

Special Study

AGRIBUSINESS OPERATIONS

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Evaluation Department
(EvD)



European Bank
for Reconstruction and Development

PREFACE

This review is an evaluation of the EBRD's Agribusiness Sector Operations Policies and past performance in the agribusiness sector. The review has been executed by Albert Stocker with assistance from two senior sector specialists: Michael Debatisse and Professor John Humphrey. The study team was supported by Victoria Millis who prepared Appendices 2, 8, 9 and contributed to various chapters in the study. Nicolas Mathieu contributed to the sector level performance and other sections of the report.

Information on the investment and technical cooperation (TC) operations was obtained from relevant teams and departments of the Bank and its files as well as from external sector and industry sources. The Evaluation Department (EvD) would like to take this opportunity to thank those who contributed to the production of this report.

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ABBREVIATIONS

ASOP	Agribusiness Sector Operations Policy
BD	Banking Department
BGD	Business Group Director
CAP	Common Agricultural Policy of the EU
CEB	Central Europe and the Baltic states
CIS	Commonwealth of Independent States
CRR	Capital Resource Review
DIF	Direct Investment Facility
DLF	Direct Lending Facility
ESD	Environmental and Sustainability Department
EIRR	Economic internal rate of return
EvD	Evaluation Department
FAO	Food and Agriculture Organization of the United Nations
FIRR	Financial internal rate of return
FSU	Former Soviet Union
FYR	Former Yugoslav Republic
GSB	Group for Small Business
IAS	International Accounting Standards
IFI	International finance institution
IRR	Internal rate of return
MIS	Management information system
MPF	Multi-project facility
MSME	Micro, small and medium-sized enterprises
NBFI	Non-bank financial institutions
OCE	Office of the Chief Economist (EBRD)
OGC	Office of the General Council
OL	Operation leader
OPER	Operation Performance Evaluation Review
OpsCom	Operations Committee
OT	Operation team
PCR	Project completion report
PD	Policy dialogue
PIU	Project implementation unit
PMM	Project monitoring module
SME	Small and medium-sized enterprise
TC	Technical cooperation
TIMS	Transition impact monitoring system
TIR	Transition impact rating
TOR	Terms of reference
USD	United States Dollar
XMRA	Expanded monitoring report assessment

DEFINED TERMS

The Agribusiness Team (the Team)

the staff in the Banking Department and other respective departments within the Bank responsible for the appraisal, negotiation and monitoring of agribusiness operations

the Study

Evaluation Special Study reviewing the EBRD's agribusiness sector operations policies and performance in the agribusiness sector in the Bank's countries of operations

EXECUTIVE SUMMARY

The food crisis of 2007 and 2008 illustrates with previously unseen price increases that there are severe shortages of supply. A long period of cheap food seems to come to an end. The transition to a new equilibrium is proving costlier, more prolonged and much more painful than anyone had expected.

The European Bank for Reconstruction and Development's (EBRD) countries of operations are facing unique opportunities and challenges that result from these significant price increases for agricultural commodities. This is a good time for re-defining the EBRD's agribusiness sector strategy. This evaluation special study serves as a background paper that presents the Evaluation Department's (EvD) view of the Bank's performance to date.

The Bank's overall response during the period from 1991 to 2007 to the agribusiness sector transition challenges in its countries of operations has been rated "Successful". This evaluation result is based both on EvD's project level performance analysis and on the sector level performance assessment, which consider the entire period.

When viewing evaluation outcomes of agribusiness projects in the context of a broader analysis (using the sector policy indicators of relevance, efficacy, efficiency and impact), the rating for relevance ("Good") is somewhat tempered by the ratings for efficacy and impact ("Satisfactory/Good") and the rating for efficiency ("Satisfactory"). This is partly due to the fact that the agricultural sector is inherently more risky and complex compared to other sectors of EBRD investments. Transition progress has been much slower in this sector given the strong impact of agricultural policy decisions on rural employment (for example, agricultural employment is 40 per cent of total employment in Georgia), income levels and food prices.

In addition to the usual sponsor, market and investment climate risks, agribusiness and agriculture generally include further risks. These comprise weather, diseases, short-term price volatility of commodities as well as government interventions, which affect both the domestic and international markets. The relatively small average size of investment operations has also been a major challenge, especially in terms of efficiency. Stand-alone operations have an average size of €15.9 million, compared to the Bank average of €20 million.

The review of the transition impact by country and an analysis of the remaining challenges show that the Bank has had a "Satisfactory" to "Good" impact. The investment operations had a stronger impact on structure and extent of markets by addressing competition and market expansion in more project operations. Significantly less projects addressed market-supporting institutions and policies (frameworks for markets and private ownership).

The Bank's Agribusiness Team has in some cases contracted an FAO (Food and Agriculture Organization of the United Nations) unit for sector studies. The Agribusiness Team is of the opinion that, in certain institutional and policy reform areas (for example, land reform), the World Bank may be in a better position to engage than the EBRD, which has limited staff resources and a different remit/mandate. A strong impact was achieved by the Bank's operations in the area of market-based behaviour (skill transfer, demonstration effects and improved standards).

Whilst the Bank achieved significant transition effects in Ukraine, Russia, Serbia and Montenegro, large challenges remain. These challenges include:

- land ownership and well functioning land market

- tariffs, quotas and other import/export restrictions
- government interventions or control of industries, bureaucracy and tax issues
- lack of finance for agricultural activities.

Albania, Armenia, Belarus, the Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan and Uzbekistan are countries where there are significant challenges remaining. So far, the EBRD has had little or no impact.

The highly motivated Agribusiness Team achieved the successful performance rating by selecting more downstream projects with international or well-known domestic sponsors. The review team is of the view that this limited focus was necessary, given

- the rather broad agribusiness sector strategy
- the available budgetary resources
- the substantially higher risk profile of upstream projects (primary agriculture).

Until 2006 the deterioration of the terms of trade for agricultural commodities was another major concern for attracting new investment in primary agriculture. Recent global food shortages and new demands for biofuels have reversed this trend and have led to major price increases, for example for wheat. On the one hand, this income transfer via price increases to the agricultural sector provides some positive new incentives for the rural areas. On the other hand, however, weaker social groups, like pensioners, might be negatively affected by higher food bills.

Agribusiness projects have a large potential for widespread good development impacts, particularly in promoting private sector development and rural development, including supporting small and medium-sized enterprises (SMEs). A successful long-term strategy will, however, need to further address the strengthening of the food supply chain as well as the financial services and the logistics services infrastructure that serve the food supply chain.

This may require some renewed initiatives by the Bank in the area of improved markets and transparency from primary production to the end user. Framework issues, such as well-functioning agricultural land markets, will also need to be addressed in order to provide incentives for investments into improved productivity of primary agriculture.

In EBRD greenfield agribusiness projects, world-class and/or European Union (EU) environmental standards are normally adhered to. In some smaller restructuring/upgrading projects it may be more challenging to reach these standards. The Bank's strategy to move east will probably accelerate the trend to smaller operations, requiring a review of how the London-based specialists can best contribute to the review of environmental and labour issues.

There appears to be a consensus between international financial institutions (IFIs) that farmers are increasingly being integrated into the industrialised (and increasingly specialised and professionalised) farm-processor-market chain through

- contract growing arrangements with primary processors
- membership in agricultural cooperatives (or similar structures)
- sales through some emerging local commodity spot markets.

For example, the Bank has been able to support various investment operations by key international malt producers that offer their contract growers technical assistance (agricultural extension officers), high quality seeds and, in some cases, financing and crop insurance. In most

countries of operations, farmers have improved access to information (on current international and local commodity market prices, weather forecasts, good agricultural practices and so on) through a combination of sources, including development banks, web sites, marketing intermediaries, processing companies, universities and government. This will help increase their productivity and improve their chances to handle increasingly sophisticated contract growing arrangements or marketing arrangements with processors or intermediaries.

The Bank has in recent years increased its operations in connection with new hypermarkets and supermarkets. This important modernisation of the retail sector places new challenges on a largely fragmented and inefficient agricultural system, which also has to move towards higher standards for food safety and hygiene. Transition impact could focus on speeding up the involvement of supermarkets in the process of agrarian transformation.

This could be done by financing and supporting specific programmes aimed at supplier upgrading via technical cooperation (TC). Many international retail groups already focus on such programmes in their home countries. Backward linkages are a design element in the creation of the largest Indian retail group (“Reliance Retail”), which, for example, creates regional collection centres, some of which will be upgraded to rural business hubs. These hubs will provide further services to local farmers.

The review team makes the following main recommendations:

A new agribusiness sector operations policy of the Bank is required

This should address more clearly the processors and marketing companies and enhance their backward linkages. The Bank should encourage these enterprises to set up agricultural extension services. These link the farmer with the processor and provide the farmer with:

- technical advice to produce according to the specifications
- direct inputs or assistance in finding the sources (seeds, fertilizer and pesticides)
- working capital for crops that require considerable up front investments, like equipment or plantations, or where working capital is needed, the processor or marketer establishes a relationship with a bank.

Lending to farmers that meet the standards of processors and have contracts in place will be easier but may also need appropriate support via the Financial Institutions team. Also, large international distributors may, in line with their commitments in their home countries, be willing to start specific pilot projects in order to assist local production and upgrade quality and marketing.

Technical assistance

Technical assistance should be increasingly used for sector dialogue and for developing new approaches, especially in early transition countries (ETCs). The Agribusiness Team has to this date limited resources to design and manage TC operations. The review team is of the opinion that a strengthening of the Agribusiness Team by two new positions would be useful if their new agribusiness operations policy should include increased efforts in this direction (a new junior position for TC processing and a senior agricultural and food policy specialist).

New delivery mechanisms for mid-sized investments in the agribusiness area

Considering the relatively small average size of investment operations, especially when moving to the ETC region, may require new vehicles (for example, regional funds, increased utilisation of regional offices for project development) for efficient project review and structuring.

Enhanced cooperation with Financial Institutions (FI) and SME teams

The review team is of the view that the important focus on finance in rural areas, including for the agricultural sector, requires a more intensive cooperation with FI/SME teams in order to achieve the required backward linkages and to reduce major obstacles for production. In many cases the main obstacle is lack of access to finance in rural areas. This may require a strengthening of the multi-disciplinary approach in the Bank involving different teams and providing appropriate incentives for all participants.

Frameworks for markets/ownership and trading of agricultural land

The review team recognises that the Bank can only have an impact on the sector framework in coordination with the development community. However, this coordination and the EBRD's own sector policy dialogue should be more specifically targeted and documented. This is particularly the case in ETC countries, Ukraine and Russia. A well-functioning agricultural land market is a key prerequisite for an efficient agricultural sector that can respond to local and global market opportunities and thus contribute to economic growth.

Training of specialised staff in the more complex areas of backward linkages, market failures and joint initiatives with other teams

The discussions with the Agribusiness Team highlighted that training initiatives could provide deeper insights into the newer and more complex focus areas, including market failure issues and new approaches to increase access to rural credit. In particular, as part of the training, the proposed senior agribusiness specialist would build on the lessons learned in the above-mentioned TC operations in connection with the preparation of future operations (for example, towards more small and medium-sized agro-industrial enterprises and more diversified agricultural sub-sectors such as meat, dairy, textile and other non-food sectors).

1. Introduction

The food crisis of 2007 and 2008 illustrates, with previously unseen price increases, that there are severe shortages of supply. “The surge in food prices has ended 30 years in which food was cheap, farming was subsidised in rich countries and international food markets were wildly distorted. Eventually, no doubt, farmers will respond to higher prices by growing more and a new equilibrium will be established.

“If all goes well, food will be affordable again without the subsidies, dumping and distortions of the earlier period. But at the moment, agriculture has been caught in limbo. The era of cheap food is over. The transition to a new equilibrium is proving costlier, more prolonged and much more painful than anyone had expected.”¹

The EBRD’s countries of operations are facing unique opportunities and challenges resulting from this substantial change in agricultural commodity prices. This is a good time for redefining the EBRD’s agribusiness sector strategy. This evaluation special study serves as a background paper that brings together EvD’s view of the Bank’s performance to date, evaluated in the context of the agribusiness sector operations policies of 1993 and 2002.

1.1 Background and approach to the agribusiness review

This special study (Study) is a review of the EBRD’s agribusiness operations policies and performance in the agribusiness sector in the Bank’s countries of operations. The study has been carried out by the Bank’s independent EvD, supported by two senior sector specialists.² The review is also intended to assist the Bank in updating its policy for the agribusiness sector. The principal objectives of the review are:

- to trace the development of the Bank’s agribusiness operations policies through the policy documents adopted in 1993 and 2002
- to assess the Bank’s performance in the agribusiness sector
- to help identify challenges and opportunities for the future, drawing on findings of the review and other Bank material.

The study is driven by the refocusing of Bank operations southwards and eastwards and the intended eventual graduation of the more advanced transition countries. In terms of the speed of reform, the agribusiness sector (particularly in the areas where it is linked to a specific country’s progress regarding the agricultural sector reform) is typically lagging behind other sectors. This is due to the many complex questions involved in modernising agriculture, such as land ownership and the creation of a functioning market for land sales and acquisitions.

In most countries the modernisation process substantially reduces the number of people employed in this sector, which makes modernisation a politically sensitive issue. This can lead to unemployment in rural areas that lack other employment opportunities. Fluctuations in agricultural production and increasing demand, which has recently triggered substantial price increases for basic commodities such as wheat, represent further concerns.

¹ *The Economist*, 19 April 2008. The Agribusiness Team remains cautious whether there is a real new (higher) equilibrium developing or whether this is just a part of the cyclicity in primary agriculture. Observers in Russia and Ukraine note strong increases this year in the areas dedicated to wheat production, which should result in substantial production increases.

² Michel Debatisse, a senior consultant in the agribusiness sector, based in Aigueperse, France and Professor John Humphrey, Institute of Development Studies, University of Sussex, Brighton, United Kingdom.

This often leads to the introduction of price controls and/or export restrictions. Further challenges for agricultural producers and processing companies in the EBRD's countries of operations are

- the collapse of the pricing structures and subsidies set up during the FSU (former Soviet Union)
- new trade obstacles set up by various countries to protect their own producers.

These lead to the disintegration and/or disruption of the previously established supply chains. This affects, for example, wine from Georgia to Russia or meat shipments from the Kyrgyz Republic to Moscow and Siberia. Market disruption, combined with the effects of fragmentation of land ownership (like in the Kyrgyz Republic) or the lack of a functioning land market after privatisation of former state owned farms (like the moratorium on agricultural land sales in Ukraine), have led to fundamental challenges that have not yet been properly addressed and resolved in many countries of operations.

Whilst immediately after the break-up of the FSU, agricultural products in modern supermarkets were mainly imported, most countries are now attempting to re-establish a framework for local primary agriculture and related agribusiness. The large multinational food and beverage producers as well as distribution chains quickly entered the big cities to establish a strong foothold. It is beyond the scope of this study to provide a complete picture of the agribusiness sector development in all countries of operations. The focus of this study is on the Bank's activities in this sector.

1.2 Assessing agribusiness sector performance

The review employs the established evaluation methodology developed by EvD and applied in the evaluations of the EBRD's Telecommunications, Property and Financial Sector Policies. The study assesses four components of EBRD performance in the agribusiness sector: relevance, efficacy, efficiency and impact. The study relates these components of performance to the three transition categories that the Bank uses to measure transition impact: structure and extent of markets, market-supporting institutions and policies, and market-based behaviour.

The study assesses relevance by considering the degree to which the Bank's agribusiness sector projects and operations addressed the sector reform mandate as expressed in the objectives set out in the agribusiness sector policy. Efficacy is measured by considering the degree of success achieved by projects and operations in targeting the policy objectives. The review assesses efficiency by reference to the projects' financial performance. For the purposes of this study, impact is measured with reference to evaluation findings, ratings assigned in the transition impact monitoring system (TIMS), and the Bank's two transition impact retrospective reports published in 2001 and 2005. The focus of the Bank's 2002 Agribusiness Policy is presented in the box below.

Box 1: Focus of EBRD Agribusiness Operations Policy 2002

“Agribusiness has become one of the major sectors in which the Bank has invested since the early nineties. The challenges ahead remain significant. It is clear that the reform process in the primary agriculture sector has been slower than in other sectors of the economy. It is also clear that financing needs are enormous to increase competition and expand markets, to complete the restructuring process; and to transfer skills and technologies. The Bank intends to pursue the following objectives to address key transition challenges in the sector:

- (a) continue to finance downstream food and drink sectors with strong backward linkages
- (b) expand product range to include more multi-project facilities and grain warehouse receipt programmes, as well as increased efforts with leasing
- (c) improve rural credit systems to increase lending to SMEs and TC through local banks
- (d) increase policy dialogue as well as institutional building with member countries in cooperation with other development institutions.”

It follows that this evaluation of the policy and its implementation will concentrate on assessing how the Bank’s operations have affected agribusiness sector development in the various countries of operation.

1.3 Identifying the population of agribusiness operations and selecting the sample for analysis

A total of 285 operations, including standalone projects and frameworks, were signed between 1993 and 2006. These do not include investments by venture capital funds or credit lines with an agribusiness focus, which are implemented by the Bank’s Financial Institutions or Small Business groups. In addition, there were 144 TC operations approved for project and strategy preparation and to support the policy dialogue.

The Bank’s operations in the agribusiness sector cover the following areas:

- bank lending, that is, credit lines to local companies set up by international or local sponsors
- bank equity where the Bank takes a minority equity stake and seeks to contribute to sound governance as well as improve operational and financial performance
- equity funds.

In the early years the Bank co-founded and contributed capital to a number of newly established equity funds that would make investments in various sectors, including the forestry and agribusiness sectors. TC funds were utilised in central and eastern Europe, the Baltic states, Russia and, to a lesser extent, in some Commonwealth of Independent States (CIS) countries.³

The findings and conclusions of this study are based in large part on a detailed assessment of a sample of 67 signed operations (31 evaluated as operation performance evaluation reviews, OPERs, and 36 evaluated as expanded monitoring report assessments, XMRA) and the manner in which they responded to the agribusiness sector policy objectives. The sample, representing approximately 24 percent of operations signed (a total of 285), comprises only operations that were independently evaluated by EvD.

³ See Section 3.4.

In total, EvD has executed two TC OPERs. Separately, EvD has included four TC operations in the fields of agriculture, forestry and fisheries in its annual special studies on project completion report (PCR) assessment.

The operations evaluated through OPERs and XMRA represent 33 per cent of the total investment (equity and debt). Section 4.1 shows the project evaluation coverage in more detail. Appendix 8 compares the distribution by region, sub-sector and financial product of projects in the sample against all projects ready for evaluation and all agribusiness projects signed since 1991. The conclusion of the evaluation team is that the representativity of the sample is good.

To complement the evaluation outcomes, some more in-depth follow up evaluation, including field trips, has been undertaken for this review in cooperation with two external industry consultants in the following areas:

- verification of the impact of the Bank's agribusiness operations in one of the largest countries in terms of total commitment amounts as percentage of the Bank's portfolio (case study Ukraine)
- verification of achieved backward linkages to primary agriculture by retail projects and by processors (case study Romania).⁴

2. The Bank's agribusiness sector policies

This section of the study gives an overview of the development of the agribusiness sector operations policy as reflected in the policy documents approved in 1993 and 2002.⁵

2.1 Agricultural Operations Policy Paper 1993 – establishing a focus on sector and enterprise restructuring and development infrastructure

In 1993 the EBRD Board considered and approved a paper on the Bank's Agricultural Operations Policy and a background paper on agriculture in central and eastern Europe. The papers outlined the important contribution of agriculture to the economies of central and eastern Europe, stressing the higher contribution levels compared to Western countries and also the different regional importance when comparing Russia (18 per cent of national income), Ukraine (30 per cent) and Central Asia (40 per cent). The main failure of the agricultural sector in the command-economy era was described as the (relatively low) efficiency of production and the large losses that occurred between producer and consumer.

The Bank's operational priorities were described in detail in the policy paper with a focus on sector and enterprise restructuring and development of agricultural infrastructure:

“At the sector level, the Bank will apply its instruments to address restructuring issues and to promote private sector development. Such issues would cover the entire commodity chain including pricing policies, licensing, distribution and marketing constraints, financing channels, product range, technology improvement, hygiene and environmental standards, and quality control. The Bank will also address institutional strengthening requirements, particularly with

⁴ In both cases, backward linkages are normally listed as significant transition impact targets in addition to technology transfer, hygiene, corporate governance improvements and so on

⁵ The Bank's sector policies do not give quantitative targets, neither in terms of objectives to be achieved, nor in terms of planned dedication of resources by the Bank.

regard to management structures, human resource development and reporting systems. The social effects of economic reform will also be taken into account.”

The Bank was also planning to actively promote the privatisation of public sector entities. It was correctly pointed out that in order to arrive at a more competitive market-led sector, effective de-monopolisation would often be required before privatisation can be executed. Given the rather enormous task at hand in the areas described above, the policy also defined priority areas of the Bank’s programme in the agricultural sector in terms of four areas of intervention along the agricultural commodity chains:

- input supply and distribution
- agricultural production
- agro-processing
- marketing and distribution.

The Bank was planning to concentrate its activities downstream of agricultural production, mostly in agro-processing and marketing and distribution. Interventions in input supply and primary agricultural production would be more selective and mostly concentrated in, for example, Central Asia.

These papers were prepared at an early stage of Bank operations and took a broad look at the issues in the sector. In hindsight, it employed a perhaps overly optimistic approach on circumscribing the Bank’s possible achievements in operational terms in this sector.

