

**AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
FOOD SYSTEMS RESTRUCTURING PROJECT
GRANT NO. CCN-0006-A-00-3072-00
PROGRAM PERFORMANCE REPORT
OCTOBER - DECEMBER 1994**

PROJECT PERFORMANCE

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I. Summary

The purpose of the FSRP is to develop a private agribusiness sector by establishing long-term linkages in the region between U.S. companies and private or privatizing Central Asian partners.

In general, U.S. food processing companies have been very reluctant to explore investment possibilities in Central Asia. The large private sector agribusinesses are somewhat involved in the region, but have maintained a degree of independence from government funded programs. Medium to small-sized agribusinesses have shown some interest, but few are unable to cover the up-front costs of exploring opportunities and preparing feasibility studies.

a. Project Achievements

Over the past 18 months that ACDI has been on the ground in Central Asia, our project director and field staff have gained considerable knowledge about the region and the agribusinesses climate. Business opportunities have been identified and company profiles prepared on the most promising enterprises. Many of those firms will become an important part of the new program initiative. ACDI's promotion of the project in the United States has also made much of the U.S. agribusiness community aware of the opportunities available in Central Asia.

ACDI's first subgrant enlisted Koch Supplies of Kansas City to provide technical assistance and develop a preliminary business plan for the Almaty dairy industry. That project grew into a proposed \$15 million operation, the feasibility study for which has been funded by a \$400,000 TDA grant that will be conducted in early 1995. Also as part

of that subgrant, ACDI and Koch trained four Kazakhs in the dairy industry. The evaluations from the training participants deemed it a success. Project Director, Jerry Bahensky, developed working relationships with a number of funding sources that may be able to work with the FSRP in the future including the U.S.\Central Asia Enterprise Fund and the EBRD.

b. Problems Unresolved

Despite activities to promote the FSRP including direct contacts with U.S. agribusinesses, participation at expos and conventions, large mailings and trade and investment missions by OPIC, USDA and the World Bank to Central Asia, U.S. agribusinesses showed very little investment interest in the food processing opportunities presented to them by ACDI. USDA and ACDI collaborated to recruit a group of investors to travel to Kazakhstan to examine projects identified by ACDI. Neither group was able to attract any investors.

ACDI was not able to find any small or medium-sized U.S. food processing companies willing to invest significant capital on equity investments, even with the matching grant incentive. This was true for contacts made with U.S. companies already selling in the region and in Russia.

The Koch subgrant also proved that it can be a time consuming process to put together a joint venture, starting with initial contacts, project planning, business plan development, feasibility studies and project financing. The new initiative outlined in the revised implementation plan addresses the excessive time considerations for developing projects by building on previous experience and contributing more significantly to the rapid development of business plans.

II. Actions Planned for Next Quarter

ACDI's implementation will have a two prong approach. ACDI will continue to pursue the current strategy of promoting and funding joint venture relationships through matching subgrants at a \$2.5 to \$1 ratio or higher leverage amount. The new initiative will focus on developing bankable business plans for the food processing sector by providing subgrants for more of the up front costs associated with exploring joint venture opportunities.

The new initiative has two phases. Phase One will briefly introduce interested companies that are not familiar with investing in the region to local partners and present them with joint venture investment opportunities. Both Phase One companies and U.S. companies already familiar with the region's investment climate will be eligible for Phase Two. During Phase Two joint venture business plans will be prepared by U.S. company executives and needed consultants. The targeted small and medium-sized U.S. firms that

complete joint venture plans will also receive assistance from ACDI to market them to funding agencies operating in Central Asia. A timeline for activities is included in the implementation plan. A brief summary of activities under the new initiative is outlined below:

Phase One

- identification of U.S. food processing companies
- promotion of new initiative to selected companies
- brief fact finding mission by interested U.S. companies
- debriefing and preparations for Phase Two

Phase Two

- development of food processing project opportunities
- selection of business plan development team
- contracting with needed consultants
- pre-departure preparations & approval of project budget
- meetings with potential joint venture partners
- meetings with funding agencies in Central Asia
- debriefing and completion of business plan
- submission of business plan to funding agencies

III. Additional Observations and Comments

In January, the Kazakhstani Government announced that the Parliament is currently revising the tax laws to simplify the system in hopes of attracting more foreign investment. The tax holiday provisions for foreign firms with a 30% or more stake in a venture will be maintained, however, they will not reach the current five and ten year levels. Another action by the Government in regard to foreign investment holds out great promise. Foreign companies will now be able to repatriate profits without export taxes.

