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**THE PRIVATE-SECTOR MEAT
PROCESSING INDUSTRY IN
BULGARIA**
(A subsector assessment)

February 1996

Prepared by:

The Pragma Corporation

For

USAID / Bulgaria

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The seed for this assessment was planted in Washington last year, when John Tennant attended the Eastern European and NIS mission director's conference. He was full of enthusiasm, energy, vision and great ideas for extending U.S. government assistance to Bulgaria. He had access to limited resources and two potential targets for receiving them, the meat processing and fruits and vegetable industry. I discussed the idea of conducting this assessment with Steve Szadek, our project officer; his approval, although long in coming, marked the beginning of this undertaking. This assessment benefitted from their extensive support, for which I am grateful. The contents reflects the discussions and the contributions of many individuals whom I would like to thank. In particular, I would like to thank Skip Kissinger and Nikolai Kolev of USAID-Bulgaria, William Huth of USDA, and all my friends and colleagues at VOCA/ACDI for their sincere assistance.

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While most of the data and information reflected in this assessment did not originate with us, all analyses, conclusions, and recommendations are our own. The merit of this report is shared with all those who contributed to this work, but the shortcomings are my own responsibility.

M. M. Fatoorechie
February 1996

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EXECUTIVE SUMMARY

This report is the result of The Pragma Corporation's assessment of the private sector meat processing industry in Bulgaria. The assessment began in late September and was completed on November 15, 1995. The assessment was conducted under the auspices of the RAAPS/Bulgaria program (Restructuring Agriculture and Agribusiness/Private Sector); its objective was to:

1. Provide an overview of the nature and the dynamic growth of this emerging industry.
2. Identify the industry's major constraints and potentials.
3. Identify the most prudent plan of intervention by USAID/Bulgaria.
4. Propose a set of recommendations for assisting the development of the industry through USAID-sponsored technical assistance and training.

The assessment focused on providing targeted assistance to the private sector, which will lead to an increase in value-added activities in the production output of meat processors. The long-term goal is to eventually shift the industry from its present mix of private and state-owned enterprises to that of a fully private subsector.

The sector assessment followed Pragma's "RARE" methodology (Rapid Assessment for Restructuring of Enterprises), including a field survey and a targeted questionnaire designed to identify constraints and needs of the subsector. The survey covered seven municipalities and twenty-eight sites. The information resulting from the survey was the key factor in identifying constraints, opportunities, and recommendations for a targeted assistance program. In our analysis and projections, we assumed a five-year time horizon, 1995 through the year 2000, for which our recommendations and findings remain valid.

The private sector meat processing industry in Bulgaria includes some 370 firms, over 95 percent of which are small to medium-size enterprises. Three distinct categories define its structure: meat processors only (57 percent, with the capacity of 1-2 tons/day; semi-integrated enterprises (40 percent, with the capacity of 1-5 tons/day), and integrated modern firms (3 percent). The industry has grown from infancy to full domination of the domestic market (70 percent market share) in four years.

The products are predominantly fresh meat (beef and pork) and about fifteen different types of sausages that are distinctive and targeted to the taste of Bulgarian consumers. The sausages use a blend of approximately 50 percent beef and 50 percent pork. Close to 80 percent of the meat for domestic consumption is produced locally and the rest is imported.

The industry, in its rapid, unprecedented growth path, is capturing the majority of the potential value-added returns from vertical integration. We observed a vigorous integration pattern, which includes three distinct steps. A typical path begins with the addition of a slaughterhouse to the processing facilities (more than 35 percent of the industry is now at this stage), followed by the addition of sales outlets, and finally, full integration, which includes livestock production, primarily pigs.

The industry offers broad appeal for development programming, in that:

1. It has proven to have a vigor and inherent *rapid* growth unmatched by other agricultural subsector in Bulgaria.
2. It is an industry privately owned and dominated by small to medium-size enterprises, all of which have been in existence less than five years. It offers the best environment for *participatory* intervention.
3. Its captured domestic market offers a good degree of protection from foreign competition, dumping, and subsidized rivalry.
4. The industry has already taken over the domestic market from the state-owned sector, moving from non-existence to 70 percent market share in four years.
5. The captured domestic market, combined with market dominance, makes the industry an excellent partner for *sustainable* programming with *broad-based* impact.
6. The average rate of return on investment is 150 percent per year. The rate is calculated on the basis of 6 percent return (a conservative estimate) for each two-week production cycle.
7. It has needs and problems that can best be addressed through focused short-term assistance, which, if applied strategically, has the potential for breaking the export market barriers.

The industry's rapid growth, which began in 1993, reached its highest level so far in 1994. During the next five years, which is the planning horizon for this assessment, we assume a conservative annual rate of growth in the range of five to ten percent (5%-10%). If left alone, the industry, in our opinion, has the necessary vigor and the market to maintain this pattern of growth. In a five-year time span, the industry is capable of increasing its level of production by an additional 38,000 tons per year, generating a significant income and multiplier effect in the economy. If left alone, our projection is that during the next five years, the industry will create at a minimum 500-1,000 new semi-skilled and skilled jobs in the economy.

Our survey shows that the industry's immediate challenges, in order of priority, are:

1. Resolving the constraints imposed by a government requirement to comply with the sanitation and veterinary standards scheduled to be enforced in April 1996; and
2. Access to credit and financing through commercial, state, and donor-assisted programs.

These challenges, which are the industry's highest priorities, also offer the most appealing potentials for high-impact interventions.

Our survey also showed that the industry is in dire need of technical assistance and training in such areas as:

1. Advocacy support to build the capacity have the compliance schedule extended for two to three years;
2. Needs assessment for credit and compliance requirements;
3. Modernization, equipment identification, sourcing, installation, construction, and architectural design for compliance with the sanitation and veterinary standards; and
4. Linking sources of credit with the private sector firms.

Addressing all the needs of the industry is beyond the capacity of any single donor. The intervention

opportunities offered by the industry can best be captured by:

1. Providing the necessary assistance for maintaining the growth momentum of the industry; and
2. Providing assistance for building a strong and sustainable advocacy capacity to guarantee the interests of the industry and provide the necessary protection against adversarial interventions.

The Association of Meat Processors in Bulgaria is the most appealing candidate to be the target of intervention for all USAID assistance. It offers the best opportunity for developing a sustainable capacity in support of the industry's development.

The Association can be built from the foundation up with a comprehensive empowerment plan. The major components shall include:

1. Restructuring;
2. Setting up administrative and management structures; and
3. Programming member services in response to the industry's needs.

Led by ACDI/VOCA, we foresee a significant complementary role for other USAID-assisted programs. CARESBAC, BAEF, PIET, CDC, AMS, IESC, and University of Delaware can all play a significant role in this regard. Major activities may include: institution building, targeted assistance in technical areas, credit awareness and facilitation, capacity building for policy impact review, lobbying and advocacy, and administrative and management support such as business plan development and developing profit-loss and financial statements.

Our recommended plan of action for four years includes 189 interventions: 89 the first year, 60 the second year, 30 the third, and 10 during the last year of the program.

The key indicators for monitoring progress include two distinct set of factors -- direct and indirect. The first category includes the annual increase in the number of members and the increase in the Association's gross revenues. The second includes the change in gross sales of selected firms and improvement in the quality of life of workers, measured by the increase in their average level of income.

THE PRIVATE SECTOR MEAT PROCESSING INDUSTRY IN BULGARIA: A SUBSECTOR ASSESSMENT

February 1996

1. Introduction

Early this year, USAID finalized a review of the agriculture and agribusiness constraints and potentials for Bulgaria and introduced a series of targeted recommendations. The report suggested a programming focus on the processing subsector, with particular emphasis on the newly emerging meat and fruits and vegetable processing industries. This assessment is concerned with the meat processing industry.

The objective of the assessment, conducted between August and December 1995, is to identify major constraints, potentials, and a plan of intervention to empower the emerging private meat processing subsector in Bulgaria. The assessment focuses on providing targeted assistance to the private sector, leading to an increase in the value-added activities and the production output of the processors. The long-term goal is to eventually shift the industry from its present mix of private and state-owned enterprises to that of a fully private subsector. The final outcome of the assessment will be a clearly defined set of recommendations for providing technical assistance and training to the subsector during the next three to five years.

2. Methodology

The sector assessment team followed Pragma's "RARE" (Rapid Assessment for Restructuring of Enterprises -- Appendix 5) methodology to conduct the study. This methodology, which was specifically developed for preparing technical assistance and training plans for the countries of Eastern Europe and NIS (Newly Independent States), will address the overall programming needs for the sector, and is in full compliance with USAID's re-engineered operations system.

RARE has five distinct components:

1. Sectoral overview
2. Rapid survey and questionnaire
3. Supplementary data/Consultants' expert views
4. Technical assistance and training plan (designed based on country-specific strategic objectives)
5. Impact statement followed by a performance monitoring plan, which is normally developed as an immediate follow-up.

The data collection began in August 1995. It was subcontracted to a local consulting firm, Green Light. The field visits were conducted during the first two weeks of October.

The assessment team consisted of three expatriates and two local specialists:

1. Dr. M. M. Fatoorechie, Economist/team leader
2. Dr. John Carpenter, Meat processing specialist
3. Dr. Louis Malkus, Livestock specialist
4. Dr. Nadia Alexandrova, Meat processing specialist
5. Mr. Anton Ignatov, Livestock specialist

The survey covered seven municipalities and twenty-eight sites (see Appendix 1 for a list and the map of sample survey coverage), and included experts' review and collection of primary data through a targeted questionnaire. The survey was designed to identify the constraints and the needs of the subsector and consisted of two parts: the questionnaire and the consultants' observations. The information resulting from the survey was the key factor in identifying constraints, opportunities, and recommendations for the assistance program.

3. The Meat Processing Industry

A rapidly growing sector dominated by private enterprise - static view.

The private-sector industry, is divided into two distinct categories: processing only (60 percent) and semi-integrated operations owned fully by private entrepreneurs or owned jointly with the state (40 percent). Joint ownership consists of 51 percent ownership by the private firm and 49 percent by the state. All operations with joint ownership have a progressive phase-out schedule that allows complete buy-out of the state's interest. In terms of size, about 235 plants fall into the 1-5 tons per day in the processing only category, 125 plants fall into the 1-2 tons per day in the semi-integrated category, and less than 10 are in the modern/high volume grouping. The latter consists of plants such as: Trakia Agro Holding, Plovdiv; MM5 Ltd., Blagoevgrad; Troyameks Ltd., Troyan; Briag Ltd., Targovishte; Agro Holding, Sofia; and Agropromstroy, Montana. The firms in the last group own their own slaughterhouse, and in some instances shops and livestock production facilities.

In terms of physical structures and equipment, majority of the buildings are 20-25 years old, and used equipment of 15-20 years old is often found in the slaughter and meat processing plants. Close to 80 percent of the plants will fail to meet the veterinary-sanitary standards announced in June 1995. In order to qualify, they will have to modify or reconstruct their buildings and replace most of the processing and slaughter machinery and equipment.

The meat supply comes from several sources. Close to 80 percent of the meat (129,672 tons) is produced domestically; the rest is imported.

Table 1. Annual Meat Production and Trade (tons)

	1993	1994	1995*
Production/Import	177,982	163,016	161,652
stock	7,437	6,320	2,652
annual production	145,931	129,672	134,000
import **	24,614	27,024	25,000
export	4611	5270	5,000

Source: National Statistics Institute.

*Estimated/ Ministry of Agriculture

**Frozen and chilled only.

The products are:

-A variety of fresh meat cuts and preparations targeted to local needs. The meat sources are mainly pork, followed by beef and mutton. Meat is marketed within two to three days of slaughter.

-Processed meat products are predominantly sausages, including 10-15 different products for the domestic market. Almost all firms produce a minimum of 8-10 kinds of sausage. The typical mix is 50 percent pork and 50 percent beef. Mutton, poultry, and other additives such and soy meal are not traditionally added to the product.