2.2 Agribusiness Operations Policy 2002 – building on lessons learned, focus on food and drink sectors, multi-project facilities and grain warehouse receipt programmes

In 2002 the Board approved a revised policy for the sector. This second policy was influenced by the first policy in key areas but also considered early operational experiences. It is interesting to note that the 2002 policy was called “*Agribusiness Operations Policy*”. The policy assesses the transition challenges as follows:

- The reform process in the agricultural sector has been slower than in other sectors of the economy.
- Direct investment targeted at primary agriculture has been marginal, but investments in the downstream industry can represent an efficient way to indirectly support (primary) agriculture.
- Restructuring of former state-owned food processing companies is not completed. The process has proven to be significantly more difficult than initially expected.
- The lack of financing for seasonal working capital and for long-term investments (agricultural machinery, on-farm equipment and so on) still represents a key constraint.

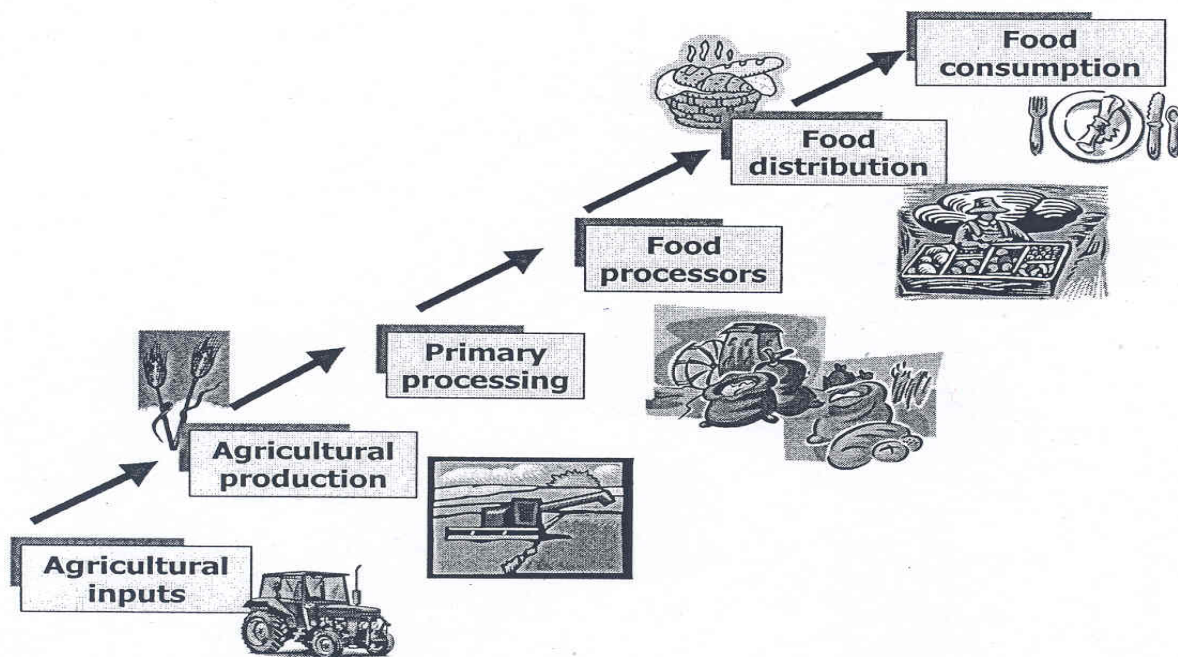
The policy states that the Bank’s agribusiness investments have been limited to large food and drink companies that operate in the largest consumer markets. The policy also refers to the banking team’s own experience, which was developed during the initial years, and the key lesson learned from 28 evaluation reports, that is, “sponsor strength and experience in emerging markets are key to the operation’s success”. Strong sponsors have clearly played an important role in ensuring the success of EBRD-supported investments.

The overall operational objectives defined under the first agricultural operations policy paper were considered to be accurate. Considering the substantial business experience accumulated by the Bank, the adjusted and refined operational objectives are as follows:

- Objective 1: Continue to finance the downstream food and drink sectors as an effective means to support upstream primary production and related industries.
- Objective 2: Expand the range of financing products specifically geared to the agribusiness sector (for example, regional warehouse receipt programme, leasing and so on).
- Objective 3: Improve rural credit systems.
- Objective 4: Increase policy dialogues with member countries in cooperation with other development institutions.

The Agribusiness Team uses the food chain approach as an effective way of reviewing strengths and weaknesses in agribusiness and in identifying markets where crucial changes in the environment would be expected. This constitutes a good base for the identification of areas in which investments would be crucial to facilitate the development of the entire agribusiness chain. It is clear that a weak link in this chain would destabilise the entire chain and affect all participants in this production/marketing/processing chain, regardless of the effectiveness of their own activities.

Chart 1: Food chain



2.3 Agribusiness Sector Operations Policy 2002 (ASOP) – transition impact indicators and related policy objectives

As noted above, this evaluation takes as its principal focus the implementation of the 2002 policy. The following table from the Agribusiness Operations Policy 2002 maps the Bank’s transition categories, transition impact indicators and the objectives in the 2002 policy relating to investment projects.

Table 1: Policy objectives relating to investment projects

Transition categories	Transition impact indicators	Agribusiness sector policy objectives relating to investment projects
Structure and extent of markets	1. Competition	1.1 Greenfield investments 1.2 Technology transfer and innovation through strategic investors 1.3 TC: Carefully test new financial products: logistical support, suppliers credit
	2. Market expansion	2.1 Add to the alternative sources of financing to farmers and agribusiness <ul style="list-style-type: none"> • provision of seasonal working capital, warehouse receipt programs • agricultural credit lines, co-financing lines • sector specific equity funds • collateralised credit and agri-leasing • replicate risk sharing schemes • continue multi-project facilities (MPFs) 2.2 TC to local banks on the above (2.1) 2.3 Promote backward and forward linkages through competitive procurement of raw materials, new storage facilities and distribution centres (EI) 2.4 Continue to finance downstream sub-sectors such as food and drink 2.5 Financing of agricultural service companies
Market-supporting institutions and policies	3. Private ownership	3.1 Blue print for restructuring of state owned enterprises 3.2 Finance privatisation process: legal, contractual, regulatory, bidding 3.3 Privatised through strategic investors
	4. Frameworks for markets	4.1 Policy dialogue (PD) ⁱ : remove market distortions, open market to imports (increase policy dialogue) 4.2 PD: land privatisation, tax reforms 4.3 PD: on warehouse receipts programs 4.4 Coordinate with other IFIs, EU and FAO on the above (4.1 to 4.3) and organise seminars; common advice on specific sub-sectors (oil seed) 4.5 TC ⁱⁱ from legal transition on the above (4.2) 4.6 TC: improvement of hygiene, environmental standards, quality control, technological processes
Market-based behaviour	5. Skills transfer	5.1 TC: training to improve business skills to local companies 5.2 TC: training to improve storage and handling of produce
	6. Demonstration effects	6.1 Support expansion of local and enterprises that have performed well in terms of innovation and efficiency
	7. New standards for business conduct	7.1 Improve governance through restructuring and participation in Boards 7.2 TC: Strengthen business practices of local companies, including business development, client management, management information system (MIS), International Accounting Standards (IAS) 7.3 Improve transparency and disclosure standards

Source: Agribusiness Operations Policy, 7 June 2002, Annexes 6 and 7

Footnotes: (i) Objective to be addressed through policy dialogue.

(ii) Objective to be addressed through TC.

The above table shows that several policy objectives are assigned to each targeted transition category and related indicator. The focus of these policy objectives reflects the priorities of the June 2002 policy paper since many of them address the “market expansion” and “framework of markets” transition categories that fully echo the four key operational objectives described in the Section 2.2:

- support upstream primary production
- expand the range of financing products
- improve rural credit
- develop a stronger policy dialogue to advance key sector reforms.

This policy evaluation needs to raise the question to what extent the investment operations have actually targeted these objectives and to what extent they have been successful in doing so. This issue is addressed in Section 4 (“Sector Level Performance”) below.

2.4 *The transition impact retrospectives (TIRs) 2001 and 2005 and the transition path (“event line”)*

In February 2001 the Bank published a transition impact retrospective (TIR) that had been undertaken as part of the second capital resources review (CRR2). The purpose of the TIR was to identify the pattern of the Bank’s successes and under-achievements in promoting transition on a country and sector basis and to relate this pattern to conditions in the operating environment as well as to project choice and design.

The TIR adopted what it described as a pragmatic approach that emphasised group judgements, drawing on views from within the Bank, primarily from country and sector teams, the Office of the Chief Economist (OCE) and EvD. The companion paper to the TIR identified for each of the twelve sectors a transition path, or “event line”, and remaining transition challenges.

In describing the transition path for the agricultural sector, the 2001 TIR companion paper observed that the “transition event line” in the agribusiness sector outlined below encompasses the creation of decentralised and integrated markets with strengthened incentives for performance. It also encompasses commercially financed investment based on market price signals and consumer-orientation within a supportive institutional and infrastructure framework that takes into account hygiene and environmental considerations. The transition event line comprises the following:

- comprehensive liberalisation of prices and trade
- development of clearly defined property rights on land and assets (and a market to buy and sell land and assets)
- privatisation and restructuring of agribusinesses and dissolution of monopolistic institutions for input supply, processing and trade
- development and implementation of the necessary formal and informal institutions regulating the sector, including an appropriate legal framework, the establishment of new agricultural finance mechanisms and the development of essential infrastructure (infrastructure and services include specialised transport, quality control, standardisation and packaging of produce, and basic infrastructure to conduct trade such as rural collection places, wholesale markets, storage facilities and distribution centres)
- improvement in hygiene, quality and environmental standards in order to meet international market requirements.

This event line was confirmed in the 2005 TIR. The following table summarises the key transition challenges identified in the 2001 and 2005 TIR:

Table 2: Transition challenge and Bank responses

Transition challenge	Bank responses
<ul style="list-style-type: none"> inefficient vertically integrated monopolistic agricultural farms and enterprises with limited performance incentives absence of private sector and competition 	<ul style="list-style-type: none"> financing of privatisation process (legal, contractual and regulatory framework, bidding process) financing of greenfield investments to promote competition
<ul style="list-style-type: none"> lack of market-oriented processing, distribution and marketing systems processing and distribution dominated by one or two state-owned enterprises for each product, in effect the only source of supply to local retail outlets and the only market for primary producers 	<ul style="list-style-type: none"> Bank financial support for private projects in agriculture and agro-processing focused on strengthening forward and backward linkages (for example, competitive procurement of grapes at a winery, storage facilities and distribution centres)
<ul style="list-style-type: none"> lack of modern technological processes limited attention to hygiene and environmental standards and quality controls that would facilitate international trade 	<ul style="list-style-type: none"> Bank financial and TC support for the improvement of technological processes, hygiene and environmental standards and quality controls in order to be able to compete on international markets
<ul style="list-style-type: none"> low productivity in agro-processing enterprises 	<ul style="list-style-type: none"> financial support for restructuring projects in the case of privatised enterprises financial and TC support during pre-privatisation (TC focused on introduction of a management information system, MIS; International Accounting Standards, IAS; procurement practices; long-term business planning)
<ul style="list-style-type: none"> lack of adequate medium to long-term finance for acquisition of land, equipment and inputs, and working capital with due attention paid to the borrowers' creditworthiness⁶ 	<ul style="list-style-type: none"> Bank support for innovative financing mechanisms that could be replicated by commercial banks, for example, grain receipt programmes, agricultural credit lines, co-financing lines and sector specific equity funds

Sources: Transition Impact Retrospective 2001, April 2001, Companion Paper, page 6
Transition Impact Retrospective 2, September 2005

3. The Bank's agribusiness sector activities

3.1 *The Bank's agribusiness sector portfolio*

The EBRD's agribusiness sector portfolio is substantial. At the end of 2007 it comprised a portfolio of around €1.3 billion. The net cumulative business volume, including completed projects, approximately totalled €3.1 billion.

⁶ This issue of lack of adequate medium to long term finance for acquisition of land is linked, in a few countries, to other land-related issues that include:

- lack of appropriate legal framework for land privatisation, farm restructuring, transferability of land and land user rights
- incomplete legal settlement of land ownership relations
- unclear status of ownership of land by local companies and foreign nationals.

These related issues will need to be settled in the first place.

3.2 *EvD's overview of trends in investment operations in the agribusiness sector*

Number of operations

The tables in Annex 2 show the number of agribusiness sector projects signed per country per year and the number of projects per sub-sector per year. It can be seen that the annual business volume has increased from €35 million in 1992 to €17 million in 2007. The average investment per operation has increased from €7 million to €15.9 million overall (per stand-alone operation). This is below the Bank's average of €20 million per operation up to 2007. In 2007 alone, the average size of the agribusiness operations was €12.9 million compared to a Bank average of €13.58 million.

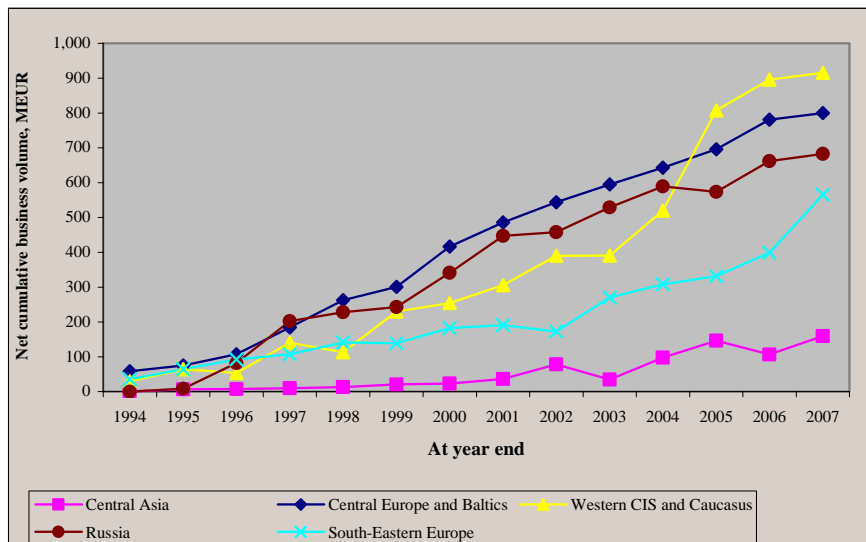
The breakdown by product type shows that 82 per cent (by volume) of cumulative signed operations are through debt and 18 per cent relate to equity.

The regional distribution of the 285 agribusiness operations has shown a clear focus on the western CIS and the Caucasus (29 per cent of signed investment operations by number), central Europe (20 per cent) and south-eastern Europe (19 per cent). Russia attracted 15 per cent and Central Asia only 12 per cent while 5 per cent of the projects were regional. In terms of the main countries, the largest focus was on Russia (41 projects or 15 per cent) and the second largest focus on Ukraine (38 projects or 14 per cent).

Volumes of operations

It is also interesting to consider the cumulative volumes of signed projects by region and by sub-sector, which is illustrated in the following charts.

Chart 2: Net cumulative business volume by region

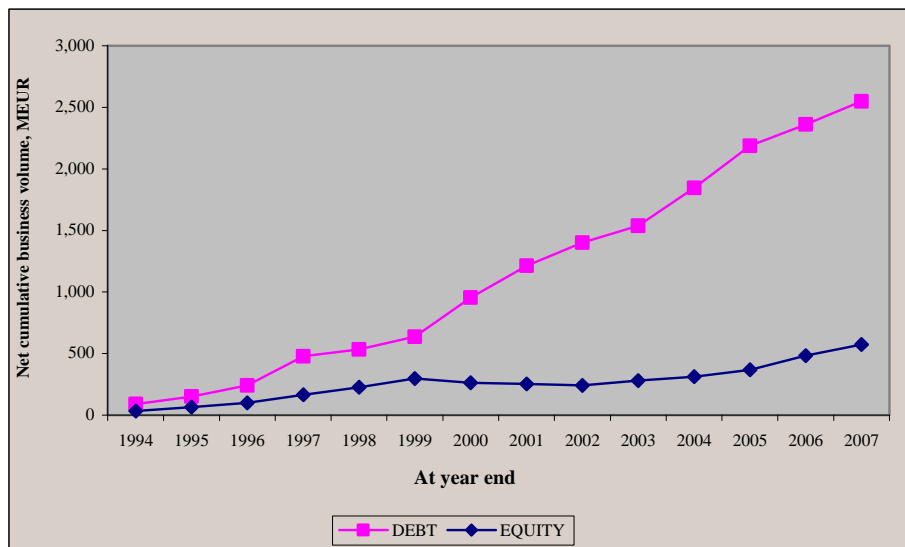


Source: EBRD Data Warehouse

Chart 2 shows that as at December 2007 the Bank had signed around €83 million of business in the agribusiness sector in Russia, €159 million in Central Asia, €800 million in central Europe and the Baltic states, approximately €16 million in the western CIS and the Caucasus and around €65 million in south-eastern Europe (these figures include regional projects). The chart illustrates that in recent years the volume of new business growth by group of transition country has changed.

Starting in 2003, there is a noticeable increase in volume in the western CIS and the Caucasus, south-eastern Europe and, to a lesser extent, Central Asia. The pipeline of projects presently being processed prior to signing shows a substantial increase in the number of projects in Central Asia.

Chart 3: Cumulative volumes by product type



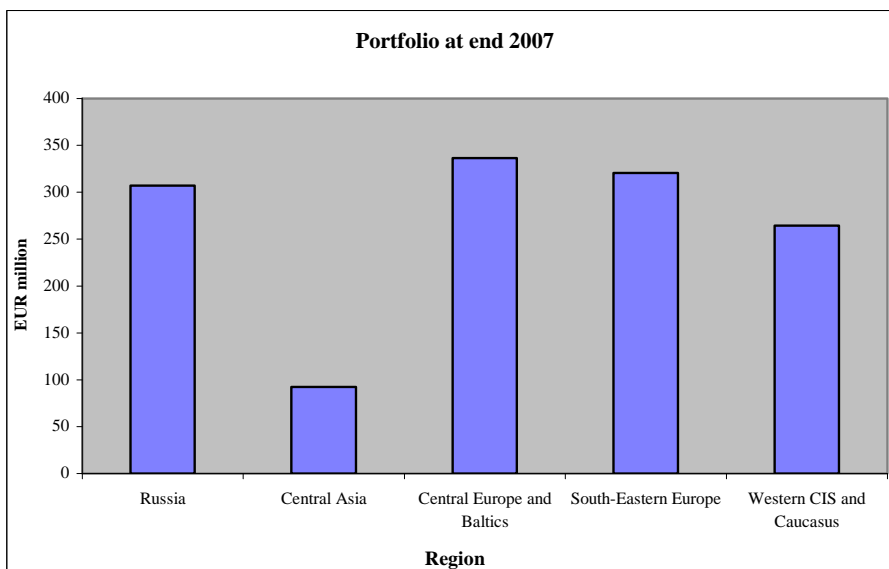
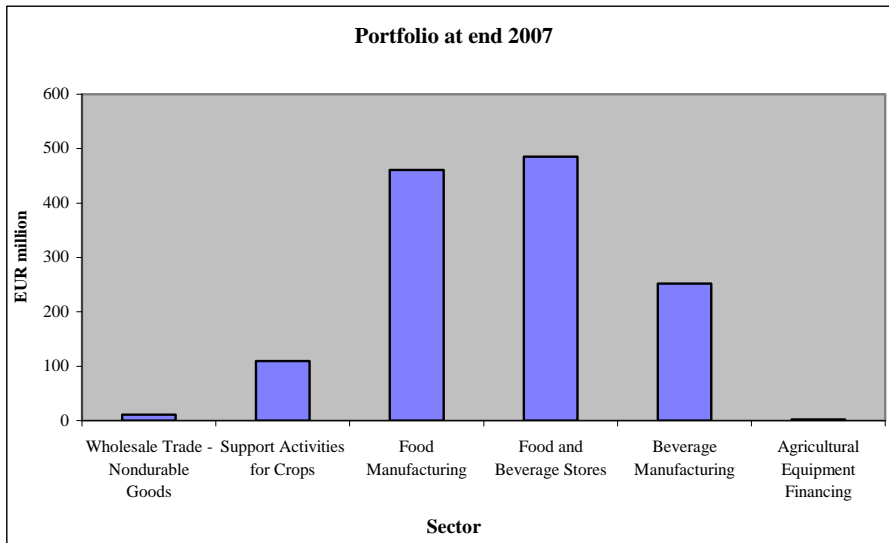
Source: EBRD Data Warehouse

The above chart illustrates that loan operations (mainly senior debt) have, in terms of volume, been the main product of the Agribusiness Team, reaching around €2.6 billion by 2007. Equity operations have been gradually increasing, especially in recent years. Large international investors, as targeted by the Agribusiness Team, do not generally require Bank equity but prefer loan operations. In line with Bank policy the Team has been able to substantially increase the number of equity operations in the actual pipeline of projects prior to signing. In volume terms, the increase is somewhat smaller.

3.3 December 2007 portfolio

The charts in the preceding section illustrate the growth in cumulative volumes, which does not necessarily represent the current condition of the portfolio. As at December 2007 the Bank’s aggregate portfolio in the agribusiness sector was around €1.3 billion. The following charts illustrate the breakdown of the portfolio by product type and region. Appendix 2 shows the breakdown of the agribusiness portfolio by country in more detail.

Charts 4 and 5: Agribusiness portfolio 31 December 2007



Source: EBRD Data Warehouse

The December 2007 portfolio chart shows that food and beverage manufacturing jointly with retail stores represent the vast majority of the projects. The actual pipeline of projects shows a similar composition.