The economy continues in a downward spiral, however. Agriculture production continues to drop as well as industrial productivity. The Government has been having a very difficult time collecting the projected tax revenues. As of November, it has only collected 45% of the projected revenues. The Tenge appears to be comparatively stable over the recent months, but time will tell how it will be affected by the looming deficit.

IV. Expenditures Through December 31, 1994

There have been no financial problems during the reporting period. Below is a summary financial statement of all project expenditures by subcomponent. The actual expenditure totals are based on estimates of expenditures through the end of the reporting period.

	Budget	Actual	Unliquidated
Salaries	787,280	230,000	557,280
Fringe Benefits	186,745	61,000	125,745
Allowances	121,233	70,500	50,733
Travel/Transport/PD	295,428	98,000	197,428
Consultants	185,758	24,000	161,758
Equipment	58,500	53,389	5,111
Other Dir. Costs	193,600	82,000	111,600
Indirect Costs	669,248	226,513	442,735
Subcontracts	<u>2,502,168</u>	<u>95,000</u>	<u>2,407,168</u>
Totals	4,999,960	940,402	4,059,558

ADMINISTRATIVE DATA

Region: NIS/Central Asia
Implementing Agency
Point of Contact: USAID/ENI
Contractor: Agricultural Cooperative Development International
50 F Street, N.W.
Suite 900
Washington, D.C. 20001
Phone: (202) 638-4661
Period of this Report: October - December 1994
Period of last Report: July - September 1994
AID Project Officer: Dennis Sharma
Date Authorized: May 6, 1993
Estimated Completion: May 5, 1997
Total Project Cost: \$5,000,000
NIS Project Director: Gerald Bahensky
Employees in Country: Five
Project Office Address: ACDI
Almaty 480009
Kazakhstan
157A Abai Street, Office 12
Project Phone/Fax: 011-7-3272-50-94-07 / 50-93-87

FOOD SYSTEMS RESTRUCTURING PROJECT
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
REVISED IMPLEMENTATION PLAN FOR 1995

ACDI's revised implementation plan for the FSRP recognizes the goals and objectives of the project and USAID's desire for priority impact on food systems in Central Asia. The plan outlines a new initiative to add to ACDI's current implementation to effectively involve U.S. companies in joint ventures in the region. The new initiative builds commitment on behalf of U.S. companies by providing increased incentives for completing each stage of a project. ACDI will also continue to solicit joint venture proposals from U.S. companies for FSRP matching grants leveraged at the ratio of \$2.5 to \$1 or higher.

BACKGROUND

Eighteen months of experience in developing the Food Systems Restructuring Project in Central Asia has demonstrated the need to re-evaluate and design a new initiative that operates in conjunction with the existing investment matching program. The new initiative is private sector driven. It represents the requests of many firms that we have heard from over the course of the FSRP. From our contacts with U.S. agribusiness, we have drawn the following conclusions:

U.S. companies that have a good chance for success in Kazakhstan are not prepared to make the initial investment necessary to determine the best strategy for moving forward into this remote market.

Very few companies include Kazakhstan as a priority market. The FSRP must provide significant incentives to companies to overcome these barriers.

ACDI's new initiative under the FSRP provides the necessary stimulus to make the contacts needed and build the foundation for letting U.S. business take the lead in restructuring Kazakhstan agribusiness. Through our new initiative, ACDI intends to:

Utilize our market expertise and business connections developed over the past 18 months to mobilize U.S. agribusiness companies whose products and expertise match the current market demand and the Kazakh Government's political priorities.

Assist small and medium-sized companies in accessing accurate information on issues such as supplies of raw materials, labor costs, political stability, availability of infrastructure and transportation costs. Information that is essential for developing bankable business plans.

Develop projects that address key missing or weak sectors in the local food system; contribute to privatization, market economies and free enterprise and that demonstrate how the project could be replicated in other geographical areas as appropriate.

NEW INITIATIVE

The new initiative is intended to promote investment activity by developing partnerships with American business, beginning with their first forays into this market and continuing through project completion. The support of fact finding missions is in recognition of the significant up front costs that discourage companies from entering this market. To avoid funding "developmental tourism," ACDI will carefully screen candidates, looking for success in similar markets and/or a genuine commitment to a project. We are convinced that a small investment by the FSRP at this initial stage of a project will demonstrate ACDI's commitment to work effectively as a partner.