Sanitation is a major constraint; in most plants, equipment is not cleaned as frequently as necessary. Habitually, the use of water for washing of equipment and machinery is less frequent than in the West. Floors are concrete and often littered.

With few exceptions, almost all processors either sell their products to intermediaries or directly to end-users. Compliance with sanitation, plant safety, and waste management standards are the major concerns the industry is facing at the present time.

4. Investment and Intervention Potentials

Meat processing industry, the fastest growing agricultural subsector.

Since 1992, the meat processing industry has shown an incredible rate of growth, going from infancy to dominating the domestic market. In less than 4 years, it has gained a 70 percent market share.

**Table 2. Meat production in state and privately owned processing plants
(thousand tons)**

Product	Capacity	1992	1993	1994
- State	288	88	57	43
- Private	N/A	N/A	53	90

Source: Ministry of Agriculture.

N/A - data not available.

The rapid growth of the industry reached its highest level so far in 1994. During the next five years, the planning horizon for this assessment, we assume a minimum annual rate of growth of five to ten percent. If left alone, the industry, in our opinion, has the necessary vigor and the market to maintain this pattern of growth. In the five-year time span, the industry is capable of increasing its level of production by an additional 38,000 tons per year, generating a significant income and multiplier effect in the economy. This figure was arrived at by applying a seven and a half percent (7.5%) annual growth rate calculated on a straight line basis. This rate, in our opinion, is quite conservative and needs to be modified as statistics become available. On the employment generating capacity, if left alone, our projection is that during the next five years, the industry will create 500-1,000 new semi-skilled and skilled jobs in the economy.

We also believe that within the next two years, the forthcoming compliance requirements will jump start the industry, preparing it for the export market. Higher sanitary and health standards will force most of the inefficient units out of business and create a competitive environment among the remaining firms. Because of competition in meeting domestic needs, perhaps at lower prices and higher quality, we believe the export market demand pull will be the cause for further restructuring and modernization. Industry overhaul of this nature will create a capacity that will enable the industry to meet the challenges of higher quality export markets in the near future. The industry is prepared to respond to market needs and to meet higher standards. Initial signs are encouraging. For the past two years, there has been a surge of interest and enthusiasm among the processors to participate in trade shows and host trade delegations.

At the present time, the private sector consists of close to 367 firms (*National Service of Veterinary Medicine*). The numbers will continue to grow as long as the domestic market offers its present pull and there is a slight undersupply of processed meat. With modification and increase in efficiency, production will surpass market needs. It is very likely that an oversupply of processed meat products, mainly sausages, will occur in less than two years. Smaller, more inefficient plants will fade out in favor of more efficient and at times larger and more specialized operations. Unlike other industries, it appears that profits are being reinvested in the industry, further enhancing its growth.

The domestic market for fresh cuts of meat and Bulgarian sausages offers all necessary ingredients for growth in the early stages of development. In the captured market for these uniquely Bulgarian products, there is no significant threat from foreign competition.

With the dramatic reduction in state-owned production (the state-owned industry is operating at 15 percent of its capacity -- see Table 2), the private sector is enjoying a domestic market for which the demand has consistently surpassed supply during the past 3 years.

There is some evidence suggesting that the domestic market has consistently rejected imported sausages that do not have the traditional blend of pork and beef. Several attempts by importers of foreign-made products to break into the domestic sausage market have so far failed. The limited amount of imports appearing in Sofia and expensive stores in a few major cities cater to the needs of the wealthy, the hospitality industry, and the expatriate community.

With the progressive integration within the industry, encompassing slaughterhouses, marketing outlets, and eventually livestock production, there is adequate value-added potential for the meat and its by-products that can well be captured by the industry. This trend, although in the early stages of development, has triggered the emergence of an integrated, fairly modern and sophisticated group of firms within the industry. The missing link in full integration is livestock. This will play an important role in entrenching the industry in its predominant position in the years to come. The stalemate of land restitution and absence of a land market at the moment is a barrier to the necessary incentives for investing in the livestock production industry, especially cattle. As we observed in our survey, pig production, due to its limited need for grazing land, so far has been the predominant livestock portion of the integration cycle.

With the captured domestic market, the industry is experiencing an approximate return of six percent (on variable cost and in real prices) for each processing cycle (source: site visits and interviews). The return, which is on variable cost portion of the investment, translates into an annual rate of return of 150 percent in real terms. If fixed costs account for one-third of the total return, even at a high rate of interest of 50 percent, the entrepreneurs are enjoying a net return of 50 percent a year. By all counts, this level of return is a very conservative estimate.

5. Challenges and Opportunities

A. Immediate Challenges: *The industry is not prepared.*

The first and most threatening challenge the industry faces is compliance with the sanitation standards (Veterinary and Sanitation Requirements for Building and Exploitation of Slaughterhouses and Meat Processing Plants - Decree No 12/19.06.1995 Ministry of Agriculture and Food Industry), which will be enforced as early as April 1996. In June 1995, when the standards were introduced, the Government of Bulgaria imposed a time frame for compliance, after which it will enforce the standards. In our opinion, the time allowed for compliance is totally inadequate, for numerous reasons. First, compliance often requires modernization, building modification, and reconstruction. Second, the number of applicants in need of credit and capital are significant, and as a result, the paperwork involved is beyond the processing capacity of the financial institutions. Third, the absence of standard model plants for design of physical setup further hinders the speed of compliance. This translates into the need for architectural designs followed by construction,

which may or may not result in straightforward approvals. Fourth, the support industry, consisting of providers of infrastructure, equipment manufacturers, and suppliers, is ill prepared to address the needs of the industry during the remaining months. In Europe, the time frame for industry compliance has never been this short. The case of Germany can serve as a good point of reference. In comparison to Germany, where administrative and infrastructure preparedness is much more advanced than in Bulgaria, the time period was two years. In our opinion, the Bulgarian Government should seriously consider extending the compliance period to three to five years. In the absence of such extension, unless enforcement is lax, more than three quarter of the firms will be noncompliant by mid 1996.

The issue of compliance offers a significant opportunity for donor intervention. We believe a three-pronged strategy will result in approval of the recommended extension. The strategy should include:

1. A detailed rapid impact analysis, highlighting the dangers of a rushed compliance order. This analysis should include facts and figures signifying:

- An industry-wide drop in production, which will result in increased processed meat prices.
- The labor displacement and unemployment resulting from shutdown of many firms.
- The strangling of the emerging small and medium-sized enterprises through forced shutdown. This may create a precedent in the economy which, in our opinion, will be devastating.
- The higher-than-normal expenditure of hard currency for imported equipment, due to inadequate search for competitive prices because of time constraints.

2. Assistance support for enhancing the advocacy role and effectiveness of affected firms through technical and administrative support to their association. Assistance can be provided in such areas as organized lobbying, building membership, and public awareness campaigns through technical representations, news media, and advertising. Targeted technical assistance and support for institution building can form a major component of donor assistance in this regard.

3. Establishing a bilateral dialogue with the government on extending the compliance schedule. The impact analysis should provide necessary facts and figures for an orchestrated launching of a successful campaign, as described in this and previous paragraphs.

B. Medium-term Challenges: *The trend: the dynamic view, and a look at the crystal ball.*

For the past few years, the demand for meat and meat products (sausages) has constantly surpassed the supply. The market has offered high but appealing prices for the products, and as a result, we observed a booming industry that has grown in four years from nonexistence to close to 370 profitable privately owned enterprises. The demand/supply relationship is bound to be reversed within the next five years. The industry will experience increased supply and reduced prices. The reasons are complex, but the major and overriding factors are:

1. A gradual change in consumer demand. This may well result from a higher propensity to consume better-quality products, a condition often caused by increased disposable income.

2. Increase in production efficiency and competition, resulting from modernization and expansion. To adjust to the potential impacts of change, the industry will inevitably have to develop export markets in areas of competitive advantage. The industry needs to position itself to address market needs on numerous issues. Product diversification, systems development, association building, market intelligence, networking, packaging and labeling, advertising, marketing, quality and standards development, sanitation and waste disposal, storage, transportation and distribution capacity building are among the most important areas to be addressed early on. These issues will become predominant problems for the industry within a year. The time to prepare for these challenges is now, whereas if the problems become predominant it will be too late. To do so, the industry will need adequate advanced preparation.

C. Growth and Backward Integration

As competition grows, with the increase in supply and reduction of prices, there will also be an increase in demand for higher-quality products. That will trigger the opening of specialized markets. Captured market with inherent certainties, combined with favorable prices and lack of competition, are the major factors behind the dynamics of this growth industry. This impressive growth cannot last long or continue in its present form. Maintaining the dynamics of change is perhaps the best opportunity available to the Government and/or donor community to become a major player in the transformation of this industry through its initial phases of growth and development.

The firms are of different sizes and are experienced in handling different types of problems and opportunities. In our opinion, the majority of the entrepreneurs will follow a common growth path known as "closing of the circle," which is the closest parallel to what is known as "backward integration." As observed through our intensive investigation and survey, the typical growth pattern (exceptions aside) will most likely be divided into four phases.

Phase one consists of start-up of new businesses, primarily meat processing plants of various sizes. In our opinion, the rate of growth is now at its peak and will decline (the numbers will grow but at a decreasing rate). The second phase is the addition of a slaughterhouse to the processing plant. A good number of plants (125) have already completed this phase and are enjoying the economic returns. The third phase, which has barely begun, is where a semi-integrated operation (processing plus slaughterhouse) will add point of sales, such as wholesale or retail outlets, to the operation. We have already observed entrepreneurs who have several stores for the sale of fresh and processed meat, and in rare cases, the operation includes a restaurant.

The most important but as yet least pursued phase is adding livestock production to the operation. There are numerous reasons for inaction in this phase. The foremost factor responsible for the stagnation is the inherent insecurities associated with the restituted land and absence of a land market. Owners of livestock production units are still leasing the property and do not have title to the land. Investment in such circumstances becomes next to impossible. We have observed, on numerous occasions, that many entrepreneurs have added pork production to their semi-integrated operation. Since pork forms close to 50 percent of the major ingredients for the processed meat products, it seems to be the next growth industry if tagged to meat

processing. If successful, the meat processing industry will experience a reversal of the demand and supply relationship much sooner than anticipated. We believe that the slight shortage of processed meat products will turn into a surplus, and at that time, the infrastructure for export must be in place. It is important that the industry be prepared.

With the growth of the livestock industry comes challenges and opportunities. We have observed shortages of livestock supplies due to policy distortions, stagnant land restitution, and seasonal meat price movements. The uncertainties, combined with the prospect of value-added integration, triggered the phase of adding livestock production to the semi-integrated meat processing lines. The increase in number of firms that are engaged in adding pork production to their operation has been in response to several supply shortages in recent years. In our opinion, this trend will continue and demands major restructuring of the industry. Adding livestock production to the integration process creates an excellent opportunity for building a comparative advantage niche for Bulgaria in the regional marketplace.

The increase in local supply, if used as raw material for value-added meat products (primarily sausages), provides the industry with a double multiplier effect and the economy with employment and import substitution opportunities. The first issue to be resolved by proper Government policies is land restitution. This issue is addressed in detail in Appendix 4, "The Policy Environment."

D. Land Restitution

Completion of land restitution and related privatization programs are the major stumbling blocs on the path to full integration. The shortage of meat that existed a few years ago is no longer a major issue. Import of close to 28,000 tons of meat products, combined with an increase in hog production capacity, has resolved the critical problem temporarily. We believe, at the outset of the resolution of land titles and sales issues, that there will be a booming cattle industry tagged to meat processing. Ending stalemate will require policy actions by the Government. USAID can play a major role by providing technical assistance and liaison support. The assistance can take the form of industry lobby, policy impact analysis, bilateral talks, and pointing out opportunities to the Government that may result in building a sector-specific privatization model, releasing targeted land titles that can be used for livestock production.

