992, and were met by Christo Petkov and Nikolinka Duneva. We began our assignment by visiting several markets, or food shops, to see what form and at what prices broilers were being offered to the customer. During the following two weeks concluding on Monday, July 6, 1992, we visited ten processing plants (slaughter houses), eight broiler complexes (Bulgarian Poultry Plants) which included breeder farms, hatcheries, broiler growout facilities, commercial egg laying facilities, further processing plants (cooked products) and administrative offices. Additionally, we met with private producers (farmers) and visited their farms. We covered Bulgaria, driving between 1500 and 2000 miles. We met with a wide variety of people We asked many questions and received a broad and interesting background to the Bulgarian Poultry Industry. The complexes had many similarities and many significant differences. I could have spent two weeks at each complex and made valuable recommendations for improvement, many of which would have cost no money. Whenever possible, we made specific recommendations. In many instances, these were asked for and well received. My wife and I both took copious notes from which we could prepare a report on each call, but, frankly, I do not believe this would add much to your knowledge or any additional recommendations that could be accomplished.

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Our scope of work required that we focus on assisting the private poultry producers at Burgas & Pleven I felt that it was mandatory for me to visit most of the competitors of these two locations in order to evaluate the ability of Burgas & Pleven to compete in both the domestic and export markets. Broadly, this was accomplished.

An indefinite number of facts must be considered in trying to evaluate any recommendation for the Bulgarian Poultry Industry or a single entity within that industry Don, you observed and reported many these same facts. G. Tanev, Vice Minister, reported on these facts. Dr. Nikolinka Duneva had a great deal of statistical information to add to these facts. Every visit or call added to our information base. I believe it is important for you and any other reader of this report to consider the facts on which my recommendations will be based. For clarity purposes, I will attempt to organize the facts by subject. To the best of my ability, I will prioritize the subjects and the facts within the subjects. Please bear in mind that the political, economic, agricultural and poultry situation in Bulgaria is quite fluid and rapidly changing.

Political Facts

1. The privatization rules (or laws) are still in the process of being developed.

2. On June 26, 1992, the Minister of Agriculture dismissed 100% of the people who worked in the Ministry of Agriculture. It is impossible to accurately predict what the new Agricultural Ministry Leadership will do. Christo Petkov estimates that 70% of the people will be rehired and most, if not all, the Department Heads will be replaced.

3. On Monday, July 6, 1992, we met the Director of Mihailovgrad and his legal advisor, Ms. Lozanova, who explained that there is a law regarding rental relations. A rental relations law was passed in 1967 and amended on March 6, 1991. The rental rate is always on a monthly basis. The minimum current rate for poultry houses is 3.3 leva per square meter per month. This works out to 1.5¢ per square foot per month or 1¢ per chick per month.

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4 In July of 1991, all the poultry plants or complexes became "Limited Liability Companies" with a Board of Directors The Director says that the Board has a very broad authority to achieve the following three things:

a. The Board must keep the Company liquid or solvent.
b. The Board must keep the Company profitable.
c. The Board must keep the Company economically efficient.

5. If the Board of "The Mihailovgrad Limited Liability Company" were to decide that the company should be sold to a foreign investor, the sale would take place on a basis of an asset evaluation which would have to be approved by "The Agency for Privatization" whose chairman, Nikola Katzarski, a lawyer, was elected on Thursday, July 7, 1992. Ms. Lozanova stated that the laws were clear and that such a transaction could be accomplished in 60 days.. Unbelievable!.

General Economic Facts

1. The interest rate on new borrowings is approximately 60%, two days ago it fell to 49%. However, we did learn that some of the complexes had large amounts of old debt at approximately 8%. The government will finance grain at 36%.

2. I believe that the inflation rate is dropping sharply because the value of the Leva relative to the dollar appears to be stabilizing. The official rate of inflation is 47%. Christo believes it may go to 120-130%.

3. Unemployment continues at 10% or higher. There are 630,000 unemployed.

4. Wages continue to lag the previously experienced inflation giving most consumers sharply reduced purchasing power.

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5. The domestic price of live broiler meat is being administered at very close to 14 leva per kg. The export price is based on free market conditions. The leva should be around 45 leva on the dollar, an opinion of Christo and Mr. Pavayota.

6 The state owned feed monopoly is allowed to adjust prices charged to the poultry companies. It is not clear to me how this is being done. The monopoly buys and stores all the grain at harvest time. I am not clear how the price paid for grain to the state owned farms is determined. "There is no fixed price for the grain."

Poultry Economic Facts

Please read Attachment Number 1 titled, "Report of the Poultry Situation in Bulgaria," by G. Tanev, Vice Minister. I am in no position to comment on Mr. G. Tanev's economic data, but I comment on certain facts:

1. The Bulgarian Industry is requiring 60 days to achieve a weight of 3.3 pounds. The American Industry achieves 4 pounds in 44 days. This is primarily a breed problem.

2. The Bulgarian Industry is requiring three pounds of feed to make one pound of meat. The American Industry requires two pounds of feed to make one pound of meat. This is a feed formulation, ingredient supply, feed manufacturing and breed problem.

3. The Bulgarian Industry is marketing 90% of the chicks placed. The American Industry is marketing 95% of the chicks placed. The higher mortality has several causes:
   - day old chick quality
   - almost impossible starting conditions
   - questionable starting rations in some cases.

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4 The Bulgarian Industry is producing substantially less chicks per breeder hen than the American Industry. This is being caused by the following factors:

- failure to control the weight of the pullet and the cockerel
- questionable feed rations
- poor hatchery ventilation
- poor hatching egg utilization

5. The Bulgarian Industry leaders say that they have little or no disease problems. In reviewing the Bulgarian State Diagnostic data, I believe this is a questionable conclusion. For example, Intestinal Coccidiosis (or cocci) damages the birds' ability to convert feed to meat. Worms have the same affect.

6. Bulgarian Broiler Production is located on both state and private farms. Each has its own unique weaknesses. On the state farms, the houses are built like fortresses. The central heating and chain feed systems were largely abandoned in the U.S. 25 years ago. The farms are so large and so expensive to operate that the private farmer can produce at substantially less cost The private farmers' facilities are relatively small, of poor construction and are generally receiving good day to day management. I doubt that any of the state owned or private farmer facilities could be competitively utilized in the U.S. today without major modification.

7. All of the poultry production complexes are surrounded by some of the most productive corn and wheat producing land in the world.

8. Historically, Bulgaria has been exporting 20-25% of its broiler meat production to a variety of nearby countries. Bulgaria has suffered a severe drop in exports primarily to Russia, Iraq and Kuwait. See Attachment Number 2 prepared by Dr. Nikolinka Duneva.

9 The poultry plants and slaughter houses are all heavily in debt with the exception of Burgas. The debt level varies, but in many cases, such as the largest complex at

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Pleven, the debt exceeds the value of the assets. I see no solution other than bankruptcy Pleven went bankrupt on July 6, 1992.

10 The annual domestic per capita consumption of chicken in Bulgaria was approximately 20 kg. during more normal market periods. Currently, consumption has dropped to 12 kg. Mr. Panaiotov stated that consumption may be as low as 9 kg. and is still dropping.

11. There is a tremendous capacity to overproduce. Forty percent of the capacity is idle.

Recommendation #1

Don, I may have learned more that is important for ACDI to know from the call we did not make. Mr. Zabukov of the Parvomai Slaughter House Company declined our visit. He stated that in the last several years, a significant number of people had come to inspect his operation, asked a multitude of questions, given excess advice and absolutely nothing had been achieved for his company or Bulgaria. My recommendations will call for a different approach not normally taken by ACDI or USAID or the lending institutions which support developing countries. Simply stated, I am recommending that we focus all of our time, talent and resources on Burgas and, secondarily, on Pleven. My reasons follow:

1. Mr. Panaiot Panaiotov, Director General of the Aves Poultry Company, is a most experienced, competent and free thinking leader. He wants to work with us.

   a. Mr. Panaiot was the first person to repeatedly ask for and ultimately receive permission to break away from the Poultry Industries Central Planning Authority State Economic Enterprise "Poultry Breeding."

   b. Mr. Panaiotov's company involves 650 private poultry producers (broiler growers) who are able to produce birds at approximately 10% less, or 3.5 leva a chicken less, than state farms. He relates well to the farmer.

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c When the economic "crunch" came and the feed mill refused to purchase the 1992 feed supply, Mr. Panaiotov stepped in, took the risk and purchased the grain, doubling his company's money in six months (a risk taker and a decision maker).

d When the slaughter house got behind in its payment for birds already produced due to a lack of sales, Mr. Panaiotov stopped production and collected the debt owed his company (a tough minded, pragmatic manager).

e. Mr. Panaiotov aggressively searched out foreign export markets for his hatching eggs rather than dump them on a glutted domestic commercial egg market (an imaginative and aggressive marketer).

f. Mr. Panaiotov's Aves Poultry Company purchased and is operating a computer capable of linear programming feed rations (a company and a manager who is ready, willing and able to adopt new technology).

g. We visited a number of Aves facilities with Mr. Panaiotov He is liked and respected by the people who make up his organization. He is liked and respected by the private poultry producers who work with Aves (clearly, a leader who cares about his people).

In summary, it takes three things for success in any enterprise -- METHODS, MONEY and MEN. A lifetime of experience has taught me that if you have the right men and women, they will develop the right methods. And, if you have men with the right (correct) methods, the money can always be found.

2. Aves Poultry Company is located close to the port city of Burgas. The advantages are:

a. A large consuming population base.

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b. Ready access to the best port facilities in Bulgaria for export.

c. Ready access to the best port facilities for the importation of feed ingredients and other necessary supplies

d. A free trade zone adjoins Aves property. This may be an advantage in the future.

3. The Burgas & Pleven private poultry producers had better houses and equipment than I observed in other areas of Bulgaria and were conveniently located, within 60 kilometers of the poultry plant.

4. The Aves Company's hatchery and parent stock facilities were at least as good and, I believe, better operated than most of the complexes in Bulgaria.