It is also interesting to note that the project focus had some major sub-sector concentrations when looking at the operational focus over several years. There was a period of mainly beer manufacturing projects, then glass and bottle production and, lately, a focus on the retail end (supermarkets and hypermarkets). This pattern reflects the opportunity-driven approach by the Bank. Business opportunities that the EBRD found attractive and that met its criteria were driving the investments in the various sub-sectors.

The contrast in geographical terms should also be noted. The following table has been compiled from data underlying the cumulative volume and portfolio charts above.

Table 3: December 2007 agribusiness cumulative volume and outstanding portfolio

	Cumulative business volume to December 2007		Outstanding portfolio at December 2007	
	€million	% of total	€million	% of total
Central Europe and the Baltic states	800	26%	336	25%
Russia	683	22%	307	23%
South-eastern Europe	565	18%	321	24%
Western CIS and the Caucasus	916	29%	265	20%
Central Asia	159	5%	92	7%
Total	3,123	100%	1,321	100%

Source: EBRD Data Warehouse

The table does not show any significant trends. It indicates that the current portfolio has a smaller volume in the western CIS and the Caucasus than in the cumulative business volume (that is, including completed operations). However, this can be explained by the large revolving credits to finance working capital, particularly in countries such as Ukraine.

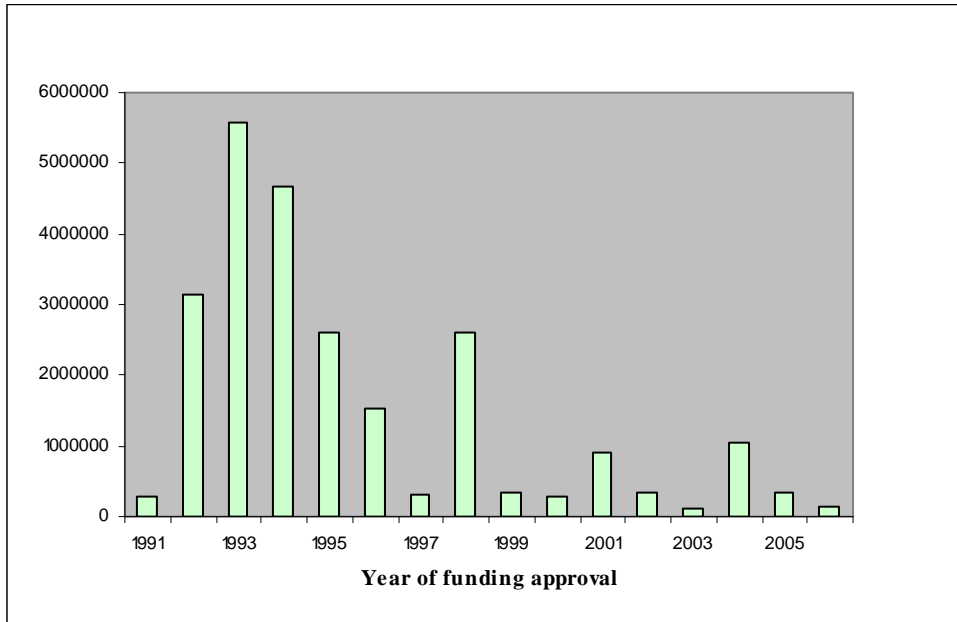
Since these are often completed and re-signed as new operations each year, they distort the figures by showing a high volume of completed operations in the countries in which they dominate, mostly the western CIS and the Caucasus. The proportion of the current portfolio taken up by south-eastern Europe and Central Asia is noticeably higher than their proportion of cumulative business volume, reflecting the recent focus on these regions.

The table also clearly illustrates the predominance of Russia in the Bank's current agribusiness portfolio, showing a larger proportion of the portfolio than most regions. A further point to emerge from the table is the magnitude of the task facing the Bank as it attempts to increase portfolio volume in other regions (in particular early transition countries, ETCs). Some progress in terms of numbers of projects has been achieved in the context of the ETC initiative. Furthermore, as mentioned above, the pipeline of projects shows a substantial increase in the number of projects in Central Asia.

3.4 Overview of TC

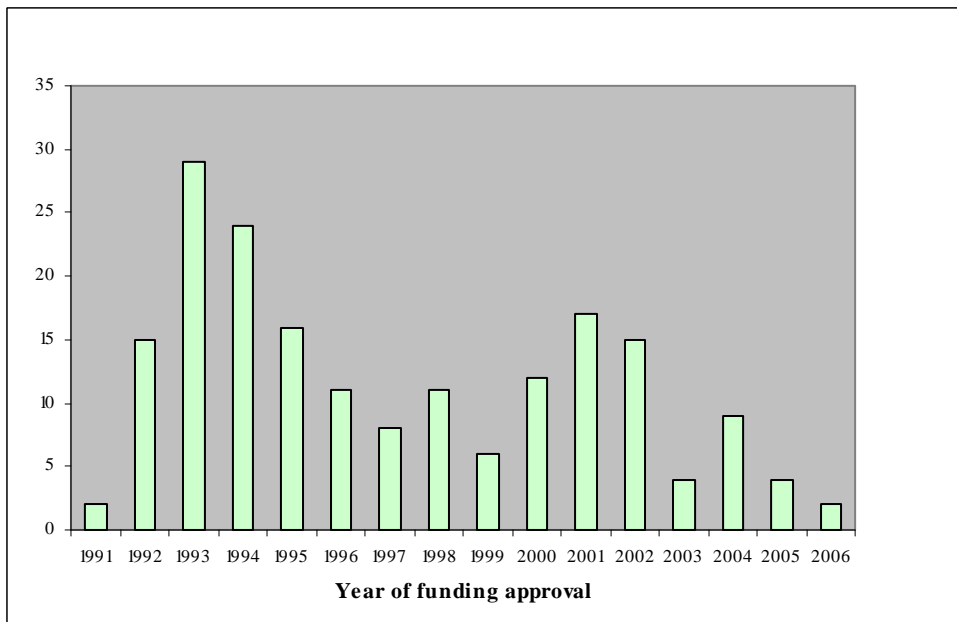
The followings charts show the volume and number of TC commitments per year between 1991 and 2006 by year of funding approval. Further charts in Appendix 2 show the breakdown by industry sub-sector (product group), type of TC operation (project implementation, advisory services and so on) and geographic region.

Chart 6: Volume of TC commitments per year



Source: EBRD Data Warehouse

Chart 7: Number of TC commitments per year



Source: EBRD Data Warehouse

Over the period from 1991 to 2006, approximately €24.2 million of TC expenditure was approved on 185 commitments. It can be seen from the charts above that there was a peak in 1993. Far less TC was approved in more recent years, although a large number of relatively small TCs were approved between 2000 and 2002. This trend is of concern since the study team is of the view that TC is often important for enhancing the transition impact (for example, by improving backward linkages and so on).

The significant reduction of TC commitments is due to the Agribusiness Team’s preference to focus on investment operations rather than time-consuming TC applications.⁷ Also, the Team mainly employs generalists with a background in financial analysis. The question can be asked whether the Team’s present skill set can reverse the current TC trend and design and supervise an increasing number of TCs. This may be necessary if the Team wishes to move closer to primary agriculture and introduce new products as part of a changing work programme focus.

Table 4: Geographical distribution of TC commitments 1991-2006

	% by volume	% by number
Central Europe and the Baltic states	20%	23%
Russia	16%	11%
South-eastern Europe	9%	8%
Western CIS and the Caucasus	36%	34%
Central Asia	14%	14%
Regional	5%	10%
Total	100%	100%

Source: EBRD Data Warehouse

Further analysis of the geographic distribution of TC commitments shows that most of the commitments in recent years have been in the western CIS and the Caucasus. Support to the warehouse receipts programme in Ukraine has accounted for the majority of this funding. The high level of commitments in central Europe and the Baltic states is due to large commitments in the early years of the Bank. There have been no new TC assignments in this region since 2002.

Apart from the focus on warehouse receipts programmes, a large part of the TC has been devoted to prepare advice to the EBRD (risk mitigation for the Bank), falling into two categories:

- sector reviews and other studies to identify potential investments for the EBRD
- due diligence on specific projects.

Some TC was also used for policy dialogue work. Advice provided to clients of the Bank mainly concerned warehouse receipts projects and agribusiness credit lines, where resident credit advisers were often funded for an initial period. The focus of TC operations in terms of the Bank’s transition categories is discussed in Section 4 below (Section 4.2.2).

The fall in use of TCs since the very early days of the Bank reflect the view expressed by the Agribusiness Team that present staffing levels do not facilitate TC use, given the time intensive TC approval and monitoring process. Instead, the Team has decided to focus on loan and equity operations in order to achieve the targets in terms of investment operations.

TC activities can help clarify and assess impacts on investment opportunities due to significant changes in the CAP (Common Agricultural Policy of the EU), quality management requirements, the World Trade Organisation (WTO) and so on. In addition, TCs can have substantial benefits also for the training of staff in the Agribusiness Team.

⁷ The Agribusiness Team is of the view that the Bank’s TC process is too slow and cumbersome. Getting a TC started takes, in some cases, more than a year. Agribusiness cannot easily standardise TC applications since each case is rather different.

The evaluation team concludes that TC funds could have been used more frequently in order to support the operational objectives, particularly in the context of an increased sector reform policy dialogue.⁸

4. Sector level performance

4.1 Project evaluation coverage

Table 5 shows the agribusiness projects by sub-sector and the evaluation coverage through operation performance evaluation reviews (OPERs) and expanded monitor report assessments (XMRAs). EvD has published 31 OPERs and 36 XMRAs on projects in the agribusiness sector. Some of these covered more than one operation within a single report, so the total number of operations evaluated through OPERs and XMRAs is 91.

Table 5 shows that EvD has fair or good evaluation coverage of most sub-sectors in the agribusiness sector. There is limited coverage of food and beverage stores, which is to be expected because the Bank's investments in this area have been relatively recent and are not yet ready for evaluation. The evaluation team addressed this limited coverage by conducting a case study of this sector as part of its evaluation (see Appendix 5 on backward linkages of supermarkets/hypermarkets).

The evaluation coverage of support activities for crops is also relatively low. This sub-sector includes grain receipts programmes, which have been studied in detail in a separate special study evaluation and have, therefore, not been further evaluated through OPERs or XMRAs. The key findings and recommendations of the grain receipts study are shown in Appendix 6.

Table 5: Agribusiness projects and evaluation coverage, 1991-2007

Project type	Total investment (€000's)	% of sector investment	Number of projects	Number evaluated in OPERs	Number evaluated in XMRAs	% coverage through OPERs & XMRAs
Agricultural equipment financing	20,398	1%	4	0	3	75%
Beverage manufacturing	570,183	18%	63	6	17	37%
Food and beverage stores	676,632	22%	27	0	4	15%
Food manufacturing	1,187,120	38%	120	27	18	38%
Support activities for crops	607,511	19%	47	6	1	15%
Wholesale trade (nondurable goods)	61,537	2%	13	5	4	69%
Total	3,123,380	100%	274	44	47	33%

Further analysis of the evaluation coverage is shown in Appendix 8. This detailed analysis gives the evaluation team confidence in the validity of the sample as representing the population of agribusiness projects signed since 1991, especially when this is reinforced by the case study on the retail sector.

Appendix 9 analyses how the projects in the sample compare with the stock of projects that are considered as not yet ready for evaluation (according to EvD's selection criteria) and that are in the pipeline of unsigned projects as at 31 December 2007. In terms of industry sub-sectors, the breakdown shows similar results.

⁸ There are discussions ongoing whether resident offices (ROs) and/or the OCE could take over more responsibility for agribusiness sector dialogue at the relevant level and in coordination with the Agribusiness Team.

Food manufacturing accounts for the largest number of projects (approximately half), followed by beverage manufacturing with about a quarter. The proportion of food and beverage stores increases, which is in line with the Team's current focus on this sector. The breakdown by type of financial product shows that the current pipeline includes a larger percentage of equity investments, which is in line with Bank policy.

The analysis of the regional distribution clearly shows the move to the east. Most of the pipeline projects are in Russia, eastern Europe, the Caucasus and Central Asia. The proportion of projects in the pipeline in central Europe and the Baltic states is approaching zero. There are also relatively few projects in south-eastern Europe.

4.2 Introduction to the assessment of the Bank's sector level performance

The assessment of sector level performance focuses on the extent to which the Bank's agribusiness operations have addressed the priorities for the sector set out in the 2002 ASOP.⁹ The degree to which the operations have addressed these priorities is considered under the headings of *relevance*, *efficacy*, *efficiency* and *impact*.

Based on analysis of the evaluated operations, ratings are derived for sector level performance under each of these headings. The question remains of how well the policy itself was targeted. This study tries to answer this question by referring to the remaining transition challenges identified in the 2005 TIR and comparing the present status to the 2002 policy document. This chapter of the review then reaches an overall sector performance rating for the Bank's agribusiness sector operations.

4.2.1 Relevance of investment operations

The evaluation team mapped the objectives identified in the 2002 ASOP and the 2001 TIR onto the Bank's seven standard transition impact indicators and three transition categories, as illustrated in Table 6 below.

The evaluation team took as a sample the 67 evaluation reports prepared by EvD on agribusiness investment operations. To measure relevance, the evaluation team first listed the objectives set at approval for each of the projects. The following table shows the number of projects addressing each objective.

⁹ The 2002 ASOP considered the overall operational objectives defined under the first agricultural operations policy paper in 1993 as accurate. Based on the team's experience in the initial years and based on lessons learned from evaluation reports, there was an adjustment of operational objectives and a somewhat clearer focus of the policy.

Table 6: Number of projects in the evaluation sample addressing each agribusiness sector policy objective (ASOP)

<i>TI category/ TI indicator</i>	No. of ASOP objectives	No. of projects addressing objectives
<i>Structure and extent of markets</i>	8	60
Competition	3	39
Market expansion	5	50
<i>Market-supporting institutions and policies</i>	9	22
Private ownership	3	9
Frameworks for markets	6	13
<i>Market-based behaviour</i>	6	49
Skill transfer	2	23
Demonstration effects	1	20
Improved standards	3	33

The table illustrates that 60 out of the 67 operations in the sample addressed structure and extent of markets. Among these the primary target was market expansion (50), while 39 projects also targeted competition. Market expansion was most commonly targeted through the promotion of forward and backward linkages by the agri-processing and retail projects supported by the Bank. Almost three-quarters of the projects (49 in total) addressed market-based behaviour, with about a third (22) addressing market-supporting institutions and policies.

4.2.2 *Relevance of TC initiatives*

As shown in Chart 7 in Appendix 2, much of the TCs employed in the agribusiness sector have been used for project preparation, either through sectoral studies or through due diligence on individual projects under appraisal. In the former case, the subject of the TC is often too broad to fit individual transition categories, unless it is focused on a sub-sector identified in the strategy as a priority.

Similarly, due diligence on individual operations can only be fitted to transition categories if the operation is in a priority area. Of the 185 TC commitments, it was only possible to link 96 objectives from 86 commitments to specific transition objectives identified in the strategy. This explains the relatively low figures for TC in Table 7 below.

The largest group (63) of TCs, which can be directly linked to individual transition categories, relates to the structure and extent of markets. The majority of these related to policy objectives, which are shown in Table 1 under point 2.2 (TC to local banks, mostly in relation to agricultural credit lines) and point 2.3 (promoting linkages, mostly through support of wholesale markets).

Another 25 commitments related to market-supporting institutions and behaviour, mostly strengthening business practices of local companies through direct assistance to project implementation units (PIUs), procurement, marketing and so on. Market-supporting institutions and policies were only targeted by eight commitments covering policy dialogue, support to privatisation or improving environmental standards.

The review team is of the view that an increase of TC activities that target supporting institutions (including state agencies, universities and so on) could contribute to more private investment and facilitate the privatisation process. TCs can also be used to develop a policy platform and for defining some framework conditions that would allow the Bank and other investors to enter the

market. It may also be helpful to develop indicators and to continue monitoring them. Both activities could focus on a few countries of Bank operations.

4.2.3 Relevance rating

The following table summarises the findings with regard to the relevance of the Bank's investment operations and TC assignments discussed above.

Table 7: Relevance ratings

<i>TI category</i>	Investment operations		TC assignments		All operations
	No. of projects addressing objectives	% of projects addressing objectives	No. of assignments addressing objectives	% of assignments addressing objectives	Relevance rating
<i>Structure and extent of markets</i>	60	90%	63	34%	<i>Excellent</i>
<i>Market-supporting institutions and policies</i>	22	33%	8	4%	<i>Satisfactory</i>
<i>Market-based behaviour</i>	49	73%	25	14%	<i>Good</i>

The table shows that the Bank's investment operations with strong international and local sponsors had a stronger impact on competition and market expansion (TI category: structure and extent of markets). These companies typically apply international standards and provide skills transfer (TI category: market based behaviour). Frameworks for markets were less targeted by the Bank.

4.3 Efficacy

To assess the efficacy of the Bank's operational response to the 2002 ASOP, the evaluation team considered the degree of effectiveness of the agribusiness sector investment operations in the sample of evaluated projects. The degree of effectiveness was estimated by calculating the average rating score for fulfilment of objectives.¹⁰ On this basis the following table shows the average efficacy ratings of the 67 evaluated operations against the Bank's standard transition categories and indicators.

¹⁰ For this purpose EvD's standard rating scale is graded as follows: 1 = excellent; 2 = good; 3 = satisfactory; 4 = marginal; 5 = unsatisfactory; 6 = highly unsatisfactory.

Table 8: Efficacy of sample investment projects

<i>TI category/ TI indicator</i>	No. of ASOP objectives	No. of projects addressing objectives	Average efficacy rating
<i>Structure and extent of markets</i>	8	60	2.82
Competition	3	39	2.54
Market expansion	5	50	2.84
<i>Market-supporting institutions and policies</i>	9	22	3.00
Private ownership	3	9	3.33
Frameworks for markets	6	13	2.77
<i>Market-based behaviour</i>	6	49	2.59
Skill transfer	2	23	2.61
Demonstration effects	1	20	2.30
Improved standards	3	33	2.73
<i>Overall</i>	23	67	2.79

On the six-point rating scale, the transition category with the best overall performance was market-based behaviour, where the 49 rated projects had an average rating of 2.59. The lowest efficacy score is obtained for projects addressing market-supporting institutions and policies, particularly private ownership. Only very few of the evaluated agribusiness projects related to privatisation or pre-privatisation activities.

Most client companies were already in the private sector (and many with a strategic sponsor in place) before the EBRD's investment took place. The study team is of the view that more work remains to be done in this area, particularly in the context of the Bank's efforts to move further east.

The same exercise could not be conducted for the TC operations because a rating for fulfilment of objectives was not available for TC operations completed before mid-2001, which is the majority of the TC in this sector.

4.4 Efficiency

To measure the efficiency of the Bank's response to the 1993 ASOP and the 2002 ASOP, the evaluation team considered the financial performance of the projects themselves as rated through EvD's project financial performance rating and the investment performance of the agribusiness portfolio.

4.4.1 Financial performance of projects

In analysing the financial performance of a non-financial market project, EvD uses an appropriate range of performance indicators in project financing, such as sales figures, net profit, debt service coverage, financial internal rate of return (FIRR) and economic internal rate of return (EIRR). These figures are compared with those predicted at appraisal to give a rating on the six-point scale used for other indicators (see Footnote 4).

For the analysis of the efficiency of the Bank's operational response to the 2002 ASOP, the evaluation team measured the average project financial performance rating for operations in the sample.

Table 9: Efficiency of sample investment projects

<i>TI category/ TI indicator</i>	No. of ASOP objectives	No. of projects addressing objectives	Average efficacy rating
<i>Structure and extent of markets</i>	8	60	3.40
Competition	3	39	3.31
Market expansion	5	50	3.32
<i>Market-supporting institutions and policies</i>	9	22	3.36
Private ownership	3	9	3.67
Frameworks for markets	6	13	3.15
<i>Market-based behaviour</i>	6	49	3.27
Skill transfer	2	23	3.57
Demonstration effects	1	20	2.90
Improved standards	3	33	3.52
<i>Overall</i>	23	67	3.39

The above table shows an overall average project financial performance rating slightly closer to “Satisfactory” (3) than to “Marginal” (4). Variations among the categories are small, with projects targeting demonstration effects achieving the best financial performance and projects targeting private ownership the least successful results.

4.4.2 Profitability of the agribusiness portfolio

These results are reflected in the profitability of Bank operations in the agribusiness sector. Using calculations based on the Bank’s profitability model, the evaluation team estimated gross and net returns to the Bank on debt operations and equity investments. The evaluation team estimated the return on operations signed between January 1997 and December 2006, separating these into active and completed operations. A December 2006 cut-off was used so that outstanding equity investments were valued at that point at fair value, while active debt operations were treated as if all outstanding debt were immediately repaid at that date.¹¹ Table 10 summarises the results of the exercise.¹²

Returns on debt operations

The reasonableness of the results obtained for debt operations was tested by calculating the weighted average margin on debt operations in the sample. This gave a figure of 2.7 per cent. Therefore, an overall net return of 2.6 per cent appears reasonable after allowing for fee income receipts, direct costs and write-offs. In calculating the returns, as noted above, the evaluation team applied the Bank’s profitability model, which is used on a project-by-project basis during project preparation.

The model calculates the projected return that is reported in Board documents as the expected contribution of the project to the Bank’s profitability. It also produced figures for net return on

¹¹ It was assumed that future interest payments and direct costs would almost cancel each other out. No prepayment fees were allocated as a result of the assumed repayment. This is the approach which has been used in calculating the returns on the debt portfolios of other teams, used as comparators below. While the methodology contains a certain margin of error, it has been used consistently by EvD across various teams in recent years.

