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SUSTAIN

HUNGARY

NOVEMBER 10 - 17, 1992

INCUBATOR FEASIBILITY ASSESSMENT II

S haring
U nited
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T echnology to
A id in the
I mprovement of
N utrition

A U.S. Private Food Industry initiative
in collaboration with the U.S. Agency for International Development
through a Cooperative Agreement with the National Cooperative Business Association

Upgrading the Food Processing Industries in Developing Countries.

Why SUSTAIN?

SUSTAIN represents a successful collaborative effort between the U.S. food industry and the Agency for International Development (A.I.D.) to upgrade food processing in developing countries. It provides an excellent model for similar private-public sector joint ventures in health, agriculture and other areas of concern to developing countries.

Food processing is a major contributor to development. It serves multiple roles. Food processing can increase the available food supply by extending the life of perishable food products. It can improve the nutritional quality of the diet by making nutritious foods available the year round. It can lead to the growth of related enterprises in transportation, storage, distribution and marketing. And, it can produce much needed foreign exchange by creating value added products both for export and for internal substitution of imported processed foods.

The U.S. food industry has embraced the concept that freely sharing its expertise and knowledge is of mutual benefit to recipient and donor - to the recipient by improving current operations - to the donor by contributing to a healthier global future.

How SUSTAIN Works

A.I.D. missions and trade associations in developing countries publicize SUSTAIN's goals and activities. Executives of U.S. food companies with technical expertise and overall knowledge of the food industry serve as the SUSTAIN Steering Committee, providing guidance and overseeing activities.

Food related companies in developing countries submit their requests to SUSTAIN through the A.I.D. mission or a designated organization in their country. SUSTAIN screens all incoming requests and if necessary asks for additional information. Appropriate U.S. companies are then invited to respond.

Some problems can be readily resolved by providing information. Others require that consultants be sent. When a consultant is sent, the usual assignment is for one to three weeks. Upon completion of the assignment, the consultant prepares a report describing findings and making recommendations. Depending on need, some consultants may return for follow-up visits to ensure that recommendations have been appropriately implemented.

SUSTAIN Helps

Requests are diverse. Help may be needed to solve processing problems, to identify equipment needs and sources of new and used equipment, to train personnel in the use of new equipment and new technologies, to find new uses for indigenous commodities, to establish or improve quality assurance procedures, to control insects and rodents in food processing plants and to improve plant layouts and materials handling.

In the past, U.S. food companies, large and small, have provided technical assistance in the form of information, consultants and training to food processors in Africa, Asia, Latin American and the Caribbean.

SUSTAIN PROGRAM

INCUBATOR FEASIBILITY ASSESSMENT

Hungary

November 10-17, 1992

by

Dr. Richard Gordon

Arizona State University

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SUMMARY REPORT[1]

TENTATIVE SUMMARY

SCOPE OF PROJECT:

A study is being made of the feasibility of organizing and funding a Hungarian Food/Agribusiness Technology Commercialization and Innovation Center (the Center) as a nonprofit, public/private partnership, foundation or other suitable entity permitted under Hungarian law. The incorporators will include various Hungarian private sector entities such as Babolna State Farms, the AgriExpo KFT, certain banks, food companies and the like. Based on what we have learned to date, we believe that no Hungarian University or other State-owned or controlled agency should be an institutional incorporator of the contemplated Center. On the other hand, persons from such organizations could well serve on the Board of the Center, its Investment Fund or on any appropriate advisory committee.

The mission of the Center is to affect the successful establishment of technology based start-up, spin-off and joint venture companies in the general field of food and agribusiness. The goal is to achieve not only technology transfer, create jobs and enhance economic development within the country, but to help refocus this sector, Hungary's largest, over 50% of the GDP, on value-added, market-oriented, investable enterprises.