5. The Aves Company had a very modern commercial egg facility which was being well operated

6. There is a slaughter house conveniently located to serve the Aves private poultry producers. This facility was not the best in Bulgaria, but is properly located. The slaughter house is in the process of completing a very large frozen storage which is important to my plan of operation.

7. There is a large, rather old, feed mill centrally located at Burgas. This mill has a bad reputation with the producers and Aves. There is an alternative which I will discuss separately.

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Recommendation #2

The Aves Poultry Company and all other Poultry Plants in Bulgaria should purchase their parent stock directly from world class breeding organizations such as Arbor Acres and Ross for broiler stock and Dekalb for commercial egg stock.

Recommendation #3

The Aves Company may already be the low cost producer of broiler meat in Bulgaria, but it has great potential to improve by becoming vertically integrated, from the purchase of parent stock to the marketing of consumer ready broilers and meat products. All of the broiler producing companies in the U.S. and most of the broiler companies in the world are structured in this way. I know of no other approach that will properly support the private poultry producer. The structure should be corporate, in order to attract foreign joint venture capital.

1 Mr. Christo Petkov, as a lawyer and representative of ACDI, would be heavily involved in the negotiations, structuring and arranging training for the people who would make this transformation from state owned to private.

2 Dr. Nikolinka Duneva would be heavily involved to see that all the technical requirements for success were met. These would include:

a. quality chick production
b. quality feeds
c. quality finished products

3. ACDI would assume the responsibility for making training available to all the key managers that it takes for a successful integrated poultry complex.

a. The first step is to train a Bulgarian who is already highly fluent in English about the Aves Poultry Complex. This person must understand the technical

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terms used in the Industry from the selection of breeding stock to the marketing of the final product.

b. The second step would be to bring Mr. Panaiotov and the interpreter to the U.S. for a minimum of six weeks. During that time, he would be exposed to what a world class poultry company looks like, step by step, from the selection of breeders to the marketing of the final product.

c. Mr Panaiotov would then select five additional managers to include one from the breeder hatchery areas, one from the broiler growout area, one from the feed area and one from the slaughter house area. The fifth person should be selected by Mr. Panaiotov, "at large," for whatever expertise he needs, to make the enterprise successful.

d. The interpreter would stay in the U.S. and work with each of these individuals in turn. The individuals to be sent for training must be the very best people in their fields in Bulgaria and be prepared to work for the new private enterprise.

e. This is the only way that I see to create a "critical mass" of trained, talented people who can insure the success of the private company and its independent producers (farmers).

f. If my analysis of Mr. Panaiotov is correct, he will insist that his people and his company share what they have already learned with the Bulgarian Poultry Industry.

Recommendation #4

The new enterprise must adopt world class nutritional standards for feed and must insure that ingredient quality standards are being met at all times.

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1 I have furnished Dr. Nikolinka Duneva all of the information necessary to correctly program a computer for accurate linear programming of feed rations at the lowest cost She has no computer and will need assistance from a skillful computer expert in programming. Aves Company has the computer

2. The feed mill at Slavianivo which we refer to as "Pleven" is not only the best in Bulgaria, but is as good as any I have seen in the world operating on an around the clock basis. It could manufacture pellets for all the broilers grown in Bulgaria! It is located in a wonderful grain area. Under free market conditions, the grain in this area should be less expensive than at Burgas. I recommend that our new private enterprise rent or lease this feed mill, supply 100% pelleted rations of feed to the private poultry producers in Burgas as well as all those in the Pleven area. The trucks which deliver broiler feed to Burgas will backhaul soybean meal, fish meal and other imported ingredients to Slavianovo (Pleven).

3. The mill has a "Premix" operation which can be utilized to manufacture "Super Concentrates" or vitamin premixes for poultry, hog and dairy feed. Based on what we have been told, there is a great need for a "Super Concentrate" by <u>other</u> feed mills in Bulgaria.

4 This feed mill has a bagging line which could be used to develop a whole new business of supplying private farmers who have backyard flocks or two hogs and a dairy cow. Bagged production is very expensive. Care would have to be taken that costs did not get out of line.

5. I was truly very impressed with the two young managers of this feed mill. It was an exceptionally well run operation. They showed my kind of courage by making the feed mill independent of the Pleven Poultry Company which is bankrupt. The Assistant Director, Mr. Tomov, spoke good English, was an electrical engineer and would clearly be my choice as the feed related person to receive training in the U.S. The Director, Mr. Kostov, must be a good manager based on his operation.

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Recommendation #5

ACDI, supported by USAID, should assist Mr. Panaiotov in selecting and employing a competent outside accounting firm such as Price Waterhouse and a law firm experienced in Bulgarian privatization and business law. This outside expertise will be necessary in order to assist in developing a business plan and appropriate budgets that would be acceptable to both the Bulgarian-American Enterprise Fund, the World Bank and any outside investors. See Attachment Number 3, my letter to Donald Crane, dated July 9, 1992.

Recommendation #6

A suitable name that is descriptive of the enterprise and has positive connotations to the private poultry producer, the employees, the management and the world at large. I suggest, "The Bulgarian Private Poultry Company Limited," referred to hereafter as BPPC.

Recommendation #7

BPPC would be capitalized in the following manner. (*Don, don't hold me to the exact numbers, they would have to be developed by the business plan and the budget -- I am illustrating the principle rather than the numbers*):

1. The business would be capitalized with two million shares of one dollar par value stock.

2. The management group of BPPC would receive 20% of the shares, none of which could be sold for 10 years. This is the incentive that will be the driving force for success. I call it "Sweat Equity."

   a. The General Director, hopefully, Mr. Panaiotov, would receive 5% or 100,000 shares.

   b. The Assistant General Director would receive 2.5% or 50,000 shares.

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c. The Directors of the breeder, hatchery, feed mill, broiler growout, slaughter house and marketing would each receive 1% or 20,000 shares.

d. The remaining 6.5% would be appropriately divided among assistant and staff persons who can contribute to the success of the operation

3 The remaining 80% of the shares would be sold to the Bulgarian-American Enterprise Fund and/or an outside investor for cash.

4. My rough estimate is that BPPC will need $4 million in operating capital in order to own the inventories and accounts receivable.

a. $1,600,000 from the sale of stock shares.

b. A $3 million operating line of credit from the World Bank secured by the inventories and accounts receivable.

c. If the feed mill has to purchase its grain needs at harvest rather than buying them from the state monopoly as needed, major additional credit will be needed.

4. All inventories, supplies and accounts receivable after verification would be purchased at the time of closing.

5. All fixed assets that make up the Aves Poultry Firm, the feed mill and grain processing at Slavianovo (Pleven) and the slaughter house operation and freezer storage at Aitos, would be rented or leased from the government under a negotiated contract with an option to purchase, at a fixed price, in ten years.

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Recommendation #8

The contract with the Independent Producers (Farmers) should be changed adequately to protect and provide incentive for this very important segment of the enterprise. The first poultry contracting occurred in my home county of Rockingham in the early 1930's. I have watched it and helped it evolve over a lifetime. The American Poultry Industry deserted the "90-10 Contract" in the 1960's for the exact same reasons that it is not working in Bulgaria today. The farmer has no control over the quality of feed or its price. The farmer has no control over the quality of the baby chick or its price. The farmer has no control over the live broiler price or the finished price of one pound of meat. In fairness, the farmer can only be held responsible for his own performance from farm gate to farm gate. The farmer should be assured of a minimum payment. In addition, he should receive an incentive payment for superior performance. It may even be desirable to share a percentage of the enterprise's profits with the farmer at year end. Most of the broilers produced in the world today are grown by private producers (farmers) on such a contract.

Recommendation #9

BPPC should plan to operate at the full one shift capacity of its slaughter house, five days per week. This is absolutely necessary in order to achieve minimal operating cost and maximum profit for the entire enterprise. For example, the slaughter house director at Mihailovgrad told me that when he was running 8,000 birds per hour, eight hours per day, five days per week, his operating cost from the live back dock to the front freezer dock was 3 leva per kilo. The same kind of economics applies at the breeder, hatchery, broiler growout, feed mill and administrative areas.

In order to properly support our private producers (farmers), our work force, return a profit and accumulate the capital necessary to honor our commitment to purchase the fixed assets in ten years, we must be the low cost producer and the best domestic and export marketer in Bulgaria.

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Recommendation #10

BPPC must become the highest quality producer and most effective domestic and export marketer in Bulgaria

1. BPPC should establish a store door delivery system in Burgas and surrounding metropolitan areas. The distance limitation would be a series of circles in which the truck (lorry) driver can return to the slaughter house each night. These drivers are called "route salesmen" and should be carefully selected and should receive incentive pay based on their sales. This approach should dramatically increase local volume. It would by my hope that much of this local product could be delivered fresh in a few years.

2. We can anticipate that shortly there will be private distributors operating in cities that are beyond our reach for store door delivery. Our sales office should cultivate (sell to) these distributors.

3. Burgas is the center for export. We should search the city for the most competent and knowledgeable salesperson and employ that individual to manage and develop our export business. Exporting should become an everyday part of our business rather than a way to dispose of our surplus. If we are professional in the quality of our products, the service we offer our export customer and careful with our credit, we should be able to build an export market not only for our own product, but serve as a broker and earn a substantial profit selling the products of other Bulgarian poultry companies.

Don, some of the poultry complexes are not going to survive. As you can see from the previous pages in our report, I strongly believe we should focus our time, talents, efforts and money on making the Burgas & Pleven area a model operation which the surviving poultry companies can be patterned after. Lorraine has made it very clear that a monopoly would be very unacceptable to her.

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I have spoken to all of the areas in my scope of work with the exception of pricing the various fixed assets that would go into BPPC. The Ministry of Agriculture was to have appraised all the poultry companies' assets by June 30, 1992. This was not accomplished by the time we left Bulgaria. We were given a wide variety of questionable evaluations. I had asked Dr. Nikolinka Duneva to furnish me the report before I left Bulgaria along with the debt structure at each location. You will recall that the Minister of Agriculture terminated the entire staff on June 26, 1992 Perhaps Dr. Duneva will be able to get us this information in the near future.