¹² Technical note: A form of the Bank’s project profitability model (PPM) has been used with all calculations performed in euros, inputting actual figures in place of the PPM estimates. Disbursement and repayment information has been obtained from eMOR, while other figures (on interest margin, fees, dividends, direct costs and specific provisions) have been obtained from the profit and loss (P&L) cube. No general risk adjustment has been included.

investment for active debt operations after provisions. This resulted in a notional net return of 1.4 per cent. This number needs to be seen in the context of the relatively small average transaction size of €13.3 million.

Returns on equity investments

The return on active equity investments has been calculated using fair value calculations as at the end of 2006. No provisions have been applied since the fair value figures take account of expected losses. The rather low figure for the return on completed equity investments is largely explained by write-offs. These amount to €36.9 million in the period from 2000 to 2002 and 2006 on a small number of investments.

This figure is large in relation to the equity gains of about €1.5 million on completed equity operations. The total number of completed equity operations for which returns were calculated was only 22, which allows a small number of negative outcomes to have a substantial effect. The group of active equity operations also includes a number for which the fair value figure was either zero or less than the original investment. However, the estimated overall rate of return was nevertheless far more positive. The Bank's equity experience has demonstrated that larger equity investments are generally more profitable than smaller investments, which are predominant in agribusiness compared to the power or telecom sectors.

Table 10: Gross and net return on investment before provisions at December 2006 – agribusiness operations signed 1997-2006

	Active operations		Completed operations		All operations	
	Gross return	Net return	Gross return	Net return	Gross return	Net return
Debt ⁱ	2.8%	1.6%	4.2%	3.4%	3.8%	2.6%
Equity ⁱⁱ	14.9%	12.4%	4.9%	0.6%	10.3%	7.1%

Footnotes: (i) The gross return on debt operations takes account of interest receipts (net of funding costs) and fees, capital disbursements and repayments. No adjustment has been made for specific or general loan loss provisions. Net return also takes account of direct costs.

(ii) The gross return on equity investments takes account of realised gains and dividends, capital flows (equity subscriptions and divestments), impairment losses on completed investments and unrealised gains and losses based on fair value at December 2006. Net return also takes account of direct costs and assumed equity cost of funds of around 5 per cent.

4.4.3 Efficiency rating

The analysis of the financial performance of projects in section 4.4.1 results in a “Satisfactory” rating overall. This is reinforced by the evaluation team's calculations showing a gross return on the Bank's *debt operations* in the agribusiness sector of about 3.8 per cent.¹³ The return on the agribusiness debt portfolio appears to be similar to the return on the Bank's overall debt portfolio, while the return on the equity portfolio is a little higher. The gross return on the agribusiness equity portfolio is estimated at around 10.3 per cent compared with about 8.4 per cent for the Bank's overall equity portfolio.

¹³ This figure compares with results from recent EvD sector studies of around 3.2 per cent for Financial Institutions, 3.4 per cent for Property and Tourism and 4.4 per cent for Telecommunications, Informatics and Media. The comparisons of returns across sectors, however, remains problematic, since it is self-evident that large syndications for new telecom companies are generally more profitable than small and medium-sized loans to agribusiness companies.

4.5 Transition impact

The following table, which shows the average transition impact rating for operations in the sample, provides a measure of the impact of the ASOP as realised through the Bank's investment projects. The analysis is supplemented by comparing the results with the remaining transition challenges identified in the Bank's 2005 TIR.

Table 11: Transition Impact of sample investment projects

<i>TI category/ TI indicator</i>	No. of ASOP objectives	No. of projects addressing objectives	Average transition impact rating
<i>Structure and extent of markets</i>	8	60	2.68
Competition	3	39	2.44
Market expansion	5	50	2.70
<i>Market-supporting institutions and policies</i>	9	22	2.73
Private ownership	3	9	2.78
Frameworks for markets	6	13	2.69
<i>Market-based behaviour</i>	6	49	2.57
Skill transfer	2	23	2.70
Demonstration effects	1	20	2.40
Improved standards	3	33	2.67
<i>Overall</i>	23	67	2.66

The above table shows an overall average impact rating of “Satisfactory” (3) to “Good” (2).¹⁴ The results are slightly better overall than in the corresponding table for efficacy and show much less variation. The transition impact ratings of individual operations in the sample range from “Negative” (one project) to “Excellent” (seven projects). The distribution of individual project ratings is shown in the table below. It can be seen that 55 per cent of operations achieved transition impact ratings of “Excellent” or “Good”, and 79 per cent score in the range of “Satisfactory” to “Excellent”.

The sample of 67 operations shows the following distribution of transition impact ratings:

Table 12: Distribution of transition impact ratings

Transition impact rating	No. of projects	% of projects
Excellent	7	10%
Good	30	45%
Satisfactory	16	24%
Marginal	8	12%
Unsatisfactory	5	7%
Negative	1	1%
Total	67	100%

For comparative purposes, the evaluation team consulted the TIRs of 2001 and 2005 and the 2005 Assessment of Transition Challenges. The following table shows the transition impact as well as the degree of remaining transition challenges assigned to 27 countries in 2005. The table maps the “degree of remaining transition challenges” against the transition impact rating in 2005 for the agribusiness sector of each country.

¹⁴ The overall transition impact rating is adversely affected by a number of projects undertaken in the 1990s, while recently evaluated operations have been more successful in achieving the transition objectives identified in the ASOP. Restricting the analysis to projects evaluated from 2001 onwards, the average transition impact score improves to 2.48, or “Good” overall. This improvement in more recent projects is a welcome development.

Table 13: Transition impact and remaining challenges 2005 – agribusiness

Realised TI ⁱ	Degree of remaining transition challenges ⁱⁱ		
	Small	Medium	Large
Very significant Kazakhstan Ukraine		Kazakhstan	Ukraine
Significant Croatia Russia Serbia & Montenegro		Croatia	Russia Serbia & Montenegro
Moderate Azerbaijan Bosnia & Herzegovina Bulgaria Czech Republic FYR Macedonia Georgia Lithuania Poland Romania	Czech Republic Lithuania	Bulgaria FYR Macedonia Poland Romania	Azerbaijan Bosnia & Herzegovina Georgia
Minimal Estonia Hungary Latvia Kyrgyz Republic Uzbekistan	Estonia Hungary Latvia	Kyrgyz Republic	Uzbekistan
None Albania Armenia Belarus Moldova Slovak Republic Slovenia Tajikistan Turkmenistan	Slovak Republic Slovenia	Albania Armenia	Belarus Moldova Tajikistan Turkmenistan

Footnotes: (i) EBRD Transition Impact Retrospective 2, Companion Paper

(ii) Assessment of Transition Challenges 2005

The countries towards the bottom left of the table (Estonia, Hungary, Latvia, Slovak Republic, Slovenia) are advanced transition countries in which there is apparently no major role for the EBRD to play: transition impact has been small but few or no challenges remain. Albania, Armenia, Belarus, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan and Uzbekistan are countries where there are significant challenges remaining but where the EBRD has so far (to 2005) had little or no impact.

Of these countries, other than in the Kyrgyz Republic and Moldova, between zero and two projects had been signed per country as at the end of 2004. The Czech Republic and Lithuania are positive examples of countries where the EBRD has had some impact and few transition challenges remain.

In other countries the EBRD has had moderate or significant impact but medium or large challenges still remain. In particular, Ukraine, Russia, Montenegro and Serbia have large challenges although the EBRD has already had significant or very significant transition effects. Issues frequently arising in the assessment of transition challenges include

- land ownership
- tariffs

- quotas and other import/export restrictions
- government interventions or control of industries
- bureaucracy and tax issues
- lack of finance for agribusiness from the banking sector.

A very comprehensive list of challenges was developed in 2001 in the course of preparing the 2002 agribusiness strategy (see Appendix 3). All these challenges or strategic areas for development remain valid, except the concern regarding the deterioration of the terms of trade for agricultural commodities. In the past 18 months these have significantly improved.

The Agribusiness Team should get full credit for quickly establishing a significant presence in the agribusiness sector in many countries of operations. To achieve this in a short time frame and with good financial returns on investment is commendable. The decision to pursue high quality sponsors, for example the major international commodity traders, malt producers, beer brewers and hypermarket chains, can be described as somewhat opportunistic. Nevertheless, this approach helped the EBRD to quickly gain a significant position in the market with limited staff resources.

The portfolio is relatively well-balanced and, besides doing large transactions in the bigger countries, the Team has continuously dedicated resources to smaller countries in the east and the south. The early focus on downstream activities helped the EBRD avoid some of the pitfalls of higher risk lending further upstream (or closer to primary agriculture), which is generally more risky.

Table 13 shows the degree of remaining transition challenges in the agriculture and agribusiness sector. In the categories “Large” and “Medium”, 20 countries remain transition challenges. In the future agribusiness sector policy, the Agribusiness Team will need to define how it wishes to address these challenges by policy dialogue and by designing specific investment operations that have a higher transition impact.¹⁵

4.6 Environment

Primary agriculture and agribusiness operations have impacts on the environment. In the context of EvD’s review of the Bank’s Environmental Policy, a review of the environmental lessons in the EBRD lessons learned database was undertaken (see Appendix 6, which summarises key lessons learned). In EBRD greenfield agribusiness projects, world-class and/or EU standards are normally adhered to. It may be more challenging to reach these standards in some of the smaller restructuring/upgrading projects of older facilities.

This is particularly the case when the Bank operations are relatively small and implemented via a direct investment facility (DIF), direct lending facility (DLF) or a regional venture fund. In such cases, the Bank’s Environment and Sustainability Department (ESD) is normally involved to a lesser extent. In operations closer to primary agriculture (for example, meat and poultry production), more challenging environmental issues arise, such as waste treatment and recycling at the processing plant and possibly in earlier stages of the food chain (backward linkages: local suppliers and so on)

¹⁵ The Agribusiness Team is of the view that its initial priority is to achieve a substantial part of the annual volume target prior to dedicating more resources to a number of smaller transactions and possibly related TC operations.

The Bank's strategy to move further east will probably accelerate the trend towards smaller operation sizes given the characteristics of the sector and the countries concerned. This will require a review of how the London-based specialists can best contribute to the review of environmental and labour issues.

4.7 Summary of the case studies (Ukraine and Romania)

The review of the evaluation results was complemented by the review team with two case studies:

- In the Ukraine an assessment was undertaken as to how the operations were targeted and what results they achieved in the sector overall (see Appendix 4).
- In Romania the backward linkages of supermarket/hypermarket operations were analysed (see Appendix 5) because operations in this subsector have increased and the transition impact depends increasingly on such linkages.

The overall conclusion of the case study on the Ukraine is that the agribusiness portfolio in the country has largely met the 2002 commitments (see Section 2.2 above) regarding

- objective 1: "to finance downstream food and drink sectors to upstream primary production and related industries"
- objective 2: "to expand the range of products specifically geared to the agribusiness sector".

So far, the Agribusiness Team has not been able to achieve objective 3, which is "to improve rural credit systems". This should be given more attention in the near future as it could have very positive economic and social implications for rural development through SMEs (agribusiness or not).

Whilst the TC for the warehouse receipts programme was correctly targeted, the particular Ukrainian challenges have stalled a broader use of warehouse receipts. In view of the numerous institutional issues still pending in Ukraine (for example, ongoing moratorium that prevents agricultural land sales) and the needed strengthening of cooperation with other IFIs and development institutions, the current TC budget appears insufficient.

The Romanian case study (see Appendix 5) focused on intended and actual linkages in supermarket and hypermarket operations. Romania is facing a difficult transition. The modernisation of the retail sector places new challenges on a largely fragmented and inefficient agricultural system that also has to move towards EU standards for food safety and hygiene.

The evidence at present suggests that the supermarkets are not making a positive contribution to this restructuring in all food types. The exceptions were fresh meat and certain dairy products, where some specific efforts may be necessary in order to obtain sufficient quantities at the required quality levels from local producers. Whilst supermarkets and hypermarkets place new demands on the system, they only support farmers and processors, which struggle to meet both the retailers' own demands and EU standards, in the above mentioned exceptional food types.

Involving supermarkets in the broader process of agrarian transformation requires positive and specific programmes aimed at supplier upgrading. Such programmes could be incorporated into EBRD lending on a case-by-case basis. Early coordination with the ministry of agriculture, with

training institutes and with providers of agricultural credit lines may also be necessary to achieve the desired results.¹⁶ Supermarkets are rapidly expanding, including in poor areas, small towns and the countryside. This development has clearly increased marketing efficiency and broad segments of the population benefit from more competitively priced goods.

4.8 Overall performance assessment

This section combines the rating of each of the four factors into an overall performance rating as shown in the following table:

Table 14: Overall sector performance rating summary table

Rating Factor	Rating
Relevance	Good
Efficacy	Satisfactory-Good
Efficiency	Satisfactory
Impact	Satisfactory-Good
Overall assessment	Successful

The review finds that the Bank’s activities in the agribusiness sector have been “Successful” overall because of “Good” relevance and “Satisfactory-Good” efficacy, “Satisfactory” efficiency and “Satisfactory-Good” impact. While the Team’s activities were well focused overall, the projects were implemented in a difficult environment, which has tempered the outcomes for efficacy, efficiency and impact.

Agribusiness is a socially sensitive sector in many countries, employing large numbers particularly in early-transition countries, which makes reform especially difficult. Some early attempts to reform large agribusiness companies had mixed success, which has particularly affected the efficiency rating (measured through financial return to the Bank). Through turning its focus towards working with strong Western sponsors, often in less risky downstream sectors, the Team has managed to achieve a strong impact on the structure and extent of markets (competition and market expansion) and market-based behaviour (skill transfer, demonstration effects and improved standards), though the impact on market-supporting institutions and policies has been less.¹⁷

By moving further east and south, it is also likely that the size of the projects will further decrease. Depending on the emphasis of the Bank’s new agribusiness sector policy, the corresponding objectives and targets may require a commitment of more staff positions (see Recommendation 5.4 and Footnote 12) and additional TC funds. The policy dialogue and the regulatory framework may require further resources too.

¹⁶ The publication “The Role of the Food & Beverage Sector in Expanding Economic Opportunity”, which was published by Harvard University/JF Kennedy School of Government in 2007, presents the case of Reliance Retail (RR) in India. RR is investing about US\$ 6 billion (about €4.3 billion) into a new retail company in India that will cover 1,500 cities and towns. A key feature of RR’s vision is the establishment of rural collection centres for fresh vegetables and fruits. These centres will provide efficiency and sustainability training to farmers seeking to improve their productivity. They will also buy directly from farmers and dramatically reduce loss and spoil of fresh products. In a future phase it is the intention to create rural business hubs that would help increase farm yields through knowledge dissemination. They would, amongst others, also provide capacity building and rural enterprise development activities.

¹⁷ The Agribusiness Team stresses that at the end of 2007 the TIMS rating as measured by the OCE was 76 per cent for agribusiness, which is possibly the best TIMS rating for any team.

5. Recommendations

The following is a list of main recommendations grouped by issues related to ASOP objectives, which the Team may consider when preparing its forthcoming new agribusiness operations strategy.

5.1 *Linkages*

This pertains to the issue of further improving the linkages to primary production in accordance with the first objective of the ASOP 2002, which reads: “continue to finance the downstream food and drink sectors as an effective means to support upstream primary production and related industries.” This study has found, in particular in the context of the Romanian case study (see Section 4.7 and Appendix 5) and in the evaluation of TC operations (volume and focus, as per Section 3.4), that backward linkages are not automatic and that a number of areas, which are listed below, need increased attention.

Recommendations

Strive for more investment operations with processors and supermarkets and enhance the linkages to primary production. In this context, aim at a more thorough examination of the value chain in order to establish clearer and measurable transition targets through:

- greater care in data collection on levels and trends in local sourcing, differentiated by major food groups
- greater focus on the specific policies and programmes by retailers for the enhancement of supplier capacity, backed up by evidence of implementation of these programmes
- consideration of the ways by which rural finance and extension services can be linked to these policies and programmes
- examination of the relative merits of retailers and food processors in driving agricultural modernisation, particularly in meat and dairy products
- provision of opportunities for small agricultural suppliers of fruit and vegetables to access modern retail outlets
- export promotion in areas where the country concerned has a competitive advantage.

Encourage marketing companies (including supermarkets) and possibly other parties to set up agricultural extension services which link the farmer with the processor and provide the farmer with:¹⁸

- technical advice to produce according to the specifications
- assistance in finding the sources (seeds, fertilizer and pesticides)
- working capital for crops that require considerable up front investments.

In the agribusiness strategy, specifically address the needs of the ETC countries and, more generally, of rural areas in most countries.

Direct TC donor funding is crucial for taking more basic initiatives in these areas.

¹⁸ Ministry of agriculture, extension services, universities, banks and so on.

5.2 *The range of financial products*

This issues concerns the adaption of financing products to new requirements and possibly higher risk profiles and relates to the second objective of the 2002 ASOP, which reads: “expand the range of financing products specifically geared to the agribusiness sector (e.g. Regional Warehouse Receipt Programme, Leasing etc.)” In the context of the Ukrainian case study (see Section 4.7 and Appendix 4), this study has found that past product innovation like the Regional Warehouse Receipt Programme can have relevant transition impact on the entire sector. The Bank could continue such well-received efforts with innovative products, which may require an increased use of TC operations for preparation and implementation.

Recommendations

- Continue to offer agribusiness financing to a broader range of agricultural products including, for instance, investment in the processing of animal products (for example, poultry, pig, milk).
- Create co-finance arrangements with other donors in such a manner that attractive ready-made packages of financing could be generated, for example, for investments in waste treatment in the agro-processing industries.

5.3 *Rural areas have limited access to credit*

Here, the issue relates to the limited access to credit that is experienced by rural areas. This study notes in Appendix 4 the positive, yet limited impact of some of the existing food and drink processors investment operations (for example, malting plants that provide support to their contract farmers with seeds, technical assistance and advance payments). The study team suggests that more efforts and a broader approach are required to properly address the third objective of the 2002 ASOP, that is, the improvement of the rural credit system.

Recommendations

- Strengthen the collaboration with the SME team in order to target financial market failures in rural areas.
- Further increase the number of operations with local small and medium-sized investors as sponsors rather than only with large international investors.

5.4 *Frameworks for markets*

TC and investment operations do not fully target frameworks for markets (as described in Section 4.2.1 and 4.2.2). The study team has noted the Agribusiness Team’s view that other IFIs have more of a policy mandate (the FAO, World Bank) and should, therefore, take over this sometimes rather time-consuming work, which does not always lead to immediate results. The study team is of the view that more efforts and resources may also need to be applied by the Bank towards achieving the fourth objective of the 2002 ASOP, which seeks to increase policy dialogues with member countries in cooperation with other development institutions.

Recommendations

Involve a senior member of the Agribusiness Team in the coordination of the actual TC studies with the IFIs. This would make it easier to incorporate the findings in future projects (and strategy). It would also facilitate the coordination of possible follow-ups with government representatives in the countries of operations.¹⁹ The senior specialist would also assist the agribusiness team management in

- liaising with other IFIs
- preparing and supervising TCs
- strengthening the policy dialogue especially with countries with large remaining transition challenges.

Enhance the collaboration with other international organisations (the FAO, World Bank and so on) in these areas of the agriculture and agribusiness sectors

- where there are policy changes
- where support for institution building may facilitate private sector development
- where project leverage alone would not be sufficient.²⁰

Carefully review issues that concern the governance, the actual land rental agreements and the framework for a functioning agricultural land market and include them in the agribusiness sections of country strategies.

¹⁹ Additional staff positions would also be needed (junior TC processing specialist and senior agribusiness specialist) in order to make greater use of TC and to enhance project design through TC.

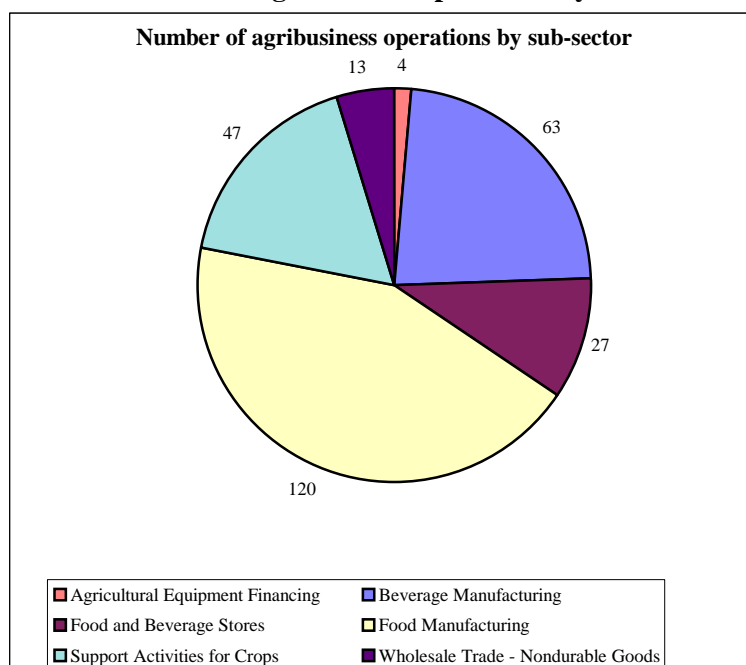
²⁰ The Agribusiness Team has sponsored the establishment of a forum for coordination between IFIs and further interested parties. The “EastAgri” network was co-founded by the EBRD and the World Bank, and the information hub and the web site are managed by the FAO. This collaboration should be continued and further expanded.

Main aspects of the Bank's investment programme in agribusiness

Investment projects

Over the period from 1991 to 2007 the Bank undertook a total of 274 projects in the agribusiness sector.¹ The following two charts show the number of operations by sub-sector (Chart 1) and the volume of the transactions in euros by sub-sector (Chart 2). The vast majority of operations (both numbers and value) has been in the sub-sectors food manufacturing, beverage manufacturing (includes bottle manufacturing) and support activities for crops. Chart 3 illustrates that the vast majority of the operations are debt products.

