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**AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
FOOD SYSTEMS RESTRUCTURING PROJECT
GRANT NO. CCN-0006-A-00-3072-00
PROGRAM PERFORMANCE REPORT
APRIL - JUNE 1995**

PROJECT PERFORMANCE

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I. SUMMARY

During this quarter, ACDI began implementing USAID's most recent recommendations for the FSRP following an assessment team. A number of activities were initiated. Marketing efforts by ACDI's senior staff continued with positive results. Focus remains on preparing for the ground breaking of the Koch Dairy Project, ACDI will submit a \$900,000 subgrant proposal early next quarter to provide training to that project. ACDI will also submit to USAID a \$235,000 training proposal for the RJR/Kabisco Confectionery Plant and the final report of the fruit and vegetable team that visited Chimkent in May. Funding constraints may eliminate the possibility of assisting these programs under the FSRP. ACDI will endeavor to find financing for these activities through other sources, if possible. A number of meetings were held in Washington and Almaty with USAID regarding further funding and uses of existing resources. A revised \$3,000,000 budget will be submitted next quarter.

II. CURRENT ACTIVITIES

FSRP Assessment Team

USAID's Assessment Team prepared a draft report of its findings. A copy of that report was shared with ACDI in April. Based on that report, USAID recommended the following changes to ACDI's implementation of the FSRP:

- * Follow the methodology used in developing the Koch dairy project for further FSRP activities in Central Asia. That project has been a comprehensive approach to agribusiness formation. ACDI started using a Koch Supplies Inc. team of specialists by developing a modernization strategy for the dairy industry for the Almaty Oblast of the Republic of Kazakhstan. That was followed by a business development project conducted by Koch Supplies Inc. and funded by the U.S. Trade & Development Agency (TDA). The success

of this approach stimulated ACDI to request revision in the implementation plan in January, 1995, which would enable them to partially fund and shorten the entire process. In short, the Assessment team concurred with ACDI's approach.

- * ACDI should further leverage funding agencies such as EBRD and the Central Asian American Enterprise Fund (CAAEEF). ACDI strongly concurs with this recommendation and had been making and is continuing joint efforts with these funding sources. These organizations had only been on the ground for a few short months at the time of the Assessment team's mission to Kazakhstan.

- * ACDI should bolster its marketing efforts by using senior management to market investment opportunities in Central Asia to senior management of its members and other agribusinesses. ACDI concurs with this recommendation and senior management is now in the process of assembling an oilseed investment mission to Kazakhstan. Ken Bader, ACDI Vice President recruited a team of consultants and investors for a mission to East Kazakhstan to develop a modernization strategy and prepare a business plan for the Ust-Kamenogorsk sunflower oil production plant. Subject to USAID concurrence and funding availability, this mission would take place in August/September.

For ACDI to comply with the above recommendations, budget revisions will be necessary. ACDI has requested taking approximately \$300,000 out of the subgrant line item and adding that amount to the consultant line item. ACDI will need to have a new budget approved soon to more effectively use remaining resources for project impact.

Koch Supplies Dairy Project

Koch continues its negotiation with funding agencies to finance the project. Both the EBRD and CAAEF have given soft commitments, but some details still need to be worked out. Meanwhile, an FSRP activity has been initiated to assist in the privatization of the nine dairy farms involved in that project. This activity is being funded totally out of the FSRP consultant budget which was approved by USAID. ACDI assembled a team of consultants, a local law firm, various administration officials, and seconded two Koch employees to accomplish the task. Presently, team members are holding meetings with all of the proposed dairy farm's employees and management, reviewing financial and ownership records for each farm, and developing a stock swap scheme between farm employees to facilitate the appropriate ownership in the dairy enterprise. The proposed business structure will be a production cooperative. The dairy facilities, livestock, and crop and forage-growing land will make up the dairy farm and will be broken away from the parent farm and operated as a private entity. Initially there will be nine farms. This privatization activity will have have a broad based impact locally, and as a model for agriculture, nationally.

Ground breaking for a new dairy plant in Chilik, Kazakhstan, is scheduled for this autumn. This project has been very high profile and enjoys the full backing of the Government of Kazakhstan. It will be necessary to have all funding in place and privatization completed before that time. Failure to break ground before winter would seriously jeopardize this project.

When this project receives financing, one of the contingencies will be the training program provided by a USAID/ACDI FSRP subgrant. Both potential funding agencies have stressed that this is imperative for project success and a requirement prior to funding. Therefore, ACDI has developed a training program which will utilize low-cost dairy farmer volunteers and paid processing and marketing consultants. The training program needs to be very comprehensive and is critical to the success of the new enterprise. Duration of the program is projected to be over an 18-month period and the estimated cost is \$900,000. The training program will be facilitated by ACDI.

Chimkent Fruit and Vegetable Modernization

In late May, a team of four consultants and three persons from Monroe Machinery/Statco and Valley Tractor assembled by ACDI traveled to Chimkent, South Kazakhstan, to develop a modernization strategy for the fruit and vegetable industry for that oblast. Major activity centered around the Alma Fruit and Vegetable Processing plant located in the Sairamski Raion and the nearby orchard farms. This plant had been identified as an excellent investment opportunity by the ACDI field staff in late 1993. The team concurred that this is an outstanding investment opportunity and recently completed the report which will describe the modernization strategy, the future action plan to implement the strategy, identification of potential investors, and a preliminary business plan for the Alma plant. ACDI will assist Monroe Machinery/Statco with finding funding for further activities, including contacts with the CAAEF and EBRD.