In conclusion, we have received excellent support from Mr. Christo Petkov and Dr. Nikolinka Duneva and Christo's competent secretary, Nelly Cherneva. The Poultry Industry people we visited were cordial, helpful, kind and tried hard to help us with our mission. Lorraine and I returned to the U.S. late on July 25, 1992. We will be happy to come to Washington and meet with you, the USAID people, the Bulgarian-American Enterprise Fund and the World Bank, if you think this is the next step.

I would also suggest that Philippe Le Roux and/or Peter D. Raymond attend the debriefing meeting per my letter of July 9, 1992 (Attachment Number 3).

Sincerely,

R. H. Strickler

RHS/dbk

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REPORT
POULTRY SITUATION IN BULGARIA
by G.Tanev, Vice Minister

Construction of industrial poultry enterprises in our country began in the period 1962 - 1964 on State, cooperative and State-cooperative principle. Until 1988 14 enterprises were functioning for thr production of about 9 thousand tones meat, net weight and 12 poultry plants for production of eggs with average capacity 335 thousand layers. 10 poultry slaughterhouses were built up with modern equipment and with capacity for annual manufaturing of 13 thousand tones poultry meat, net weight. 7 of them have departments for production of ready made and semi-ready made food from chicken.
The creation of modern poultry rearing helped development of this sub branch of private economy.
The established from the industrial complexes favourable conditions for rearing broilers and layers, such as chicken, forage, equipment and technological help, gave the opportunity to the private poultry fatms to produce in most modern conditions.
As a result of general stabilization of poultry during 1988 the production of eggs reaches up to 2873 million compared to 1480 million during 1965. Production of chicken reached up to 183 thousand tones weight. Export of chicken exceeded 40 thousand tones at certain periods and the export of breeding eggs for the countries from the Middle East expanded. Private producers production of chicken reached up to 103 thousand tones which was 56.3% of the total quantity and 1412 million eggs which was 49.1%.
Our country is one of the first 10 - 15 countries in the world in production of chicken and eggs per capita of the population and with higher than the average indexes for the countries from the EEC.
However, after 1989, as a result of the aggravating economic conditions of production, poultry farming in industrial enterprises got into slump which went deeper during 1991. This slump affected private producers to a greater extend. The situation of poultry business in the country by 1.01.1992 is as follows:
- Total number of poultry is 21707.2 thousand which is 19716.6 thousand less than the number by 1.01.1991.
- The number of layers is 11109.5 thousand which is respectively 5602.1 and 2934.2 thousand less.
- The production of chicken, net weight during 1991 is 105 thousand tones which is 78 thousand tones less than 1988 and 77 thousand tones less than 1990, and of eggs: 1873.0 million which is respectively 1001 and 587 thousand less.

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Private producers gradually ceased their activity and the industrial enterprises got into hard financial situation. Following poultry plants data,net profit for 1990 is over 75 million leva. The expected loss account for 1991 is over 210 million leva. Bank obligations are about 750 million leva, 690 million of that sum means of circulation.State firm Pleven will strike ballance with 87 million leva loss account and its bank obligations extend to over 280 million leva. Enterprises for egg production are in a bit better situation mainly because of higher price of the eggs.
We consider that except for the tolerated technological faults in feeding and rearing of poultry and inertness of some firm managers, the main reason for this situation is the arbitrarily pricing.
The production expence analysis shows that during 1991 the price of combined forage for poultry is 10 times higher and reached up to 2200 leva/tone and it makes over 70% of the total expenses. Prices of electricity, fuel and others also increased. At the same time the average purchase price of chicken increased only 2.5 - 3 times Determinant factor for the hard financial situation of the poultry plants and the private producers is the high rate of interest of the credit.
Poultry plants are modern, up-to-date industrial enterprises, equipped with highly productive equipment. This is acknowledged by all foreign experts too. In their opinion it will be a fault if our country denies itself the possibilities of poultry plants for production of chicken and eggs for consumation and breeding.
In our opinion general decision will be achieved after the necessary conditions are created for privatization and foreign investment. In this connection, the Council of ministers should be informed about the situation of poultry rearing in Bulgaria. It is necessary that help is rendered in the following:
1. Establishment of preferential minimal prices for chicken 14 leva per kg net weight for 1992
2. To transform the debt of the poultry industry into government debt.
3. Commercial banks should credit producers with 50% lower preferential interest rate percentage
4. A single time credit for private producers with grace period of 2 years for starting business.

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Translated by Dr. N. Kolev
June 14 : 1992

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ANALYSIS OF BULGARIAN CHICKEN MEAT EXPORT UP TO 1992

During the 60ies and the beginning of the 70ies steady buyers of Bulgarian frozen chicken were the USSR, Cuba, Austria, Switzerland, Italy. The export amount was not big but Bulgaria was popular supplier for a long period (see table 1).
During the 70ies because of the petrol crisis and the EEC Bulgarian export was directed to the Middle and Near East where higher price was realized. During that period 10 to 12 000 tones were sold annually to Saudy Arabia, Jordan, Kuwait, Syria, Iraq, Lebanon, and Iran mainly. In particular years up to 1975 the export of frozen chicken reached the amount of 20 000 tones. Japan was another buyer of 5 000 tones of chicken.
After 1981 the export of chicken meat was distributed as follows:

- for the USSR - 30.81%
- for Cuba - 30.64%
- for Saudy Arabia - 21.07%
- for Iran - 11.49%
- for Lebanon - 4.23%

In 1985 chicken meat was basically exported for the USSR and Cuba; respectively 1 800 tones for 14 700 000 leva for the USSR, and for Cuba 12 300 tones for 15 350 leva. That was 80% of the export. The other 20% were distributed in the Middle and Near East. Market in this region, due to its potential possibilities was centre of Bulgarian export. The biggest customers were Saudi Arabia, Kuwait, Iran, Jordan, the Emirates. The export in particular years reached 2 000 tones. The Saudy Arabian market was profitable for us because it preferred chicken of 800 to 1200 g. , slaughtered according Islamic requirements . Import was carried out by 5 local firms which contracted the import for periods of one year or six months. The export for Saudy Arabia was stopped after 1981 by the issued royal decree forbidding the import of chicken meat.
Bulgarian export of chicken meat and eggs is carried out by foreign trade enterprise "Rodopaimpex" mainly, and small amounts by " Agrocommerce " . Foreign trade centre "Primex" organized by Research Production Poultry Enterprise (RPPE) after 1986 carried out chicken meat and eggs export. During the last 2 years after the liquidation of Poultry Enterprise, "Primex" separated as independent foreign trade enterprise. Now the export of chicken meat is basically realized by "Primex" and partially by State Firm "Poultry".
During 1990 "Primex" exported 25 000 tones chicken meat for the USSR and Cuba, and 45 000 tones for Iran, Greece and Italy while State Firm "Poultry" exported 4 500 tones for the USSR. Thus about 28 000 tones chicken meat was exported for the USSR and Cuba, and about 4 500 tones for Greece, Iran and Italy.
During 1992 our main customer, Russia, lost its purchasing capacity after some political changes and big amount of chicken meat kept in stock was retained. At the same time producers paid back with high interest for the forage. This fact and the decreasing of buying power of the population lead to economic crisis which was the reason for the decrease of chicken

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meat production.
Most private farmers and State poultry plants minimized their production of chicken meat. A number of poultry plants kept only parent breeds. Stock farms were equipped for Tran and Algeria, and small amounts for Tunisia.
As mentioned, state [illegible] is carried out mainly by "Minex" which is with state [illegible] and private [illegible]
Chicken meat marketing [illegible] poultry, is realized on the principle of free marketing of stock on the open market. Long contracts are realized by the sale department of the poultry plant or slaughterhouse. A lot of private firms during the last year [illegible], wholesale chicken meat from the slaughterhouses and then sell it to the shops in the big towns of the country.

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TABLE 1 EXPORT OF BULGARIAN CHICKEN MEAT IN TONES

	1960	1965	1970	1975	1980	1981	1985
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TONES							
ALGERIA	302	14	298				
GDR	1027	1020	660	112			
GREECE	277	1503	574				
ITALY	423	48	.	71	787	161	
IRAN					1483	16	
JORDAN			759	1874	965	-	
CUBA					7037	9930	12300
KUWAIT					1163	52	
LEBANON					2008	1375	
USSR	230	5929	13662	5496	4554	10006	11800
SYRIA					2925	109	
CHECHOSLOVAKIA	1127	623	31				
SWITZERLAND			759	148			
JAPAN			5	5	12		
SAUDY ARABIA			1865	3668	5224	6829	

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TABLE 2

EXPORT OF CHICKEN MEAT FROM 1969 UNTIL 1985

1969	-	$ 87000
1970	-	$ 75500
1971	-	$ 772000
1972	-	$ 708000
1973	-	$ 474126
1974		$ [illegible]
1975		$ 1474697
1976		$ 492000
1977	-	$ 520000
1978	-	$ 774000
1979	-	$ 680217
1980	-	$ 292000
1981	-	$ 611980
1982	-	$ 546430
1983	-	$ 565795
1984	-	$ 483000
1985	-	$ 335000
TOTAL	-	$ 8588958

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Table I

RELATIVE PART OF CHICKEN MEAT EXPORT
FOR DIFFERENT COUNTRIES AND YEARS

	1965	1975	1981
U.S.A	1.67	1.44	5.47
CHINA		0.69	1.27
BRASIL			20.82
FRANCE	4.26	10.26	26.88
JAPAN		0.44	0.26
ITALY	0.29	0.10	0.53
SPAIN	0.05	0.60	0.31
GREAT BRITAIN	0.09	0.31	2.68
CANADA	0.21	0.48	0.98
POLAND	21.57	9.87	3.32
ROMANIA		1.22	4.67
WEST GERMANY	0.09	3.71	12.57
HUNGARY	22.99	36.98	41.53
NEDHERLANDS	69.87	68.98	67.94
YUGOSLAVIA	2.37	2.13	2.36
ISRAEL	0.01	2.98	4.44
PHILIPINES		1.11	2.55
CHECHOSLOVAKIA	3.02	6.02	9.06
THAILAND	0.01		15.02
BULGARIA	22.04	17.88	21.11