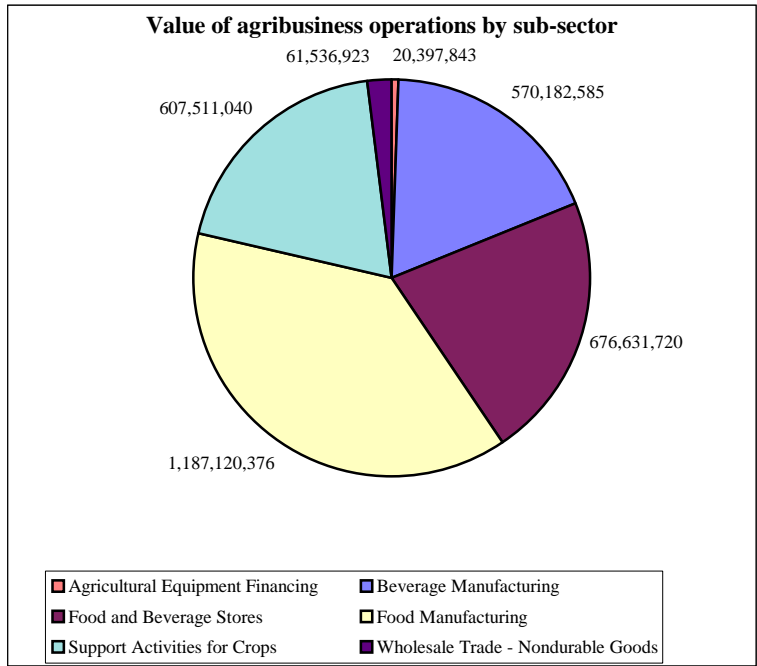
Chart 1: Number of agribusiness operations by sub-sector



¹ For the purposes of these figures, projects are counted if they were signed and not subsequently cancelled without disbursement.

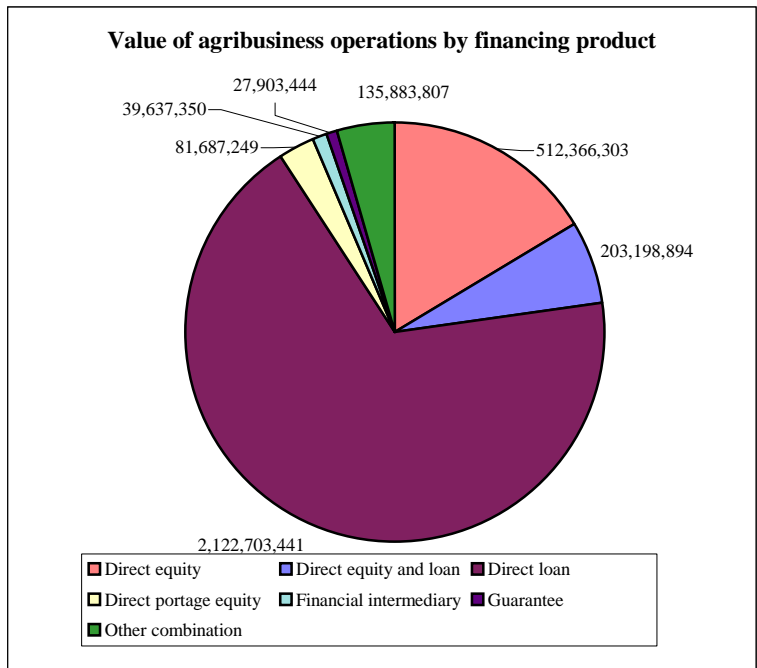
APPENDIX 1

Chart 2: Value of agribusiness operations by sub-sector



The following chart shows the high share of debt finance if one breaks down the portfolio by financing products:

Chart 3: Value of agribusiness operations by financial product



The next two charts show the total number of operations and their total value by region. The top recipient countries by value are Ukraine, Russia, Croatia and Poland with 62% of the Bank's cumulative commitments.

Chart 4: Number of agribusiness operations by region

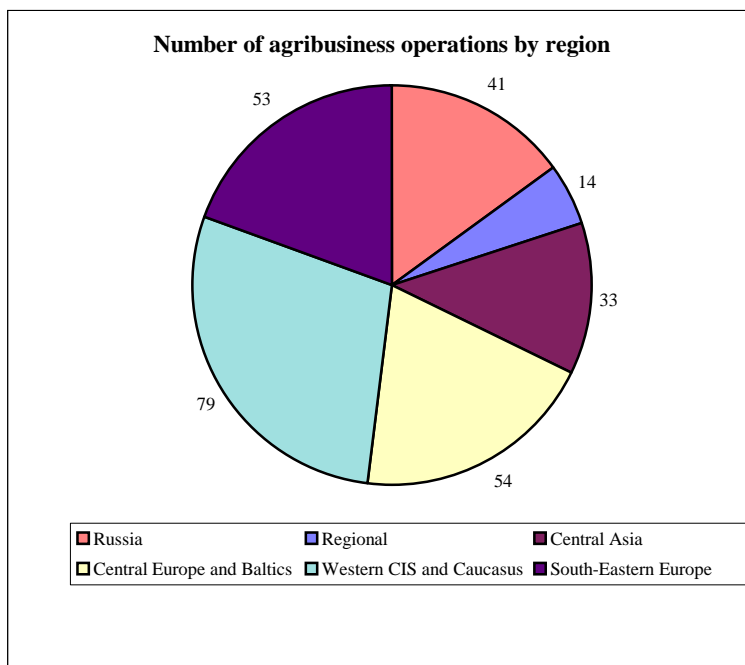
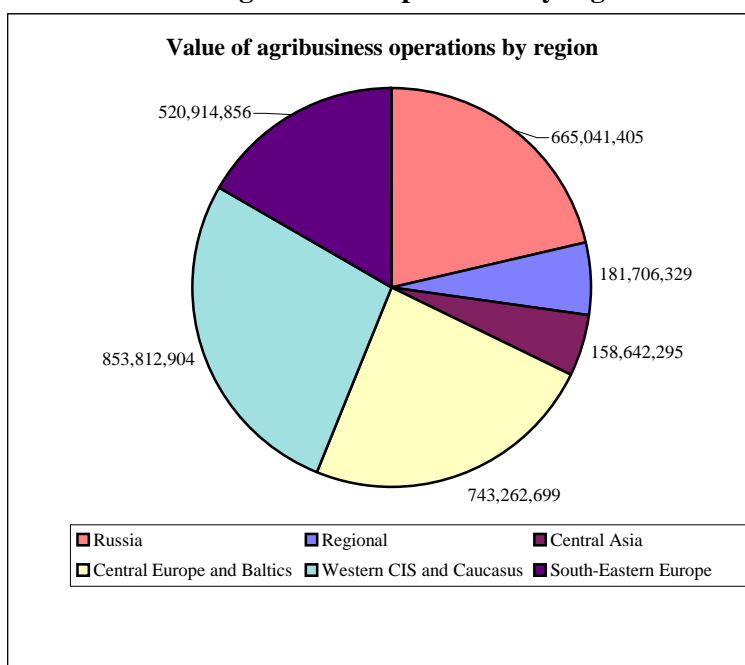


Chart 5: Value of agribusiness operations by region



APPENDIX 1

Table 1: Net cumulative investment volume by country transition stage (EUR)

Year	<REGIONAL>	Advanced	Early/Intermediate	Russia	Grand total
1994		58,502,683	65,591,067		124,093,751
1995	15,468,849	59,365,725	135,727,290	7,861,797	218,423,661
1996	8,497,041	98,554,463	153,370,921	81,630,709	342,053,134
1997	13,713,622	170,621,305	257,476,340	202,079,254	643,890,522
1998	13,713,622	249,470,589	268,465,201	228,025,224	759,674,636
1999	13,713,622	287,080,908	388,852,540	243,126,844	932,773,915
2000	13,713,622	402,655,866	460,426,580	341,613,685	1,218,409,753
2001	50,061,744	441,495,859	529,682,196	443,994,126	1,465,233,925
2002	73,936,406	475,054,803	638,872,153	455,327,070	1,643,190,433
2003	152,217,320	527,253,455	626,689,448	514,329,650	1,820,489,873
2004	276,622,349	574,344,795	810,172,980	495,857,985	2,156,998,108
2005	146,125,102	639,291,124	1,218,305,763	551,276,174	2,554,998,164
2006	154,444,140	724,596,001	1,323,574,688	642,141,291	2,844,756,119
2007	181,706,329	743,262,699	1,533,370,055	665,041,405	3,123,380,487

The above table shows that cumulative commitments in early/intermediate transition countries have increase significantly in recent years.

The next table shows the same data set by regional groupings and shows a continuing growth of cumulative commitments in all regions, but particularly in Central Asia and in the Western CIS and the Caucasus.

Table 2: Net cumulative investment volume by regions (EUR)

	Central Asia	Central Europe and Baltic States	Western CIS and the Caucasus	Russia	South-eastern Europe	Grand total
1994		58,502,683	29,846,841		35,744,226	124,093,751
1995	7,016,997	74,834,575	64,404,881	7,861,797	64,305,412	218,423,661
1996	7,248,128	107,051,504	53,527,406	81,630,709	92,595,387	342,053,134
1997	9,692,029	184,334,927	140,175,809	202,079,254	107,608,502	643,890,522
1998	13,633,441	263,184,211	113,389,513	228,025,224	141,442,247	759,674,636
1999	20,850,215	300,794,531	229,391,119	243,126,844	138,611,206	932,773,915
2000	23,227,175	416,369,488	254,569,438	341,613,685	182,629,967	1,218,409,753
2001	36,197,501	485,909,481	305,495,552	446,818,187	190,813,204	1,465,233,925
2002	78,672,777	543,472,611	390,267,371	458,086,369	172,691,305	1,643,190,433
2003	34,807,706	595,361,784	391,125,951	528,559,001	270,635,431	1,820,489,873
2004	97,264,041	642,566,508	519,752,788	589,333,984	308,080,788	2,156,998,108
2005	146,650,549	695,699,670	807,472,024	573,567,386	331,608,536	2,554,998,164
2006	106,445,228	781,315,684	895,994,483	662,167,493	398,833,231	2,844,756,119
2007	159,444,427	800,264,912	915,700,373	682,961,018	565,009,757	3,123,380,487

Table 3: Number of projects per country per year 1991-2007

Country name	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Grand total
RUSSIAN FEDERATION	0	0	0	1	2	4	3	1	4	3	5	3	8	2	3	2	41
<REGIONAL>	0	0	0	1	0	0	0	0	1	4	1	3	1	1	1	1	14
KAZAKHSTAN	0	0	0	0	0	0	0	0	0	1	0	1	3	4	0	3	12
KYRGYZ REPUBLIC	0	0	0	2	0	0	0	1	1	0	0	0	0	2	0	0	6
MONGOLIA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2
TAJIKISTAN	0	0	0	0	0	1	1	0	0	0	0	0	0	0	2	3	7
UZBEKISTAN	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	3	6
Central Asia Total	0	0	0	2	0	1	1	1	1	1	0	1	4	7	3	11	33
CROATIA	0	0	0	0	1	1	1	0	1	1	2	1	1	0	1	0	10
CZECH REPUBLIC	1	1	0	0	0	0	0	0	0	1	1	1	0	0	0	0	5
ESTONIA	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1
HUNGARY	0	1	1	0	0	0	0	0	0	0	1	1	0	1	0	0	5
LITHUANIA	0	0	0	0	0	0	0	2	0	0	0	0	1	0	0	0	3
POLAND	4	1	1	0	2	5	1	1	2	2	0	2	1	1	0	0	23
SLOVAK REPUBLIC	0	0	0	1	1	1	1	1	1	1	0	0	0	0	0	0	7
Central Europe and Baltics Total	5	3	2	1	4	7	3	4	5	5	4	5	3	2	1	0	54
ARMENIA	0	0	0	1	0	0	0	0	1	0	0	0	0	0	4	0	6
AZERBAIJAN	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	2	4
BELARUS	0	1	0	0	0	0	0	0	0	0	0	0	0	2	0	0	3
GEORGIA	0	0	0	0	0	1	0	1	0	0	0	1	1	4	4	6	18
MOLDOVA	0	0	1	0	0	0	0	0	1	0	0	1	2	3	2	0	10
UKRAINE	0	0	0	2	0	3	0	2	1	2	4	3	7	4	5	5	38
Eastern Europe and Caucasus Total	0	1	1	3	0	4	0	3	3	2	4	5	11	13	16	13	79
ALBANIA	0	1	0	0	0	0	0	0	0	0	0	0	0	1	1	1	4
BOSNIA AND HERZEGOVINA	0	0	0	0	0	1	0	0	1	0	0	0	0	0	2	1	5
BULGARIA	0	0	2	1	3	1	1	1	0	0	0	0	1	1	1	0	12
FYR MACEDONIA	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	2	3
ROMANIA	0	1	1	1	2	0	3	0	0	0	0	0	3	3	0	2	16
SERBIA	0	0	0	0	0	0	0	0	0	0	0	3	3	1	3	3	13
South-Eastern Europe Total	0	2	3	2	5	2	4	1	1	0	0	3	8	6	7	9	53
Grand Total	5	6	6	10	11	18	11	10	15	15	14	20	35	31	31	36	274

The above table shows the number and frequency of projects per country per year.

In terms of numbers of signed operations, the top recipient countries have been Russia (41), Ukraine (38), Poland (23) and Georgia (18).

APPENDIX 1

Technical Assistance Activities

The Bank has undertaken 190 TC operations in various areas. The food manufacturing sector saw the largest number (148) of operations.

Chart 6: Number of TC operations by industry classification, 1991-2007

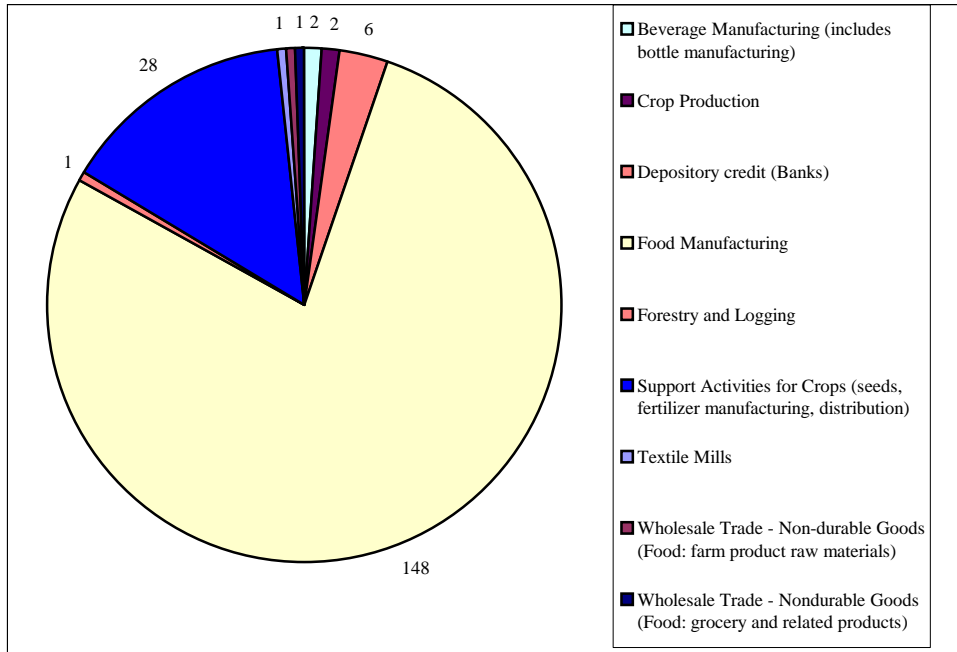


Chart 7: Number of TC operations by TC type, 1991-2007

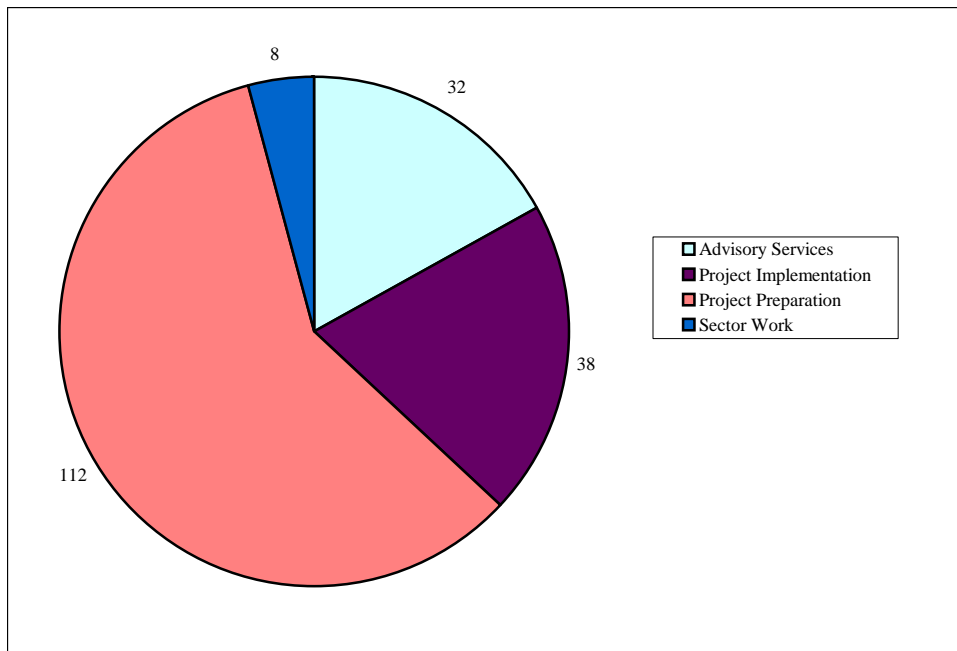


Chart 8: Number of TC operations by focus, 1991-2007

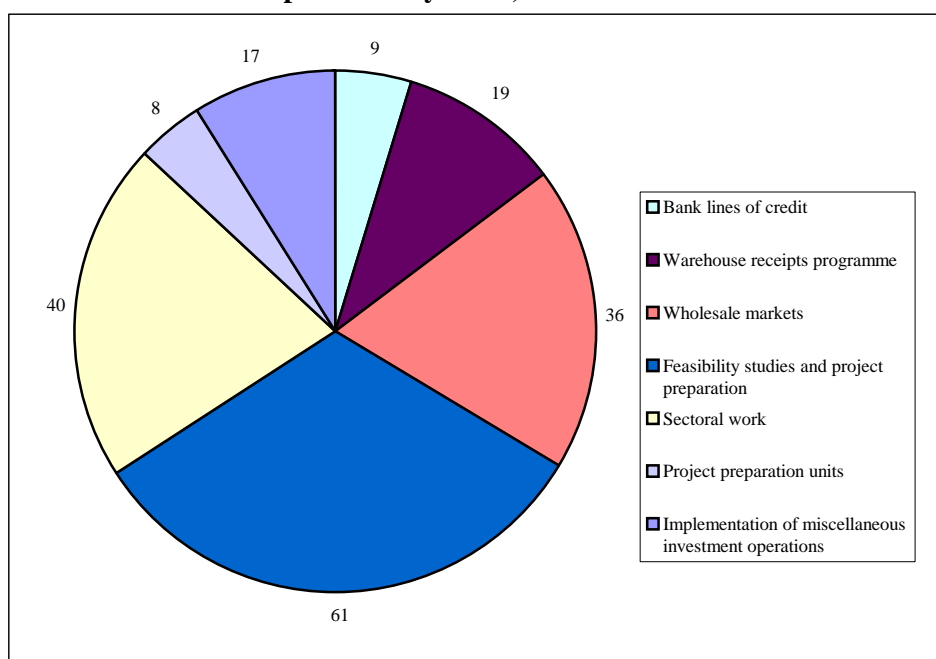


Table 4: Number of TC operations by industry classification

	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	Grand Total
Beverage Manufacturing (includes bottle manufacturing)	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	2
Crop Production	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Depository credit (Banks)	0	4	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	6
Food Manufacturing	2	9	22	19	13	9	7	11	5	11	12	8	4	7	3	2	4	148
Forestry and Logging	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Support Activities for Crops (seeds, fertilizer manufacturing, distribution)	0	2	5	2	1	2	1	0	1	1	2	7	0	2	1	0	1	28
Textile Mills	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1
Wholesale Trade - Nondurable Goods (Food: farm product raw materials)	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Wholesale Trade - Nondurable Goods (Food: grocery and related products)	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1
Grand Total	2	15	29	24	16	11	8	11	6	12	17	15	4	9	4	2	0	190

APPENDIX 1

Chart 9 shows that the majority of TC operations focuses on early and intermediate transition countries. Chart 10 shows TC operations by regional groupings and shows that south-eastern Europe was the main TC recipient by number of TCs.