In other countries, an innovation center or business incubator (as they are sometimes called), is one of the few economic development tools which, over time,

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[1]We gratefully acknowledge support for this activity from two sources: Amis Project core funding from R&D/EID and the Office of Women in Development, both of A.I.D. In addition, Project Sustain and the Office of Nutrition, A.I.D. helped defray the cost of travel for Dr. Kenneth H. Maddy who accompanied the team to Hungary. Dr. Maddy, Emeritus Professor of Agribusiness at Arizona State University and trained in nutrition and biochemistry, has had a distinguished career in both industry (Monsanto, BASF, etc.) and academia. His experience in product development and commercialization in the food field was (and will be) quite helpful in evaluating the readiness of certain Hungarian technology for commercial exploitation.

can show specific numbers of jobs created and amounts of moneys brought into the country in the form of investment and/or sales. While it generally takes about five years (interim period-noted below), for a Center to achieve a significant impact, this ability to provide quantifiable statistics for economic improvements and business formation makes such a Center a valuable part of any integrated regional or national economic development strategy.

The focus of such a Center is to fund and otherwise support business formation. Center management has to determine that each enterprise has a sound approach to commercializing technology. Further it has to determine that each fledgling company aims at some proprietary niche or has other protection that will allow it survive and prosper, particularly in fields as competitive as agribusiness and the food industry.

A major objective of the feasibility study is to establish whether such a Center could achieve self-sustaining operations within a reasonable length of time. Five years is the average length of this so-called 'interim period' in the U.S. The study should estimate how the rapidly-changing situation in Hungary is likely to affect this.

Another objective of the study is to establish how much funding might be required during the presumed five year interim period. A preliminary estimate of some $4-5 million USD in operating funds for the Center and about $5-10 million USD for the Investment Fund has been made. What sources, agencies, institutions, funds, foundations, etc., are likely to commit funds of this magnitude for the Center has to be made as explicit as possible.

Accordingly, the feasibility study has four immediate goals and tasks:

1- Recommend how to form a Hungarian corporation for the Center which will permit it to receive funding from private & public sectors, to dispense moneys for technical support to both private & public entities, to invest, or cause to have invested, funds in start-up and joint-venture for-profit enterprises, and to be able to participate in the success of any of its sponsored ventures, through equity participation, royalties, fees and the like.

2- Establish, upon submission of business plans aimed at specific funding

agencies, whether or not such agencies would be willing to commit to supporting, all or in part, the cost of a five year period, including both operational cost and investment pool. The presumption made is that if any proposed Center cannot show strong evidence of success by the end of the fourth year, it probably should be wound down or transformed into some other activity by the end of the fifth year.

3- Estimate the likelihood that the continuing changes in the Hungarian marketplace, economy and political situation favors or works against the efforts of a Center to establish free-standing for-profit enterprises.

4- Establish who the individuals, organizations and entities are that will serve as the Center's champions, sponsors and incorporators.

Findings from the Trip of 10-17 November 1992:

This most recent trip confirmed our previous findings: there is general support for establishment of an Incubator/Agribusiness & Food Technology Commercialization Center in Hungary. Therefore, if it is concluded that such a Center is feasible, the final report for this project should outline what is to be contained in a business plan aimed at organizing and operating an Hungarian Center.

There appear to be a number of U.S. and Hungarian funding sources that could become interested in supporting the Center. Accordingly, the business plan to be written should spell out specific areas of mutual interest for each potential funding source. This should be in the context of what is appropriate for a Center that is focused principally on value-added foods for both export and domestic markets.

Several business areas have been identified as worthy of in-depth market analysis. We need to confirm that the apparent shift in demand, led by the HRI and consumer sectors, could 'pull through' new and possibly novel value-added products, at least in the areas identified. New private enterprises that successfully meet new market demand could do much to indicate to the rest of the Hungarian food and agribusiness sector how to orient towards the marketplace and

away from production concerns.

Markets that Seem Accessible to Small and Middle-Sized Start-Up Companies:

Based on what we have learned to date, three or possibly four market areas seem ready for in-Hungary development and investment.