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ATTACHMENT 3

Consultancy Report on the Organizational Structure of Integrated Poultry Company

BEST AVAILABLE DOCUMENT

XD-ABJ-113-A
ISN 89517

CONSULTANCY REPORT

ON

ORGANIZATIONAL STRUCTURE OF INTEGRATED POULTRY COMPANY

FOR THE

ASSISTANCE FOR PRIVATE POULTRY PRODUCERS IN BULGARIA PROJECT

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SUMMARY OF RECOMMENDATIONS

After reviewing the "Analysis of the Bulgarian Poultry Industry" by U.S. Poultry Industry Expert R. H. Strickler, conferring with Bulgarian poultry expert Dr. N. Duneva; conferring with the Director and Deputy Director of the VITAPROT feed mill at Slavianovo (Pleven), the Director of poultry company AVES at Burgas, the Director of the "AKVILA" slaughtering plant at Aitos; meeting various municipal and state officials directly involved in the privatization process for each of the three plants; and discussing legal technical matters with attorneys directly involved in the existing companies about privatization process rules and or laws of business organization as now in place in Bulgaria, I make the following recommendations:

1. A single, integrated poultry company should be created to include breeding; chick production and placement; feed production and distribution; grower coordination and support; grower ownership in the company; slaughtering poultry operation; and product marketing.

2. The form of the organization should be a single Bulgarian shareholding company issuing two classes of stock and designed so ownership is shared by management, the workers, private farmers with growing contracts with the company, and outside investors.

3. The company should be created by privatization of three enterprises now owned either by the state or a municipality. These three organizations have been identified. Terms of the privatization arrangements should assure that the transition from state or municipally owned enterprises be made to private ownership in as smooth a manner as possible.

4. Financial needs should be determined and possible sources identified. Necessary economic and financial feasibility studies should be commenced in preparation for the process.

I. INTRODUCTION

The purposes of this report are to:

1. Summarize the current status of relevant parts of the Bulgarian poultry industry;

2. Note the absolutely critical relationship between the privatization process and the emergence of a viable and potentially highly successful poultry industry in Eastern and Central Bulgaria;

3. Identify and describe those existing operations that show excellent performance, superior to nearly all other operations in the Bulgarian poultry industry.

4. Describe a privatization scheme leading to a combination of interests and operations for one integrated poultry company centered in Burgas, and

5. Describe the new organization, outlining its form, ownership, operations, financing, and advantages

II. THE CURRENT STATE OF PRIVATIZATION

Recent changes in the Bulgarian economic and business system have been dramatic. From a centrally planned economy with heavy state ownership patterned after and closely coordinated at many levels with the Soviet system, Bulgaria has moved rapidly toward a market system based on private, individual ownership. The process is now that of transferring state owned enterprise into private hands. Part of the process is "restitution" by which property confiscated by the state during transformation to a communist system in past years is returned to previous owners. Many private, relatively small stores have been created by the restitution process.

"Privatization" is the term generally used to describe the system by which state or municipal enterprises are converted to private property. The procedure may but does not necessarily take place in two stages. The first step, if it occurs at all, changes the ownership form of the state-owned enterprise but transfers no ownership. The state-owned enterprise is converted to a sole proprietor company with sole ownership in the state.

For "converted" state enterprises and "unconverted" state enterprises, the second step is to transfer ownership from state to private hands. Generally, enterprises singled out for privatization are bid upon by prospective purchasers. The state may then accept or reject a bid and, if a bid is accepted, transfer ownership by one of several optional procedures. Payment for the enterprise is received by the state and funds are handled according to legal guidelines.

Enterprises may be owned by municipalities instead of the state, the case for one of three enterprises of interest in this project. While current privatization laws are the same for the state -

owned and the municipality - owned enterprises, each situation must be considered separately.

A. Current Laws and Regulations

Laws and some supporting regulations have been enacted relating to the two steps above mentioned. New laws describe conversion of state and municipal enterprises to state property sole proprietor companies. Laws also describe the process of privatization to its completion as a privately owned enterprise. Some regulations have been devised but none have been implemented. Consequently, considerable uncertainty exists with respect to what will actually transpire as the privatization integral to this project proceeds. At the same time, innovation may be possible during this experimental stage of the national privatization effort.

B. Current Progress

Privatization has proceeded in the case of small enterprises, especially restaurants and retail shops. Many of these are associated with the restitution process.

However, privatization of production enterprises has not proceeded as rapidly as many desire for a number of reasons, two of which are lack of legal guidance and lack of money in the Bulgarian economy to purchases productive enterprises of any significant size. As a consequence, privatization of the national productive resources simply has not taken place.

C. This Project

The successful completion of this project will be the vanguard of true privatization. As such, it will create a privately owned, market oriented business with excellent success potential to serve as a pattern and leader for other industries to follow. At the same time, it will test the ability and willingness of those committed to assist the fundamental transformation of the country's economy.

III. THE BULGARIAN POULTRY INDUSTRY

The current structure of the poultry industry is a combination of the old centrally planned system, an emerging private production system, and economic and price conditions placing pressures on those parts of the industry operating at less than peak performance. This current project recognizes the current structure and its problem and will change parts of it. Only those items of most direct interest are discussed.

A. Overall Industry Structure

Four types of operations comprise the Bulgarian poultry industry, although variations exist. The following description applies to the industry in regions relevant to the project.

1. Poultry companies The central coordinating function in the growing process is performed by "poultry companies." In a typical operation, the poultry company produces day-old chicks that are placed with private farmer growers. The poultry company supplies medicine, feed, and some other services in the growing period. Feed may or may not be "supplies" by the poultry company. In either situation, the private farmers purchase all feed used under arrangements that vary as described later. The poultry company retains ownership of the birds at all times. When birds reach maturity, the poultry company arranges for their pickup by the slaughtering plant. The poultry company sells the bird to the slaughtering plant and, by arrangements that differ among regions and poultry companies, pays the grower. Poultry companies are currently state-owned enterprises.

2. Growers Growers have facilities for raising the day-old chicks to maturity. They supply the labor and the care required in that process. Some growers are full-time poultry growers producing chickens at four cycles per year. Many, however, only grow poultry for supplemental cash. Many growers also only take chickens for growout in Spring and Fall, declining to produce during Winter and Summer. These disparate groups pose different opportunities and, more importantly, problems for an effective poultry production system.

Growers are typically responsible for costs of day-old chicks, feed, medication, electricity, labor, and construction of their broiler houses. As noted later, a successful growout system has been introduced by the poultry company of interest to this project in which feed and chicks are supplied on credit, with their costs subtracted from total payment at grower settlement.

It should be noted that production has also taken place on state farms. However, because of their design and production expenses, private farmers can produce at substantially less cost.

3. Feed mills The most critical factor in efficient and profitable production is the feed. Chicken feed is a mixture of ingredients and the mix determines growth rate and feed-to-meat conversion ratio. Feed mills are currently state-owned enterprises that operate independently of poultry companies.

4. Slaughter houses These currently state-owned enterprises perform the physical conversion from live chickens to final product and, in addition, they purchase the live chickens from the poultry company and sell the product domestically and, if appropriate, into international markets. Thus, the slaughter houses are now the final marketers of poultry products to wholesale and retail outlets and to exporters or foreign purchasers.

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B. Economic Status of the Industry

Although the components of a successful poultry production industry exist in Bulgaria, the industry is presently depressed. Many, if not most, private growers are not now producing poultry because prices received do not cover their costs of production given current production practices, feed composition, hybrids used for broilers, and market conditions. Poultry companies, with exceptions, and slaughter houses, with exceptions, are generally heavily in debt and are operating at less than full capacity, many at less than 50 percent of capacity. Many companies and slaughter houses are expected to go bankrupt. One of the largest poultry plants, originally designed to include hatchery, slaughter houses and feed mill, has ceased to function primarily because of indebtedness from Iraq whose assets became unavailable for payment during the Gulf conflict. This plant near Pleven was designed to be the largest poultry operation in the Balkans.

In general, about 40 percent of the industry capacity is idle.

Domestic consumption of chicken is down dramatically from "normal" times in which chicken is the preferred meat. Domestic consumption has been at 24 kilograms per person during "normal" conditions about 5 years ago. Currently it is at 12 kilograms per person and experts suggest it could drop to 8 kilograms per person unless prices, particularly relative to pork, are not improved.

The international markets have likewise suffered in recent years. Of major importance has been serious decline in Russian markets because of Russia's cash shortage and inability to make purchases even though their need for poultry products from Bulgaria is great.

The result of these conditions has been loss of income producing opportunities by thousands of private poultry growers,
many of whom, certainly the better ones, have invested in poultry houses and associated facilities and, importantly, have made commitments to engage in private entrepreneurship with its demands and risks.

IV. PROBLEMS IN THE POULTRY INDUSTRY

Current problems in the poultry industry are not insurmountable nor are they permanent. Specifically, they are such that specific, planned actions can build at least one successful, profitable enterprise that will support a considerable number, if not a high proportion, of poultry growers in Bulgaria. To identify these actions, some specifics of industry problems should be identified.

Problems to which specific actions can be directed are two - fold. First, market and entrepreneurship knowledge, philosophy, and motivation have not developed to a point where the integrated steps necessary for poultry production function adequately. They are, however,

within immediate reach. Second, and closely related to the coordination problems, quality feed production and hybrid development needed for cost effective poultry production are not adequate.

Two examples of the market and entrepreneurial problems demonstrate the situation. As noted following, production of good chicken feed is the single most important key to successful poultry production in Bulgaria (as it is everywhere in the world). With few exceptions, one of which is described later as part of the proposed poultry production unit, feed mills have insufficient incentive to produce quality feed. They are not economically tied to their product's performance. As a consequence, their ingredient mix decisions are based heavily on total ingredient cost reduction rather than on what is required for quality feed production. Feeds are mixed with what ingredients are available and those that can be produced with least cost because feed mills will (1) sell feed under any circumstance and (2) sell at a given price without regard to feed quality. Little or no effort is made in quality control or feed improvement research.

