

**PRIVATE AGRIBUSINESS
ACCELERATION PROGRAM
FOR
ROMANIA**

Grant Number 186-0024-G-SS-9104-00

**Quarterly Report
July - September 2001**

October 2001

**Land O'Lakes, Inc.
International Development Division
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Romania Private Agribusiness Acceleration Program

Grant 186-0024-G-SS-9104-00

Land O'Lakes, Inc.

Quarterly Report: July - September 2001

I. General Project Information

Project title: **Romania Private Agribusiness Acceleration Program (RPA)**

Project number: **186-G-00-99-00104-00** (previously 186-0024-G-SS-9104-00)

Project duration: **3 Years (starting date: February 1999)**

Location: **Romania (Bucharest)**

Project Value: **\$2,398,284 (\$1,918,627 federal funds)**

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In accordance with:

- the U.S. Agricultural Policy in Romania (1998-2000) to accelerate development of Romanian agricultural potential through competitive, private enterprise and to maximize long-term U.S. participation in Romanian agriculture through trade and investment and
- USAID's goals to support the growth of a competitive, market-oriented private sector relative to the public sector; and to increase the number of credit-worthy private enterprises in selected strategic sectors possessing unique economic opportunities and challenges,

LAND O'LAKES, Inc. is promoting rapid and sustainable growth in several Romanian agribusiness sectors at company, association, and business support/service organization level, thereby contributing to an increase in public-private sector dialogue and an improvement in the general business climate for private agricultural enterprises.

Specific Project Goals:

Land O'Lakes, Inc. will successfully implement RPA project goals via three primary measurable outputs to be achieved by the end of the project (EOP):

- A. **At least 3 subsector associations will be established or strengthened.**
- B. **At least 30 agri-business SMEs in poultry, feed, dairy, and/or other subsectors will have received TA leading to measurable improvements in their operations.**
- C. **At least \$480,000 in direct "match" investments by the EOP.**

In addition, RPA has a series of internal targets which it will be looking to achieve by the EOP which include, but are not limited to the following:

1. **a 15% increase in sales** for client SMEs,
2. **creating or strengthening 30 "investment-ready" SMEs,**
3. **\$3 million in new investment and/or financing** for the companies with whom we work.

RPA goals and targets mirror USAID/Romania's S.O. 1.3 "Development and Growth of Private Enterprises" by focusing on Increased Capital Investment in Private Enterprises (IR 1.3.2) and Strengthening Business Support Service Organizations (IR 1.3.3). Up-to-date information on the RPA project and its successes vs. project goals and targets is provided on page eight.

II. Macro Information on Romania

- A. According to data released by the National Institute of Statistics (INSSE), August inflation rate stood at 2.2% from July's 1.3%. The year-to-year inflation rate went up to 32.4% from July's 31.8%, while year-to-date reached 18.9%. The increase of the inflation rate is expected to continue in September, due to recent energy price hikes (15% for electricity as of July, 50% for heating and up to 90% for natural gas households as of August 1). The Government of Romania (GOR) estimates a 29% inflation rate at the end of 2001 (against the initially projected 22%).
- B. Inflation for total food goods in Q3 2001 (through August 2001) slowed, in line with Romanian seasonal trends, and kept pace with the overall rate of inflation as well as inflation for non-food goods and services.
- C. However, some of the highest inflation and price increases in Q3 2001 were registered in the sectors where the RPA project is most active: dairy and poultry. Egg prices alone spiked upward 6% between July and August. The following are percentages of price increases registered during the first eight six months of 2001:

| <u>Product</u> | <u>Jan-August 2001</u> |
|----------------------------|------------------------|
| 1. White cheese (cow milk) | 9.2% |
| 2. Butter | 10.7% |
| 3. Total milk | 16.0% |
| 4. Poultry meat | 35.6% |

III. Implementation Highlights in Association Building

A. APEL

1. Partnership and activities

- a. **SIMPOLACT 2001:** APEL will be the coordinator and sponsor of SIMPOLACT this year, effectively graduating the event and the association from traditional development funding. Simpolact 2001 will be organized October 5-7 in Poiana Brasov, with organizational support from LOL Romania and financial support from The Royal Embassy of the Netherlands and at least 10 companies active in the Romanian dairy sector. Though initial prep work for the event began in Q2 2001, all logistical operations, reservations, planning, etc., took place in Q3 2001.

Over 300 people representing 120 companies active in the dairy processing, distribution, packaging, equipment, ingredients and chemical industry have already confirmed their participation at Simpolact 2001 including representatives from Austria, Bulgaria, France, Germany, Greece, Hungary, Italy, Moldova, the Netherlands as well as representatives of regional banks, embassies, investment funds, the Ministries of Agriculture and Finance, and the Romanian press.