1- Further processed meat and poultry products, preferably ready to heat-and-serve;

2- Processed dairy products with packaged milk an open question because of the ease with which a major company could establish Western European packaged milk technology in Hungary;

3- Specialty bakery products, not including the omnipresent locally baked bread;

4- Processed and packed fruit and vegetables;

Additionally, given the change in the economic status of women requiring them to work away from the home, there appears to be a growing need for pre-packaged 'complete' entrées & meals as well as semi-finished items that can be amended or 'gourmetized' during the final preparation process.

All the opportunities envisioned should be based on value-added, further-processed products to anticipate and serve the rapidly changing Hungarian market as well as fit into selected export niches. These opportunities all require specialized integration of preferred market specifications with optimization of production, processing, storage and distribution. The initial customers for these products are most likely to be found in the hotel, restaurant & institutional (HRI) sector which recognizes and pays for consistent quality. Further, this sector generally procures under contract which helps to obtain venture funding. The cost of reaching the consumer sector, given the more limited purchasing power currently available in middle and lower income households (the large volume portion of the consumer market), suggests that it might be difficult to obtain short-term revenues sufficient to cover start-up costs and initial production runs. Longer term, the consumer food sector should be quite attractive as production efficiencies, combined with competitive pressures, force prices down.

Discussion:

1- Further Processed Meat Products: Several interviewees indicated that there were 5-6 or more firms looking for financing in order to purchase sophisticated processing equipment. Until the collapse of the Soviet market, Hungary did not lack for money to purchase processing equipment to manufacture primal (meat) cuts. Such products were sold to Russia, all over Eastern Europe and even into Western markets such as Austria. While it is not known specifically what these meat processors want to do, we need to test the hopeful supposition that they are looking at new markets. Accordingly, it will be our first priority to interview them to find out both what they want to do and to ascertain what they could do. Additionally we will want to learn a) whether they are representative of many more companies or already represent a specialized segment that could be developed, b) if they understand market valuation and pricing as befits the future evolution of the Hungarian and export markets, and c) if their present and possible market potential, organization, other operations, etc., would encourage U.S. firms or the Hungarian-American Enterprise Fund (HAEF) to invest in the equipment required, provided that such requirements be focused on value-added markets and not on bulk processing. In any case it seems clear that there are some new distribution patterns, or market channels, that have to be analyzed as part of the business plan.

Our visit to the person constructing an efficient processing plant, for marketing rabbit meat to Western Europe, encourages us to believe that a well-documented business plan for an enterprise managed by experienced persons should have little difficulty raising moneys. The issue: can the Center help close the gap (if any) between what the managers of these meat processing companies have been doing and what their potential market might be, particularly if they had the appropriate resources.

2- Processed Dairy Products: The shelf life for many Hungarian produced dairy products is unacceptably short, a few hours in the case of milk. The result is that the HRI and affluent consumer sectors purchase packaged, room-stable, milk and other dairy products from Austria at roughly 5 times the

Hungarian price. While some scoff at Hungarian processed cheeses as a market opportunity, even such items must deal with the market quality and product safety issues required of dairy products everywhere. This is even more important in a country such as Hungary with a limited amount of refrigerated infrastructure. Therefore, as a second priority, three questions need to be investigated: a) What are domestic and export market niches for quality Hungarian dairy products, (where export might well be East to Turkey & the Middle East prior to Russian return to non-barter trade)? b) What level of investment and technology is required? c) What are the most probable competitive threats?