Chart 9: Agribusiness TC operations, cumulative commitments by country transition stage

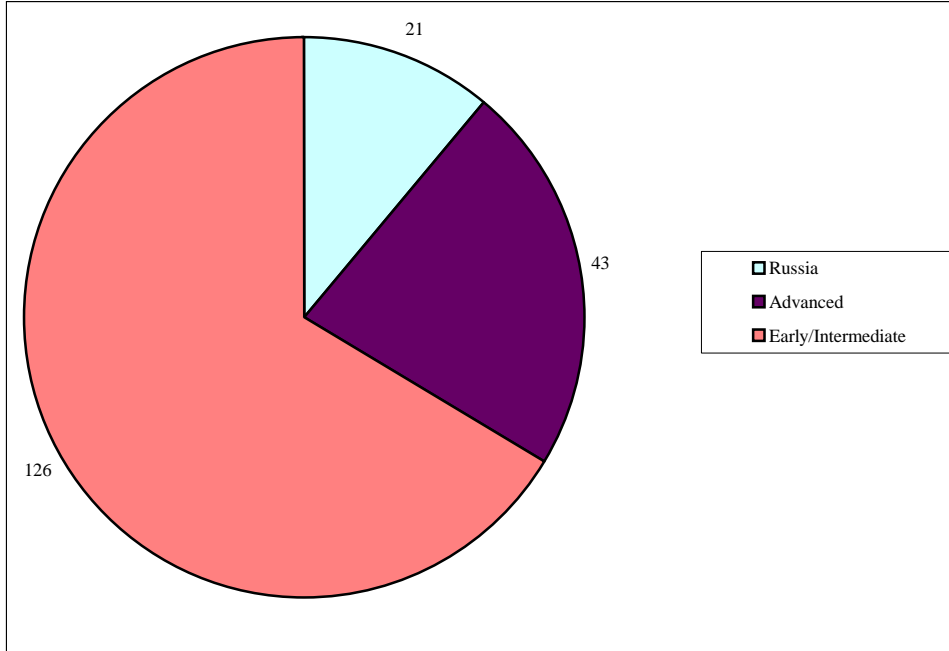


Chart 10: Agribusiness TC operations by region, 1991-2007

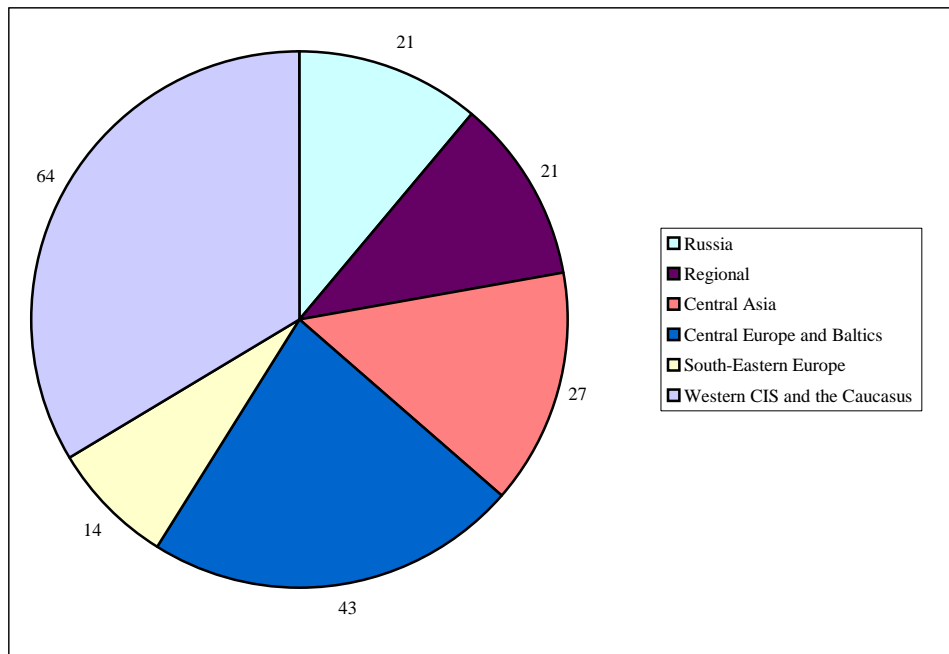


Table 5: Agribusiness TC operations per annum and per country of operation

Region	Country Name	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	Grand Total
Central Asia	KAZAKHSTAN	0	0	3	1	2	1	2	0	0	0	1	1	1	1	1	0	1	15
	KYRGYZ REPUBLIC	0	0	0	3	0	0	0	1	0	0	2	0	0	0	0	0	0	6
	TAJIKISTAN	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	0	0	2
	TURKMENISTAN	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	UZBEKISTAN	0	0	1	0	0	0	0	0	0	0	0	0	2	0	0	0	0	3
<i>Sub-total</i>		0	0	4	6	2	1	2	1	1	0	3	1	3	1	1	0	0	27
Central Europe and Baltic States	CROATIA	0	0	0	0	3	1	2	2	1	4	3	1	0	0	0	0	0	17
	CZECH REPUBLIC	0	0	2	0	2	1	0	0	0	0	0	0	0	0	0	0	0	5
	HUNGARY	0	3	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6
	LATVIA	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1
	LITHUANIA	0	0	0	0	0	0	0	1	0	1	0	1	0	0	0	0	0	3
	POLAND	0	2	0	0	0	0	0	1	1	0	2	2	0	0	0	0	0	8
	SLOVAK REPUBLIC	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	2
	SLOVENIA	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
<i>Sub-total</i>		0	6	5	0	6	2	2	5	2	5	5	5	0	0	0	0	0	43
Regional	<REGIONAL>	0	2	0	0	0	0	1	1	1	2	5	0	1	5	0	2	1	21
Russia	RUSSIAN FEDERATION	2	3	1	5	2	3	0	0	0	3	1	0	0	0	0	0	1	21
South-eastern Europe	ALBANIA	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	BULGARIA	0	0	1	1	0	1	0	0	1	0	0	0	0	1	0	0	0	5
	ROMANIA	0	3	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	6
	SERBIA AND MONTENEGRO	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	2
<i>Sub-total</i>		0	3	3	2	1	1	0	0	1	1	0	0	0	1	0	0	0	14
Western CIS and the Caucasus	ARMENIA	0	0	0	2	0	2	1	0	0	0	0	2	0	0	1	0	0	8
	AZERBAIJAN	0	0	0	0	2	0	0	0	0	0	1	0	0	0	1	0	0	4
	BELARUS	0	1	7	3	0	0	0	3	0	1	0	0	0	0	0	0	0	15
	GEORGIA	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	2
	MOLDOVA	0	0	2	4	1	0	1	1	1	0	0	0	0	0	0	0	0	10
	UKRAINE	0	0	7	1	2	2	1	0	0	0	2	7	0	2	0	0	1	25
<i>Sub-total</i>		0	1	16	11	5	4	3	4	1	1	3	9	0	2	3	0	1	64
Grand Total		2	15	30	24	16	11	8	11	6	12	18	17	4	9	4	2	5	190

List of Challenges or Strategic Areas for Development

Strategic areas for development	Fields for investment and technical assistance	Importance of the issue			Private investment	Public goods and services by private agencies	Public investment by state agencies
		Category of countries (*)					
		A	B	C			
I. Food Retailing	<ul style="list-style-type: none"> ■ Strengthening competition in urban areas ■ Food retail networks in rural and remote regions 	1-2	2	3	<ul style="list-style-type: none"> ■ Logistics (transportation, storage platforms) by private entrepreneurs ■ Development of association of retailers in remote/rural areas for coordination of procurement 	<ul style="list-style-type: none"> ■ Updating of hygiene and sanitary standards ■ Training of personnel ■ Updating of standards for retail stores and markets 	<ul style="list-style-type: none"> ■ Updating and enforcement of hygiene and sanitary standards ■ Updating and enforcement of standards for retail stores and markets ■ Repression of fraud
II. First processing industry	<ul style="list-style-type: none"> ■ Cracking of agricultural products in "agricultural refineries" Value added to co-products and reduction of waste Research & Development Management of risks (quantity; quality and price of inputs and outputs) ■ Identity preservation (IP) 	3	2	3	<ul style="list-style-type: none"> - Large domestic enterprises (often in partnership with foreign investors); - Preference given to locations with easy access to foreign trade (management of risks and marketing alternatives) - For IP: mostly SMEs with reliable contractual arrangements with upstream and downstream counterparts 		
III. Agricultural wholesaling industry (at the farm gate)	<ul style="list-style-type: none"> ■ Strengthening competition through the development of wholesale trading firms (SMEs) and service co-operatives in most agricultural sub-sectors (cereals, oilseeds, livestock, dairy, etc.) 	2-3	2-3	3	<ul style="list-style-type: none"> - <u>Local</u>: mostly SMEs: warehousing; handling; cleaning; sorting; packaging and specialised transport equipment - <u>Local and regional</u>: Co-operatives after thorough review by specialized legal experts to decide on financial & commercial reliability of member-ship - <u>Regional, national and foreign trade</u>: larger enterprises (possibly with FDI) 		

Strategic areas for development	Fields for investment and technical assistance	Importance of the issue			Private investment	Public goods and services by private agencies	Public investment by state agencies
		Category of countries (*)					
		A	B	C			
IV. Deterioration of the terms of trade for agricultural commodities	<ul style="list-style-type: none"> ■ Search for economies of scale at first processing level 	3	2	2-3	- Limited number of large enterprises (very likely with significant FDI)		TA to restructure and complete privatisation
	<ul style="list-style-type: none"> ■ Strengthening of private and public logistics (along the entire food chain) 	2-3	3	3	- Mostly SMEs: warehouse; handling and specialised transport equipment; and - larger enterprises (possibly with FDI) at major market nodes	- At key regional exchanges (reference nodes)	- Free Trade Zones - Railways - Ports - Roads
V. Emergence of less bulk commodity markets in agriculture	<ul style="list-style-type: none"> ■ Strengthening of traceability in <ul style="list-style-type: none"> • Livestock chain • Cereals chain • Oilseeds chain ■ Specialty products ■ Health and environmental standards 	3	2-3	2	- With proper TA to local agricultural producers	Specialized trade associations	But need to harmonize legislations and organise accreditation of laboratories and enterprises (HACCP): TA

Strategic areas for development	Fields for investment and technical assistance	Importance of the issue			Private investment	Public goods and services by private agencies	Public investment by state agencies
		Category of countries (*)					
		A	B	C			
VI. Non-food processing industries	<ul style="list-style-type: none"> ■ starch processing industries; hides and leather industry; paper and board industry; chemical industry; bio-chemical and pharmaceutical industry; textile industry; particle board industry; renewable energy industry; flower and house plant industry; and wood processing industry 	3	3	3	<ul style="list-style-type: none"> ■ After review of the optimal scale of operations; qualitative assessment of R&D; and industrial marketing capability 	<ul style="list-style-type: none"> ■ R&D of common interest in the concerned industry; ■ Training; ■ Market research 	<ul style="list-style-type: none"> ■ Investment in public programs of research, education and training, in collaboration with concerned private trade associations
VII. Food ingredients	<ul style="list-style-type: none"> ■ Priority to ingredients with large export potentials to high-income countries either as basic ingredients or to be incorporated into new foods after further processing: texturing agents, colouring agents; aromas and flavouring agent; preserving agents, moisturizing agents; nutrients and health-related additives 	2-3	2-3	2-3	<ul style="list-style-type: none"> ■ After review of the optimal scale of operations; qualitative assessment of R&D; and industrial marketing capability 	<ul style="list-style-type: none"> ■ R&D of common interest in the concerned industry ■ Market research 	<ul style="list-style-type: none"> ■ Investment in public programs of research, education and training, in collaboration with concerned private trade associations
VIII. Food quality and consumer protection	<ul style="list-style-type: none"> ■ Quality enhancement, ■ Harmonization with the EU (candidate countries) ■ Accreditation of processing factories (HACCP) ■ Strengthening of food industry laboratories and accreditation (ISO) ■ Development of the range of packaging systems 	3 3	3 n.a.	3 n.a.	<ul style="list-style-type: none"> ■ In-house capability in terms of research, quality monitoring, quality management; ■ Development of independent private services to food enterprises; ■ Investment in modern packaging systems; ■ Investment in packaging supplying industries 	<ul style="list-style-type: none"> ■ R&D of common interest in the concerned industry ■ Market research ■ Development of accredited laboratories: TA and investment in lab. equipment 	<ul style="list-style-type: none"> ■ Investment in public programs of research, education and training, in collaboration with concerned private trade associations ■ Harmonization of legislations and accreditation of laboratories and enterprises (HACCP):TA

Strategic areas for development	Fields for investment and technical assistance	Importance of the issue			Private investment	Public goods and services by private agencies	Public investment by state agencies
		Category of countries (*)					
		A	B	C			
IX. Service industry to farmers	<ul style="list-style-type: none"> ■ Development of networks of input suppliers and maintenance workshops 	2	2	3	<ul style="list-style-type: none"> ■ Mostly in partnership with foreign investors (agrochemicals, seeds, farm equipment, food processing equipment); ■ Development of service co-operatives (national with networks of local subsidiaries) 		
X. Farming structure	<ul style="list-style-type: none"> ■ A more balanced mix of family farms and substantially smaller corporate farms conform to standard business principles accepted in a market environment ■ Development of family farms ■ Transition from subsistence to commercial farming in the individual sector requires investment in upstream and downstream market services, including input supply, machinery rental, product marketing, de-monopolized processing, and rural credit systems ■ Lending to corporate farms conditioned on radical changes in governance and market-oriented management. 	2	3	3	<ul style="list-style-type: none"> ■ Strengthening of credit intermediation in rural areas 	<ul style="list-style-type: none"> ■ Strengthening of institutions for private land market and for credit in rural areas 	<ul style="list-style-type: none"> ■ Development of primary and secondary education and vocational training in rural areas to facilitate migration of labour from agriculture to other sectors

(*) **A:** EU candidate countries; **B:** countries in the Balkans; **C:** NIS

Range given when countries in the same region or/and sub-sectors in the same country would differ

1: low priority; 2: medium priority; 3: high priority; n.a.: not applicable (**) with little exception such as Hungary

Source: Prepared in 2001 by M.Debatisse, T.Doucha, j.Fry, E. Hidier and Z.Lerman as part of their contribution to the updating of the Agribusiness Strategy.

Case study Ukraine

The evaluation team focused on Ukraine as a main country of operations in order to assess to what extent the total of all investment and TC operations were responsive to the Bank's policy objectives and to what extent these operations were successful.

The Bank's agribusiness portfolio in Ukraine is the largest in the Bank's entire region. This is significant since this has been achieved not only in a difficult macroeconomic and social environment but also within the significant constraints of an often inappropriate sector policy for agriculture.

After a decade of sharp decline (51 per cent), the gross agricultural output (GAO) of Ukraine started to recover from 2000 onwards. By 2004 it had roughly reached 70 per cent of its pre-independence level. About 25 per cent of the labour force in Ukraine depends on agriculture as the main source of income and employment. The relatively low labour productivity is a legacy of the artificially maintained full employment policy of the Soviet era. In agriculture a significant decline in formal positions in agricultural enterprises and rural industries is accompanied by an increase of subsistence farming on household plots.

The Bank's well-targeted efforts helped create a better investment environment for some foreign investors that were still hesitating. Until 2005 the Bank's portfolio concentrated its financing on the two most important sub-sectors of agriculture in Ukraine: oilseeds and cereals. Subsequently, the focus broadened into processing industries and glass bottle manufacturing. Acknowledging limited internal team resources, the Agribusiness Team initiated a strong TC programme providing insights into the sunflower oil market and the cereal market with international experts. This was coordinated by the investment centre of the FAO.

The Bank's agribusiness sector operations programme can be summarised as follows:

- The programme has a high preference for loans (long and short-term) rather than equity participation or guarantee type of financing. This is, in part, due to the Agribusiness Team's policy to mostly work with top international companies. In addition, accounting methods for Ukrainian firms are often not transparent enough, which is a major constraint to equity financing.
- The portfolio is highly concentrated on the oilseeds and cereals sub-sectors, with a significant and positive impact in the sunflower seeds crushing and edible oil refining industry and in the malting industry.
- The development of differentiated food products (sauce, salad dressings, canned vegetables and so on) represents a significant success story.
- A significant lending programme, which indirectly finances agricultural producers, finances working capital to large trading and processing firms.
- There is a strong reliance upon large and experienced foreign investors with significant expertise in international trading activities.
- A significant and useful financing programme to suppliers to the food industry finances a modern glass factory to produce bottles and a yeast producing firm.
- Recently, there is small activity in the retailing industry (as part of a regional programme which includes Ukraine).
- There is no lending to the state of Ukraine and little activities in facilitating the adjustment of state institutions (except through TC) or rural development programmes.

- In a rather difficult environment, significant TC support has been provided to the government of Ukraine. This support comprised the development of a legal and institutional environment, which facilitates a modern warehouse receipts system, and, in collaboration with the investment centre of the FAO, a better understanding of potentials and constraints to the development of a thriving sunflower seeds sector.

The overall conclusion of the evaluation is that the agribusiness portfolio in Ukraine has largely met the 2002 commitments in terms of the first objective (see Section 2.2 of the main text), which stipulates the financing of downstream food and drink sectors to support upstream primary production and related industries. It has also achieved the second objective, which seeks to expand the range of products specifically geared to the agribusiness sector.

So far, the agribusiness team has not touched upon the third objective, namely the improvement of the rural credit systems. This should be given more attention in the near future as this could have very positive economic and social implications for rural development through SMEs (agribusiness or not). Regarding the fourth objective, that is, the increase in policy dialogue with member countries in cooperation with other development institutions, TC funds were correctly reassigned to issues pertaining to institution building and sector reviews. This is seen to ultimately strengthen policy dialogue and assist agribusiness companies in developing business activities in Ukraine.

Whilst the TC for the warehouse receipts programme was correctly targeted, the particular Ukrainian challenges (tax authorities, default by a state owned company under an early warehouse receipt backed loan, lack of trust by traders) have stalled a broader use of warehouse receipts. It is expected that the approval of a guarantee fund might increase interest by some parties. However, in view of the numerous institutional issues still pending in Ukraine (for example, ongoing moratorium that prevents agricultural land sales) and the needed strengthening of cooperation with other IFIs and development institutions, the current TC budget appears insufficient.

Case study Romania: backward linkages of supermarkets/hypermarkets

The evaluation team focused on Romania for the case study on backward linkages of hypermarkets.

In recent years an increase in agribusiness operations in the retail sector (supermarkets and hypermarkets) has taken place. The new opportunities in the east have attracted all major retail groups, and they have established their market position in the larger countries of Bank operations. In this context the Bank has been able to support these developments as well as partially support local sponsors. With regards to Board debates, the question was raised to what extent such projects have a transition impact and positive backward linkages to the primary agricultural sector.

In Romania the Agribusiness Team's lending is predominantly oriented towards large retailers and processors. Two routes to transition impact have been developed. First, investments in retailing (supermarkets and hypermarkets) lead to a modernisation of retailing and an improvement in competitiveness that brings benefits to consumers. Second, the modernisation of both retailing and processing drives improvements upstream along the value chain. These improvements reach not only processors but also primary producers, as summarised in the Agribusiness Operations Policy approved in 2002.²¹

The benefits arising from these linkages are incorporated into many statements about transition impact in documents, such as OPERs and XMRAs, presented to the EBRD Board. For lending to retailers, frequent references are made to

- targets for increased local sourcing (and their achievement)
- work with suppliers to develop best practice (particularly in hygiene and quality)
- technology transfer
- introduction of longer term contracts
- closer contacts with farmers.

The logic is clear. Modern retailing formats require regular and reliable delivery of high-quality food that is produced to best practice food safety standards. Local sourcing and higher standards drive improvements along the value chain. This is not simply a question of how suppliers respond to competitive pressures. Bank documentation explicitly refers to retailers linking to local suppliers and providing technical assistance to farms, collaborations with local farms to improve quality of fruit and vegetables and quality training. Similar claims are made for processors.

The effects of these links between producers and retailers vary according to food type. Different sourcing strategies are used for processed food, meat and dairy and fresh fruit and vegetables.

For processed foods, the local procurement policy used by the retailers was passive. A substantial element of processed food sourced from Romania comes from multinational companies, and there was no indication of positive spillovers from retailers to these food processors.

²¹ The 2002 Agribusiness Operations Policy states: "These investments in the upstream and downstream agribusiness sectors have had significant positive spill-over effects on the agriculture producers (...)."

Meat and dairy products offer good opportunities for local procurement and supplier development. Fresh meat and dairy products have enhanced shelf life if sourced locally, and Romanian consumers seem to prefer local products. In their fresh meat section, hypermarkets offer local products whereas poultry is mainly imported in the frozen section. Processors have an interest to secure both continuity of supply (quantity) and consistency of quality, and they are frequently willing to work with farmers to achieve this. Here, positive spillovers are visible.

Fresh fruit and vegetables are mainly supplied by wholesalers to the large retailers. The latter mainly buy in Turkey and other markets that produce the large volumes and qualities required. The evaluation team's visit to the hypermarkets in Bucharest showed multiple product lines from the Netherlands, Turkey and Greece but little from other transition economies. Fruit available was also from Spain and France, Argentina, Brazil, Chile and other countries. Locally sourced products were mainly potatoes, beetroot, cucumber, onions and mushrooms.

The evaluation team is of the view that the potential for more domestic sourcing and farm-level upgrading was almost certainly unrealised. This is expected to remain so, unless it becomes a specific priority for retailers. It is also assumed that the EU entry and the resulting improvements in transport infrastructure and better supply routes from other parts of Europe will further increase import penetration.

Romania is facing a difficult transition. The modernisation of retail places new challenges on a largely fragmented and inefficient agricultural system that also has to face up to the prospect of moving towards EU standards for food safety and hygiene. Restructuring in the sector is inevitable but the more efficient family farms should have a role to play in a restructured agriculture. The evidence at present suggests that the supermarkets are not making a positive contribution to this restructuring.

They may place new demands on the system but they are not supporting farmers and processors as they struggle to meet both the retailers' own demands and those of EU standards. Involving supermarkets in the process of agrarian transformation requires positive and specific programmes aimed at supplier upgrading. Such programmes could be incorporated into the EBRD's lending on a case-by-case basis. Early coordination with the ministry of agriculture, with training institutes and with providers of agricultural credit lines may also be necessary to achieve the desired results.