No current market or legal mechanisms exist to correct this situation and it is a major hindrance to efficient poultry production. This situation can be solved immediately by creation of an integrated poultry unit.

A somewhat similar situation exists in the processing plant industry level. In this case the problem is one of inadequate marketing incentives because little true marketing activity was previously required. A related problem is that the system does not operate so as to make the processing business one that passes price and demand signals back down the production chain.

The second set of soluble problems at the industry level relates to production, particularly poultry feed.

In summary, two feed-related facts indicate the role good feed plays in poultry production. At the outset it should be noted that approximately 70 percent of the total cost of growing a broiler to slaughter size is cost of feed. Thus, every gram of feed not absolutely necessary for final production is a costly burden of the private grower and the industry as a whole.

The feed conversion ratio relates the total weight of feed required to produce a given final weight of poultry meat. The industry in Bulgaria now requires about 3 kilograms of feed to produce one kilogram of meat. This is higher than it should be. A ratio of 2 kilograms or less of feed for one kilogram of meat is possible with proper feed and the correct hybrids. Given the feed cost's contribution to total production costs, the detrimental results of the lower ratio are clear.

A second measure of poultry production is the time required to achieve a certain live bird weight. Currently, in the Bulgarian industry, producers require about 60 days to achieve a weight of 3.3 pounds. In the U.S., producers achieve 4 pounds in 44 days. A shorter growing time leads to more production cycles per year and higher total bird production and profits for

producers.

V. POTENTIALS IN THE POULTRY INDUSTRY

The problems at the industry level related to low domestic consumption and diminishing foreign markets, particularly with Russia, are viewed as temporary and correctable by poultry industry and marketing experts consulted. Domestic consumption is expected to increase (1) with increased economic stability as the monumental and rapid change from centrally planned and state controlled economy progresses and (2) with greatly improved consumer poultry prices brought about by planning, production, and marketing efficiencies.

Export is expected to revive as international economic conditions stabilize, as new barter arrangements are made with cash-poor importers, and active marketing efforts are instituted.

Elements of the existing poultry industry show great promise. However, they will be realized only if rapid and well-designed actions are taken. Such action will depend on the initiative and performance of individual participants. When a poultry production unit is created and operated to overcome industry coordination problems and poultry production deficiencies, the unit will realize considerable success in Bulgaria relative to other poultry production systems and will begin revitalizing processes within the industry. With such an industry leader, a substantial number of farmers will grow poultry profitably and consumers will enjoy quality poultry at a better price. Exports will increase, probably dramatically, along with the associated benefits to Bulgaria's balance of payments.

VI. CREATING A SUCCESSFUL POULTRY PRODUCTION UNIT

A. General Requirements

A successful poultry production system must recognize requirements suggested above and must be of a business form such that:

1. The requirements are implemented automatically as a part of the enterprise without resort to complicated or uncontrollable outside business arrangements.

2. The business form itself contributes to efficient operations.

3. The business form assigns economic incentives effectively and correctly to all subunits and participants within the system.

4. Capital and financing requirements are defined and flexible, yielding current capacity needed and establishing a structure that will allow for future changes, special arrangements such as joint ventures with other domestic or foreign firms,

and growth in business and the industry as a whole.

5. The structure must fit within the fundamental changes to a market-based economy now occurring in Bulgaria, with immediate response to the privatization process.

B. An Integrated Poultry Production Unit

The desired poultry production unit can best be achieved with a single corporate business that integrates the essential stages of poultry production from hatchery to sale of processed poultry products, including growout arrangements with private farmers who have a direct ownership stake in the poultry unit's performance. Such an integrated system has been used successfully in other poultry producing sectors and, in fact, all poultry in the United States is produced with such an integrated system. The resulting efficiency has transformed the industry into such an efficient one that poultry price decreases made possible by cost reduction have brought about major changes in domestic consumption relative to beef and pork. It should be specifically noted, however, that this recommendation is not made simply to copy the U.S. system. Conditions in Bulgaria strongly suggest such integration irrespective of its success elsewhere under greatly different circumstances.

VII. NEED FOR AN INTEGRATED SYSTEM

Why should a poultry unit in Bulgaria be an integrated system at the present stage of the industry, economy, and financial system? Following are reasons such a system is suggested. More specific examples are given later in the description of the recommended unit. Reasons include:

1. The need for close technical coordination of production stages that affect all other stages in the production process.

2. The requirement for control over technical and operational aspects of all stages of the production to assure efficiency and quality.

3. The requirement that incentives to engage in desirable practices and utilize the best practices are assigned properly.

4. The desirability of distributing benefits of a successful production process at all stages to those who have contributed to the production process.

VIII. FOUR ENTERPRISES IDENTIFIED

As noted in the review of the Bulgarian poultry industry, the stages of poultry production

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are now located in separate enterprises. They are largely unintegrated except for the contractual relationship that may exist between the poultry company and private farmers. (Private farmers as a group are the "forth enterprise" although they are not a single entity and are not presently organized in any formal business.)

Extensive research in Bulgaria by Mr. R.H. Strickler, a poultry industry expert with lifelong involvement in the U.S. poultry industry, identified three outstanding enterprises now in operation, each associated with one of the essential stages of poultry production. His recommendation is that a single integrated poultry production unit should include these three enterprises. This is also the recommendation of Dr. N. Duneva, a Bulgarian poultry expert.

The three enterprises, described below, have several important characteristics in common.

First, all are currently successful and are not in financial trouble as are most other similar enterprises throughout Bulgaria. Thus, their combination in whatever form does not begin with the burdens facing other possible participants in the industry.

Second, all are characterized by dynamic, excellent management (the major contribution to their success in the face of general industry downturn). Mr. Strickler placed this characteristic highest on a list of desirable attributes.

Third, all have good to excellent facilities and full production potential with little or no capital requirements.

Fourth, the present work force in each is of high quality and generally balanced in number with efficient production practices.

Fifth, all three enterprises, now state or municipally owned, are amenable to, and in fact eager for, privatization. Relevant state and municipal units have been receptive.

Finally, management of all three facilities recognize the potentials of privatization and formation of a more integrated poultry production unit. All are capable of making the business a successful transition to market-oriented, privately owned entrepreneurship.

A. The Poultry Company

As the relevant part of the industry is now organized, the central coordinating enterprise in poultry production from hatchery to live birds ready for slaughter is the poultry company. The poultry company identified as the lead enterprise for the creation of an integrated poultry production company is AVES, located near Burgas. AVES's General Manager is Mr. P. Panayotov.

1. Method of Operation AVES engages in two separate activities. It conducts the usual

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functions of a poultry company and, in addition, owns layers and egg production facilities capable of producing about 30 million eggs per year for final consumption market. The physical facilities are separate.

Broiler production begins with a breeder flock which produces eggs for hatching into day-old chicks for growout. Present facilities and breeder flocks produce 20 million eggs per year.

AVES has technologically advanced hatchery facilities capable of producing 10 million chicks per year. Day-old chicks are placed by AVES with private farmers (growers) in the Burgas region. Hatching eggs produced but not hatched are marketed to Middle Eastern countries. AVES actively seeks to sell or hatch all hatching eggs produced, with sales of hatching eggs is not usually desirable as a market.

Chicks are grown to maturity by private farmers. AVES retains title to the birds at all stages of the growout process. The growing arrangement terms are in the form of a contract between AVES and each individual private farmer.

AVES supplies day-old chicks to the private farmer. One of the most significant of the AVES-grower arrangement is how feed is supplied. AVES purchases farmers' entire supply of feed and delivers it to the farmer with no initial advance from the farmer to AVES. The effect is that AVES extends credit to the farmer, thus reducing the farmer outlay substantially during the growout cycle.

Private farmers supply the broiler houses, labor, electricity, and medication. AVES supplies day-old chicks and feed, although the ultimate cost of chicks and feed rests on the grower.

At maturity, AVES arranges live bird pickup and transportation to a slaughter house. AVES sells live birds to the slaughter house at a negotiated price. Ninety percent of AVES's sales are made to AKVILA, a well-located slaughter house in Aitos, near Burgas and AVES. The usual circumstance is that AVES sells all its birds to AKVILA, but during the past year a temporary price advantage was gained by sale of several days' production to another slaughter house.

Sixty days following live bird sale to the slaughter house, AVES settles with its growers. It reduces the final payment by charges for chicks and feed supplied. A small "commission" (4 - 6 percent) is charged in addition to chick and feed costs to reflect services performed by AVES. This is justified because AVES supplies the feed at cost and wishes to recover costs of arrangements, storage, delivery, etc. The 60-day delay in payment, first instituted by AVES to preserve production by private farmers in the Burgas region, gives AVES short-term financing for providing feed on credit for the subsequent production cycle.

2. *Facilities and Capacity* AVES is currently operating at less than capacity in its hatching egg, stock egg, and hatching activities. It currently has about 300 private farmers

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under contract, with a maximum of 650 in the region.

AVES employs 310-320 workers in all its facilities.

AVES requires no immediate capital improvements to continue its present operation. However, facilities now under construction will increase its consumer egg production to 40-45 million eggs per year. In addition, conversion to new bird hybrids with the formation of an integrated poultry production unit will require expenditures for the breeder flock.

B. The Slaughter House

The slaughter house identified as the second desirable part of the new integrated system is AKVILA, located in Aitos near Burgas. Its General Manager is Mr. Minchev.

1. Method of Operation AKVILA purchases live birds from poultry companies, absorbing the cost of live bird transportation from farm to plant. The plant slaughters the birds and produces several products. The principle product is whole, frozen chickens. The plant can also produce smoked chickens and chicken sausages.

AKVILA markets its final product in domestic and export markets. It purchases live chickens at a price determined by negotiation. The price at which whole frozen chickens are sold domestically is regulated somewhat indirectly by a limit of eight percent profit by the slaughter house, although some creativity seems to be possible in calculation. A floor on international sales prices ($1,100 per ton) has been exceeded in recent sales to Russia and, in the opinion of those engaged directly in international marketing, seems to present no obstacles for international marketing.