If the answers to the prior questions suggest that it would take too long and require too much capital, with low returns, for the Hungarian dairy industry to achieve a preferred position not immediately vulnerable to European exports, two other possibilities suggest themselves:

a) the possibility of joint ventures, financed by U.S. dairy firms interested in Eastern markets, to catalyze and partially defray the cost of upgrading quality, safety and development of cost/effective products; and

b) the substitution of processed soy or other vegetable proteins/oils for most "dairy" beverages such as the "milk shakes" served by Burger King and others. The technology is commonly practiced in virtually all Western countries and easily lies within the skills and knowledge of the Hungarian Central Food Research Institute. Further, given the potentially compromised nutritional status of most adult Hungarians, introduction of such products is probably quite desirable and there is only a small entrenched dairy lobby that would resist this. Further, from what we have learned so far, the technology available in the Central Food Research Institute could do much to accelerate the development and commercialization of Hungarian produced and processed dairy, or equivalent non-dairy, products.

3- Specialty Bakery Products: Beyond the basic village or fresh baked 'peasant' bread, many of the once fabled Hungarian bakeries seem to have fallen on difficult times. Well over 80% of HRI purchased fancy pastries are imported from Austria. Very few of even the most expensive hotels and restaurants have

their own bakeries. Where bakeries exist, the quality of the output is often disappointing. Western consumers, particularly those exposed to commercial television, increasingly bifurcate their food purchases into sensible/healthy and self-indulgent/sinful sectors. Given the Hungarian fondness for baked goods and the introduction of Western cable TV, it is easy to presume that no matter what health concerns emerge in Hungary, there will always be a demand for bakery 'goodies'.

Anything larger than a 'mom and pop' bakery requires more than a 'bread-and butter(margarine)' product line; e.g., specialty cookies, pastries and shelf stable, quality breads and rolls. As an example, according to Bryan Gerrish, it took considerable effort to secure a source of consistent quality, 'good,' rolls for Burger King. Therefore, as a third priority, we need to explore a) the demand for quality baked goods, b) the competitive situation, and c) whether there are Hungarian firms that know the markets and could supply them if they had more resources or specialized equipment.

4- Processed and Packaged Fruits and Vegetables: There is a very large HRI demand for fresh, packaged and processed fruit and vegetables. Cost-sensitive operators spend a lot of time trying to find reliable suppliers who could provide consistent quality of even such simple items as lettuce and tomatoes. In the absence of a processing industry, the HRI segment has had to arrange for processing, packaging, storage, and distribution to their own and other outlets. As a result, Burger-King has gone into the distribution business in Hungary, even beginning to supply some of its competitors.

There is one generic issue underlying these four possible market areas: Will it be possible to acquire economic quantities of raw agricultural product to justify investment in a particular processing/packaging/distribution & marketing venture? Any proposed venture's business plan will have to explain how economic volumes of needed raw materials are to be acquired. Clearly, it is not to be the business of the Center to organize farmers to supply specified materials. Existing meat companies must already have arrangements with producers and there is probably adequate grain harvesting, milling and storage for

bakeries. However, supplies from dairies and fresh produce might pose some problems. Dairies are typically quite small (under 20 cows) and the industry has much to do just to bring its raw milk up to satisfactory sanitary and quality standards. This can be hard to achieve economically with small herds. For produce, the sheer variety of fruit and vegetable production, dispersed throughout Hungary, might make the assembly of the required volumes difficult, particularly year round.

Further, as previously noted, wholesalers and trucking organizations have a tight hold on the agribusiness/food sector (particularly fresh produce). This could lead to undesirable complications. More positively, possible Hungarian investors in the Center, such as Babolna and the remaining privatized state farms probably could take on the task of organizing specialized producer groups to supply particular value-added processing lines. Babolna, for example has a priority to organize specialty supply ventures from the ranks of the newly unemployed. These persons became unemployed when Babolna Farms down-sized to remain viable after privatization. Additionally, U.S. technical assistance missions, such as VOCA, could assist in the organization of farmer-owned enterprises, interested in a profitable cash crop.

The Market Setting:

This topic has been adequately covered in our several previous reports. We should summarize the two forces at work.