Through market research conducted by our Almaty office we have determined that significant potential profit for U.S. agribusinesses through trade as well as investment exists in virtually all food processing and marketing sectors. In priority order they are food packaging, fruit & vegetable processing, vegetable oil extraction, meat & dairy processing and small scale flour milling & bakeries. In each of these areas ACDI has identified qualified potential partners who have the resources and business skills necessary for successful joint activities. These businesses are among the leading businesses in Kazakhstan, and are aggressively making the transition to a market economy.

ACDI is confident that by making the right introductions to selected American firms, the FSRP will succeed in building trade and investment relationships. The companies targeted will be U.S. equipment, technology or management providers looking to increase sales and enter into joint venture activities with a Central Asian partner. Particular focus will be put on those companies who logically would have an interest in such projects based on their commodity, experience with similar ventures or a proven commitment to doing business in the NIS.

PHASE ONE - U.S. COMPANY FACT FINDING MISSION

The new initiative will have up to two phases. The first phase will be offered to qualified companies who have little or no experience in the Central Asian market, but demonstrate an interest to enter. This phase includes a **fact finding mission** for the U.S. company. The up front costs of doing business and exploring opportunities in Central Asia are high and small and medium-sized businesses have kept away from these markets in part because of these costs. Recently, political and economic risks have added to their concerns.

ACDI's FSRP subgrant funds can mitigate some of these costs as well as provide valuable information about the political and economic risks companies face. After identifying companies with significant potential competitive advantages in the Kazakh market, selected firms new to the region will be encouraged to undertake a one-week fact finding mission. During this trip one or two company executives will get an intensive introduction to the Kazakh market, expediting the normal course of market investigation and meet with potential partners to discuss joint venture arrangements. The information gathered will serve as a basis for putting together the business plan development team.

Using FSRP subgrant funds, travel costs, accommodations and incidental expenses will be covered for one or two executives from each selected company.

Preliminary materials will be distributed to a number of Kazakh businesses several weeks in advance of the executives' arrival so the selected enterprises will have a chance to prepare specific joint venture proposals. The U.S. executives will also receive briefing papers, describing each of the enterprises they will visit in Kazakhstan. This process should help to introduce the enterprises and facilitate effective joint venture dialogues when meeting face to face.

Following the fact finding trip, those companies prepared to venture further will prepare a scope of work for the formal business plan development and determine the necessary personnel. The scope of work will outline how the company will proceed with the project development, set a timeline with milestones and clearly set out a budget that shows the expenses to be paid by the FSRP and the company, respectively. ACDI will review each of the plans to be sure they are realistic and achievable before going forward with the second phase.

PHASE TWO - PROJECT DEVELOPMENT

The project development phase for companies prepared to enter a joint venture will focus on preparing bankable business plans. Companies already operating in Central Asia as well as Phase One companies would be eligible. This step will maximize FSRP funding leverage by accessing and cooperating synergistically with bi-lateral and multilateral assistance programs as well as private investors. Without limiting potential sources of funding, ACDI will work closely with the U.S. Central Asian Enterprise Fund, EBRD, ADB, Ex-Im Bank, TDA and the World Bank at the initial stages of development to guarantee each project has a good chance to be funded. This approach will not duplicate the type of development done by TDA in the region, as it is anticipated that most of the projects will be substantially smaller than those considered for TDA funding.

For Phase Two, FSRP subgrants will pay for airfare, lodging & per diem and related travel expenses for each of the executives and specialists necessary to complete the business plan. With FSRP consultant funds, ACDI will also hire and send one or two consultants, if necessary, to complete the team that will be assembling the bankable business plan during the second trip. These consultants will be familiar with developing business plans for multi-lateral development agencies. Other consultants may be needed to provide specific technical assistance to train local executives and managers and/or assist with project development.

As a complement to the project development phase, ACDI will use subgrant funds to bring key personnel and agribusiness leaders from Central Asia to the U.S. for training. Most will be personnel from selected joint venture companies in Kazakhstan. ACDI will arrange three to four week study and training tours and design an appropriate program for the participants. The costs of airfare, lodging and per diem, and minimal training expenses, will also be paid for with FSRP subgrant funds.

