



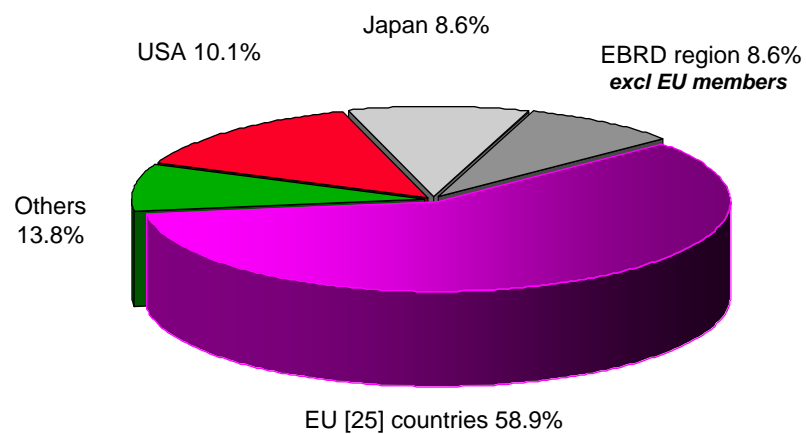
Lessons Learned in Financing Agribusiness Companies

European Bank for Reconstruction and Development

FAO Sub-regional Office for Central Asia - SEC
Technical Consultation Meeting
11-13 July 2007, Ankara, Turkey

1

Shareholding of the EBRD



2

EBRD's key principles



- ❑ **Sound Banking Principle: Projects financed by EBRD must be financially and commercially sound**
 - Appropriate return on investments - a fair balance of risk / reward
 - Client or sponsor committed to the success of the transaction
 - Viable financing structure
- ❑ **Additionality: Operations must be complementary to the private sector**
 - Facilitate and mobilise private sector finance but not 'compete' with the private sector
- ❑ **Transition Impact: Projects must provide transition to a market-oriented economy**
 - Integrity, corporate governance, transparency

3

Financing instruments



Direct

- ❑ Loans
- ❑ Equity, including combination of loan and equity
- ❑ Guarantees, including credit enhancements (performance bonds etc.)

Indirect

- ❑ SME loans
- ❑ Equity funds
- ❑ Micro/small business programmes
- ❑ Credit lines
- ❑ Trade Facilitation Programme
- ❑ Co-financings

4

EBRD deal cycle



- 1- Screening
- 2- Appraising
- 3- Structuring
- 4- Monitoring

5

Screening



- Client: we have not done so well with**
 - Start-ups without Sponsors
 - Restructuring large former State-owned companies
 - Supplier-led projects
- Sub-sector: Some sub-sectors are more difficult than others from a banking standpoint**
 - Less risky: packaged & processed products: beer, soft-drinks, confectionery, dairy, edible oil, retail
 - More risky: meat; flour milling; primary production; fertilisers; bio diversity...

6

2. Appraising



- ❑ **Read the Market: not only consumption/capita**
- ❑ **Look at the food chain**
 - raw material: domestic/world markets
 - annual crops/year-round production
- ❑ **Corporate Governance**
 - decision making process
 - information systems
- ❑ **Conservative projections**
 - aggressive tests for sensitivity
 - focus on the big picture

7

3. Structuring : Agri-Debt



- ❑ **Client / Sponsor commitment is a must**
 - How much will they suffer if this thing fails?
 - Stay away from 'supplier led' deals
 - Sovereign guarantees are not desirable for private sector development transactions.
- ❑ **Understand well which are the risks**
 - Include only covenants/reporting needed
 - Avoid completion and business start up risks
- ❑ **Farming – one chance a year to get it right**
 - Reliable supplies may not come, Yields/Prices may not improve.

8

3 Structuring : Agri-Equity



- ❑ **Good management is a must**
 - Entrepreneurs in place with good track record
 - Multinationals with a pool of executives, and know how
 - Clever consultants do not replace good managers
- ❑ **Entrepreneurs may not see us truly as partners**
 - Put protection/retaliation in the structure
- ❑ **Stay away from turnarounds**
 - EBRD is a development bank and we may not have the skills and resources to micro-manage turnarounds ourselves.
- ❑ **Get downside protection/ secured exit**
 - Aggressive projections are seldom met
 - Our sector is not that attractive to strategic investors

9

4 Monitoring



- ❑ **High transition impact &/or entrepreneurial deals usually = high level of monitoring**
- ❑ **Early identification of issues**
 - be proactive throughout
 - be ready with remedial actions
- ❑ **Careful ongoing monitoring once the Project is completed. Real work starts once the Project are signed and disbursed.**

10



EBRD FAO Cooperation

11

EBRD FAO Framework Agreement



- ❑ **Signed on 7th July 1997; Extended several times**
- ❑ **Also a cost sharing agreement;**
 - 70% funded by EBRD technical co-operation funds
 - 30% funded by the FAO Investment Centre
- ❑ **Aim at providing Ad hoc Agribusiness technical assistance to the EBRD and to its public and private sector financing;**
- ❑ **Various TC assignments under the Framework are referred to as “Call Offs”, for each Call off;**
 - EBRD prepares Specific Terms of Reference
 - FAO submits budget and Team of experts to EBRD for approval
- ❑ **Approval process for each “Call off” follows standard EBRD procedures for all consulting contracts**
- ❑ **Total assignments to date are in excess of USD 4 millionç**

12

Type of EBRD/FAO projects



- **Market research** on a number of agribusiness sub-sectors, either before EBRD decides to proceed with a specific investment (with a view to better assess related investment risks) or during implementation.
- **Pre-investment research and analysis.** Identifying specific investment opportunities and/or performing feasibility assessment for investment projects at an early stage.
- **Implementation of ongoing EBRD projects.** Performing specific consultancy on existing projects to help facilitate the implementation process and/or to remedy unexpected difficulties. This also includes **policy dialogue** projects where research would be undertaken to specific recommendations to improve the investment environment for the project and the market.
- **Other types of COs.** Facilitating information network services such as EastAgri and providing technical expertise on an ad-hoc basis to improve the quality of data utilised by the Project teams.

13



QUESTIONS?

14