1- <u>HRI and the Tourist Trade</u>: For a small country with some 8-10 million people, Hungary attracts a very large number of tourists, estimated recently to average over <u>30 million persons annually</u>. Tourism is big business. Virtually all tourists are relatively affluent, coming from the East, the West, and from Japan or other countries in the Pacific Basin. They expect quality food with a few 'Hungarian' twists. We have observed a wife fussing with the kitchen staff in a small pensione to serve a "proper" breakfast to her husband. Proper in this case meaning what they are used to. For obese Germans and Americans, this means fruit and cereal rather than the usual Hungarian hard roll with butter, cheese and sausage...the cholesterol being saved for pastries later in the day.

In short, tourists want largely what they are used to having at home, wherever that is. To meet this very large demand, the HRI sector is forced to import 80-90% of the foodstuffs they need from Austria and other nearby countries. Apparently they cannot rely on consistency of supply and quality for nearly all categories of Hungarian food, most of which could be produced and processed into appropriate form locally.

The HRI sector will contract for quality supply and pay promptly. Further the market leaders will help producers and processors manufacture what they require, even to the extent of bringing in technology, helping arrange financing and the like. A good business plan, supported by commitments to buy if the requisite goods are produced, always makes such a plan credible and investable. We had trouble understanding why some of the leading food experts we met summarily dismissed the tourist market as 'unimportant.' Yet these persons also told us on a number of occasions how, in the new Hungarian scene, they are flying blind and badly want market direction. They were anxious to participate in any A.I.D. or other sponsored market study. The challenge will be to find a way to assess the potential of the technological estate (including patents) for the several market opportunities that we have found (as indicated above).

2- The Consumer Sector: This needs to be researched quite carefully. At the present we believe that continuing economic pressures, the distress of the middle class, and the loss of family purchasing power will only get much worse in the near and mid-term period (3-8 years). Universally this has one consequence; women have to go to work in a setting that is no longer supportive: no government funded two year maternal leave, no government subsidized day-care and pre-schools, etc. There are considerable sales to the professional and ex-patriate communities of pre-packaged meals, entrees, semi-finished products and the like. Such are virtually all imported from the West. There is a growing number of these products appearing on the shelves of the stores, very few are even moderately priced. Development of the Center will not change cultural patterns in Hungary, but it should serve as an example to other Hungarian food businesses how to anticipate and take advantage of changing market demand.

Many senior officials, particularly male technocrats, do not think such technology can be advantageously adapted to the mass market in Hungary. We could not decide if what is meant that

a- women are supposed to prepare meals, even if their work and travel time comes to 8-10 hours per day, or

b- that consumers will not be able to afford what is perceived as more expensive than the usual unprepared raw agricultural products.

The record everywhere is that working men and women increasingly demand higher-quality, convenience products. Further, we can already observe in the younger-aged Hungarian professional classes that men and women, more than ever before, are prepared to heat and serve or take families to the exploding number of fast-food restaurants.

Finally, one has to remember that, until very recently, in Eastern Europe men were either conscripted into the military or entered the labor force at an earlier age than women. Consequently, it is no surprise that in the recent past more women than men finished secondary school and went on to university and professional schools. Certainly, one finds as many women as men in the managerial and professional ranks...we are told that their numbers are growing. Consequently, it is believable that working women will have enough purchasing power to support Hungarian quality and labor-saving food products. How much and how soon needs to be quantified by market sector.

In General: It is our belief that these two market forces will "pull-through" products required by the HRI and growing working family sectors. There is very little doubt that such new demand will stimulate farmers and their organizations to plant crops for which a cash market exists. Farmers will probably need to form supply or supply & processing organizations, possibly helped by or even joint-ventured with an American firm. Given a little help by VOCA and similar organizations, they will do so. The global record is clear: if there is a demonstrated profitable market for a cash crop, farmers will take it upon themselves to produce what is needed.

ORGANIZATIONAL MATTERS:

The next step in this project is to explore, in-depth, the possibility of organizing an Hungarian entity, probably a "Foundation" as this legal entity is now called in Hungarian law. The board should be comprised largely of Hungarians and Americans resident in Hungary, unless European or other sources of financial support is also made available who would also wish to be represented on the Board.