E. Credit and Banking

The meat processing industry is the fastest growing agriculturally based subsector in the Bulgarian economy. Dominating 70 percent of the domestic market for processed meat, the industry is poised to attract both the foreign and domestic investment communities. As evidenced through our survey, an overwhelming majority of processors consider the need for credit to be one of the major issues of concern, in addition to Government intervention. In order to attract private and institutional investors, information on the industry's performance must become available and a network for attracting and channeling interest developed. USAID can play a major role in this regard, either directly, through ACDI/VOCA, CARESBAC, and BAEF's Kompass and Nachala programs, or through the Association of Meat Processors in Bulgaria (hereafter, the Association).

The main activities, corresponding to needs for assistance, are:

1. Making the potential and incredible performance of the industry public. The content of this report will provide ample material for a successful media campaign.
2. Making information available on potential business opportunities for connecting local entrepreneurs with sources of capital.
3. Creating an industry-wide campaign to provide information on potential sources of credit. Prime examples include such programs as BAEF, CARESBAC, and the World Bank agricultural loan of fifty million dollars, which has been channeled through the commercial banking system.

We believe that with USAID-sponsored supervision and the work of the Association, this short-term goal can be accomplished. The key activity is networking and channeling information to potential lenders and investment partners. There are ample local funds at the present time in search of good business opportunities, particularly in agriculture. This interest, driven by business and societal incentives, is deeply rooted in the emerging and successful private sector in Bulgaria. A market takeover by an industry in less than four years is a significant signal, and a point of attraction for the investment community. If promoted appropriately, the meat processing industry can successfully attract to the industry the desired capital, attention, and involvement of the emerging business community.

F. Cyclical Price Changes

Seasonality of livestock prices in the market place is another major challenge, which can significantly impact the availability of supplies and hence the prices of inputs for the processing industry. At time of slaughter, prices are low, and at the gestation period, high. With proper herd management, the cyclical movement of prices can be smoothed out. This will reduce the supply uncertainty for both the livestock and meat processing industries and assist in the development of stable prices. Price management is easiest for pig production, followed by beef and sheep. The United States is the leader in farm management practices to establish competitive market prices with less sporadic price movements (stable prices). The meat processing industry, in its advanced stages of integration, can capture a good share of livestock production capacity as an element of its integrated structure.

Due to the livestock industry's constant adjustment to cyclical price changes, and to policy-driven reductions in domestic sources of livestock, the industry is gradually shifting toward backward integration. As confirmed by our field observations, with the progress of integration, larger and more modern firms will dominate the market. Parallel to those changes, we expect a certain degree of specialization to emerge within the industry. The specialization will most likely involve production of high-quality, high-priced sausages, with a variety of new sizes and packaged products targeted to the taste of the growing higher-income population and the fast food industry.

G. Modernization

At the present time, the industry is addressing the needs of the domestic market in the absence of foreign competition. General skills in operation, administration, and management dominate the work force. Modernization and improvement in technology, in response to the industry's compliance with the newly introduced standards and the unavoidable increase in competition, will cause major adjustments within the livestock production and meat processing industries. With more efficient machinery and equipment, a smaller work force will be required to meet the processing industry's present needs. However, with further expansion, the anticipated increase in supply, and opening of the demanding export market, the industry will create a new job market with distinctive requirements. New expertise and skills will be in high demand. This specialized job market will demand the skills required to achieve higher standards and penetrate and maintain export positions for the more competitive and crowded export markets.

In this newly competitive environment, larger operations will need sales marketing staff. Customer relations will become very important, and the needs of the export market will force adoption of more efficient and rigorous management practices. Improving quality and standards, product diversification, storage and transport, and raw material sourcing are among the new areas in which employment opportunities will be created. On the livestock production side of the equation, better farm management practices, better feeding and fattening regimes, and more modern facilities will dominate the industry. Market-sensitive practices, such as herd management, for riding the cyclical price movement of the supplies, will become commonplace.

In our opinion, the restructuring and modernization of the industry will lead to an increase in job opportunities. The resulting labor displacement within the livestock and meat processing industries will be far less than the increase in demand for highly skilled labor. For an anticipated 10 to 15 percent increase in total production beyond domestic market needs (a possibility for as early as the beginning of 1997), the industry will create 500-1,000 new jobs. Higher wages are anticipated. They will be brought about by the industry's needs for a more skilled and specialized work force.

6. Priorities and Nature of Intervention

The opportunities for USAID interventions can be categorized into highest priority activities with high impact, and high priority activities with medium impact.

A. High Priority Interventions with High Impact

In this category, a focused strategy could include priority interventions with targeted technical assistance and training. As mentioned earlier, our survey showed that an overwhelming majority considered compliance with the sanitation standards, and lack of credit and access to capital, their most serious concerns.

1. Technical assistance for compliance with sanitation standards

The issue of providing technical assistance for compliance with the sanitation standards must be promptly addressed. For the majority of firms, this will be uncharted territory. While they will be forced to comply with the sanitation standards, they will also be faced with the demands of qualifying for loans for capital investment, modernization of equipment and construction, and eventually the issues related to increase in efficiency and production, all in the context of lower prices in the domestic market due to increased supply and the challenges of marketing and sales in the export market. In our opinion, the industry is ill prepared to face these challenges and requires outside help. Our survey showed that an overwhelming majority of processors are aware of, and weary of, the consequences of forced compliance, which may lead to elimination of a big portion of the private sector meat processing industry. All those interviewed requested technical assistance on sourcing, installation, and advisory support for equipment, architectural design, and construction. USAID must also be prepared to provide additional assistance in solid and liquid waste management.

Although a majority of owners have a general knowledge of sanitation standards, their understanding of issues such as waste management is limited. In a trial run, we confronted the owners with waste management concerns. At the beginning, they did not consider waste management a major issue, but once it was explained to them, all of those who were briefed requested assistance in this area.

The industry's needs for technical assistance fall into two distinct categories: Category one, where the firms are not requesting targeted assistance because they have no prior knowledge or experience about the upcoming issues. Category two, where because of interaction between the experts and the firms, the need for a specialized technical assistance will surface. In many instances, assistance at the site may urgently be needed, and if it becomes generally known, may create wider demand in the industry.

- For category one, we recommend that preliminary group seminars or training sessions be held to introduce the areas, challenges, and problems associated with the sanitation standards. Immediately after each session, participants will answer questions on the type, length, duration, and timing of technical assistance they need. This feedback will significantly enhance the quality of programming by keeping it proactive and demand driven.

- For category two, USAID should have a delayed response to critical and essential requests for technical assistance by a single processor. Attempts must be made to inform the Association membership about special problems and the availability of technical assistance for such problems. Once three to five firms request support for a similar difficulty, assistance can then be provided. Proactive data collection and dissemination is strongly recommended. If a specific request comes in, an attempt should be made, through the Association (by fax or telephone), to inform the membership about the availability of upcoming training or targeted technical assistance. The feedback can then be used in shaping the program and targeting it to the needs of interested members.

2. Credit

The majority of the processors were unaware of borrowing and credit facilities that already exist in the banking sector and donor-assisted programs. Most were uninformed of the recently approved 50 million dollar World Bank agricultural production loan and its conditions. They were not familiar with the mechanics of applying for loans. With few exceptions, credit facilities available through CARESBAC, Nachala and Kompass were either unknown or were considered unreachable.

We believe that a vigorous canvassing outreach program to all private sector meat processing owners is urgently needed. USAID can initiate a simple credit outreach program through CARESBAC and Nachala, which may be coordinated by ACDI/VOCA and facilitated by the Association.

The program should consist of:

- An awareness program on the availability of capital. The program could include a publicity campaign implemented through periodic radio and television interviews, news articles, and targeted brochures and pamphlets that introduce the program and its ease of use and facilities. Speeches and a USAID booth at the annual meat show are opportunities to be seriously considered. The awareness program should consistently engage the industry by communicating progress, peer response, and success stories.

- The application process in all three systems is a prohibitive task, especially for an industry that is in its infancy. Presumptions are often made, that cost accounting systems are in place and geared to preparation of periodic financial statements. For this very reason, most firms face the herculean task of overhauling their performance records in order to accommodate the needs of U.S.- based lending organizations. The commonly practiced accounting and bookkeeping systems are now geared more towards the local tax system, in order to either dodge taxes or benefit from all available loopholes. We found no cost accounting system within the industry that was geared to providing decisionmakers with pricing and cost information and trends on production, efficiency, and profit management. The application process and perhaps the applications themselves must be adapted to what the industry is capable of preparing, rather than requiring Western-style bookkeeping and financial and profit-loss statements. A workable solution that contains the critical data and statistics will most likely result in better use of available credit by the lending institutions. Such an undertaking can help to jumpstart the industry through an infusion of pre-existing credit. The same rules and suggestions apply to providing assistance for preparing business plans, feasibility studies, and loan/credit documentation.

B. High Priority Interventions with Medium Impact

1. Building endogenous technical assistance and training capacity

USAID-funded programs could focus on building endogenous technical assistance capacity to support development of the industry. There is ample evidence that the domestic pool of specialists in all fields of meat

processing and livestock production is strong, competent, and capable of providing the technical base for the needs of the sector. What is missing is a plan to provide training and exposure to local specialists on issues that are essential to the growth of the industry. Specific fields include: policy and regulations related to implementation and enforcement of sanitation standards, plant modernization, data collection and dissemination, advertising, packaging, marketing, cost accounting, business plan development, strategic planning, and feasibility studies. Training sessions, in terms of seminars, workshops, and study tours to the U.S. and third-country sites, must be arranged when building the domestic technical expertise becomes a strategic priority.

2. Policy support

Another high priority intervention is developing the capacity to draft policy options and impact analyses as a protective measure against counterproductive legislation, regulations, and policies. The Government-imposed price controls and intervention policies of the past few years are ample evidence of the fact that policymakers urgently need assistance in data gathering and impact analysis. Such a capacity can help ensure that appropriate regulations are drafted and that there is healthy debate before legislation is brought up for a vote. Until the local capacity is sufficiently developed, technical assistance for forming a policy group that would be at the disposal of policymakers, is desperately needed and well justified. The group, if structured properly and supported by capable technical assistance resources, could dramatically speed up and enhance the overall development of the industry and facilitate its compliance and modernization. It can be charged with drafting options for desired policies, legislation, and regulations. It could also prepare regular analytical reports and periodicals for the use of scientists, industry officials and members of the Association, to keep them abreast of developments.

7. Assistance in Support of the Industry

Two major groups are directly influencing the progress of this evolving industry -- the donors and the Association of Meat Processors in Bulgaria.

A good number of donors are involved in providing credit and technical assistance, mainly to livestock production and to a lesser extent to the meat processing industry. Lack of focussed programming among donors is due in part to lack of coordination and awareness about the emerging private sector meat industry. With the emergence of industry-specific information, there is growing interest and enthusiasm among the donor community, which may lead to targeted programs in the future.

A. Multilateral donors

1. The European Community

EC-PHARE has two ongoing and four planned programs.

Ongoing programs:

- The Agricultural Extension service program, which is being implemented by a French consulting firm, is a follow-up to the Farm Demonstration Project of recent years. This one and half year program involves setting up 25 extension stations, and providing extension services in all aspects of agricultural production, processing, and marketing.

- The multiple credit fund, which is being implemented by the Credite Agricole of France, is a one and a half year, 7.5 million ECU program that includes setting up a network of 30 to 40 cooperative banks. The official starting date was October of 1995. The project is finalizing the selection of a Bulgarian financial institution as a partner. In the beginning, the program will provide small loans for up to six months in duration. As the project gains momentum and experience, it will engage in larger loans with longer repayment schedules.

Programs planned for 1996:

- Establishing veterinary standards and livestock vaccination services targeted to the export market is planned for 1996. The project will focus primarily on livestock trade with Greece. It will amount to approximately 0.5 million ECU and include short-term consulting.