**SELECTED LESSONS FROM EvD OPERATION PERFORMANCE
EVALUATION REPORTS ON AGRIBUSINESS OPERATIONS 1996-2007**

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LESSONS FROM AGRIBUSINESS EVALUATIONS

1996-2007

Transition impact and additionality

Working capital financing can be justifiable based on the Bank's mandate. Short-term working capital facilities may allow the Bank to fulfil important objectives, such as moving transition forward in terms of pioneering more mature short-term local currency lending practices in a domestic market. The banking team should not shy away from bringing forward the rationale for the Bank to engage in such a short-term oriented transaction, thus establishing a more accurate prioritisation of its objectives.

Local currency financing in highly volatile domestic markets may strongly contribute to the Bank's additionality. When financing a project with the unconditional guarantee of its sponsor, the Bank provides an element of political protection through its preferred creditor status; this may indeed be recognised through a premium in the pricing of its facilities. In order to further justify such a premium, and therefore the Bank's additionality, sponsors are rightly looking for the Bank's ability to bring benefits specific to its knowledge and expertise in domestic matters.

Transition impact from consumer-industry investments and market primacy. Successful reform of consumer-product enterprises, transition impact and returns from investments in this sphere depend as much on means for improved marketing as on rationalised production. Financing plans must reflect that the market-reorientation needs can be as high as those for hardware improvement. Support to management and training must focus on marketing and sales. Board nominees must have marketing insight. Budgets must prioritise brand maintenance.

Corporate governance

Conditioned adherence to good standards of corporate governance. The set of project agreements should seek to negotiate and define specific events that constitute a breach of basic governance requirements by the client or a co-investor. Such specific events should trigger exits by the Bank from the investment by way of punitive puts of shares and/or acceleration of loans.

Professionalising the Bank's participation in the supervisory board. Experience suggests that using an outside industry specialist as a representative for the Bank can exercise greater influence on corporate governance in a supervisory board than a staff member of the Bank with limited industry knowledge. This reduces the risk of mixing monitoring obligations for the Bank and responsibilities as board member towards the company.

Agreeing on the appointment of a non-executive board position would enhance project monitoring and performance. An obligation of the borrower to appoint a commercially experienced member of the board, who is acceptable to the Bank, would enhance the quality of strategic planning, ensure better structured work of the governing

bodies, and safeguard the implementation of agreed action. In the Project a stronger engagement by the Bank through a non-executive board member, would have strengthened the performance and enhanced transition impact. This is of particular importance when the management group of the company is thin.

Project appraisal

Seeking relevant financier experience of risks at appraisal of an investee company. Critical appraisal should seek to assess the reasons why other investors have declined to participate or exited a project or sector. Such efforts should make good use of the Bank's networks among institutional and other relevant investors, notably the International Finance Corporation (IFC) and other institutional financiers active in the region.

Market studies for clients need appraisal, even if made by leading consultancies. Spectacular market-growth projections must be subjected to critical appraisal. Independent review must take into account fundamentals like household income and look at reasonable ranges of income- or price elasticity of demand for consumer products. Extrapolation from recent trends can be particularly misleading in unstable transition economies. Per capita consumption comparisons with the West can overestimate growth prospects for consumer and producer goods alike.

Consultants for enterprise-reform projects and potentially conflicting roles. The Bank should critically assess potentially conflicting roles of consultants engaged during the project cycle. Truly independent due diligence and appraisal support should normally exclude follow-on implementation contracts. Such contracts, or those for advice to management in investee firms, are in potential conflict with the role as monitoring consultant to the Bank or with the role of its nominated director to the company board. Looming or acute crisis in the enterprise and/or top-level conflicts should prompt early review and change of such conflicting roles.

Working capital assurances for agri-processing businesses and projects. Owners and financiers of major agri-processing businesses must ensure sufficient access to working capital. An agribusiness company which runs into losses, with resulting depletion of its working capital, needs owner support to ensure adequate working capital for the harvest season in order not to aggravate the losses and its market position with falling volumes.

Expanding sales of a regional consumer's brand into new markets is very costly and has a high risk of failure. Expanding sales of a regional consumer's brand in food seasoning based on local cooking habits into large new markets with limited brand recognition is costly and has a high risk of failure considering the brand building budgets available to global food companies. This strategy also requires solid market research and potential product modifications to suit local taste preferences. Optimising sales in the domestic and regional markets appears most promising combined with maximising production efficiencies.

Trademark protection should become an important issue for governments of countries in transition. Due diligence during the preparation of a project should take into consideration the challenge constituted by factors such as counterfeiting, smuggling and so on as they constitute important risk factors for a project subsistence.

Sponsor commitment and sufficient resources, especially in the form of finance and seconded management, are vital for project success. The project demonstrates that

APPENDIX 5

severe problems caused by a dramatic worsening of the host country economy during implementation, can be overcome by a very strong commitment in the form of additional financial resources and a first rate team of seconded experienced managers.

Sponsors that adhere to good governance at home and demonstrating long-term engagement to the project region, are more reliable partners in Bank-sponsored projects. A sponsor that has demonstrated its commitment to good governance by, for example, initiating consolidation of its group structure or producing group IAS accounts, is likely to adhere to similar standards in a Bank financed project. Also, a sponsor with a considerable portfolio of investment in the region has already demonstrated its longer-term commitment.

Agro-business complexes and other “combinates” of the past need careful appraisal. Due diligence should observe risk and potential losses in complex and opaque structures. Painful and costly restructuring and redundancies will often be needed early on for survival of old “combinates” under new market conditions. Due diligence in such cases should not only identify modernisation and reform investment needs but also candidates for necessary dis-investment of unprofitable and non-core activities.

Disintegration will be a necessary reform element in many large enterprises from the old planned system. Such reform processes will need sufficient control yielded to competent management, that is unaffected by political influence. Substantial funding for the costs and losses associated with plant and staff redundancies must be an element of any realistic reform plan. Secured separate funding to mitigate the adverse social effects can be a requisite in cases of very large restructuring redundancies in localities where few alternative job opportunities exist.

The Bank should not finance private sector projects where the risks of failure need to be covered by a government guarantee. The Bank should strictly separate private sector operations from public guarantees. If the Bank is not convinced of the success potential of a project and is not prepared to take the project risk, it should abstain from financing these operations. A private sector project should, therefore, be independently structured so that all the risks are mitigated through project means.

In countries of early transition the due diligence for a private sector project also needs to cover the financial sector capabilities to provide short-term credit lines. When structuring a project, the Bank in its appraisal has to assess the willingness and capability of the financial market to provide short-term credits. If the financial sector is not sufficiently advanced the Bank should not take the risk to rely on the fast development of the banking sector to meet the project’s short-term financing needs.

Project structuring

Ensure sufficient working capital and cash availability. When a borrower and a sponsor are located in the countries of operation, the Bank should carefully review working capital for the project. Working capital, particularly cash availability, is crucial for primary agro-industry. The Bank could have considered a combination of long-term and short-term lending to comprehensively ensure the borrower’s operations.

When the Bank has a put option on true equity investments, the methodology for future valuation should, whenever possible, be stipulated in the documentation. While this may be difficult to negotiate when investments are made in parallel with the

sponsor, it should be easier in situations, as in this project, where the Bank is purchasing shares in an existing company. In this case, the same criteria/multiples that have been used for purchasing the shares could be used in the valuation of the put.

Introduce phased commitments where the performance of other participants in agriculture enhancement programs is necessary to achieve transition objectives. An ingredient of the environment of the current project is some uncertainty about the dedication of state authorities to the transfer of functions to the private sector. In these circumstances, phased commitments can be employed while awaiting the conclusion of specific undertakings before progressing to a subsequent project phase. This mechanism can afford the Bank additional protection in the case of operations that could otherwise produce an unsatisfactory return in terms of transition impact if implemented without full performance of the undertakings.

Post-privatisation deal structuring in big agribusiness to mitigate risks. Undertakings should be negotiated at the outset towards full privatisation of big agribusiness firms in the sense that there should be no remaining direct or indirect ownership influence by the Government, such as via state-owned banks. Successful reform of big agribusiness firms in countries with strong political farmer influence will also need strong sponsorship, financing and management. The Bank should, therefore, primarily invest in such businesses along with strong strategic sponsors. This should be mostly done through debt to mitigate the financial risks as well as the risks to transition impact as minority stakes have limited influence.

Pertinent risk assessment needs to be accompanied by appropriate action securing that identified risk mitigation solutions are implemented. Several of the risks in this respect were correctly identified at appraisal, however, the steps taken to mitigate risk have not been successful. The loss of the potential strategic partners for the agricultural producers meant that creating a sustainable market presence and customer relationships, was left to TC inputs alone. Opening up Western markets through promotion campaigns and specialised services has been an overwhelming task for the producers.

The loan documentation should only impose obligations on the parties if they are enforceable. In a situation where a project faces liquidity shortage time is of essence and any possible court action would take much too long. It is, therefore, important that all financial support obligations are structured in a way that they are available without any question of doubt and at short notice.

The Bank should reserve the right to agree to the appointment of to key personnel and make sure that experienced sector specialists are hired. Especially in those projects where the Bank was actively involved in project design and structuring, it is essential that the Bank makes sure that projects benefit from the right sector expertise and the people hired have the experience and professional sector background needed. The Bank should therefore reserve the right to agree to key personnel appointments.

Implementation and monitoring

Monitoring the disbursement of project funds. Even when private sector procurement rules apply, the operation team should carefully monitor how project funding is disbursed. In this project the documentation clearly specifies that quotations for all capital expenditure and construction contracts are required, but, evidently, the monitoring

APPENDIX 5

was not conducted in a proper way.

Creating a good rapport with the sponsor enhances the opportunity for repeat business with the same client, or new business through referrals to other potential strategic sponsors known to the client. In this project the close relationship to the sponsor has led to referrals to leading companies in Turkey in the agribusiness sector.

The Bank should assist in the formation of constructive alliances. The Bank can, through a close cooperation and a continuous dialogue with its client, assist in the identification of constructive alliance partners. Likewise, the Bank has extensive contacts with the industry leaders through other projects and should use this leverage to foster constructive co-operative alliances for its clients. Through such efforts the transition impact can be enhanced.

In projects with several international sponsors, it is important that one takes the lead to ensure successful implementation and operation. In the case of this project the individual share of the foreign sponsors did not encourage one party to take the lead. Also, no one felt sufficiently committed to solve the implementation and management problems.

The Bank's Resident Offices (ROs) should be closely involved at all stages of the project to ensure better monitoring and keep good contact with the government. It is important for the Bank to be well informed and receive information on time for an up-to-date monitoring. ROs are essential in supporting headquarters to manage projects in far distant countries and in a difficult political environment.

Privatisation

Privatisation deals structuring should firstly benefit the object of privatisation, not governments. Privatisation proceeds should preferably benefit the reform of a privatised enterprise rather than just the state treasury or privatisation agency funds. Any deviation from the basic rule of allocating privatisation proceeds to reforming the object of privatisation should be linked to specific conditions.

These should oblige the government to undertake measures of particular importance for the privatised entity and/or its sector, such as liberalisation or more adequate regulation for improved markets. Conditioning may also be linked to shareholders' agreements and other owner related structuring in pursuit of reform of the privatised entity. The Operation's Committee's (OpsCom) secretariat maintains a data base that brings together structural features of EBRD operations. This includes cases that illustrate various conditioning at privatisation.

Agribusiness enterprise reform and the need for appraisal in a systems perspective. Privatisation offers in complex agri-business that do not allow adequate time for due diligence should normally be declined. The quality of due diligence, appraisal and structuring must take preference over expediency in complex operations for privatisation and reform of large enterprises in agribusiness and agro-processing.

Cases in agribusiness will generally involve reform needs and risks, both at internal enterprise level and in the sector at large. This calls for realistic assessment of prospects and general sector constraints. Sufficient time and resources for appraisal of large agribusiness enterprises will help the necessary dialogue with owner and management

representatives on the enterprise's prospects. It will also facilitate dialogues with government and other relevant bodies on reforms and constraints in the country's agricultural sector at large.

Agri-business and enterprise valuation. Valuation of enterprises in agribusiness must reflect the industry's inherent swings and risks as well as regulatory risk. Pending EU accession in some countries of operation will add to the latter. Valuation of agribusiness enterprises and pricing of their shares should, therefore, take particular care not to rely on past performance for previous years.

Valuation of large agribusiness complexes under conditions of transition must include ample reserves for future restructuring costs, including likely redundancies. Privatisation deals that involve the purchase of shares in agribusiness enterprises with a retained Government influence or other evident sensitivity to state intervention may seek risk mitigation by staggered payment, linked to actual performance. A sizeable discount, or abstaining from the investment altogether may be the only justifiable alternatives to in-depth appraisal and structuring in order to affect adequate investment risk mitigation in the sector.

Large enterprise privatisation with no strategic partners means high potential risk. Strong justification is required for entry by the Bank in privatisation deals where conditions exclude entry of strategic partners. Justification should include several of the following factors, confirmed by due diligence:

- a strong management team with an insight into needs for reform, transparency and good corporate governance (generally excluding a dominance of managers from the past system)
- strong products/services with obvious competitive advantage
- strong position on reasonably stable domestic markets with low political intervention or regulatory risk
- established profitable exports
- information systems, accounts and audits at least approaching western standards
- no acute crisis, financially, or pending environmental or other liabilities
- simple, transparent organisation
- shedding of non-core and unprofitable lines of business is well underway
- structure and technology of the industry and returns to scale in marketing, development and manufacturing alike will reasonable enable the enterprise to co-exist and compete with local, regional or global competitors
- re-structuring challenges ahead that do not involve fundamental enterprise and sector constraints calling for resources beyond reasonable reach without entry of a strong strategic investor.

Restructuring

Prerequisites for carrying out a successful restructuring process. A strong management team with determination and focus and a supporting supervisory board are required in order to restructure a company that is the only industrial employer in a region with high levels of unemployment. The Bank should base its conditionality on those prerequisites and withdraw if things do not work out despite best efforts from the Bank. Explicit agreements from all stakeholders may be a pre-requisite for a Bank investment in the absence of a strategic investor with a majority stake. The Bank has to show

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determination and focus in handling these difficult projects!

Restructuring of a Soviet model organisation supposes a change of culture in all aspects and level of the organisation. Momentum should come from the top management that should assume the ownership of the transformation of the company into an efficient lean business. Training should focus first on respective activities. However, other levels of management and employees should receive attention without delay. In these circumstances an active foreign strategic investor is essential.

Encourage spin-offs instead of dry redundancies. When redundancies are inevitable, the creation of independent spin-off companies for the outsourcing of services should be encouraged. These new SME type companies which are established by the employees who were laid off, would supply its former employer at fixed prices for the duration of the contract. At the same time, they would also operate on the free market that they will progressively integrate.

Composition of the supervisory board is crucial in restructuring projects. In a restructuring project, sufficient attention should be given to a reform minded management. It should also be ensured that the supervisory board reasonably reflects the actual ownership structure of the company and is open to consider unpopular decisions such as reduction of staffing levels after due consideration of all relevant factors.

Policy dialogue

Involve banking regulators in discussions at an early stage when designing new financing instruments with systemic impact. With its overview of national economies and sectoral issues within economies, the Bank is well positioned to identify products and financing instruments that are capable of having a lasting transition impact at sectoral or national level. The Bank is also in a position to discuss with regulators the prudential implications of new products and instruments. Where appropriate the Bank should hold dialogue with regulators at the design stage to discuss features and issues of a product or programme with a view to securing the most suitable prudential treatment for the instrument concerned.

Environment

The Bank should commission independent expert environmental consultants to carry out environmental audit and analysis where clients are engaged in environmentally sensitive activities. Certain agribusiness operations may give rise to concerns in relation to animal husbandry, other veterinary issues, hygiene, health and safety as well as environmental questions. In such cases external independent expertise should be commissioned to ensure that the Bank has a full assessment of the issues of concern on which to base negotiations with client and sponsor on an environmental action plan (EAP).

Ensure that clients that are engaging in environmentally sensitive activities put in place a formalised environmental management system. During appraisal the Bank should assess the environmental management systems of the sponsor and the client and their capacity to effectively handle issues that are likely to arise. Where necessary, the

design and implementation of a formalised system should be part of a comprehensive EAP.

The Bank should take a proactive approach in requiring sponsors to practice public disclosure and consultation. As well as initial consultations, sponsors should be encouraged to adopt a programme of regular discussions with local communities, environmental and other interested groups. Where appropriate the EAP should include an outline of ongoing consultation procedures that the sponsor should follow.

Ring-fenced agribusiness structures may not fully limit the Bank's exposure to environmental vulnerability that arises from other operations of the client or sponsor. Where the policy of the sponsor is to develop integrated agribusiness operations, environmental vulnerability may arise at any point in the chain of operations. When a plant, operation or business entity, which is financed by the Bank, is dependent upon raw materials sourced from an operation of the same sponsor, environmental due diligence should extend to all relevant points of the supply chain.

Importance of the sponsor's strong environmental culture and business ethics. In project finance operations, the Bank always requires high credit standards for its clients to secure the value of the Bank's investments. However, in respect of transition impact, this may not be sufficient and may need to be further enhanced through the exercise by the client of high standards in respect of the environment and business ethics. The demonstration effects stemming from this responsible company culture should not be underestimated.

Environmental due diligence requirement for repeat financing. A mandatory review of the completion status of the EAP should be part of the Bank's environmental due diligence for a follow-on investment when a repeat financing occurs. If any major issues remain unsolved under the current operation, those issues should be carried forward as specific conditions. Compliance of which can be monitored under the follow-on investment.

Selected lessons and recommendations from the 2004 Special Study Evaluation of the Grain Receipts Programme

Industry specialisation can enhance the Bank's image. Industry specialisation is key to the promotion of complex programmes as it provides a wealth of expertise from a technical and credit perspective while enhancing the Bank's image through the consistency of its marketing activity and the visibility of its own specialists.

Adequate exposure reporting. From a credit control point of view, while maximum exposure under a facility is known at all times, it may not be the same for aggregate exposure to counterparties. It is important to ensure that the Bank's maximum credit limit to international traders or other counterparties with whom it conducts direct business includes the maximum amount of guarantee that was approved for conditional off-takes or under other forms of credit comfort under programmes managed by third parties.

Systemic risk identification with particular traders. It would be desirable to monitor the Bank's indirect exposure under financed commodities. While transactions are always structured so as to eliminate market risks, systemic risks affecting specific commodities

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may have an impact on particular traders, which are over-exposed to such commodities and, therefore, on the Bank's counterparties.

Joining forces by a select group of warehouses is one way to enhance the warehouse receipt programme. The example of Kazakhstan, where an indemnity fund has been successfully put in place in a record time following the enacting of the warehouse receipt legislation, shows that it may be preferable to have a “club” approach. This approach sees the better or financially stronger warehouses initially join forces. In countries where implementation of an indemnity fund meets too many hurdles, it may be more practical and no more risky for the Bank to use collateral managers in the selection and monitoring of warehouses, irrespective of their certification by a government agency.

Evidently, if obtainable, an insurance against fraud should also be sought. It should be recalled that there has not yet been any claim made against an indemnity fund. This means that the ability of an indemnity fund to cover such risks as fraud is so far untested. Due diligence about, and selective approach of, warehouses are likely to be as important as an indemnity fund.

Short-term facilities do not need to be presented as term facilities to secure approval. The multi-year presentation is both unnecessary and misleading. Additionality can be sufficiently verified through other aspects of the programme. It does not need to be artificially enhanced with the appearance of a longer term credit extension than would normally be available in the market.

Furthermore, it could give the wrong impression that the programme addresses long-term financing requirements. Although such investments may be needed in the primary agricultural sector or, downstream, for transportation and storage infrastructure this is totally outside the scope of the Programme. Short-term working capital facilities should not need to be dressed up into term facilities to secure approval.

Use local legal counsel to identify direct warehouse receipt risks. It is very important that projects involving direct warehouse receipt risk are scrutinised by local legal counsel. This should be done with a view to determine the extent of such risk and whether mitigating measures, such as the registration of security, would be appropriate.

Country transition impact ratings

Table 1: Agribusiness sub-sector, 2005 and 2001 TIR

Country	2005 Transition Impact Retrospective				2001 Transition Impact Retrospective			
	V. Sig	Sig	Mod	N/Min	V. Sig	Sig	Mod	N/Min
Albania				X				X
Armenia				X			X	
Azerbaijan			X					X
Belarus				X				X
Bosnia and Herzegovina			X				X	
Bulgaria			X			X		
Croatia		X				X		
Czech Republic			X			X		
Estonia				X			X	
FYR Macedonia			X					X
Georgia			X		X			
Hungary				X			X	
Kazakhstan	X							X
Kyrgyz Republic				X				X
Latvia				X				X
Lithuania			X				X	
Moldova				X				X
Poland			X			X		
Romania			X			X		
Russian Federation		X				X		
Serbia and Montenegro		X						
Slovak Republic				X			X	
Slovenia				X				X
Tajikistan				X				X
Turkmenistan				X				X
Ukraine	X				X			
Uzbekistan				X				X
Number of countries	2	3	9	13	2	6	6	12

Note: FR Yugoslavia (later Serbia and Montenegro) joined the Bank only in January 2001, so it is not rated in the 2001 TIR. Serbia and Montenegro became individual members of the Bank in June 2006.

Footnote: (i) V. Sig = Very significant; Sig = Significant; Mod = Moderate; N/Min = None/Minimal

COMPARISON OF THE SAMPLE OF EVALUATED PROJECTS WITH THE TOTAL POPULATION OF AGRIBUSINESS PROJECTS SIGNED 1991-2007

Chapter 4.1 of the main text explained that EvD published 67 evaluation reports in the period from 1993 to 2007, covering 91 individual operations. These 67 reports form the sample used in the analysis of sector level performance in Chapter 4 of the main report. Further details are shown below of the extent to which the projects in the sample reflect the make-up of the cumulative portfolio of agribusiness projects as a whole, and the group of projects, which became ready for evaluation over the period.