To begin with, board membership probably should be drawn largely from the persons interviewed who do not have an obvious conflict of interest but who would look to interacting professionally with the Center, once established. Professors Feher, Biacs, Gordon, and Sass, among others, could be organized to oversee an appropriate staff function, with perhaps only Gordon and Feher taking Board seats. This will work as long as the people selected can avoid the usual professional jealousies, in this case exacerbated by the inter-institutional restructuring now taking place in Hungary.

The Foundation (or KFT if that is more appropriate) must be able to receive both Hungarian, U.S. and, if available, European funds from both public, private for-profit and not-for-profit sectors. It must be able to let contracts or make grants for needed studies or supporting work. In our experience the most crucial studies, as well as help in the preparation of the business plan for most of the individual enterprises, will have to be facilitated by Center staff even if contracted for to appropriate parties.

Longer term, the Foundation, if indeed that is the appropriate organizational format in Hungary, must be able to organize and manage Center operations. It must be able to take equity in, and receive royalties and fees for services from those it serves, whether tenants or others that could be aided by the Center.

OTHER MATTERS:

The next trip to Hungary, as well as continued discussion with interested parties in the U.S., needs to explore such matters as

1- A relationship with state-owned or controlled universities or research

institutes has to be developed. We have tried, as tactfully as possible to indicate that involvement of such institutions in the direct management and/or operation of the Center quickly becomes a kiss of death. Only direct government control would be worse. On the other hand, the knowledge and experience resident within such institutions has to be harnessed, probably via contract or grant to help where appropriate. We have to reach out to individuals as well as private sector (or newly privatized) firms, institutions, agencies, investment funds, other business oriented task groups who would be both willing and able to serve on the Board. We need to enlist persons from professional CPA, law and consulting firms to take part on a pro bono basis.

Consequently, there is a need to specify the agenda and interest of all institutions, agencies and persons who say they would like to help establish the Center. We must give priority to those who will help find the funds for the venture in its early years, whether Hungarian, American or other.

2- We need to find a Hungarian-North American, probably now resident in Hungary, who could take over the managing directorship of the Center to make sure that the enterprise keeps moving & that it focuses on the important issues. He/she will have to be comfortable working with farmers, the bureaucracy, leading women professionals, and the rest of the mix that represents Hungary's evolving human resource pool. He/she has to understand finance, business planning, organization and management, etc. While one could add to this list indefinitely, the fact is there are several persons now resident in Hungary who meet most of these requirements. This has to be tactfully explored. It should be added parenthetically that a Hungarian is not excluded, but there are not that many Hungarians who are fluent in English and otherwise experienced with Western marketing, management, business and finance practices.

3- We must ascertain the extent to which A.I.D., the Hungarian-American Enterprise Fund (HAEF), and others will help support the preparation of the business plan as well any continuing technical assistance after the launch of the Center. Will it continue to be possible to work with the several A.I.D. with whom we are now collaborating? This would include the Office of Nutrition, Women in

Development, etc.We would like to add the Hungarian AID representative and the Hungarian-American Enterprise Fund as well as others to participate both as collaborator and possible supplier of some human and/or financial resource?

WHAT IS REQUIRED TO COMPLETE THE FEASIBILITY STUDY?

A- Define the Scope of the Proposed Center:

We have been told that there are not likely to be many entrepreneurs still resident in Hungary interested in food and agribusiness. On the other hand, our feeling at this writing is that the Center should make a big push to find entrepreneurs with potentially investable ideas. In particular, to complete this feasibility study, we need almost immediate support from Sustain, VOCA and similar organizations to provide experts for specific analysis of key technical and market issues for the suggested priority areas. Additionally we hope that O/N and Sustain could also support a few detailed analyses of commercializable technology now bottled up in the several technical institutions, for which there apparently are champions. O/N's priority for improved infant nutrition, delivery of badly needed trace elements, and the like could help decide which areas and which product ideas to consider first.