- Market development, collection, and distribution of milk. This project will involve parallel activities in line with the privatization of some state-owned enterprises. The anticipated size of the program is 1 to 2 million ECU.

The chance of these two projects receiving final approval is very slim.

- Provision for facilities and equipment to assist and support the development of agriculture and the food industry. This project will focus on the development of municipal infrastructure for agricultural marketing. The size of this program is 1.5 million ECU.

- Technical assistance for agro-tourism, with a value of 0.6 million ECU.

Both of these projects are very likely to be implemented.

2. Food and Agriculture Organization (FAO)

FAO completed a US\$30,000 micro-analysis of the livestock sector in the fall of 1995. This short report concentrates on livestock breeding issues, potentials, and opportunities. The report was presented to the Government of Bulgaria a few months ago.

3. The World Bank

The World Bank loan of \$50 million provides low-interest credit to the agricultural sector, including

the food processing industry. Targeted for production-oriented activities, it will be dispersed through three banks -- The First Private Bank, Reiffeissen Bank, and the Dobrudjanska Bank. For further details, see Appendix 3.

B. Bilateral Assistance

1. The Netherlands

- The Pazardzik region pig farm development project is the Dutch government's major assistance program for the industry. Started in 1993, this project provided assistance for building standard stable units for 15 small to medium-sized pig farms. The production capacity for each unit is 80 pigs, for a 2.5 cycle year production regime. The standard is targeted to family-owned operations, where 2-3 hours/day of each family member's time will be required to run a successful operation. In its third year, the farms are producing \$200-\$250 income per month per unit. The project loans (6 percent) are amortized over ten years. One million guilders were made available to the project as a credit base. Under special requirements, 50 percent of the loan amount will switch to grants. All farms except one met the qualification criteria. The project ends at the beginning of 1996. A follow-on project for the same region will soon start implementation. The new program, of 7-8 million ECU, will provide only technical assistance and rely on domestically available credit in the banking sector. The aim of the project is to increase the number of units in a standard farm to one hundred.

- Creation of a regional Private Pig Farmers Foundation is a supplement to the Pazardzik project. In a grassroots, bottom-up approach, the Association will work toward a common goal for the benefit of its potential 100 members. The bylaws of the Association have been registered with the Bulgarian authorities.

2. Germany, Switzerland, and Austria

- The German government maintains a policy advisory position at the Bulgarian Ministry of Agriculture. The advisor provides policy advice to the Minister and his deputies. Most of the work is targeted to policy issues focused on commercial infrastructure development, which will facilitate Germany's commercial interests in agriculture in Bulgaria.

- In a program for building a number of wholesale market points, with a budget of 200,000 to 300,000 DM, Germany last year completed its auction, animal show, and market facility in Sliven.

- Other targeted activities by the German government are channeled through the commercial section of the German Embassy, where aggressive marketing support is provided to the German manufacturers of slaughter and processing equipment and machinery.

- Switzerland and Austria are quite active in this niche market and follow the same pattern of providing assistance and market penetration as Germany.

3. Belgium

Belgium is in the process of completing a veterinary service project. The work is at the development stage.

4. France

- A sheep and cattle development project is the most active French program relevant to this subsector. Major components of the project are: livestock trading, re-export to Arab countries of animals produced elsewhere (the market base for export to the Arab countries is in Bulgaria), research and experiment in breeding disease-resistant animals that will be targeted for trade with Greece. The feasibility study for the project was completed early last year. Several high-level French delegations participated in the negotiations. The last group completed its work in early October 1995.

- France is also involved in building the network to provide machinery and equipment support for artificial insemination. At the moment, almost all the artificial insemination stations in Bulgaria use French equipment and technology.

- France will launch the livestock numbering system designed two years ago. The project will be housed at the Ministry of Agriculture.

5. United States/USAID

- VOCA/ACDI and Land-O-Lakes are the major players in providing technical assistance and training to livestock producers, dairy producers, and meat processing private sector industries. CARESBAC, through providing equity loans, and the Pragma Corporation, through strategic planning and sectoral studies, have provided supplementary assistance to the industry.

- The American Breeders Service is in the process of launching a US\$5 million program to enhance animal breeding practices in Bulgaria.

C. The Association of Meat Processors in Bulgaria. *The building of an institution.*

1. History and activities to date

ACDI and VOCA began their technical assistance and training program for private Bulgarian meat processors in early 1994. The program involved in-country seminars in management, finance, and marketing for approximately 60 firms and some U.S. site visits for a selected group. As a byproduct of this program, the Association of Meat Processors in Bulgaria was created. Since its inception, the Association has hosted two national processors show in Sofia in November 1994 and 1995. The Association, supported by the ACDI/VOCA program, is being managed with limited resources and predominantly by the drive and initiative of an energetic and determined board and president. In its short life, the Association has:

- Registered and increased the pledged membership from its initial 39 to more than 65 members.

- Reached an agreement with the government to have the meat processing firms receive certificate training through the use of the 7 percent employer contribution deductions. By law, these contributions to the government, are paid by employers as a percentage of employees' salaries for upgrading the skills of workers. In conjunction with the Institute of Food Industry in Plovdiv, the Association will utilize the funds -- which, if necessary, may be matched by program participants -- to provide targeted certificate training within the industry. The program has a two-tiered curriculum: advanced training for semi-skilled labors who are already employed within the industry, and skill training for potential employees who will look at the industry as a source of employment. The initiative started in late July of 1995. The Association, in collaboration with the Institute, is in the process of completing the details of a specialty list and the curriculum, which will be submitted to the government for review and approval. The skill level and certification of the graduates will become a part of pre-qualification for compliance with the standards. The certificate training program includes two centers, one in Sofia and the second in Plovdiv. The courses are predominantly one and two-week intensive targeted training.

- Started a dialogue with the government on extending the brief period of compliance with the sanitation standards announced in June 1995. As it stands, the industry is required to comply by April of this year.

- Provided member services to an overwhelming majority of the members. These services included: participation in third country observation and/or study tours. Most traveled to Germany, and limited numbers visited the United States. The Association also provided liaison services to a large group of members by bringing their points of view to the attention of Ministry of Agriculture officials. This facilitation helped prevent some regulatory measures that could have hampered the operation of many plants. With the increase in the price of meat due to the imposition of custom duties on imported meat, the Association was able to persuade customs officials to exempt its members from these duties.

- Hired a full-time secretary and a part-time public relation officer paid by membership fees. The Association produces a biweekly news column that provides price, market, and industry situation reports to the media. Periodically, media coverage and events are organized to promote the Association's programs.

- Carried out activities representing its members, which have so far proven very effective with the officials of the Ministry of Agriculture and the Ministry of Trade, and with key parliamentarians active on issues that affect Association members. Because of these efforts, open and easy access to high officials is constantly extended to the Association.

2. The Bulgarian private sector meat processing subsector: *A point of intervention for providing technical assistance and training through USAID-assisted programs.*

The industry has considerable appeal from the point of view of development programming. In that context:

- It has proven to have a vigor and inherent growth potential unmatched by any other agricultural sub-sector in Bulgaria.
- It is an industry privately owned and dominated by small to medium-sized enterprises, all of which have been in existence for less than five years.
- It has a captured domestic market, which due to its unique structure (production of fresh meat cuts and Bulgarian sausages), offers protection from mass-produced foreign products, dumping, and subsidized rivalry.
- The industry has already taken over the domestic market from the state-owned sector, moving from non-existence to 70 percent market share in less than five years.
- It has needs and problems that require focused short-term (3-5years) assistance, which, if applied strategically, can easily break the barriers of the export market.

The key to ensuring the flow of necessary services is a strong and proactive structure that is sustainable and can serve the needs of the industry. The industry's synergy has already brought into existence a young organization that is active and is pushing forward. For reasons discussed above, we believe that if most of USAID-targeted agricultural programs become focused on restructuring and sustainability of the Association of Meat Processors in Bulgaria, the impact and return on investment will by far surpass any other alternatives in supporting agriculture in Bulgaria. Therefore, we recommend that USAID focus as many resources as it can bring to bear in helping this industry through its existing programming modalities. Because of its unprecedented growth, the industry has needs for technical assistance that are beyond the means of any single donor. We have concluded that the most prudent approach should be to support the building of an indigenous capacity (i.e., the Association) that is capable of efficiently identifying, attracting, and drawing on available resources, and is strong enough to eventually operate with its own resources in a 3-5 year time frame.

8. USAID Technical Assistance and Training in support of the Association

At the heart of the program lies the question of sustainability. If USAID wants to maintain the status quo, which is sporadic technical assistance and training through the VOCA/ACDI project, then no further action

will be necessary. However, if sustainability is of interest and concern, then ACIDI/VOCA's role in liaison, coordination, and provision of resources, which must be transferred to a self-sustaining entity, will become a resource allocation issue requiring seed money and supplementary assistance. It is in this context that we strongly recommend that the Association of Meat Processors become the conduit for providing technical assistance and training. Working through the Association offers a pilot programming approach and an alternate strategy for working with other subsectors in Bulgaria. The concept of one organization taking the lead role in selected subsectors eliminates confusion with the hosts and clients and helps the process of coordinating all donor activities.

This strategic focus entails targeted technical assistance in support of selected interventions that will serve the needs and interests of Association members. In that sense, institution building will have to become a major part of the program to fuel the Association with targeted resources in its growth from infancy to adolescence, at which time no further outside assistance will be needed. This will involve developing an administrative capacity, providing support for building the Association's capability for effective advocacy, and a sales and marketing campaign to increase membership. It will also involve dissemination of information through networking and a newsletter, liaison and coordination of T.A. and training with donor-funded programs, developing the necessary status and image as the industry representative, and forming a board of governors consisting of livestock producers and meat processors. The restructuring of the Association into a self-sustainable entity Association is further discussed in the section titled "Restructuring," below.

Our recommendation of how to approach the challenges and opportunities of the Bulgarian private sector Association of Meat Processors, and how to organize a USAID assistance package that would ensure the Association's sustainability in 3-5 years, is presented below.

A. Challenges

As is typical of all non-profit organizations in their infancy, especially those with limited resources, the Association is facing herculean tasks and major challenges.

1. The most important task is to find a way to bond the members and hold them together. The issue stems from the way the Association is structured; it lacks any mechanism to avoid conflict of interest among the members or to bring to light their needs. With its dynamic growth, the industry will experience an ever-changing set of circumstances that can and should be addressed by the Association. The organization must build a mechanism for staying in tune with the needs of both the members and the industry, which might not necessarily be the same.

2. Dues from the overwhelming majority (close to 80 percent) of the members are still unpaid. In spite of inadequate funds and administrative capacity, however, active members of the board have managed to hang on to the organization with great difficulty. Their accomplishments are exemplary, as discussed earlier, although mistakes have been made. Benefits extended to the active members of the Association board, such

as U.S. site visits, loans, and frequent use of consultants, although done innocently, has marred the appeal of the Association in its present form.

If a major restructuring does not take place soon, a number of members might withdraw from the organization. It is worth noting that since most members (80 percent as of November 1995) have not paid their dues, they now believe they have little to lose if the Association fails. Therefore, an aggressive membership drive and an appealing package of services are urgently needed. In that fashion, the Association can regain its members and even build a larger membership.

Lack of a coherent structure and a comprehensive package of services that would appeal to the members has had a negative impact on membership. At the present time, their needs are not known, and information for action is drawn from a small sample of firms that have already received exposure to most of the services, some through USAID programs. The needs of the overwhelming majority, which control more than half of the processed meat market in Bulgaria, are unknown. Prior to our survey, no firm-specific information was available for the majority of the firms in the industry. It was only during this assessment that the total number of the private sector meat processors were identified (through official records) and their market share became known.