RJR/Kabisco Confectionery Technical Assistance & Troubleshooting Subgrant

ACDI met with RJR local executives in Chimkent in May to develop a subgrant proposal whereby the FSRP will fund sales and management training and a short-term assignment for a food technologist/consultant specializing in confectioneries. The estimated proposed subgrant is for approximately \$235,000. RJR purchased the plant in September, 1994. RJR is committed to keeping the plant operating. One large cost saving measure has been to reduce the mostly female work force substantially, from 1200 down to less than 500. Currently, it is one of the few processing firms in Kazakhstan that is paying its workers in currency. Though RJR has made other efficiency moves, the plant still continues to drop in production. ACDI and RJR local executives believe the FSRP funded program will be the stimulus to improve sales, products, and management proficiency, thereby improving the company's financial condition and preparing its work force for increased sales. Details of the subgrant proposal have been briefly reviewed by USAID-Almaty and Washington and formal application will be made in late July.

East Kazakhstan Sunflower Oil Industry Modernization

ACDI field staff identified the Ust-Kamenogorsk sunflower oil plant as a possible investment opportunity for US agribusiness in late 1993. Ken Bader, ACDI Vice President, is in the process of recruiting a team of consultants and companies interested in investing or doing business in Kazakhstan. The team will evaluate the sunflower oil industry in Kazakhstan, develop a modernization strategy, and prepare a business plan for the oil plant if it is deemed feasible to modernize. The team's anticipated arrival is approximately mid-August and the assessment would

last three weeks. ACDI has obtained approvals and commitments from TAGAM (The quasi-government organization which manages the State's 30% ownership in the sunflower oil plant), East Kazakhstan Regional Administration, and the Sunflower Oil Plant management to conduct and facilitate the study team's activities. Activities will include assessing the condition and requirements to increase the production of sunflower seeds, assess the vegetable oil consumer market, evaluate the feasibility to modernize the sunflower oil production plant, evaluate management and ownership of the plant, coordinate with the Canola oil seed growing project officials in the Kochatau Region, prepare a business plan for the modernization of the sunflower oil plant, and conduct a 4-hour seminar for local industry people at the end of the study period.

III. ACTIVITIES PLANNED FOR NEXT QUARTER

Activities for the remainder of the project will be driven by the availability of funds. Initial requests to obligate the remaining \$2 million of authorized funds have thus far been denied. Therefore, most of this quarters effort will be made toward making progress on the Koch dairy project as first priority and if funds are available make progress of the Chimkent fruit and vegetable project and East Kazakhstan sunflower oil project. Little, if any, effort will be made in launching new projects.

Project activities planned are to complete the privatization project for the Koch Dairy Project, continue to support Koch's efforts to obtain financing for the dairy project, and prepare a subgrant proposal for an FSRP-financed dairy training project. If funds are available, ACDI will move forward with development activities on the Chimkent fruit and vegetable project and facilitate a mission of investors to visit oilseed processing facilities in East Kazakhstan. Mike Moran, ACDI's Executive Director for NIS Programs will be traveling to Almaty for supervisory/support activities in August/September.

IV. ADDITIONAL OBSERVATIONS AND COMMENTS

The ACDI FSRP project was authorized for \$5 million for a period of 4 years, ending May, 1997. In order for Koch Supplies to obtain the financing for the dairy project now underway in the Chilik Raion of the Almaty Oblast, ACDI will need to commit \$900,000 for the planned training program out of the subgrant budget. Under the currently obligated \$3 million dollars, ACDI would not be able to fund any other subgrants and would run out of funds to keep the Almaty office open past June 1996.

However, if ACDI is to complete ongoing projects and develop the planned modernization studies of critical food industries according to the methodology recommended by the USAID assessment team, a total of approximately \$300,000 will have to be shifted from the subgrant budget to the consultant budget. Reducing that amount from the subgrant budget will result in not being able to fund the Koch dairy project subgrant as well as potential subgrants evolving from the other modernization projects. Therefore, ACDI is caught in a catch-22 situation if the remaining authorized \$2 million is not obligated. To date, USAID has denied ACDI's requests to obligate the remaining amount authorized.

The Koch dairy project has the full support of the highest levels of Kazakhstani Government. The dairy industry is presently in shambles. Health concerns as a result of drinking contaminated milk are growing. An American doctor in Almaty is seeing evidence of low-grade tuberculosis, salmonella, and other types of food poisoning directly traceable to consuming dairy products. ACDI is confident the Koch project will be successful and demonstrate how a relatively small investment by USAID can assist a medium-sized US company to bring about major impact on a subsector of the food industry in Kazakhstan. Approximately \$1 million in funding will help to leverage a \$13 million investment. Not only will it show the way for future investment in the dairy industry, but it will provide an agricultural investment/privatization model as well. Success of the project will also position USAID/ACDI/US agribusinesses to make further major impact on other critical food industries in Kazakhstan. It is hoped that USAID will provide the remaining authorized funding to continue the project's momentum.

V. EXPENDITURES THROUGH JUNE 30, 1995

There have been no financial problems during the reporting period. Below is a summary financial statement of all project expenditures by subcomponent. The actual expenditure totals are based on estimates of expenditures through the end of the reporting period. The following is a budget for the authorized amount of \$5,000,000 dollars. This budget does not reflect any additional funding for the consultant line item, a matter currently under discussion with the Program Officer. Early in the next quarter, ACDI will submit a \$3,000,000 budget for approval.