Another possible function of the Center, less typical of similar U.S. operations, will be to search out Hungarians who know, or can learn markets, technologies, distribution, etc., aiding and training them to organize into small venture groups under appropriate Hungarian leadership. The goal is to help such teams prepare and document business plans to which they become committed. The Center will have to be organized so as to be able both to fund and oversee start-up and early operations until agreed milestones, such as positive cash-flow or break-even, are achieved. Presumably, at that time, the venture would move away from the Center's purview. Any continuing relationship beyond payment of royalties, representing any equity stake in the venture, etc. probably has to be spelled out on a case-by-case basis.

Facilitation of joint ventures with U.S. or other foreign partners, which could involve multi-party investment and ownership, seems another area to which the Center will have to give much attention. The prolonged Hungarian isolation

from Western markets, from value-added pricing, from even the rudiments of cost/performance and profitability analysis, suggests that such joint ventures could accelerate, as well as reduce the cost of, training the numbers of people likely to be involved.

There are many small and middle-sized U.S. firms desirous of developing markets for their technology and products who see training, as well as marketing and sharing investment and risk, as one of their contributions to any joint venture. These firms are realistic about entry from Hungary into Europe. They do see Hungary as a springboard for entry into the Ukraine, Russia, and, increasingly, into Turkey and the Middle East. The Center obviates the need for these firms to have to mount a prolonged scouting & familiarization operation in Hungary. Access not only to a number of ventures, but the continuous monitoring of the Hungarian food and agribusiness sector, allows the Center to find opportunities and partners of choice. Because of its heterogeneous role, the Center might even be employed to help a U.S. firm organize a venture in Hungary if no suitable partner is extant in Center operations at the time.

B- Other Important Tasks:

1- Determine the willingness of the relevant A.I.D. Bureaus and Offices to support continuing technical assistance during the launch and early start-up of the Center. Such assistance would be focused on conducting specific market and technological assessments as well as organizing several different training and outreach programs. The goal is to attract and focus the attention of possible entrepreneurs in order to help them develop the several competencies required to launch a market-oriented food business. Given what is understood of A.I.D.'s current mandate, this assistance should be seen as part of the U.S. agenda to facilitate economic restructuring and privatization in Eastern Europe. The thrust of the proposed Center is business development, not agriculture, nor farm support, nor the development of extension and the like.

2-Determine the willingness of the Hungarian-Enterprise Fund to make some technical assistance funds available to develop quantitative market and investment analysis preparatory to preparing business plans for their

consideration. This could include the initial training for putative managers in applications of MBO, prime element accounting, financial structure, cost/performance & profitability analysis, etc. The long-term impact will be improved availability of quality foods and demonstration to Hungarians how market-oriented private businesses work.

3- Determine the conditions under which Project Sustain and similar agencies would search for and send appropriate technical and market experts to make detailed analyses of key factors in the tentatively selected priority areas. Particularly for the meat and dairy areas, we would like to see 3-4 persons get to Hungary by 15 March. It is quite important that a fairly detailed estimate of upgradable potential via investment and targeted marketing be available to include in the final feasibility study.

C- Highlighting a Few Problem Areas That Need Resolution:

1- Institutional Relationships and Inter-relationships: Given the collapse of government support for many of Hungary's universities and research institutes working in fields relevant to this enterprise, we have to be extra-sensitive to how we work with them. We have also to honor the conditions under which they can perform studies funded by the Center. While it is likely that considerable institutional down-sizing, consolidation and reorganization will continue, how the several institutions will be arrayed under the ministries is quite a touchy affair. The Center cannot be seen to be favoring one inter-institutional arrangement over another. In no case, as in the U.S., should any of these university or research institutions be institutionally involved or responsible for the governance or operation of the Center.