AKVILA purchases about 95 percent of its live bird requirements from two poultry companies, about half coming from AVES.

2. Facilities and Capacity AKVILA facilities include a slaughter house operating on an assembly line basis, a freezing facility, and frozen bird storage, including significant new space now being added.

AKVILA has a slaughter capacity of about 1,000 tons per month, 45-50,000 birds per day, or about 6,250,000 birds per year. This calculation is based on a single work shift. In the past, two shifts have been used, but never three. Thus, its total capacity at full operating speed is considerable. At present it is operating at about 50 percent capacity.

Equipment is about 12 years old. The main equipment was renovated in 1989 and needs little maintenance. It should operate for at least two more years at full capacity without replacement. No new equipment is required for increased production to full capacity, although frozen storage capacity may be reached because of market conditions. Such capacity is currently

being expanded.

An assembly line for cuts, with a capacity of 1 1/2 ton per hour, is not now operating because no market exists. Sausage processing capacity of 3 1/2 ton per day is not fully used for lack of market, and chicken smoking equipment is likewise not fully utilized.

AKVILA employs 160-165 workers to run at the present 50-60 percent of capacity. Mr. Minchev estimates full production would require 200-215 workers.

C. The Feed Mill

VITAPROT, a feed mill near Pleven, combines new and excellent facilities, excellent management, and a desire to produce good quality poultry feed. Its General Manager is Mr. Kostov.

1. Method of Operation Ingredients for feed mill use are purchased from several sources at negotiated prices. The final feed mix is determined by reference to good industry practices and actual production experimentation. Selected private growers use feed mixes and report on its performance. Feed mix responds to farmer demand and the automated equipment used at VITAPROT makes possible immediate customized mix upon demand. The plant can and does produce pelletized feed, the most desirable feed form.

VITAPROT sells to private farmers on a cash basis. Price is determined generally by calculating expenditures for raw materials, other expenditures, and depreciation. About 15 percent is then added for profit, although this may be reduced to 10 percent.

2. Facilities and Capacity VITAPROT has a total capacity to supply about 1,300 private farmers with all their feed needs. It is currently operating at 30 to 50 percent capacity, primarily because of the financial failure of the extremely large nearby poultry plant which it was designed to serve. It would need little capital investment to increase its production to nearly full capacity.

The feed mill was built in 1989 and incorporates excellent automation technology, including laboratory equipment to test ingredients purchased and feed mixes produced. No new equipment will be needed in the foreseeable future.

VITAPROT employs 90 workers and estimates it would need only 10 more to produce at full capacity. Some employees are currently used to improve some storage facilities when not needed in the mill, given low production levels.

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D. Private Farmers

Broiler growout in the Burgas region is done through contracts between private farmers and poultry companies. Those of immediate interest for this project are those growing for AVES, although new groups may become involved as a new poultry production unit makes the most efficient use of its collection of resources and as it develops new domestic and foreign markets.

1. Method of Operation The contract arrangement was noted in the description of AVES. Prior to signing an agreement, the farmer can calculate feed costs, other costs and price to be received. Costs include: day-old chicks, feed at cost from AVES, medication and veterinary services, labor electricity and the cost of the broiler house. The farmer calculates costs and the price to be received from AVES and makes a decision on whether to accept and grow a batch.

2. Facilities and Capacity The average producer in the Burgas region grows about 7,000 birds per cycle. Units of 15,000 exist but are rare.

"Full time" producers grow four cycles per year, and are limited to that number by the length of growing time, now about 60 days from day-old chick to slaughter size. Average production is thus 28,000 per year.

Without further capital investments, each producer can increase production by about 15 percent. Production periods will be reduced upon creation of the new poultry unit and introduction of new hybrids. Growout period can be reduced from 60 to less than 50 days (44 is possible), and the same facilities can be used to grow at least one more batch per year than is possible at present.

Of course, total private farmer capacity can be increased by addition of private farmers to the industry. However, a large proportion of those currently prepared to grow are now not actively growing birds and can be reemployed as needed.

IX. THE PROPOSED STRUCTURE

The fully coordinated system as suggested above can be achieved by a single business enterprise integrating all parts of the production process except for actual growing which would be performed by independent private farmers whose relationship to the integrated company is defined by grower contracts and ownership interest in the integrated company.

The proposed structure of the integrated poultry company is described. A description of the proposed structure is followed by a discussion of the privatization process required to achieve the structure. Finally, an overall description is given of its capacities and operation. A subsequent section addresses difficult and peculiar financing aspects of such a structure given

its genesis in the privatization process.

The new poultry company (COMPANY) will be a combination of the three best components as identified previously.

1. COMPANY will include all assets, management, and employees of AVES, and will perform all functions currently carried out by AVES.

2. COMPANY will include all assets, management, and employees of the slaughter house AKVILA.

3. COMPANY will include all assets, management, and employees of the feed mill VITAPROT at Pleven.

A. Bulgarian Stock Company

COMPANY will be organized under Bulgarian commercial law as a Bulgarian stock corporation. Under the appropriate Bulgarian commercial laws, COMPANY can issue two classes of stock.

1. "Titled" stock with identified ownership and carrying the right to vote. Voting is based on one vote per share of stock and more than one share can be owned by one legal person. This class of stock corresponds to common stock in U.S. corporations.

2. "Privileged" shares signify investment in the company but carry no right to vote. This class of stock corresponds to preferred stock in U.S. corporations although some significant uncertainties exist about certain shareholder rights.

Shares of stock carry rights to participation in COMPANY's profit, although dividends need not be declared and may be paid in shares of stock.

The following recommendations should be subjected to considerable review and discussion by at least three groups. Management of each organization should be given early opportunity to assess the impacts of the recommendations. Lawyers and others involved in the mechanical aspects of all processes from COMPANY formation through privatization to finance should give their opinion. Finally, those who may be asked to invest in COMPANY will have comments and concerns deserving careful consideration.

B. Authorization and Distribution of Shares of Stock

COMPANY will authorize both titled and privileged shares of stock. Three purposes are

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served by stock issues: (1) Control of the COMPANY by voting rights distribution. (2) distribution of profits based on stock ownership, and (3) built-in flexibility and growth potential including mechanisms to engage in joint ventures of various kinds for the overall benefit of COMPANY and the industry.

The practice in Bulgarian law is to place a considerably greater amount of detail in the articles of incorporation than is done in the U.S. As characteristics of COMPANY are discussed, it will be necessary to explore the way they should be implemented under commercial law relating to Bulgarian shareholding businesses.

C. Titled Shares of Stock

COMPANY should authorize 100,000 shares of titled stock representing control of COMPANY. The final distribution, once all titled shares are issued, is as follows:

1. Management Twenty-five percent of titled shares are reserved for management. This substantial proportion is in recognition of the critical role senior management plays in the success of COMPANY. Current management of the three enterprises has demonstrated its abilities and must be preserved for COMPANY to realize its role in a privatized, market-oriented poultry industry.

2. Employees Twenty percent of "titled" shares are reserved for employees. This recognizes the important role of motivated employees in COMPANY as well as the possible rights of employees established by the privatization process.

3. Private Farmers Twenty-five percent of the titled shares are reserved for private farmers with growing contracts with COMPANY. This reservation recognizes the critical role private farmers play in the privatization process and interest they have in the successful operation of COMPANY. It also recognizes the fact that they are at present unorganized and need an effective voice in how COMPANY is run.

4. Other Investors The remainder of the titled stock, 30 percent of COMPANY's total, will be available for purchase by other investors. To avoid disproportional control by one person, ownership will be limited to five percent of all titled shares by any one individual.

Concern has been expressed about the mix of persons entitled to participate in COMPANY's control under this arrangement. Business firms in a highly competitive and rapidly changing industry cannot function by committee decision. Some method must be devised to make COMPANY operate effectively given the diversity of ownership interests. Possibilities have not been explored but arrangements such as management contracts, legally binding assignments of roles played by parties, or other means for proper governance and management should be considered early in the privatization process. The balance of social and business considerations should be addressed carefully and sensitively given the economic and political

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realities under which this project evolves.

D. Privileged Shares of Stock

COMPANY should further authorize 900,000 shares of privileged stock. The primary role of this class of stock is (1) distribution of profits to those with an investment interest in COMPANY, (2) a mechanism to permit private farmers to share in COMPANY's profits, and (3) a way investors can recognize increases in COMPANY's value.

Ownership of shares of privileged stock can be less restricted than titled stock. However, the role of participants in COMPANY should be reflected in a few rules.

1. Private Farmers Twenty-five percent of the privileged shares should be reserved for private farmers having growing contracts with COMPANY.

2. Management and Employees Ten percent of the privileged shares of stock should be reserved for management and employees. The purpose of this reservation is to give management and employees a share of COMPANY's gains in a way that provides incentives for productivity.

3. Other Investors The remainder of untitled shares can be purchased by investors or used by COMPANY as payment for additional assets, including capital contributions to joint ventures with other companies or individuals.

E. Share Issue and Valuation

The unique way in which COMPANY will come into existence will influence heavily the methods used to place shares of stock in the hands of COMPANY owners and will also influence the valuation of shares initially and subsequently. The following reflects a suggestion of how share distribution might be accomplished.

1. Titled Shares Because titled shares represent both control and rights to profits, their valuation, initial distribution, and subsequent transfer may limited or regulated.

Upon the completion of the privatization process, management and employees would be required to purchase their shares of titled stock. If possible in the privatization process, some should be given directly to management as "sweat equity." This provides some initial capitalization and, more importantly, guarantees a definite source of control for COMPANY prior to expansion of titled stock ownership.

Valuation of titled shares would be fixed to reflect the proportion of initial assets received by COMPANY in the privatization process and the management and employee numbers associated with each of the three enterprises privatized into COMPANY. Proportions involved

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and the portion of total COMPANY shares represented by titled shares should result in a reasonable cost per share.