On the symposium end of things, discussions will focus on the APEL campaign and strategy, the new APEL-PRAIS partnership, introducing educational programs in schools, agribusiness financing, quality control and the regulatory environment, product distribution and logistics, and new legislative initiatives on agricultural policy.

On the exhibition side, approximately 40 companies have confirmed they will display foods, equipment, packaging and/or ingredients across ~200m² of floor space.

A dairy contest will also simultaneously take place. Nearly 30 different categories of dairy products will be judged, ranging from fresh dairy products to cheese.

- b. After issuing an open tender to companies interested in handling public relations and promotion for the campaign, APEL formally signed a one-year partnership (beginning August 1) with PRAIS Corporate Communications. As PRAIS, the official PR arm of companies such as Kraft Romania, Danone, and other large multinational companies, is interested in this collaboration as a full partner, all PRAIS work will be done "at cost" only. PRAIS will also coordinate all media and promotion activities at Simpolact 2001.
- c. APEL and PRAIS began to work on the shape of the August 2001-August 2002 APEL campaign in Q3 2001. Though a final plan will be finalized immediately after Simpolact 2001, the campaign is looking to develop a public relations campaign to change the average Romanian's attitude and behavior regarding dairy products consumption, based on a mid-long term information and educational campaign. Implementation should take place at least two to three years at the national level.

A complete package of campaign strategies will be annexed to the Q4 2001 report.

2. Media Relations

APEL continued to promote the Alliance's image as well as those of its members in the Romanian mass media in Q3 2001. Some examples include:

- a. In *Evenimentul Zilei*, one of the most read daily newspapers, APEL worked with the editorial team to publish four articles on fluid milk, ice cream, fresh products, and "cascaval" hard yellow cheese.
- b. In *CAPITAL*, Romania's leading business weekly, an in-kind three-week series was published on milk and dairy products in the Romanian market. The three primary themes of the series were facts, figures, and consumer preference data on yogurt, cheese, and other fresh dairy products (e.g., buttermilk and kefir). In return for APEL's contribution of data and material collection, the alliance received free promotional space in the magazine to promote its members. New materials on the ice cream and milk market are already in the works for Q4 2001.
- c. APEL entered into a partnership agreement with *House of Guides* magazine, an industry-specific monthly dealing with a different industrial food themes in each issue. *House of Guides*, in conjunction with SIMPOLACT 2001, will issue a special edition on the cheese market that will contain information on the dairy processing industry, distributors, and companies with activities related to the dairy sector (equipment, packaging, ingredients, etc.). As a result of this collaboration, APEL will benefit from 22 pages for promotional ads and member presentations.
- d. APEL continued its partnership with *TOP GHID ALIMENTAR*, one of Romania's best known semi-annual catalogs for the food industry, offering information on production, processing, equipment, packages and ingredients suppliers. In *TOP GHID's* Summer 2001 catalog, two full-color pages were donated to APEL (one for a general APEL presentation and one for SIMPOLACT 2001).
- e. MEDIAFAX, one of the largest Romanian news providers, began including Simpolact 2001 update and information in their e-daily news brochure on agribusiness.
- f. APEL will also be prominent in nearly all food industry magazines issued in November 2001 to coincide with the INDAGRA food industry trade show.
- g. Diverse educational articles written by APEL and PRAIS Co. on milk and dairy consumption have begun to appear in several other local newspapers.

3. Membership

APEL membership continued to increase in Q3 2001. In a very interesting development, APEL has attracted its first non-Romanian members: Agro Legato from Hungary (an equipment supplier) and Döhler from Germany (an ingredient supplier).

4. Sponsorship

In the run-up to Simpolact 2001, APEL has received a record amount of pre-event financial support. In addition to Land O'Lakes Romania's logistic and organizational support:

- The Royal Netherlands Embassy has donated a \$4,000 lump sum, as well as a promise of additional support in 2001/2002.
- Other sponsors representing various packaging, dairy processing, and supply companies have also donated \$4,000.
- Several thousand dollars in gifts-in-kind such as refrigerated display cases, balloons, cups, etc..

B. UNIPAA

1. Lobbying efforts on behalf of UNIPAA Members and Romanian Agribusiness

- a. UNIPAA organized meetings with representatives of the Romanian Ministries of Agriculture and External Affairs lobby for a continuation of safeguards for local producers to compete against lower-cost poultry and pork imports from Hungary.
- b. UNIPAA was a featured guest at a seminar organized by the Ministries of Food and Agriculture of Romania and Spain. UNIPAA led debates on current issues regarding agricultural policies on the Romanian's integration into EU structures.
- c. UNIPAA's executive director worked with Agricultural Attaches and Economic Counselors from all CEFTA countries with embassies in Bucharest (Bulgaria, Czech Republic, Hungary, Slovakia and Poland) to compile and analyze information on the agricultural, commercial and financial policies of these countries individually and vis-a-vis Romania. The final report will be presented to UNIPAA members and the Ministries of Agriculture and Finance.
- d. UNIPAA collaborated with Romanian Customs and the Ministries of Finance and Development & Forecast to evaluate the impact of the pork and poultry imports on the Romanian market.
- e. UNIPAA addressed a letter to the Ministry of European Integration on behalf of its members requesting change in some conditions for various economic entities to be eligible for eventual SAPARD funds.
- f. UNIPAA continues to distribute its monthly newsletter to behalf the members.