ACDI will keep both USAID/Washington and USAID/Almaty informed as to the activities and progress made under this new initiative. Through USAID/Washington, ACDI will seek project approval (requesting a letter authorizing the use of FSRP subgrant funds) and travel clearance for each of the U.S. executives, consultants and training participants. Under the new initiative, a U.S. company's contribution to the fact finding, project development and training will be the time and salaries of its employees. Although it is unlikely that ACDI assistance in this regard will reach a 2.5 to 1 ratio, it will still represent a significant contribution on behalf of the small to medium-sized companies selected. The flexibility in the use of these funds is needed to meet both new and existing objectives for the FSRP.

Following the completion of the business plan, ACDI will work with the U.S. company to aggressively market and secure financing for the project. ACDI will play a key role as a liaison between the U.S. company and the funding agencies in Central Asia.

SELECTION CRITERIA FOR BUSINESS PLAN DEVELOPMENT SUBGRANTS

- Involve a U.S. equipment, technology or management provider looking to increase sales and enter into joint venture activities with a Central Asian partner. Particular focus will be put on those companies who logically would have an interest in such projects based on their commodity, experience with similar ventures or a proven commitment to doing business in the NIS and/or internationally.
- Contribute to expansion of trade and investment in Central Asian agribusiness.
- The U.S. company will pay the salaries of the executives necessary to travel to Central Asia on fact finding and/or business plan development missions.

CONTINUATION OF PREVIOUS STRATEGY

ACDI will also continue to solicit and promote joint ventures in food processing and marketing investments. These investment matching subgrants will:

- Fund subgrants that team U.S. agribusinesses with private or privatizing food processing/marketing enterprises in Central Asia for joint venture activity.
- Focus activity primarily in Kazakhstan.
- Create a financial incentive for U.S. agribusiness involvement in Central Asia by using USAID funds to lever initial U.S. agribusiness investment at a ratio of \$1 for every \$2.5 invested by the U.S. company.

SELECTION CRITERIA FOR BUSINESS INVESTMENT MATCHING SUBGRANTS

- Include both a U.S. agribusiness and a Central Asian participant as parties to a formal, sustainable joint business arrangement.
- The Central Asian participant will be private or in the process of privatizing.
- Project will be both technologically and environmentally sound and support a business venture that is economically viable and profitable for both partners.
- Project will be for enhancing existing or developing new food processing/marketing enterprises in Central Asia.
- Proposal will contain a detailed business plan describing its projected impact on the food processing/marketing enterprise and provide for a system to review the performance of the invested capital.
- Project can effectively employ USAID funds in combination with private investment to augment its economic impact and expand its objectives.

1995 FSRP OBJECTIVES

1. Establish a joint venture between a U.S. company and a Kazakh company in the food processing sector and provide additional support at the ratio of \$2.5 to \$1 ratio.
2. Develop and submit 3 business plans for U.S. joint venture activity in Central Asia for funding by multilateral and bilateral development agencies increasing U.S. agribusiness participation in the sector.
3. Provide U.S. based training for 10 key executives from Central Asia's food processing industry.

EVALUATION TIMETABLE / January - December 1995

Based on an evaluation of this new initiative in December of 1995, ACDI will do one of the following:

- Continue with this successful strategy
- Revise implementation to more effectively meet objectives
- Discontinue project if strategy has not worked

**Food Systems Restructuring Project
Revised Implementation Plan
1995 Timeline**

	1995			
	Q1	Q2	Q3	Q4
I. Marketing New Initiative				
• USAID approval of revised plan	X			
• Prepare promotional materials	X			
• Marketing Project to U.S. companies	X			
• Visits to interested companies	X			
II. Subgrants				
a. Business Plan Development				
• Design projects with U.S. companies	X			
• Fact finding missions		X		
• Meetings with funding agencies		X		
• Missions to prepare bankable business plans		X		
• Hire needed consultants		X		
• Complete business plans			X	
• Submit business plans to funding agencies			X	
b. Investment Matching				
• Review proposals received	X			
• Submit proposals for funding		X		
• Award subgrants			X	
• Manage subgrants			X	
III. Project Management & Evaluation				
• Submit quarterly reports to USAID	X	X	X	X
• Supervisory field visits		X	X	X
• Monitor subgrant activities	X			
• Modify implementation plan			X	X
• Evaluate project performance	X			