Titled shares could not be transferred and could be repurchased by COMPANY only at original face value and upon termination of shareholder's qualified status except in the case of other investors.

2. *Privileged Shares* Because privileged shares must reflect market value to recognize increases in the value of COMPANY, they must carry the right to be sold at a market-determined price.

Initial and subsequent issuance by COMPANY would be at a "market price." If no market price is established, the price could be established by COMPANY by reference to its total asset value adjusted for inflation and the expected income that could be received by stock ownership.

Owners could sell their stock at any negotiated price. To facilitate markets in absence of a national stock exchange system, COMPANY may devise a system to record offers to buy and offers to sell with the sole purpose of putting potential buyers and sellers in contact with each other.

Some concern has been expressed about the legal rights to transfer these shares freely. If necessary, extensive use of articles of incorporation provisions should establish rights needed to implement transferability rights.

F. Method of Operation

COMPANY will perform all steps necessary to produce and market processed poultry activities include the following:

1. Select hybrids suitable for peak poultry production.

2. Purchase and care for parent breeders.

3. Produce eggs and hatch them for growout.

4. Contract with private farmers to grow chicks to maturity.

5. Place day-old chicks with private growers.

6. Produce chicken feed suited to peak production.

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7. Purchase feed ingredients.

8. Mix and deliver feed to private farmers.

9. Collect mature birds and transport them to slaughter house.

10. Slaughter, process and freeze chickens.

11. Develop markets, marketing programs, and new products.

12. Market final product.

13. Conduct research necessary to identify birds and techniques best suited to peak performance.

14. Finance private farmers through delayed cash receipts for chicks, feed, and other supplies.

15. Coordinate product output with market demand and storage capacity.

16. Coordinate live bird production with slaughter needs.

17. Coordinate grower placement with live bird needs.

18. Coordinate hatchery operations with chick placement needs.

G. New Capacities

Capacities of COMPANY after its organization and completion of privatization process reflect the cumulative added capacities of components. In addition, opportunities exist for expansion of some activities to make the most effective use of facilities, and other facilities may be utilized to round out needed resources and respond to new opportunities as they arise.

1. Hatching egg production. Present facilities can produce 20 million hatching eggs per year.

2. Hatching capabilities. Present facilities can hatch 10 million day-old chicks per year.

3. Hatching limits of 10 million per year can be overcome by renting other hatching facilities. This, in fact, is desirable because day-old chicks cannot be transported to private farmers for a long distance without an increase in mortality rate.

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4. Grower support. Current hatching capacity can provide day-old chicks to 300-350 growers of average size (for the Burgas region) operating on a four cycle per year system. Hatching egg production can support approximately double that amount and hatching facilities nearer grower groups can be rented as needed.

5. Number of private farmers. Private farmers can produce as much poultry as can be utilized by COMPANY. A favorable price-cost ratio resulting from, among other things, shorter growing periods and better feed to meat ratios will bring presently idled producers on line.

6. Production per private farm. With fixed broiler houses, average production per private farmer is approximately 7,000 birds per cycle with four cycles per year. However, better hybrids and the proper feed mixes to be introduced by COMPANY can lead to a five cycle per year system, effectively increasing the same producer's capacity from 28,000 birds per year to 35,000 birds per year.

7. Feed production. Current feed production at VITAPROT is sufficient to supply all poultry producers with pelleted feed--the desired form. Maximum production is 500 thousand tons per year. The facilities can produce any mix of feed needed for poultry production. Excess production capacity not required by COMPANY's own growers will be marketed to other private farmers on a cash basis. Transportation equipment is adequate to ship feed wherever needed if demand is coordinated as it would be in COMPANY.

8. Slaughter facilities. The processing capacity (as now producing frozen birds and limited further processed products) of the slaughter plant (AKVILA) is 1,000 tons per month. In birds, this is approximately 45 - 50,000 per day, or 12 million birds per year. Freezing facilities now under construction will provide substantial storage space for frozen products, thus permitting AKVILA to respond to variability in market conditions and frozen product assembly needed for large unit shipments into foreign markets.

X. THE PRIVATIZATION PROCESS

Key to every aspect of this project is the privatization process, the mechanism by which state and municipal enterprises are transformed into private enterprises owned and controlled by individuals. It has become the driving and guiding force in this project.

The privatization process will determine (1) if the project can be done, (2) if so, how steps must be put together, and (3) what results are dictated by privatization rather than by other economic, business, personal, and financial forces. General rules have been defined for the privatization process, agencies to whom applications are addressed and who carries out activities associated with the process have been identified, direct discussions with the municipality of

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which AVES is part have yielded a list of steps to be followed and useful terms of privatization exchange have been discussed.

Privatization laws and associated regulations are just now being developed. Requirements or guides in the law have not been used and innovative approaches to privatization have not been tested.

Privatization begins with identification of state or municipal owned enterprise. The law provides such enterprises can be converted to state property sole proprietor companies. Enterprises do not, however, need to be so converted before privatization can take place.

Each of these enterprises in the project is of a different status:

- AVES is an enterprise owned by the municipality of Kamenovo.

- VITAPROT is a state enterprise that has been converted to a state owned sole proprietor company with 14,900 shares of stock.

- AKVILA is a state enterprise that has not been converted. It was recently placed on a list of 27 enterprises to be privatized by year's end.

The privatization process may be initiated in several ways. The state or municipality may initiate on its own, management may propose privatization, or workers can propose privatization. Privatization intentions have been announced for AKVILA. After discussions with the municipality of Kamenovo a tentative decision was made to have AVES propose privatization by letter to the municipality when the ACDI report on the project is completed. Conditions may, of course, change rapidly.

A few things must be done prior to the bidding process. A survey of legal aspects of the enterprise is conducted to determine ownership, etc. This is conducted by lawyers for the state or municipalities. The debts, financial, and economic state of the property is assessed. The enterprise is evaluated by licensed evaluators.

AVES was recently evaluated and indications are that a straightforward update will be sufficient to bring the evaluation current. VITAPROT and AKVILA would need evaluations and requests for evaluations should proceed with the privatization process.

The state or municipality will decide upon privatization and will decide upon bidding terms, then terms of bidding will be announced.

Bids are then submitted by interested parties. It appears a wide variety of proposed terms and conditions can be included in the bids.

New regulations require that five to ten percent of the evaluation total be submitted with

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the bid. The general rate is ten percent, with lesser percentages being possible for certain employee bids. The deposit is returned if the bid is not accepted or is applied to the price if the bid is accepted.

One factor may complicate the bidding process. Workers are given preferential treatment to participate in bidding and receive preferential share prices. Preferences depend upon time worked, leading to worker payments of up to 10 percent less than the nominal value. A tender by a worker representative can receive up to a 30 percent discount. These rules are under current discussion by the Government. Possible participation by worker groups associated with the three enterprises is at present unknown.

A bid may be accepted or the state or municipality may refuse to accept any bid. If a bid is accepted, documents describing conditions are given to the successful bidder and payments for the company commence according to agreed-upon terms.

The law gives several alternatives for payment. The method that appears the most attractive is similar to an installment sale. Payments are made periodically until the final agreed upon price has been paid under terms agreed to in the bidding process. Full ownership is then transferred to the purchaser.

In the period during which payments are made but prior to final transfer of title, COMPANY will exercise almost all rights and obligations of ownership. Specifically, COMPANY will have complete rights to control all operations and retain all profits, generated in its business.

One important issue to be addressed and subjected to tactical and strategic planning as part of the privatization process is possible equity issuance by the state or municipality that does not require immediate payment by stock recipients. Management, employees, and private producers are in no position to make payments for equity interests received. While the full range of possible arrangements to address this problem has not been explored, several patterns may be suggested. Other alternatives should, of course, be explored.

First, the state or municipality privatizing the enterprises may simply give equity interests free of obligation as a recognition of roles recipient groups have played in bringing these successful enterprises to their present status despite poor experiences of comparable organizations in Bulgaria.

Second, arrangements may be negotiated that do not require immediate satisfaction of equity recipients' obligation in cash but allow payment over time. For example, application of dividends on capital stock applied to the purchase price may present a feasible payment system.

Third, equity recipients may receive loans directly from one or more third parties to enable them to purchase stock as individuals.

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Fourth, a financial arrangement may be devised in which a third party, such as a trust or trustee financial institution, may be established or used initially to pay on behalf of the equity recipients. The trust could be phased out by collecting dividends on capital stock it holds in trust for equity recipients in exchange for stock whose title is to be transferred to the final stock recipients.

The third and fourth scenarios would require close participation by an outside lending source.

XI. FINANCIAL STRUCTURE

The genesis of COMPANY in the privatization process, a new phenomenon for most economic and business enterprise systems, requires a somewhat new view of financing. In broad terms, the financial structure of a business enterprise recognizes and defines the claims upon assets used for productive purposes. Usually, the creation of these claims arises at the same time the assets are created and the capacity to produce begins.

The privatization process is, in some ways, quite different, although assets and claims upon them still exist and must match. When COMPANY is formed and the three existing, operating enterprises are privatized into it, all productive assets are in place. These assets and associated productivity exist but the usual sequence of creation of assets and creation of claims against assets has not been followed.

COMPANY will commence its activities with obligation to the municipality and state as determined in the bidding process and agreements about terms of payment. This obligation is to make payments toward purchase of the three enterprises.

From a practical, although not necessarily strictly financial or accounting principle, claims on COMPANY's assets by its own shareholders should develop only according to the proportion of total purchase price paid at any one time. For example, investment in COMPANY at the 1/3 point in the payment scheme need only reflect issuance of 1/3 of its total stock authorization. In this manner COMPANY will have time to develop its value to investors and investable funds will have a chance to develop in the Bulgarian economy.

Immediate capital demand will reflect three needs.