C. UCPR (Union of Romanian Chicken Breeders)

1. UCPR Continues its lobbying efforts on behalf of its members

- a. UCPR, in collaboration with UNIPAA, organized meetings with representatives of the Romanian Ministries of Agriculture and External Affairs lobby for a continuation of

- safeguards for local producers to compete against lower-cost poultry and pork imports from Hungary.
- b. UCPR met with the Romania President Ion Iliescu's official Counselor to update him on the latest news regarding the Romania poultry sector and market situation.
 - c. UCPR continued to work with the Ministry of Foreign Affairs and The Department of External Trade on supplying them with poultry meat production figures, imports statistics, and economic data from the field.
- 2. UCPR Keeping Members Informed**
- a. UCPR publish monthly issues of its bulletin for members and its quarterly magazine tailored for Romanian poultry/feed specialists.

IV. Implementation Highlights in Firm Level Assistance

A. Technical Assistance with KULL FOODS (USA)

As a follow-up to a Land O'Lakes Romania seminar organized in May 2001 on "The Use of Micro Crystalline Potatoes (MCP); Ways of Reducing Costs in the Dairy Industry," Land O'Lakes responded to the keen interest of USAID and organized a 10-day tour of Romania for the international patent holder of MCP, Arthur Kull (Kull Foods, Inc.) and an MCP formulator, Clifford Stubbs.

Between September 10-21 Messrs. Kull and Stubbs worked with a series of Land O'Lakes clients including Lactis (Iasi), Prolacom (Botosani), Eurolat (Baia Mare) and Traian One (Bucharest) as well as discussion with the management teams of Roclip (Brasov; Romania's only potato flake manufacturer) and the Potato Research Institute (Brasov).

During the trip, MCP was formulated with butter, ice cream, sour cream, white cheese, hard yellow cheese and processed cheese. As there were significant cost savings in the processed cheese area, Land O'Lakes offered Kull Foods detailed info on the Romanian dairy sector and including various market evaluations.

Kull Foods will continue to send additional MCP samples to potential customers and already started discussions with a national food distributor. Kull Foods' report will be included in the Q4 2001 report.

B. Technical Assistance with Brill Corporation (USA)

In Q3 2001 Land O'Lakes continued to provide its three integrated poultry/feed clients TA on effective feed formulation in collaboration with Brill Corporation. Results of the intervention to date have resulted in a more efficient administration of feed ingredients, lower feed recipes costs, lower feed consumption ratios, a shortened slaughtering period, and lower mortality rates. Brill also provided one-to-one assistance to one of the three clients, Nutriental Palota, for starting an incubation operation; the owner hopes the operation to start this autumn. [Full reports containing data from the interventions will be summarized together with impacts from these interventions in the Q4 2001 report.]

- C. See the two success stories from our new product development TA (Q2 2001) attached to the back of this report.
- D. Detailed Romanian Dairy Market Reports with livestock and feed information and figures were written and distributed to all core clients.

V. Collaboration with Other USAID Partners

- A. **ACDI-VOCA and Price Waterhouse Coopers/ Agland/DAI's RADA** project coordinated the financing and airport shuttle service for the two volunteers from Kull Foods (see III.A.) participating in the Land O'Lakes TA on Micro Crystalline Potatoes and the effects it can have in dairy processing.
- B. Land O'Lakes spent a day with a RADA project partner, Ewald from Fair Oaks Farm (MN), regarding a potential investment in beef cattle.
- C. Land O'Lakes continued to work with **World Learning** on their "**Romanian-American Sustainable Partnerships (RASP) Umbrella Grant Program.**" The UCPR and the American Soybean Association proposal that Land O'Lakes authored has been formally accepted and began start-up in Q3 2001.

Status of USAID/LOL Project Targets (as of September 30, 2001)

1. At least 3 sub-sector associations will be established or strengthened in measurable ways. These associations will be democratically controlled and highly functional with well trained leadership to give direction and concentrate efforts to establish a viable market-driven industry.

✓ **100% Deliverable Achieved**

2. At least 30 agri-businesses SMEs in poultry, feed, dairy, and/or other subsectors will have received TA leading to measurable improvements in their operations.

✓ **100% Deliverable Achieved**

3. 10% increase in profitability for RPA clients.