Our survey shows that it is the Association's advocacy role that will receive the members' attention and will be the most attractive service for which the industry will be willing to pay. A stronger channel of communication between the Association and the ministries of Agriculture and Health must be developed. Because of Association's lack of a lobbying capability and inability to effectively organize, its potential power and market share are unknown to the government. At the present time, the membership represents close to one quarter of the meat processing market share -- a fact not widely known. Through a well-organized advertising and membership drive campaign and by providing appealing services to the members, the membership will grow, and with it, the Association's political clout. It is only at that point that with proper programming and by providing needed services, the Association will have sufficient members to be recognized by the government as the industry's leading point of contact.

B. Plan of Action for Empowering the Association

An effective empowerment program should include certain guiding principles:

- The Association will have to be reorganized around the theme of "serving the needs of its members."

- The program must be comprehensive. We believe the empowerment program should include four major components:
 1. Restructuring.
 2. Administrative and management set-up.
 3. Planning and programming of the services in response to members' needs.

4. Installing the necessary principles and procedures that will prevent the possibility of conflict of interest.

Restructuring: A new management layer entitled "Board of Governors" must be formed. This proposed entity will be a further expansion of the present Association's Board of Directors. It will include other relevant and prominent members of the industry, whose presence will enhance the appeal and power base of the Association. This would remove the present board of directors from involvement with the day-to-day activities of the Association and further entanglement with any conflicts of interest. The group will include all elected officials of the Association, who in turn will appoint and/or vote for selected reputable and powerful members (i.e. ex-ministers or parliamentarians). With the policy formulation responsibility extended to the board, they will be dissociated from the day-to-day operations of the organization, which is the primary source of discontent. The presidents of other relevant associations will automatically become members of the board of governors (for example, the livestock production association), and may also be appropriate additions to the Board of Governors.

The Association is in urgent need of an organizational structure. With its present level of inadequate resources, it is unable to accomplish its administrative and management duties effectively. In a brief review of needs, we have determined that \$250,000-\$350,000 of local currency expenditure for four years is required to create the needed organizational structure and make the Association sustainable. This modest level of funding is equivalent to three months' cost of a resident advisor. The impact will perhaps be much more significant and results quite visible. This budget targets local expenditure only and includes setting up one office in Sofia and five regional offices across the country.

The required personnel in Sofia include an executive director, a technical/administrative person, and a secretary. The regional offices in 5 different municipalities will be staffed with an office manager and a secretary. Space will be rented. The offices must be computerized and linked. In our earlier discussions with the Association on this subject, we saw a willingness and ability to pay up to \$50,000 of this cost, amortized over 5 years. We also observed an additional payback ability, from membership income, of up to \$50,000 over five years. We believe that a four-year investment of \$150,000-\$250,000, in the form of grant with conditionalities attached, would be a sound investment decision by USAID. In our preliminary reviews, we found that other donors would also be interested in becoming part of the program. The possibility of partial funding through them may well be worth pursuing.

Programming: The Association needs to start with an outreach program targeted to identify and highlight membership needs. The Association should fine-tune its bundle of possible services and present the details throughout the outreach campaign. For the purpose of our assessment, a cross-section of six individuals active in supporting the Association were asked to react to the choice of services that might be of interest to the members. The team, which included the president of the Association, came up with the following three categories of services. The most urgently needed; services that may be requested from time to time by members; and services that are not a priority at this time. The specifics components of three categories are:

Most urgently needed services:

- Aggressive membership drive campaign.
- Setting up an information collection and dissemination network through the Association's Sofia and five regional offices. The key to success of this program will be daily reporting of local retail and wholesale prices of different fresh and processed meat products, and the number of slaughter. Reports should include local data collected in a bottom-up format from members to regional offices up to Sofia and should allow for top-down dissemination, from Sofia to regional offices and the entire membership.
- Establishing a networking system and developing an advocacy mailing list.
- Fundraising activities.
- Securing technical assistance and training support from the donor community.
- Building an advocacy capacity. The Association must interface with the government to protect and enhance members' interests. Technical assistance will be needed on techniques for effective lobbying. The Association should be prepared to offer training at the Board and member levels on how individual firms can benefit from their collective power and from membership in the Association in support of their day-to-day business practices.
- Training of technical personnel at all levels.

Services that may be requested from time to time:

- Study and third country tours.
- Publishing of a regular newsletter, and outlook and status reports. In conjunction with the Institute of Meat in Sofia, the initial steps have been taken to have a joint newsletter as early as this year.
- Conducting workshops and seminars on preparing loan applications and extending targeted technical assistance to members on qualifying for loans.
- Conducting regional meetings.
- Conducting periodic workshops on developing strategic and business plans and preparing financial and profit and loss statements.

Services that are Important but not a priority:

- Organizing sponsored local and national shows.
- Building a trading company. Our survey showed that members were interested only in the company's potential export activities. They showed no interest in benefitting from the collective purchasing power of a trading company.
- Certificate training program.
- Establishing a close working relationship with university research programs. Universities can be encouraged to conduct business-related research geared to industry needs. The university staff can be organized to serve as extension agents who go to the field, meet with the processors, and bring their problems to the research community for solution. Matching research grants can be sought from the donors, institutions, and foundations for finding solutions to the industry's problems.

- Building a capacity to subcontract studies that are industry relevant and could be used for lobbying legislators and the government.
- Establishing a mechanism for providing information on equipment and equipment manufacturers, and also on sales of used equipment and supplies.

Results of a quick survey on priorities and preferences for Association services were surprising. For example, one would expect that launching sponsored national shows, such as the annual meat show, would be high on everybody's list. Not so. The annual show was placed in the third category of priorities. Because of information of this nature we strongly recommend that the Association develop a channel of communication with its members. With its growth and development, the Association should offer a portfolio of services that reflects the needs of its members, not necessarily one that appeals to the general public or the donor community. In order to achieve this goal, the Association's program must be presented to the membership and a tentative reaction must be sought from the majority. In the short run and in the absence of feedback from the Association's general assembly, another mechanism for approving the early initiatives would be through the Board of Governors.

The restructuring activities of the Association can be enhanced by setting up sister organization relationships with established associations worldwide. As a starting point, we have initiated the preliminary discussions between the American Association of Meat Processors (AAMP) and the Association of Meat Processors in Bulgaria. The president of AAMP is willing to be involved in twinning the two organizations. The Association can greatly benefit from AAMP's many decades of accomplishments. Other possibilities can also be pursued. Prime examples are: Ifa in Germany, the Meat Research Institute in Denmark, or the ASIC (The Romanian Association of Private Meat Processing Companies).

On building the membership base, recognizing distinct groups of entrepreneurs as members is a wise venue to pursue. Prime examples of this type of approach are industry suppliers, buyers, and service providers.

9. Recommendations

In empowering and restructuring of organization in its new form, USAID may want to look into the possibility of turning the Association into a conduit for all the assistance that may be provided to the industry through several USAID/Bulgaria programs. That would include VOCA/ACDI's active role in providing technical assistance in organization development, institution building, and technical expertise on compliance and credit; the University of Delaware; CDC and ABA participation in the certificate training program, and in building lobbying and advocacy capacity; PIET for participant training; CARESBAC and BAEF for conducting regular workshops on preparing documentation for loan applications; and IESC on association building and preparation of business plans and financial and profit-loss statements.

If the recommendation in this assessment are followed, the sheer interaction and coordination among all participants will be substantial. The amount and type of work may have a direct impact on USAID's strategic plan management and focus. In that case, liaison and coordination responsibility among USAID, the

Association, ACDI/VOCA, and all other programs should be vested in a senior full-time USAID/PSC employee who would coordinate the activities of all players.

A. The Unique Role of ACDI/VOCA

We find a unique opportunity for ACDI/VOCA to capitalize on the momentum that was initially captured by their own program. In support of the Association and for programming of all activities, three key areas must be addressed:

1. Institution building, including transfer of know-how on administrative, management, logistics, planning, coordination, liaison, and reporting. The ACDI/VOCA core personnel will play the key role in this context. Their efforts should at times be complemented with specialized and targeted T.A. and training by volunteers, and at times, by paid consultants. Combining the offices of the Association with ACDI/VOCA on grounds of efficiency and convenience should be avoided at all costs. The Association must maintain its image of independence and not be identified with a particular donor-assisted program.

2. Liaison for coordination, planning, reporting, and access to other USAID programs that could be partners in this undertaking.

3. Targeted technical assistance only on issues in high demand by the Association membership. At this time, issues relevant to compliance with the sanitation standards should remain the central focus of targeted programming. We find it appropriate at this time to recommend a strategy for maximizing the quality of programming drawn from ACDI/VOCA's combined institutional capabilities. It is highly recommended that since the core group of ACDI/VOCA Sofia tends toward institution-building activities, ACDI through its backstopping support in Washington should focus its technical assistance capability on technical assistance for high-demand issues.

B. Allocation of Resources

Working out the details of allocating needs and resources must be left to collective programming by all partners involved. The Small and Medium Size Enterprise (SME) working group can provide the appropriate forum for discussing the strategic implications and impact of the results of this assessment. To establish a starting point, we have made a series of calculations to serve as the basis for program development.

1. Calculated on the basis of the number of interventions lasting an average of 3-4 weeks, the program can absorb up to 189 interventions in a four-year time period. In a phased-out modality, year one will include 89, year two 60 (two-thirds of year one), year three 30 (one-third of year one) and year four 10. Note: Longer-term interventions beyond 4 weeks must be avoided to ensure quality programming.

2. Major players, as identified elsewhere in this report, are: ACDI/VOCA, with up to 35 interventions; PIET and CDC, with up to 16; University of Delaware, with up to 18; and others including CARESBAC and BAEF, ABA, and IESC, with up to 20 during the first year. Specialized resources of other USAID programs such as, American Breeders Service and Land-O-Lake for the provision of targeted technical assistance and training must also be utilized. (For illustrative purposes, a detailed breakdown of the latter group's intervention is later presented in this assessment.)

3. Monitoring and evaluation of the programs must be done internally on a regular basis, perhaps every month during the first year. External evaluation by a one to two person team must take place twice during the first half year and every six months thereafter. The final evaluation must be done externally by a larger team of experts.

4. The type and duration of each intervention should be geared to the needs of the members and should follow the recommended guidelines. Details on the procedures, techniques, and suggestions on how to proceed in the early stages of institution building were provided earlier in this report.