1. Distribution by sub-sector

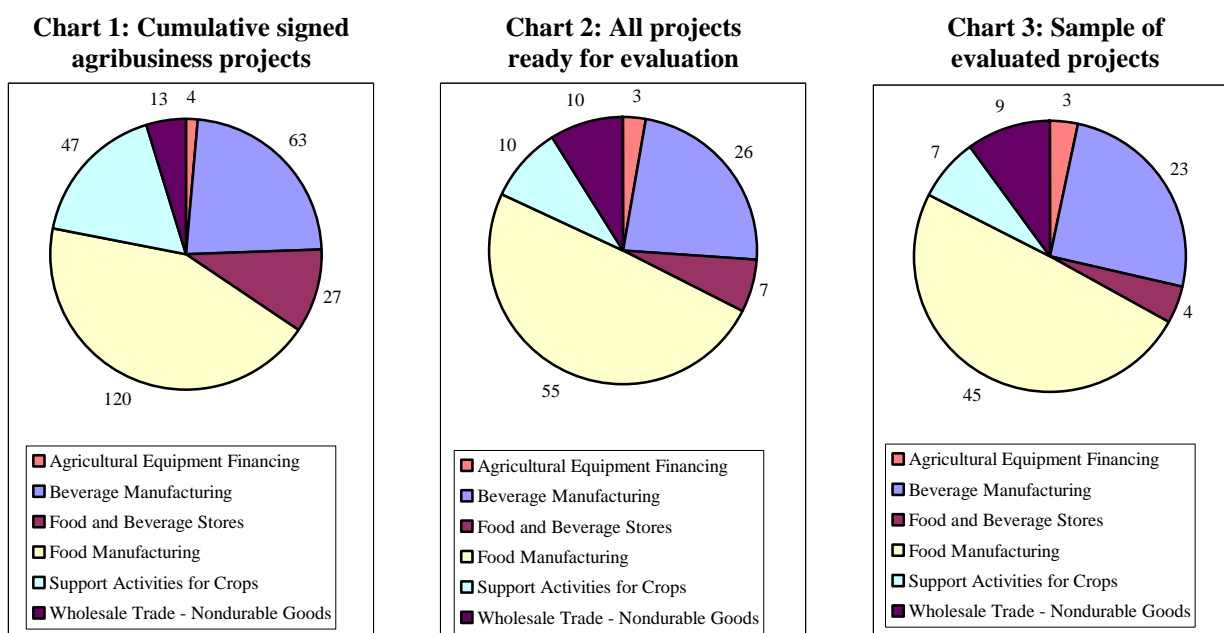


Chart 3 above shows the distribution of the sample by industry sub-sector, and compares this with the 274 projects forming the cumulative portfolio (Chart 1) and the 111 projects which became ready for evaluation in the period from 1993 to 2007. As was seen in Table 5 of the main text, food and beverage stores and support activities for crops are somewhat under-represented, while beverage manufacturing and food manufacturing are a little over-represented. On the whole, however, the evaluated sample appears to be a fair reflection of the projects signed and disbursed over the period.

Appendix 7

2. Distribution by financial product

Chart 4: Cumulative signed agribusiness projects

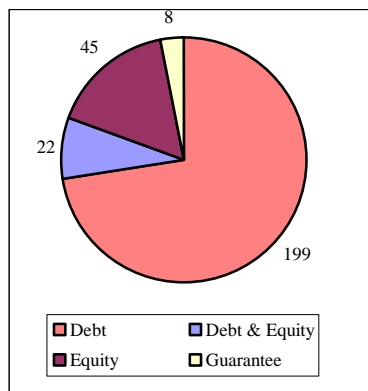


Chart 5: All projects ready for evaluation

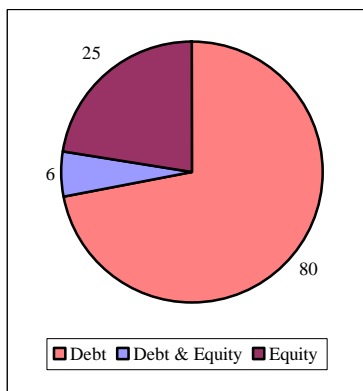
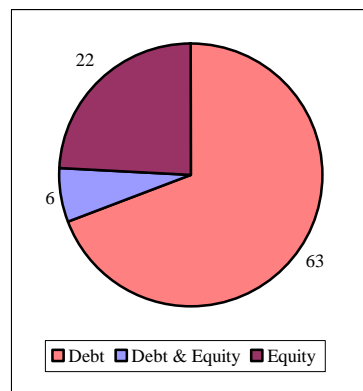


Chart 6: Sample of evaluated projects



Charts 4 to 7 above make a similar comparison with regard to the financial product of the project: debt, equity, guarantee or some combination. It can be seen that the evaluated sample slightly over-represents equity investments at the expense of debt or guarantees, but the difference is not large.

3. Distribution by region

Chart 7: Cumulative signed agribusiness projects

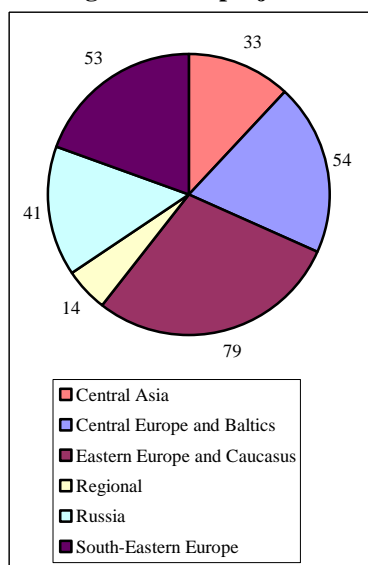


Chart 8: All projects ready for evaluation

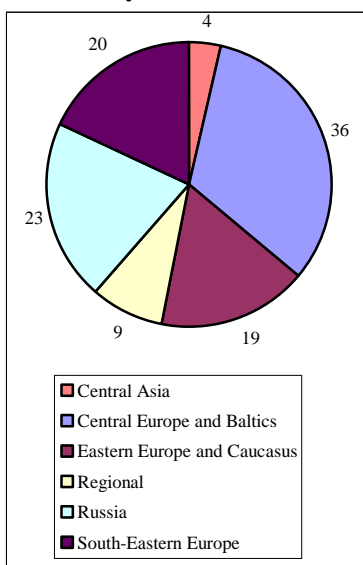
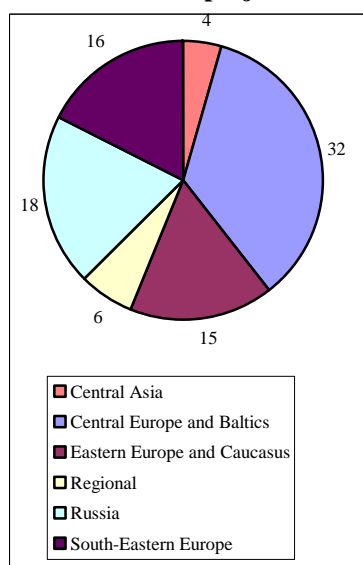


Chart 9: Sample of evaluated projects



Charts 7 to 10 above make the comparison for regional distribution. We see that the evaluated sample over-represents central Europe and the Baltic States as well as Russia. This is largely because most of the Bank's earliest operations were in that region, so the projects have long since become ready for evaluation (Chart 8). Central Asia and eastern Europe and the Caucasus are both under-represented. This is mainly because these regions include several early transition countries where most of the Bank's projects have occurred recently. This can be seen in Chart 8 in the small number of projects ready for evaluation in the regions.

Overall, the evaluation team is of the view that the sample provides a good reflection of the overall population of agribusiness projects signed between 1991 and 2007 and that the results of the analysis in Chapter 4 of the report are valid. The case studies included in Appendix 4 and 5 give greater confidence in some of the areas where the evaluated sample is under-representative.

Comparison of sample against cumulative portfolio

Count of country name	Portfolio		Sample	
	Total	%	Total	%
<REGIONAL>	14	5%	6	7%
ALBANIA	4	1%	1	1%
ARMENIA	6	2%	1	1%
AZERBAIJAN	4	1%	0	0%
BELARUS	3	1%	1	1%
BOSNIA AND HERZEGOVINA	5	2%	2	2%
BULGARIA	12	4%	6	7%
CROATIA	10	4%	5	5%
CZECH REPUBLIC	5	2%	2	2%
ESTONIA	1	0%	0	0%
FYR MACEDONIA	3	1%	0	0%
GEORGIA	18	7%	2	2%
HUNGARY	5	2%	4	4%
KAZAKHSTAN	12	4%	2	2%
KYRGYZ REPUBLIC	6	2%	1	1%
LITHUANIA	3	1%	2	2%
MOLDOVA	10	4%	1	1%
MONGOLIA	2	1%	0	0%
POLAND	23	8%	14	15%
ROMANIA	16	6%	6	7%
RUSSIAN FEDERATION	41	15%	18	20%
SERBIA	13	5%	1	1%
SLOVAK REPUBLIC	7	3%	5	5%
TAJIKISTAN	7	3%	1	1%
UKRAINE	38	14%	10	11%
UZBEKISTAN	6	2%	0	0%
Grand total	274	100%	91	100%

Count of standard industry name	Portfolio		Sample	
	Total	%	Total	%
Agricultural equipment financing	4	1%	3	3%
Beverage manufacturing	63	23%	23	25%
Food and beverage stores	27	10%	4	4%
Food manufacturing	120	44%	45	49%
Support activities for crops	47	17%	7	8%
Wholesale trade - nondurable goods	13	5%	9	10%
Grand total	274	100%	91	100%

Count of operation ID	Portfolio		Sample	
	Total	%	Total	%
Debt	199	73%	63	69%
Debt & equity	22	8%	6	7%
Equity	45	16%	22	24%
Guarantee	8	3%	0	0%
Grand total	274	100%	91	100%

Count of operation ID	Portfolio		Sample	
	Total	%	Total	%
Country group (Reg Sep)				
Central Asia	33	12%	4	4%
Central Europe and Baltic states	54	20%	32	35%
Western CIS and the Caucasus	79	29%	15	16%
Regional	14	5%	6	7%
Russia	41	15%	18	20%
South-eastern Europe	53	19%	16	18%
Grand total	274	100%	91	100%

COMPARISON OF THE SAMPLE OF EVALUATED PROJECTS WITH THE UNEVALUATED PORTFOLIO AND PIPELINE OF UNSIGNED PROJECTS

Chapter 4.1 of the main text explained that the Evaluation Department published 67 evaluation reports in the period from 1993 to 2007, covering 91 individual operations. These 67 reports, which form the sample used in the analysis of sector level performance in Chapter 4 of the main report, were all signed and disbursed some time ago. The charts below show how the projects in the sample compare with the stock of projects yet to be evaluated, and those in the pipeline of unsigned projects as at 31 December 2007.

1. Distribution by sub-sector

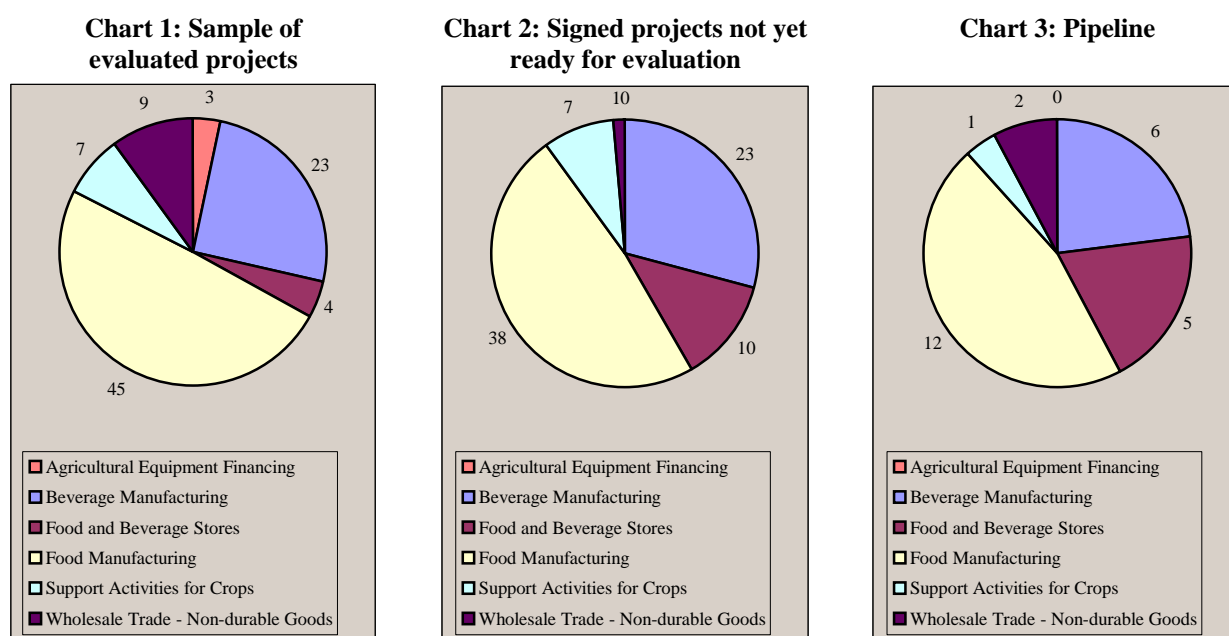


Chart 1 above shows the distribution of the sample by industry sub-sector, and compares this with the 79 unevaluated projects in the portfolio¹ (Chart 2) and the 26 pipeline projects² at 31 December 2007. The breakdown of the three groups appears to be fairly similar, particularly when allowing for the small number of pipeline projects. Food manufacturing accounts for the largest number of projects (approximately half) in each group, followed by beverage manufacturing with about a quarter. The proportion of food and beverage stores increases, which is in line with the Agribusiness Team's current focus on this sector.

¹ This number includes a large number of investments under frameworks (IUF). In practice, these are likely to be grouped for evaluation purposes. The total number of evaluation reports arising from these operations is likely to be around 30.

² Pipeline projects here are defined as projects that have undergone concept review but not yet signed.

Appendix 8

2. Distribution by financial product

Chart 4: Sample of evaluated projects

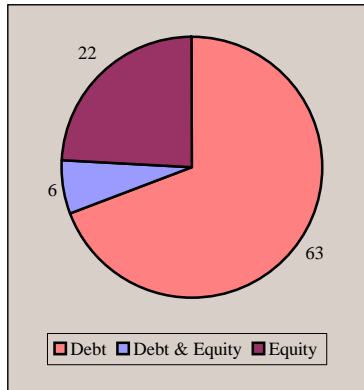


Chart 5: Signed projects not yet ready for evaluation

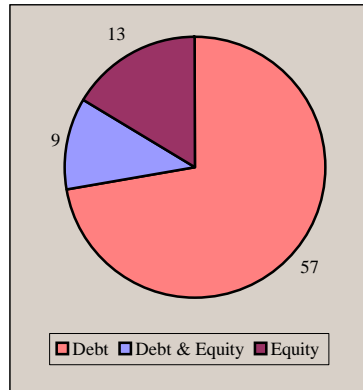
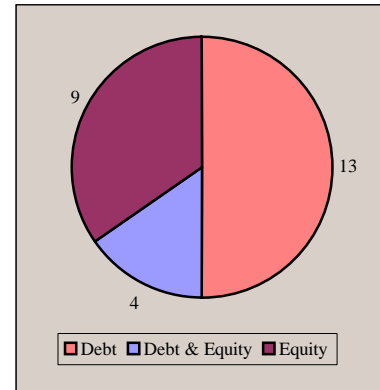


Chart 6: Pipeline



Charts 4 to 6 above make a similar comparison with regard to the financial product of the project: debt, equity, guarantee or some combination. It can be seen that the current pipeline includes a larger percentage of equity investments than the portfolio or the evaluated sample.

3. Distribution by region

Chart 7: Sample of evaluated projects

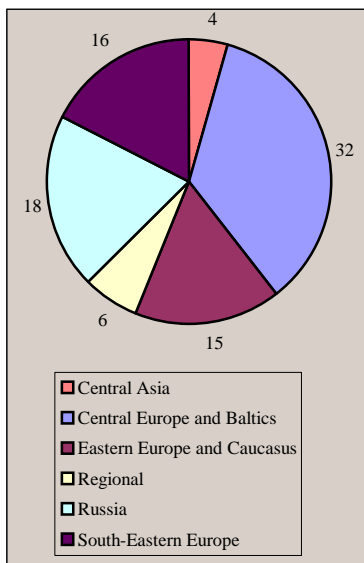


Chart 8: Signed projects not yet ready for evaluation

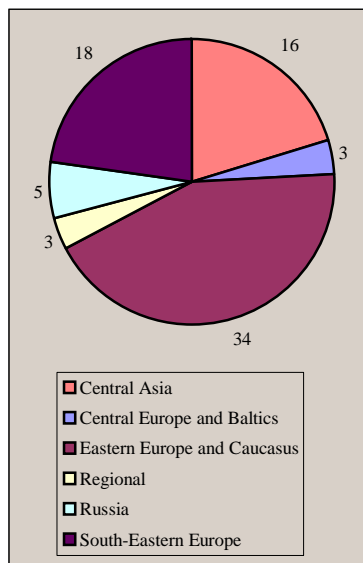
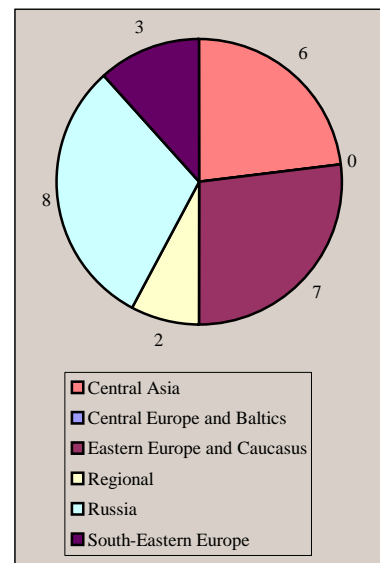


Chart 9: Pipeline



Charts 7 to 10 above make the comparison for regional distribution. The move to the east is clearly visible. The proportion of projects in the pipeline in central Europe and the Baltic states is falling to zero and there are also relatively few projects in south-eastern Europe. Most of the pipeline projects are in Russia, eastern Europe and the Caucasus, and Central Asia. The evaluated sample, of course, reflects the past situation with very few projects in Central Asia.

Comparison of sample against unevaluated portfolio and pipeline

Country name	Pipeline		Portfolio		Evaluated sample	
	Total	%	Total	%	Total	%
<REGIONAL>	2	8%	3	4%	6	7%
ALBANIA	0	0%	3	4%	1	1%
ARMENIA	3	12%	3	4%	1	1%
AZERBAIJAN	1	4%	3	4%	0	0%
BELARUS	1	4%	2	3%	1	1%
BOSNIA AND HERZEGOVINA	0	0%	1	1%	2	2%
BULGARIA	0	0%	2	3%	6	7%
CROATIA	0	0%	1	1%	5	5%
CZECH REPUBLIC	0	0%	0	0%	2	2%
FYR MACEDONIA	1	4%	2	3%	0	0%
GEORGIA	0	0%	13	16%	2	2%
HUNGARY	0	0%	0	0%	4	4%
KAZAKHSTAN	2	8%	4	5%	2	2%
KYRGYZ REPUBLIC	1	4%	0	0%	1	1%
LITHUANIA	0	0%	0	0%	2	2%
MOLDOVA	0	0%	3	4%	1	1%
MONGOLIA	2	8%	2	3%	0	0%
POLAND	0	0%	2	3%	14	15%
ROMANIA	1	4%	5	6%	6	7%
RUSSIAN FEDERATION	8	31%	5	6%	18	20%
SERBIA	1	4%	5	6%	1	1%
SLOVAK REPUBLIC	0	0%	0	0%	5	5%
TAJIKISTAN	1	4%	5	6%	1	1%
UKRAINE	2	8%	10	13%	10	11%
UZBEKISTAN	0	0%	5	6%	0	0%
Grand total	26	100%	79	100%	91	100%

Count of standard industry name Standard industry name2	Pipeline		Portfolio		Evaluated sample	
	Total	%	Total	%	Total	%
Agricultural equipment financing	0	0%	0	0%	3	3%
Beverage manufacturing	6	23%	23	29%	23	25%
Food and beverage stores	5	19%	10	13%	4	4%
Food manufacturing	12	46%	38	48%	45	49%
Support activities for crops	1	4%	7	9%	7	8%
Wholesale trade - non-durable goods	2	8%	1	1%	9	10%
Grand total	26	100%	79	100%	91	100%

Count of operation ID Operation type	Pipeline		Portfolio		Evaluated sample	
	Total	%	Total	%	Total	%
Debt	13	50%	57	72%	63	69%
Debt & equity	4	15%	9	11%	6	7%
Equity	9	35%	13	16%	22	24%
Grand total	26	100%	79	100%	91	100%

Count of operation ID Country group (Reg Sep)	Pipeline		Portfolio		Evaluated sample	
	Total	%	Total	%	Total	%
Central Asia	6	23%	16	20%	4	4%
Central Europe and Baltic states	0	0%	3	4%	32	35%
Eastern Europe and the Caucasus	7	27%	34	43%	15	16%
Regional	2	8%	3	4%	6	7%
Russia	8	31%	5	6%	18	20%
South-eastern Europe	3	12%	18	23%	16	18%
Grand total	26	100%	79	100%	91	100%