2- The AgriExpo: On the other hand, working with the KFT or Foundation organizing the AgriExpo portion of the Budapest World Fair makes a lot of sense because of the relationships Professor Kocsis has built with both the food sector and local government. It will be important to link up with the several parties involved. Fortunately, Dr. Kocsis understands our position vis-á-vis any direct tie to Gödöllö University. We plan to have detailed discussions with all the participants. One very positive note is that Professors Feher and Maddy are quite

high on young Mr. Papócsi, the son of the Babolna General Manager, the staff person assigned to move AgriExpo along.

DISCUSSION - SUPPORT FOR AN INCUBATOR:

The people interviewed were relatively sophisticated and knowledgeable, many of whom had read our material. It is fair to conclude that, with no exceptions, they welcomed the basic idea of a food & agribusiness incubator/business development center (referred to above as the Center). However, it must also be reported that each interviewee had a different idea of what such a center could do or how it should operate.

According to Dr. Papócsi, private initiatives & investments in privately held Hungarian enterprises (entrepreneurship) aimed at a 'free' market economy have been oversold as THE way to solve Hungary's economic problems. The public does not know of many examples of entrepreneurial businesses other than one-man or family enterprises. This is particularly true in the food and agribusiness sectors. Most of the public are scornful or suspicious, feeling that programs announced to help launch private ventures or entrepreneurs are just more government propaganda. The problems attendant to the reorganization of Hungarian society, privatization, etc., further complicates the picture. Although politicians and academics discuss, announce, make big plans, what the man in the street apparently sees is the collapse of the economy and severe inflation leading to an accelerating loss of real purchasing power.

He/she has no conception what a 'bottoms-up', grass-roots development strategy means in terms of restoring economic health. The man in the street apparently is fairly certain that academics and bureaucrats are not credible as developers of practicable private sector ventures.

This point of view was supported by Dr. Farkás. He feels that while the general public may have been oversold on entrepreneurship, it knows almost nothing about incubators, or even market-oriented business development. That there are a few incubators struggling through their start-up phases in Hungary is not generally known. More importantly, the long-term impact that incubators could have is not at all appreciated. As public support could be crucial to the

long term success of incubator centers, much more information about them needs to be disseminated to the public.

Overall, as one gets into the subject matter of business development and incubators, as indicated above, we felt we did confirm our previous impressions:

1- Not only is there much moral and intellectual support for a project of this nature, one gets the feeling that there is considerable potential for sustained financial support from both the public and private sectors in the U.S. and Hungary. This is provided that funding sources are presented with well-focused, practicable proposals and plans.

2- The troubled state of the Hungarian economy (largely due to the collapse of the Russian and other Comecon markets), as well as the general lack of knowledge concerning market-oriented, profit-motivated businesses, argues for building technical assistance into continuing operations of the Center. Helping entrepreneurs search out niche markets, adapt and apply specialized technology, modern packaging, storage and distribution techniques seems a major need, much more so than in a Western business setting. Yet some of this information is needed in order to prepare investable business plans prior to organizing or recruiting enterprises for Center.

The question is, particularly in aiding businesses coming from present Hungarian technical establishments, how much additional support will be required to help the lead person understand what he/she must do to organize a team, write a business plan and otherwise subject him/herself to the discipline required to receive third party funding or otherwise participate within the Center environment. Certainly considerable supportive training, carefully targeted around the entrepreneur's interest, will be required to help these persons understand what organizing, investing in, and managing these potential enterprises requires.

The question will be how to institutionalize such efforts so that after the Center is initiated, continuous monitoring of markets, technology and potential sources of entrepreneurs can be carried out to anticipate changes and opportunities. Only the Chilean Foundation has had the resources to do this on

a continuing basis. At the same time, the Chilean Foundation has been able to avoid the creation of rigid manner of operation. They believe this is because their goal is to spin out successful enterprises as soon as possible.

To launch and sustain an incubator/commercialization center in the context of continuous Hungarian economic upheaval and political change certainly must add a degree of difficulty to what is already a challenging and complex task in the U.S.