**THE PRIVATE SECTOR MEAT PROCESSING INDUSTRY
IN BULGARIA**
(A subsector assessment)

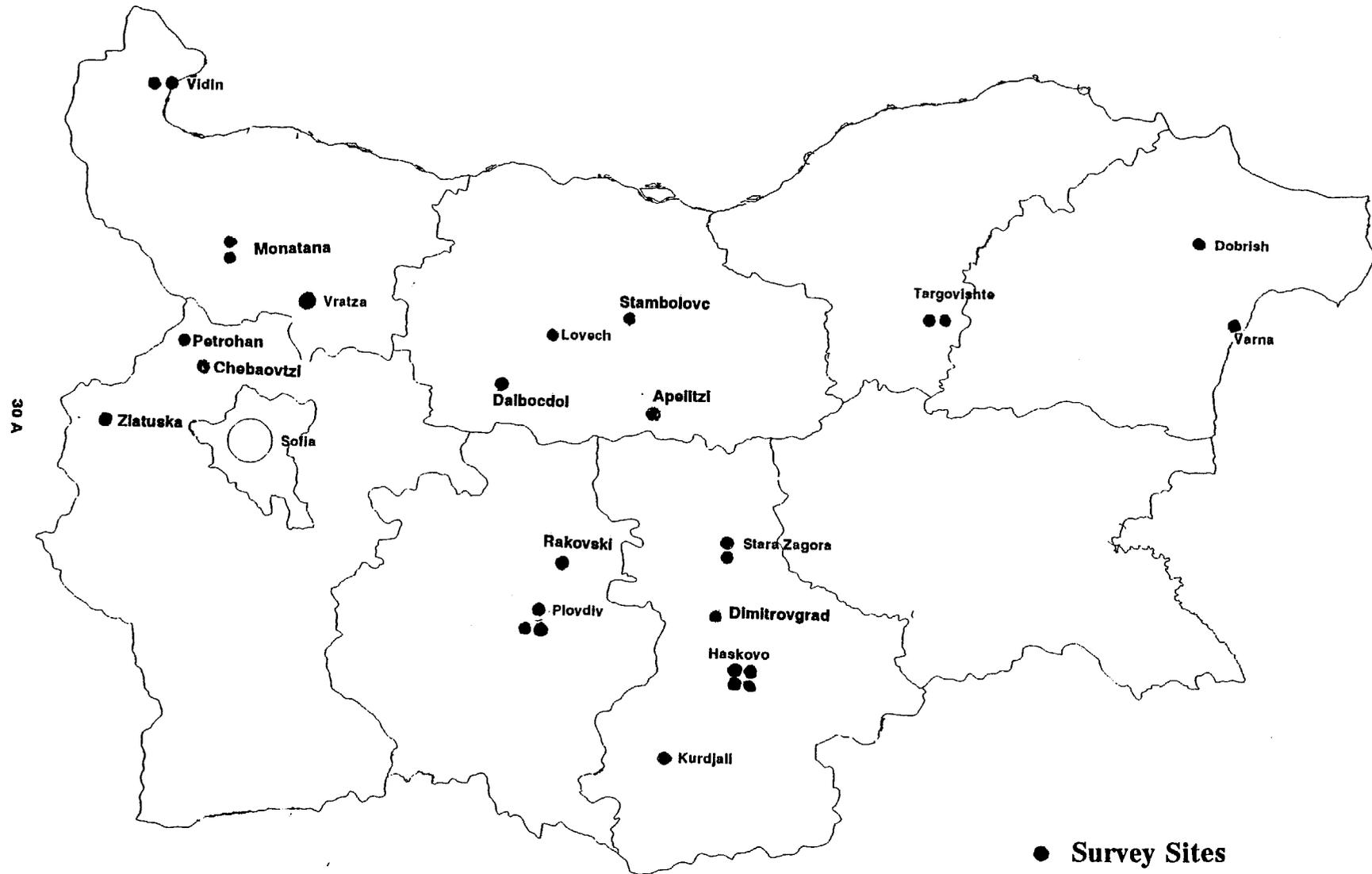
APPENDICES

APPENDIX 1. List of Sites Visited

1. **"Trakia Agro Holding"**; Meat Processing Plant (slaughterhouse, pig farm, and fodder factory); Manole Village near Plovdiv.
2. **State Meat Processing Plant**; meat processor and slaughterhouse; 223, 6 Septemvri St., Plovdiv.
3. **"KEN"**; meat processing plant; 174, Patriarch Evtimii St., Stara Zagora.
4. **"Stoyko Stoykov"**; meat processing plant; 69a, Hristo Botev St., ap. 38, Stara Zagora.
5. **"Tranzh"**; meat processing plant; 1, Georgi Peyachevich St., Varna.
6. **"Djeim 49"**; pig farm; Complex "Dobrotina"; bl.14, entr.V, ap. 11, fl. 4, Dobrich.
7. **"Briag" Ltd.**; pig farm, slaughterhouse, and meat stores; Bratia Miladinovi St., Targovishte.
8. **"Slavchevi" Ltd.**; meat processing plant; meat shops (Sofia and Targovishte); 32, Trapezitza St., Targovishte.
9. **State Pig Complex Stambolovo**; pig farm and slaughterhouse; Stambolovo Village near Pavlikeni.
10. **"Zla Reka"**; cattle production farm; 56, Stara Planina St., Apriltsi.
11. **"Troiamex" Ltd.**; meat processor, cattle production farm, and slaughterhouse; Dalbok Dol Village near Lovech.
12. **"Caritex"**; meat processing plant, slaughterhouse, and meat shops (Sofia and Lovech); Presyaka Village near Lovech.
13. **"Agro Ikon" OOD**; cattle production farm; 8 Mart St., Rakovski.
14. **"Zhelyu Petkov and Sinove Todorovi"**; cattle and pig farm and milk processors; Complex "Chernokonevo", 3, Vazhod St., Dimitrovgrad.
15. **"Bay Danio"**; meat processor; 75, Bulgaria Bul., Kardjali.
16. **"Zodiak and Radichev"**; pig farm; farm near Haskovo.

17. **"Genevi"**; two veterinary pharmacies; 14, Georgi Kirkov St., Haskovo; 43, Tzar Osvoboditel St., Haskovo.
18. **"Graitz"**; meat processor, pig farm, and meat shop; Izvor St., Haskovo.
19. **"Toska"**; pig farm, slaughterhouse, and restaurant; Stambolijski Village near Haskovo.
20. **"Ekarisazh" OOD**; rendering company, Plovdiv.
21. **"Evro energy Holding" - Zlatousha**; sheep and goat farm; Krakra 16, Sofia.
22. **"Evro energy Holding" - Chebaovtzi**; cattle farm; Krakra 16, Sofia.
23. **"Evro energy Holding" - Petrohan**; sheep farm; Krakra 16, Sofia.
24. **"Akanik"**; meat processing plant and two meat shops; 5a, Patriarh Evtimii, Montana.
25. **"Delev - Peter Kirilov"**; meat processor; Complex "Razsadnika," Montana.
26. **"Ariana Mil"**; meat processor, two meat shops and two restaurants; 23, Pazarski St., Vidin.
27. **"Adan N"**; meat processor, pig farm, meat shop, and restaurant; Bdintsi Sq., Vidin.
28. **"Bistren"**; pig farm; 5, Rila St., Vratza.

Appendix 1. Sample Survey Map



APPENDIX 2. List of Individuals Interviewed

1. Mr. Georgi Gergov, Director
Mrs. Velichka Gergova, Executive Director
"Trakia Agro Holding"
Meat Processing Plant (slaughterhouse, pig farm, and fodder factory)
Manole Village near Plovdiv
tel. 03122 273, 323
tel./fax 032 225468
2. Dr. Krasimir Ivanov, Director
State Meat Processing Plant
Meat Processor and Slaughterhouse
223, 6 Septemvri St., Plovdiv
tel. 032 223578
3. Mr. Rumen Kuzmanov and Mr. Rumen Nonov, Owners
"KEN"
Meat Processing Plant
48, Sava Silov St., Stara Zagora
tel. 042 41128, 22397, 31124
tel./fax 042 25277
4. Mr. Stoyko Stoykov, Owner
"Stoyko Stoykov"
Meat Processing Plant
1A M. Kushev St., ap. 13, Stara Zagora
tel. 042 59164, 23124
tel./fax 042 49170
5. Mr. Atanas Stoyanov, Owner
"Tranzh"
Meat Processing Plant
1, Georgi Peyachevich St., Varna
tel. 052 441593
tel. 052 870920 (home)
fax 052 830144

6. Mr. Doncho Kondov, Owner
"Djeim 49"
Pig Breeder
Complex "Dobrotina," bl. 14, entr.V, ap. 11, fl. 4, Dobrich
tel. 058 30708, 39076

7. Mr. Stoycho Harlanov, Director
Mr. Slavcho Zaharinov, Director
"Briag" Ltd.
Pig Farm, Slaughterhouse, and Meat Stores
Bratia Miladinovi St., Targovishte
tel. 0601 23345 (home)
tel. 0601 24239, 23630

8. Mr. Yovcho Slavchev, Owner
"Slavchevi" Ltd.
Meat Processing Plant; Meat Shops (Sofia and Targovishte)
32, Trapezitza St., Targovishte
tel. 0601 46475
Mladen Slavchev, Owner: tel. 0601 46371; tel./fax 0601 47186
Slavcho Slavchev, Owner: tel. 580511 (Sofia)

9. Mrs. Sonia Hristova, Director
State Pig Complex Stambolovo
Pig Farm and Slaughterhouse
5200 Pavlikeni, P.K. N 134
tel. 0610 7179

10. Mr. Vassil Vassilev, Owner
"Zla Reka"
Cattle Breeder
56, Stara Planina St., Apriltsi
tel. 0670 22467

11. Mr. Stoycho Michev, Owner
"Troiamex" Ltd.
Meat Processor, Cattle Breeder and Slaughterhouse
Dalbok Dol Village by Lovech
tel. 0680 23070, 22833

12. Mr. Ognian Popov, Owner
Mr. Vanyo Petkov, Trade Director
"Caritex"

Meat Processing Plant, Slaughterhouse, and Meat Shops (Sofia and Lovech)
Presyaka Village by Lovech; Bul. Danail Nikolaev 20, Sofia
tel. 446109, 465035 (Sofia)
tel. 368674 (home)

13. Mr. Serafim Chavdarov, Owner
"Agro Ikon" OOD
Cattle Breeder
8 Mart St., Rakovski
tel. 03151 6031
14. Mr. Zhelyu Petkov, President
"Zhelyu Petkov and Sinove Todorovi"
Cattle and Pig Breeders and Milk Processors
Complex "Chernokonevo," 3, Vazhod St., Dimitrovgrad
tel. 0391 48531 (home)
tel. 0391 48152
15. Mr. Konstantin Kyosev, General Director
"Bay Danio"
Meat Processor, Trade Wholesaler
75, Bulgaria Bul., Kardjali
tel./fax 0361 22312
tel. 0361 24096 (home)
tel. 0361 26749
16. Mr. Georgi Petrov, Owner
Mr. Georgi Radichev, Owner
"Zodiak and Radichev"
Pig Farm
Farm by Haskovo
tel. 038 23629; tel./fax 038 24817 & tel. 038 35223
17. Dr. Hristo Genev, Owner
"Genevi"
Two Veterinary Pharmacies
14, Georgi Kirkov St., Haskovo
43, Tzar Osvoboditel St., Haskovo
tel. 038 34181
18. Mr. Georgi Andonov, Owner
"Graitz"

Meat Processor, Pig Farm, and Meat Shop
Izvor St., Haskovo

19. Mr. Todor Tonchev, Owner
"Toska"
Pig Farm, Slaughterhouse, and Restaurant
Stambolijski Village by Haskovo
tel. 038 31625

20. Mr. Marchev, Director
"Ekarisazh"
OOD, Rendering Company, Plovdiv
tel. 032 551364

21. Acad. Tzeno Hinkovski, Director
"Evro energy Holding" - "ANGORA" - Zlatousha
Sheep and Goat Farm
Krakra 16, Sofia
tel. 435320; 435109; fax 435009

22. Acad. Tzeno Hinkovski, Director
"Evro energy Holding" - "ANGORA" - Chebaovtzi
Cattle Farm
Krakra 16, Sofia
tel. 435320; 435109; fax 435009

23. Acad. Tzeno Hinkovski, Director
"Evro energy Holding" - "ANGORA" - Petrohan
Sheep Farm
Krakra 16, Sofia
tel. 435320; 435109; fax 435009

24. Dr. Genov , Owner; Siyka Lazarova, Manager
"Akanik"
Meat Processing Plant and Two Meat Shops
5a, Patriarh Evtimii, Montana
tel. 096 25283; 096 27807; 02 5819138

25. Dr. Peter Delev, Owner
"Delev - Peter Kirilov," Meat Processor
74, Stamen Iliev St., 3400 Montana
tel. 096 25097
tel. 096 26236 (home)