✗ **All clients registered increases of 0.5- 12%**

✓ **Select companies have 10% increases**

4. \$480,000 in direct match.

✓ **128% of Deliverable Achieved**

Status LOL/RPA Internal Project Targets (as of September 30, 2001)

| Life of Project Target | Status |
|---|--|
| Increased percentage of pasteurized milk | 200% increase of 1999 UHT milk sales |
| Increased domestic capacity to replace imported product | Poultry: production up 49%; sales up 81%; Imports down 48%; consumption up 18% Feed: 24% increase in feed production Dairy: production up 2%; imports down 62% |
| \$3 million increase in foreign investment and/or financing | \$5.85 million of foreign investment in 3 clients; \$18.5 million in fixed cap. investments for 24 dairy clients \$1.8 million for 4 integrated clients |
| Increased US investment in core clients | \$ 285,000 invested in 2 dairy clients. |
| Increased business transactions | \$7,100,000 in new business transactions from Simpoavi '99 \$3,200,000 in new business transactions from Simpoavi '00 \$225,500 in new business transactions and \$156,945 in other misc. transactions from Simpolact '99. \$102,882 in new UHT milk sales from Simpolact'99. |
| 15% increase in sales | All clients registered sales increases varying from 3% to 58% |
| 30 investment ready firms | 30 |
| Increased foreign investment | 1 client received a foreign investment of \$5.5 million via acquisition of 99.97% of the company's shares. 1 client received an equity investment from a private U.S. investor totaling \$250,000. |
| Total production cost savings | \$617,718 in other documented savings to date. |
| Reduced production costs | \$93,300 cost savings with 1 client via a 38% increase in energy efficiency & increased productivity. |
| Increased exports | Dairy: 45% increase in cheese; 130% in butter Poultry: 144% increase in live birds; 231% increase in eggs |
| Increased dairy consumption (CRI) | Results will be available in Q4 2001 |
| 15% increase in milk production (CRI) | Results will be available in Q4 2001 |

Success Story: PROLACOM DAIRY

General Information:

- PROLACOM SA, Mrs. Violetta Hrab, General Manager, Str. Manolesti Deal, nr. 3, Botosani, Romania

Introduction:

The following success story falls within USAID/Romania's Strategic Objective 1.3 (Accelerated Development and Growth of Private Enterprises). One of the stated goals of the USAID/Land O'Lakes, Inc. RPA project is for client companies to obtain "investment-ready" status.

Success Story:

In 1997, Land O'Lakes, Inc. Romania carried out a needs assessment for newly privatized¹ dairy plants in Romania. Shortly thereafter, Land O'Lakes began a series of TA interventions to provide assistance to these companies (SMEs). Though many, if not all, of the SMEs had experienced managers and highly qualified technical staffs, most were weak in creating (or obtaining) reliable market information on the dairy sector, accurate consumer preference data, and new, non-traditional dairy products. Other problems faced by most newly privatized dairy SMEs were quantity and quality fluctuations of their raw milk supply, poor marketing, and a lack of economic analysis skills.

In 1999, Land O'Lakes began its long-term collaboration with the Prolacom dairy processing plant in northern Romania. Land O'Lakes interventions with Prolacom included several TAs for improving cheese quality, reducing the cost of production, and extending the existing mix of products.

In June 2001, Land O'Lakes was asked to survey Prolacom's cheese making process due to some recent quality problems. Bill Broske, a Land O'Lakes cheese specialist, identified the problem as one caused by a unique combination of gases coming into contact with cheese as it is being mixed. Mr. Broske recommended the use of Lysosime as a way to inhibit spores in milk used for cheeses. Within three months, Prolacom began using Lysosime and registering two immediate impacts:

- A net increase of 500 kg of cheese per month (previously, this amount had been discarded as damaged due to the gases).
- A net monthly revenue increase of \$625.

¹ Via a combination of MEBO (Management Employees Buy Out) and Mass Privatization Scheme

Success Story: EUROLAT DAIRY

General Information:

- EUROLAT SA, Mr. Pop Simion, Technical Manager, Str. Victoriei nr.73, Baia Mare, Maramures.

Introduction:

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In 2000, Land O'Lakes began its collaboration with the Eurolat dairy processing plant in northern Romania. Land O'Lakes interventions with Eurolat included TA for improving the quality, reducing the costs of the existing mix of products and adding new products.

In June 2001, Bill Broske, a Land O'Lakes cheese specialist, identified problems with the composition and the way the company was using its brine in the cheese making process. Mr. Broske recommended an improved brine recipe, with specific ratios of sodium, calcium chloride, sodium acetate, glacial acid acetic and water. Eurolat began to use this new recipe at once and began to register two an immediate impact:

- a \$1,000 cost savings per month in the cost of production (due to longer brine usage).

² Via a combination of MEBO (Management Employees Buy Out) and Mass Privatization Scheme