First, COMPANY must be formed and must engage in the bidding process. Formation should not be an expensive proposition. However, recent regulations require that 10 percent (or less in the case of certain employee bids) of the evaluated price of the state or municipal enterprise be deposited with the bid. COMPANY will need this amount of money to bid. When accepted, the deposit is applied to the price of the enterprise. Negotiation may permit a delay or reduction of early payments to reflect the up-front deposit. The exact amount needed must be determined at the time bids are submitted but can be estimated prior to that time. Enterprises

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are valued as part of the privatization process and it is that value upon which the deposit amount is based.

Second, COMPANY will need some working capital for its first year of operation. However, it should be kept in mind that all three organizations are now operating and generating income for immediate capital needs, although they will need additional funds for the change in method of doing business. The exact amounts required have not been calculated, but the financial portion of a formal feasibility study will estimate such requirements.

Finally, some initial capital investments will be needed to convert some current practices and equipment to more suitable form. Examples are purchase of new hybrids, some transportation equipment, and purchase of new feed ingredients for the first year's use. These amounts also must be calculated after examination of each operation and planned activities.

XII. MARKETS AND MARKETING

Correction of present unfavorable market conditions and resulting excess capacity at all levels in the poultry industry will be accomplished in four ways by COMPANY.

First, substantial cost reduction will be realized relatively quickly by replacement of present parent stock with more productive hybrids and the immediate implementation of a peak performance feed production program. For example, reduction in cost of production by improvement of the feed conversion ratio alone (from hybrid and feed improvement) can lead to a cost savings at the grower stage of twenty percent or more.

The impacts on markets, domestic and international, will be felt by reduction in product price. This reduction will be significant and will change the chicken-to-pork price ratio now having a major influence on chicken consumption.

Second, profitability at the private farmer level will increase and the supply of lower cost chickens will place COMPANY in an excellent marketing position. This profitability grows partly out of the feed cost reduction but also in the shortened growout period leading to more production cycles per year. Growers can realize 10 - 15 percent increase in the number of birds produced with the same facilities.

Third, domestic marketing programs will be introduced. To this point, little active marketing was conducted due to the nature of the planned economy. With a market economy, however, opportunities for imaginative marketing, branded products, and creative delivery systems will become available. These marketing activities along with the increase in per capital consumption brought about by lowered prices place COMPANY in an excellent position within the Bulgarian poultry industry.

Finally, development of the important export markets will be pursued vigorously. The

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main potential customer, Russia, has an extremely high but currently ineffective demand for Bulgarian poultry. The marketing arms of organizations to be privatized into COMPANY have developed good contacts with Russia. This investment will be made to pay off as barter is extended to poultry exports. Current discussions, for example, are considering trade of poultry for coal. The traditional relationship between the Soviet and Bulgarian economies was Bulgarian import of raw materials for some of its very large manufacturing operations, a situation that may be capitalized upon.

Other markets considered by industry experts are Turkey and Greece. The location of COMPANY at Burgas, Bulgaria's major port, places it in an exceptional position with respect to exports throughout the Black Sea region.

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ATTACHMENT 4

Letters from Rocco, Inc.

TO: Donald R. Crane
Senior Vice President
A.C.D.I.
50 F. Street NW, Suite 900
Washington DC 20001
(FAX: 202-626-8726)

FROM: David W. Strickler - Rocco, Inc.

DATE: Monday 11 October 1993

SUBJECT: Withdrawal of Rocco from Burgallus Privatization Project

Dear Mr. Crane:

Twig asked me to send you a copy of the attached letters that we just sent to Panayot Panayotov, in which Rocco formally withdraws from the Burgallus Privatization project.

Basically, despite our best efforts and a bunch of legal, accounting and consulting fees, none of the international development banks are willing to lend money to this project (and based on their representations to us - any other project) without large cash equity contributions from the investors. For the amounts of money that these agencies were asking, we could have simplified this transaction greatly and just paid cash for all three businesses, and consequently bear all of the risks and all of the reward ourselves.

Based on Rocco's experiences with this project, I strongly suggest that ACDI be very up front with any other investor in any other project about the need to be prepared to put (relatively) large amounts of cash into the financing on an up front basis.

Despite the great disappointment that both Twig & I personally are feeling, as well as Rocco, we have enjoyed working with ACDI on the training. Your organization, despite our occasional frustrations with it, has been the most supportive and enthusiastic of all the government agencies. We have had some very interesting moments working with Christo Petkov and Nelly Chemeva along the highways and by-ways to and from Sofia.

Any questions, you know where to find Twig.

Sincerely Yours

David W. Strickler

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ROCCO, INC.
P.O. Box 549
One Rocco Plaza
Harrisonburg, Va. 22801
703-568-1400
FAX 703-568-1401

Monday, October 11, 1993

Panayot Panayotov
Director General
Aves Poultry Firm
8122 Vil. Cherni Vrah
Bourgas District, Bulgaria

Dear Mr. Panayotov;

With sorrow in my heart, I must inform you that Rocco is withdrawing from any further consideration of participating in the privatization and merger of Aves, Akvila and Vaya Furazh into the vertically integrated poultry company of Burgallus.

We have presented the Consultant's Report and our business plan along with our request for financing to:

The Bulgarian-American Enterprise Fund
The European Bank for Reconstruction and Development
The Overseas Private Investment Corporation
The International Finance Corporation - A Member of The World Bank Group

All four potential lenders appear to have much the same loan criteria. All have refused to finance Burgallus as envisioned by the consultants. I am sending you a copy of the EBRD's response to our request along with my reply.

All of us at Rocco were looking forward to helping you build Burgallus into a world class poultry company. We spent thirty-five thousand dollars to have the Arthur D. Little Company value Rocco's services to be rendered to Burgallus during the first five years. Their answer was U.S. 3.4 - 4.3 Million. We were ready to make this investment. The lenders wanted Rocco to invest an additional five to six million in cash. That is unacceptable to Rocco.

Lorraine, David and I appreciate your friendship and the hospitality you extended to us on our trips to Bulgaria. We send our very best wishes to you, Radka, and your family. May all of your enjoy good health and great prosperity in the years to come.

Your friend;

R.H. Strickler

R.H. Strickler

cc: Donald R. Crane
Thomas R. Fattori
Christo Petkov
Kenneth L. Peoples

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European Bank
for Reconstruction and Development

TO: Rocco, Inc. FAX No:

ATTN: Robert Strickler

FROM: EBRD REPLY TO FAX No: 44/71 338-6108

DATE: 5 October 1993 No. OF PAGES: 2
(including cover page)

MESSAGE:

Dear Mr. Strickler,

Thank you very much for coming to the Bank on September 22, 1993 to present your business plan and to address some of the specific issues risen by the Bank. We appreciate the thorough analysis work performed by you and your consultants leading us to a better understanding of this project in Bulgaria.

To summarise the European Bank's financing possibilities, we can offer you a non-recourse hard currency loan with a five to seven year term to fund capital expenditures and working capital on a revolving basis. The Bank's participation could also be as equity, having a clearly established exit strategy. We would invite one or two other banks to potentially participate in the financing under the Bank's umbrella of preferred creditor status.

It is Bank practice to finance projects which have a minimum capital of at least 35-40% of total value of project. As Burgallus stands right now, we have a highly leveraged project with cost of capital in US dollars, while the stream of revenues is generated exclusively in local currency. Should the Bulgarian leva depreciate against the US Dollar in real terms with only 15% over the next three years, Burgallus would face serious difficulties servicing its debt obligations.

We should also address some of the sensitivities related to operations and marketing such as poultry meat prices, operating margins, real market share and sales volumes achieved. These will have an effect on the cash flows generated by the project, in view of the currently controlled domestic prices of meat, but free prices of animal feed. Therefore, the above financial and operational risks could be assumed only if a capital structure more typical for such projects is adopted.

During our meeting we firmly stated and now reconfirm to you our conviction in the commercial feasibility of the Burgallus project. However, in order to proceed further, we would need to reach a sustainable capital structure which in our view would involve cash equity investment by Rocco and/or its potential partners of between USD 5 and 6m.

BEST AVAILABLE DOCUMENT

One Exchange Square London EC2A 2EH
Telephone: 071 338 6000 or 071 496 6000 Fax: 071 338 6100 or 071 496 6100 Telex: 8812161EBRD L G

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We understand that this figure is much higher than your initial idea, but we believe it to be a realistic reflection of the specifics of your project. Should you be willing to make a substantial equity investment in this project, we are ready to continue our discussion.

Sincerely,

Olivier Descamps,
Hans Christian Jacobsen
Senior Bankers, Merchant Banking

BEST AVAILABLE DOCUMENT

One Exchange Square London EC2A 2EH
Telephone: 071 338 6000 or 071 496 6000 Fax: 071 338 6100 or 071 496 6100 Telex: 8812161EBRD L G

TOTAL P.02

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ROCCO, INC.
P.O. Box 549
One Rocco Plaza
Harrisonburg, Va. 22801
703-568-1400
FAX 703-568-1401

TO: European Bank for Reconstruction and Development

ATTN: Olivier Descamps
Hans Christian Jacobsen

DATE: Monday 11 October 1993

Gentlemen;

Thank you for reconfirming your belief in the commercial feasibility of the Burgallus project as well as your compliment on the quality of our business plan and analysis work.

The EBRD's loan requirements apparently give little or no value to:

I: The thorough Consultant's Report.

II: The willingness of the Bulgarian Government to subordinate it's assets to the lenders.

III: The outstanding quality of the financial and legal audits.

IV: The Arthur D. Little report which valued Rocco's services rendered at U.S. $3.4 - 4.3 Million over the next five years.

V: The U.S. trained Bulgarian management team.

All of us at Rocco were looking forward to helping build Burgallus into a world class poultry company. We thought that our technical efficiencies and entrepreneurial skills combined with credit lines from EBRD and the fixed assets and people of Bulgaria would create a fine example of free enterprise at it's best. Your requirement that Rocco invest U.S. $5 - 6 Million in cash equity is unacceptable.

Rocco is withdrawing from any further consideration of participating in the privatization and merger of the Bulgarian Companies of Aves, Akvila and Vaya Furazh into the vertically integrated poultry company of Burgallus.

Sincerely Yours;

R.H. Strickler
Chairman of the Board, Rocco Inc.