26. Mr. Lyudmil Yotzov, President
"Ariana Mil"
Meat Processor, Two Meat Shop,s and Two Restaurants
23, Targovska St., Vidin
tel./fax 094 29074
E-mail: ariana@mbox.digsys.bg
27. Mr. Neko Nekov, Owner
"Adan N"
Meat Processor, Pig Farm, Meat Shop, and Restaurant
Bdintsi Sq., 3700 Vidin
tel. 094 34711, 34744
fax 094 34733
28. Mr. Peter Mitutzov, Owner
"Bistren"
Pig Breeder
5, Rila St., Vratza
tel. 092 48777
29. Mr. Nikola Lochev, Director
"Viktevil"
Exporter
2, Hr. Beltchev St., Sofia
tel. 881726, 810925
fax 876133
30. Mr. Thomas Goetz, Project Leader
"Land O'Lakes"
Bulgaria Dairy Reform
75B, Cherkovna St., Sofia
tel./fax 467884, 468338, 446994
31. Dr. Georgi Dimitrov, Ph. D, Vet. M, President
"NIGMA-7 Dimitrovi"
Tzar Shishman St. No. 35, Sofia
tel. 899381
tel. 236311 (home)
tel./fax 873630
32. Mr. Robert McCarthy, Investment Manager
"Bulgarian American Enterprise Fund"
3 Shipka St., Sofia

tel. 441862, 442115, 430036
fax 4920118

33. Mr. Radko Petrunov, Head of Department of Food Processing Industry
Mr. Simov, Head of Department of Livestock Production
Eng. Zahari Alexiev, Expert
Ministry of Agriculture
55, Hristo Botev, 1040 Sofia
tel. 510968, 510893, 8532307,
fax 800655

34. Dr. Tzvetan Dimitrov, Executive Director
"Green Light"
Consulting trade firm
5, Gurco St., Sofia, tel. 876761, 882280, fax. 874298

35. Dr. Veneta Banskliieva, Senior Research Associate
Research Institute of Animal Science
Kostinbrod - Sofia
tel. 791201; 329154

36. Mr. George Brus
Dr. Miroslav Vassilev
PPF
109, Evlogi Georgiev St., Sofia
tel. 432442

37. Mr. Gregory Robinson
"Caresbac"
123, Rakovski, 3rd floor, 1000 Sofia
tel. 881430
fax 802167

38. Dr. Georgi Tanev, Senior Adviser
First Private Bank A.D.
6, Saint Sofia St., Sofia
tel./fax 810798

39. Mr. John Tennant, Mission Director
USAID
NDK Office Building, 5th floor
1, Bulgaria Sq., 1414 Sofia; or
P.O.Box 155, 1463 Sofia

tel. 543021
fax 543111
E-mail: jtenant@usaid.gov

40. Mr. Skip Kissinger, Private Sector Officer

USAID
NDK Office Building, 5th floor
1, Bulgaria Sq., 1414 Sofia; or
P.O.Box 155, 1463 Sofia
tel. 543021
fax 543111, E-mail: skissinger@usaid.gov

41. Mr. Donald Oelsligle, Ph.D, Country Director

Mrs. Hertzolina Pinkas, Country Representative
Mr. Krasimir Kiriakov, Country Representative
Volunteers in Overseas Cooperative Assistance
14 Stamboliyski Blvd., Sofia
tel. 871751, 815498, 815359
fax 873059
E-mail: voca@sf.cit.bg

42. Mrs. Veslava Popova, Country Representative

Agricultural Cooperative Development International
14 Stamboliyski Blvd., Sofia
tel. 871751, 815498, 815359
fax 873059

APPENDIX 3. Financing, Credit, and Capital

There are a number of financial institutions in Bulgaria whose main purpose is to promote the development of viable small and medium-sized private enterprises through investment and credit. It is estimated that development funds exceeding \$150 million are available through the financial sector for agricultural development alone. The recent World Bank loan of \$50 million, along with the funds available through the USAID-sponsored CARESBAC, BAEF, and the EC-PHARE multiple credit fund are four potential sources of credit and equity financing. The meat processing industry, as the fastest growing agricultural subsector, provides prime ground for a low-risk, highly secured overall investment. The industry is enjoying a captured domestic market free from foreign competition, because of its unique blend of products, predominantly fresh meat and Bulgarian sausages. Demand has consistently surpassed supply during the past 2-3 years. The rate of return by the most conservative estimate is 150 percent per year (calculated on the basis of 6 percent return per cycle of two weeks). The majority of firms are experiencing returns higher than 6 percent, with some running more efficient operations, which translates into cycles shorter than two weeks.

The overwhelming majority of firms visited for our survey mentioned the uncertain availability of capital as one of their primary concerns. With the exception of two, none had any idea about the newly approved World Bank \$50 million agricultural loan. Close to 50 percent indicated having some knowledge about the availability of lower-interest funds through donor programs, such as CARESBAC and BAEF. The majority considered the task for qualifying for loans overwhelming and therefore beyond their reach. Some simply gave up. Three issues are worth mentioning in this regard. First, there were complaints about the difficulty of preparing for the process. For example, except for smaller loans, the application and documentation for the U.S.- supported loan had to be made in English, which was a major stumbling bloc for small and medium-size firms. In the case of CARESBAC, Nachala, and Kompass (all for small loans), the clients were made aware that the English language was a preference, rather than a requirement. In conclusion, the overall setup has swayed the majority of potential clients away from these programs.

Second, too much information, at times irrelevant for the purpose of loans, was requested, and the firms did not have the time or the resources to provide the documentation. Third, firms had the impression that if they did not have a good connection or know someone in the donor's system they would have no chance of qualifying for a loan.

These findings are alarming. In our discussions with the Association, it was mentioned that a letter was sent to all members, informing them of the availability of credit through CARESBAC and BAEF. However, except for small loans, three through CARESBAC, ten through BAEF (Nachala and Kompass programs), and one through the World Bank, no other loans have yet been approved for the industry.

It is imperative that USAID take the lead in launching a brief but decisive credit availability awareness program. As a starting point, we recommend:

1. A complete review of all loan sources and their procedures for pre-qualification and approval of credit. Areas of redundancy should be identified and measures for streamlining the procedures should be recommended. Precedents in the case of CARESBAC already exist and can be expanded to facilitate loan disbursement. USAID can use these recommendations to influence the attitude of the Bulgarian National Bank and other lending institutions in favor of meat processors.

2. Conduct a series of periodic, widely advertised, sector-specific workshops on:

- Informing and educating potential borrowers about the requirements of each credit facility and loan program. This can be handled by CARESBAC and/or BAEF coordinated through the Association, or directly arranged for by VOCA/ACDI. We recommend a total of 20 half-day workshops be conducted at 15-days interval to provide the necessary coverage. The awareness program can be phased out within a year. As mentioned elsewhere in this assessment, the details of allocation of resources and distribution of programs must be left to collective programming by all partners. However as an illustration and as a point of reference, we attempt to present a detailed set of recommendation relevant to this section. Similar detailed programming will be needed in adopting our recommendation for the overall provision of technical assistance and training for restructuring of the industry.

At the outset, the total number of interventions (20 in this case) may seem excessive; however, one must realize that preparing the entrepreneurs and the supporting industry is a sizable task which entails considerable resource allocation to render the undertaking effective.

For illustrative purposes, the set of twenty workshops are further broken down to:

- a. Five introductory presentations targeted to introduce a larger audience to World Bank, CARESBAC, BAEF, and other available credit facilities.
- b. Five workshops targeted to relevant entrepreneurs, banking managers and technical employees and government officials. Suggested topics might include application requirements, preparation, evaluation and loan review process.
- c. Six workshops on business plan preparation, broken into at least two sections: Case studies focused on the dominant sizes of operation representing the major categories within the industry; and actual coaching in the preparation of firm-specific business plans and discussion on bankable projects.
- d. Four workshops on preparation and the role and importance of acceptable and accurate financial statements in management and in qualifying for credit.

- Preparation of profit-loss and financial statements. This can be handled through the University of Delaware, CARESBAC/BAEF, and/or the IESC coalition. We envision a total of 24 two to three-day training workshops (72 in total) for the next 24 months. The series can be made available in Sofia and regionally once every two months. The target participants for this intervention are primarily the accountants and owners of the firms.

- Establish an informal loan disbursement review committee which will provide USAID, the Ministry of Economy, and the Bulgarian National Bank with a progress report on the status and amount of disbursements and repayments.

It is obvious that the concern about compliance with the sanitation standards has overwhelmed the owners of all firms. In response to the mounting needs for new equipment, reconstruction, and new facilities, the firms will have to come up with necessary financing. Linking the sources of funds with those in need of capital should be the foremost intervention point for developing the meat processing industry.

Availability of donor-supported credit

A summary of the credit available through USAID and the World Bank is given below. For details related to the French program, see the section under other donor assistance in the main body of the report.

1. USAID-supported Programs, CARESBAC and BAEF:

- CARESBAC, by assuming an equity position in small to medium-size enterprises, provides long-term credit to Bulgarian enterprises. Supported by the proceeds from the PL 480 commodities program, CARESBAC is fully engaged in providing financing to support development of the meat processing industry. It has initiated three loans to meat processing firms, two of which are Association members.
- BAEF, the Bulgarian American Enterprise Fund, finances up to \$750,000 through its Kompass program and makes loans of up to \$20,000 through its Nachala program. Loans of up to \$2.5 million are also available for larger investments. There is ample evidence of the economic soundness and vigor of the industry to show that a program similar to the Dairy Lending Program can be established to assist the meat processing industry's expansion. The data for preparing of an economic review and justifying such an activity is available, and can be used for initiating the program.

2. The World Bank Loan

The third source is the World Bank loan of \$50 million for agricultural production, which is being made available through three commercial banks: The First Private Bank, Reiffeissen Bank, and the Dobrudjanska Bank. All three passed the World Bank's pre-qualification test including an international audit. The loan amounts are: \$100,000, between \$100,000 and \$750,000, and more than \$750,000. The borrower is the Bulgarian National Bank (BNB), which took custody of the loan at the international market rate in September 1995. BNB lent the money to the three commercial banks with a cap of 2 percent. The banks disburse the final amount with an additional 2-4 percent rate. The effective loan costs the final borrower 12-14 percent. Loan maturity is three to ten years, with a grace period of up to two years. Financing is only for fifty percent of an enterprise's total need for capital.

The loans must be used for permanent working capital only and the amount of loan cannot exceed \$3 million. The loan cannot be used for purchase of land or transfer of assets through privatization. The foreign exchange cost of preparing business plans and feasibility studies is eligible for financing as part of the overall loan. Originally, the World Bank intended to support creation of an implementation unit, which would have facilitated disbursement to final users and streamlined the loan approval process. Under its RAAPS Program, Pragma developed the preliminary design concept for the implementation unit in early 1994. The plan was submitted to USAID for funding. To date, the unit has not been formed, and its future is unknown. The pre-qualification requirements for approval of the loan, in our opinion, are long and cumbersome and would cause

unnecessary delays, which would be harmful at this time. The government of Bulgaria, however, is in a position to alleviate some unnecessary approval requirements. Examples of such requirements for review and approval of individual loans are:

- Submission of evidence of debt-service-cover ratio of one and one half to one. This eligibility requirement is fair and perhaps attainable by all, but what must be understood is that criteria of this nature are mostly established for businesses that are used to preparing annual financial and profit-loss statements and maintain some kind of cost accounting system. Submission of verifiable evidence by the entrepreneurs without a major overhaul of their bookkeeping and accounting system is, in our opinion, beyond the capacity of the majority of applicants.

- For loans of up to \$100,000, applicants are required to show projected cash flow, estimates of repayment capacity, the cost of family labor, and information on the availability of markets. These data will be used by the commercial bank as the basis for credit application analysis. Submission of tax records and established credit history are also included in the review process. For loans between \$100,000 and \$750,000, formal business plans are required; and loans exceeding \$750,000 require a feasibility study, commercial soundness, financial viability reviews, and calculation of the economic rate of return. Other documentation such as assessment of organizational structure, management, verified biographical information of the principal investors and managers, assessment of marketing arrangements and incremental production, environmental impact assessment, and statements verifying compliance with environmental regulations, is also required. As part of the agreement between the government and the World Bank, it was agreed that the review process would not exceed thirty days.

We believe that the commercial banks are neither willing nor have the capacity to engage in application reviews of this nature for loans which bring only a 2 to 4 percent return. It is our understanding that because of the World Bank's inability to establish a functional implementation unit, all loans will be reviewed by the Bank, at least in their initial stage. So far, we are aware of only one loan that has been disbursed in support of the meat processing industry by early November 1995. There are ample opportunities for the government and donors to provide assistance at the industry and policy levels to alleviate procedural bottlenecks and facilitate disbursement.

Recommendation

Detailed information about each program needs to be provided to members of the industry. The business community lacks an understanding of bank financing, borrowing, repayment, collateral and lending practices. The business environment in Bulgaria is still dominated by cash-based transactions. Aggressive outreach programs combined with training workshops will be necessary. They should be targeted to:

1. Preparing the meat processing industry for believing in its ability to borrow and repay amortized obligations, and
2. Providing the necessary training on the value and credit worthiness of their businesses.

Both concepts are worth pursuing through regular short-term training that can be conducted by IESC and the University of Delaware program. More detailed programming recommendation can be found elsewhere in this report.

In closing, as mentioned earlier, we would like to point out that our projections and recommendations are based on a five-year time horizon for which the analysis, projections, and recommendations shall remain valid.

APPENDIX 4. The Policy Environment

Since independence, the agricultural sector has coped with the constant pressure of the government's price and trade intervention policies, which have dramatically reduced agricultural output. The slow process of land reform, and a fragmented and inadequate financial sector, have created an inherent long-term uncertainty that is strangling agriculture and preventing the free flow of investment to the sector. The situation has recently been further complicated by two more interventions: the amendment to the Land Restitution Law, and the Law for Protection of Agricultural Producers.¹

In consideration of the impact of the two laws, the government is preparing a five-year strategy that will form the basis of its development policies. Both laws will have a direct impact on livestock production, and hence, on the meat processing industry.

Distortions resulting from government policies are numerous and their impacts are complex. For this assessment, we begin our analysis with two underlying assumptions:

- Due to the unpredictable nature of policy changes that affect the industry, our projections and analysis will only cover a 3-5 year time horizon, for which they will remain valid; and
- Short of a dramatic political change in the region, there will be no drastic increase in the speed of reforms, or in the nature of protective legislation and policies. The latter is based on our observations over the past 4 years of the policies of seven governments from both sides of the political spectrum. It is important to note that, rhetoric aside, all interventions imposed by the past governments were in response to political and economic pressures and have consistently been slow in coming and aimed at fixing localized problems.

Since independence, the trend toward a private, free, and competitive market, although very inefficient and frustrating, has continued. We have seen a continual growth in the private sector as a vigorous economic power in spite of a highly distorted market and government subsidies for food and other essential products. During the past four years, the private sector's share of GDP has increased at an accelerating rate and by almost 10 percent. In 1994, the private sector's share reached a high of 21.8 percent, a dramatic increase over its initial rate of 11.8 percent in 1989.

¹The amendment to the Land Restitution Law was upheld in the constitutional court, and its future is unknown at this time.

Private Sector's Share in GDP for 1991-1994 (current prices)

Year	1991	1992	1993	1994
Industry	2.80%	4.00%	4.90%	5.20%
Agriculture and Forestry	5.50%	5.70%	5.30%	5.50%
Services	3.50%	5.60%	9.20%	11.10%
Total-percent/current prices	11.80%	15.30%	19.40%	21.80%

Source: National Statistics Institute.

The private sector in agriculture experienced a slower growth rate than the service sector. The service sector accounted for 11.1 percent, agriculture 5.5 percent and industry 5.2 percent of the private sector's share of GDP. A paramount reason for the poor performance of the agricultural sector was, and still is, the stagnant land restitution, as well as government protection of essential commodities and food prices.

Price policies

1. Government price policies of the past and present have had a continual devastating impact on the agricultural sector. Although price reforms included a comprehensive price liberalization, the government continued to pursue interventionist price policies, resulting in dramatic drop in the growth rate of agriculture. These extensive interventionist policies are still in force. They are being pursued in the name of providing a social safety net through making essential food and energy products affordable.
2. Interventions and price policies have resulted in lower prices for agricultural products. The Nominal Protection Coefficient (NPC) for 1992 indicates that the extent of income transfers out of agriculture (a form of taxation) ranged from 25 percent to 66 percent, depending on the product (see FAO report).
3. Low output price policies have been combined with high input prices, leading to a cost-price squeeze for agricultural producers. The price squeeze increased during 1991 and 1992, and in 1993 both output and input prices moved up at the same rate. In the beginning of 1994, following a devaluation of the leva and a high inflation rate, input prices rose even faster, resulting in a further cost-price squeeze for agricultural producers. During the past three years, the producer subsidy as a share of production has consistently dropped (with a high decline of 57 percent in 1992, to 39 percent in 1993, and 37.6 percent in 1994 (Report #30, The World Bank). In certain cases, such as livestock (other than indiscriminate export and slaughter of livestock resulting from land restitution practices), depressed prices may have been responsible for the decline in livestock population and the reduction of the productive capacity of Bulgarian agriculture. Up to now, government price policy interventions were all justified on the grounds of providing social safety nets. The overall outcome has imposed devastating income pressures at the farmer level.

Trade policies

The Bulgarian government uses trade restriction policies as an additional instrument for achieving price policy objectives. Establishing minimum export prices on agricultural commodities is one of the major policy

restrictions being used at present time. Constraints of this nature restrict entry, limit competition, and contribute to keeping producer prices below international levels. Sunflower oil, hides and skins, and raw merino wool fall into this category of products. The strong lobby of state-owned industrial enterprises succeeded in keeping and, in certain cases, increasing the impediments to exports, guaranteeing the availability of locally produced raw material at relatively low prices to the detriment of private agricultural producers. On the opposite end of the spectrum, there is a long list of products for which imports are either duty free or are imported with discounted duties. Goods in these category are often used as inputs in value-added industrial production, mainly in state-owned enterprises. The third group of trade restrictions is the export ban on selected commodities, of which grain flour is the main product. The ban on grain flour was introduced in 1993 and is still in effect.

Land reform

The single most dominant factor shaping and affecting all aspects of agricultural production is the land reform. Although official statistics show a high percentage of land returned to the people, in reality only 15 percent of restituted land has reached original owners. Currently, out of the reported 70 percent of restituted land in private hands, about half is in the form of temporary one-year ownership. Land is fragmented in small parcels varying in size from 1.5 to 3.0 ha. A land market could perhaps resolve the fragmentation problem, but at this time, there is no sign of a functioning land market in the economy.

The uncertainty surrounding land ownership has devastated production-based agricultural activities. This has been the main reason for investment not flowing into agriculture. At the present time, most agriculture-based land-related activities are limited to leasing by private farmers or the newly formed cooperatives.

Privatization

Three factors that negatively impact the growth of the meat processing industry have their roots in adversarial government policies: the speed of land restitution, privatization, and restructuring of state-owned enterprises that are in competition with the private sector.

The land restitution process is extremely slow and controversial. During the past year and a half, ownership rights were restored for only about one thousand hectares of land (Ministry of Agriculture). Similar delays apply to the privatization of agricultural enterprises; of the several thousand enterprises in existence by close of fiscal year 1994, only 52 had been privatized (Ministry of Agriculture). Many agro-processing state-owned enterprises have been administratively reorganized into smaller units, hence demonopolized at the national level, but remain clear monopolies at the regional level. These companies, now registered as limited liability or joint stock companies, will distort the market by influencing final prices below the market rate. A point must be made that although these practices will devastate the agricultural service industry, the meat processing industry as a user of the services is well positioned to benefit from distortions, allowing for lower production costs for processed meat products. This phenomenon will help the industry to penetrate the export market.

On the contrary, the livestock industry is negatively impacted by these policies. Under more favorable circumstances, livestock would have been the prime target to become a new addition in the integration process.

Because of delays in land restitution, however, it is unlikely that limiting issues facing the livestock production industry will be resolved soon. Consequently, the establishment of an open land market allowing for trade and for consolidation of economically efficient larger parcels during the next five years will be next to impossible. The livestock industry therefore will remain stagnant and not experience a dramatic inflow of investment. As a result, it will not be a growth industry. It is unlikely that the meat processing industry will experience a dramatic increase in the supply of domestic beef production in the foreseeable future. Beef, forming 50 percent of the industry's input, will perhaps suffer from a protective ceiling price that will be lower than global market rate. The government will most likely continue its direct and indirect protection policies to keep the industry alive. Land resources that are prime for grazing and for efficient production of livestock will remain underutilized. For these reasons and more, the integration of cattle into the overall process is expensive and infeasible at this time.

The meat processing industry has shown a better chance with pig farming and pork production, since the need for land is not substantial. This was quite evident during our site visits and field survey. We observed a backward integration pattern that involves integrating pig farms into processing and slaughter operations. The integration allows for capturing the value-added of pork through final sale of processed products.

Potentials and hopes

Although highly distorted, the government policies are following the policy reform paths of the early 1990s. These are in line with the objective of creating a fully decentralized agricultural economy with private ownership of land, and privatized and demonopolized upstream and downstream activities.

The objective is being pursued through three main courses of action. First and foremost is the restoration of property rights on agricultural land. The second is the restructuring and liquidation of the old cooperative system of agricultural economy. The third is creating and developing a market environment to ensure viability of the newly established private farms and firms.

Government actions in support of the objectives include:

1. Slow but continual change in land ownership for agricultural production;
2. Adoption of temporary solutions during the transition period, until price liberalization and lifting of subsidies are fully implemented. This will be done by maintaining supply at levels that policymakers regard as the necessary minimum for consumer protection; and
3. Protecting agriculture from disintegration and decapitalization.

Institutional support for private agriculture

Opportunities for the donor community abound, and fall into three major categories: policy advisory, advocacy, and institution building. All are needed to support economic reform in agriculture.

1. Economic reform implies a fundamental change of institutional responsibilities. Many functions that were part of the state sector need to be taken over by private sector institutions, firms and farms. The state's revised role should include: (a) promotion of competition and efficiency in input supply, processing, and marketing;

(b) improvement of the commercial infrastructure and services; (c) development of a research and extension service appropriate for a transformed agricultural sector; (d) support for an appropriate legal and administrative framework for consumer protection; (e) support for the creation of a new policy framework for effective promotion of regional development.

2. In a favorable policy making environment, the government will have a great need for reliable information, data, and statistics. Resources must be allocated to these important issues. Some progress has been achieved with respect to establishing a price information system. The government has formed a company, Agromarket Information System (AIS), that has taken the responsibility of collecting, processing, and supplying price information for the entire country. Although the prospects for self-financing are not very good at the present time, there are indications that good opportunities exist for AIS to acquire some large institutional clients that require a substantial volume of information.

3. Similarly, progress has been made in reorganizing Agricultural Statistics and the Export Promotion Center. Some steps have been taken to support the legal and administrative framework for consumer protection, in particular with respect to domestic marketing of animal products. Substantial efforts are needed to ensure standardization of inspection and control procedures for plant and animal diseases.

4. While some donors, such as the Germans, maintain an advisory capacity at the cabinet level, which provides protection from policies harmful to their trade and development programs, USAID lacks such a presence. As a result, USAID's entire portfolio is exposed to counterproductive policies that at times, with appropriate representation, can be avoided or modified. In our view, since major decisions and policies are often adopted on issues that have a broad impact, specific and targeted advocacy and/or advisory assistance will not be effective. It is for that reason that we do not recommend that an industry representative or advisor be included as a participant in working policy groups or committees.

The time may be right to offer assistance in an advisory capacity at the cabinet, parliament, or prime minister level while protective policies and distortions are being analyzed and debated.

This measure, if adopted, will ensure improved programming and an opportunity for constant fine-tuning of USAID assistance in the short and medium run.

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