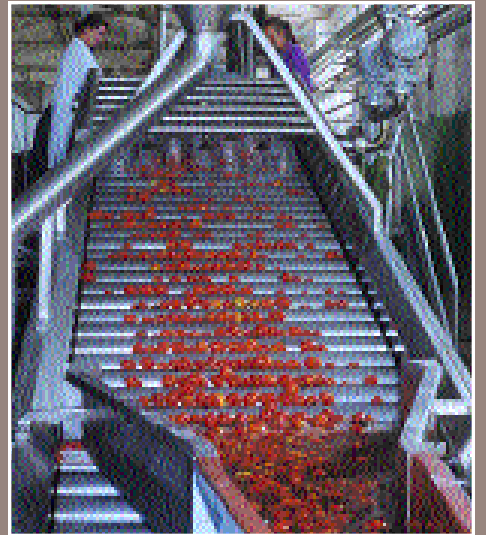


14 Agribusiness: the EBRD-FAO Framework Agreement

Cooperation between the EBRD and the United Nations Food and Agriculture Organisation (FAO) allows the Bank to benefit from the FAO's agribusiness expertise in investment screening, sector reviews and market surveys.



By the end of 2000, the EBRD-FAO Framework Agreement had been utilised in 13 of the Bank's countries of operations. Forty-three consultants have taken part in the assignments.

A significant feature of the EBRD's agribusiness operations is the delivery of technical cooperation through a Framework Agreement with the United Nations Food and Agriculture Organisation (FAO). Together with the FAO, the Bank has provided technical assistance to projects. One case is the Russian grain receipt programme, which would allow farmers to obtain financing by using grain stored in licensed warehouse as collateral. FAO experts have made recommendations to the Government of Russia on how to modify the legal environment, with a view to establishing the programme (see box on opposite page). In Croatia, the Bank and the FAO, in collaboration with the Ministry of Agriculture, devised a restructuring programme for IPK, a large agrikombinat located in a war-affected region of eastern Slavonia (see page 111).

Sector analysis is another important area of technical cooperation under this framework. The Bulgarian dairy sector is a notable example. Risk-sharing financing schemes, involving the State Fund for Agriculture, local private banks and processors, were proposed by the FAO to facilitate the financing of private dairy farms. Other technical cooperation projects were successfully implemented in Belarus, Ukraine, Lithuania, Poland and Hungary.

The EBRD-FAO Cooperation Programme

The cooperation between the FAO and the EBRD was formalised in March 1994, with the signature of a Memorandum of Understanding (MoU) between the two

institutions. The objective of the Cooperation Programme is to provide the EBRD with the FAO's agribusiness expertise in investment screening, sector reviews and market surveys.

Three years after the signature of the MoU, the EBRD and the FAO agreed that the contractual arrangements and procedures under which the FAO's services were employed needed to be simplified. As a result, a two-year EBRD-FAO Framework Agreement (FA) was signed in October 1997. At the end of the two years, the two parties reviewed the benefits of the Cooperation Programme and the structure of the FA, and decided to renew the Agreement for a further two years, until October 2001.

For the period of the FA, the maximum cost of services committed under the Agreement was extended from US\$ 702,766 to US\$ 973,631. The maximum cost of services was set at US\$ 1,676,397 for the overall four-year period. For each assignment, 70 per cent of the costs are supported by the Bank's technical cooperation managed funds and the remaining 30 per cent by the FAO.¹ Accordingly, the Bank's own maximum commitment under the FA was extended by US\$ 681,542 to a total of US\$ 1,173,478 over the four-year period.

By the end of 2000, 26 call offs (COs) had been signed under the FA for a total amount of US\$ 930,439. When CO budgets are not fully utilised, excess funding can be decommitted and used elsewhere once the corresponding FAO invoices are paid by the

Russia – Grain Warehouse Receipt Programme/Improvement of the Institutional Framework

Over the last decade, lack of working capital has been a major constraint for Russian farmers and small agribusiness entrepreneurs. Without tangible assets to pledge, it is extremely difficult to obtain credit from local credit institutions. In the case of grain, warehouse financing aims to use as collateral one of the few physical assets that farmers have, namely their produce. Under this system, licensed warehouses deliver receipts against stored grain that are acceptable by local banks as collateral. This gives farmers a way to finance their next harvest and more flexibility to choose when to sell their produce.

After implementing warehouse programmes in the Slovak Republic and Bulgaria, the EBRD approved a Regional Warehouse Receipts Programme in 2000. The Bank mobilised expertise from the United Nations Food and Agricultural Organisation under the Framework Agreement. The experts were asked to review the legislative framework in Russia and assess the feasibility of setting up a workable grain warehouse receipt system.

Bank. To date, the overall amount of funds that could be decommitted has reached US\$ 49,240. After deduction of decommitted funds, only 53 per cent of the maximum amount of services usable under the FA are currently committed, leaving US\$ 795,198 for future COs.

The portion of signed COs financed by the EBRD amounts to US\$ 694,194. To cover its share of the FA commitments, the EBRD has mobilised funds from the following sources: the Taipei Co-operation Fund, the UK Department for International Development, the Japan-Europe Cooperation Fund, the Balkan Regional Special Fund as well as other trust funds from the United States, Greece, Sweden, Germany, France and Italy.

The proportions of the various sources of funding of the Agreement are shown in Chart 14.1 on page 110.

Technical aspects

Assignments fall into four categories: sector reviews, pre-investment analysis, due diligence and assignments related to already signed operations, and other types of assignments.

Sector reviews

The purpose of sector reviews is to gain an insight into a number of agribusiness sub-sectors, either before the EBRD decides to proceed with a specific investment – with a view to better assess related investment risks – or during implementation. Seven assignments fall into this category: Bulgaria – Milk Sector

Review and Grape Production Review; Croatia – Milk Sector Review and Wine Sector Review; Belarus – Brewery Sector Review; Ukraine – Malt Sector Review and Romania; Bulgaria, Georgia – Grain and Milling Sector Review.

Pre-investment analysis

Some assignments performed under the Agreement are aimed at identifying investment opportunities. Assignments including the Identification of Investment Opportunities in FYR Macedonia and in Ukraine fall under this category. Others are aimed at clarifying the feasibility of prospective investment projects at an early stage. Four assignments fall into this category: Slovak Republic – Grain Receipt Programme; Poland – Dairy Facility; Russia – Grain Warehouse Receipts Financing; and Lithuania – Consolidation of the Dairy Sector.

Due diligence and assignments related to already signed operations

Some assignments are related to operations which are already at an advanced stage of development and are part of the due diligence process. The Agri-equipment Financing Facility in Poland is one such assignment. Other assignments are related to signed operations and aim to facilitate their implementation or to remedy unexpected difficulties. Six assignments fall into this category: Poland – Warsaw Wholesale Market Phase 2; Romania – Fresh Produce Marketing; Moldova – Glass Factory Completion Audit and Assistance to Glass Container Company; Bulgaria – Restructuring of Wholesale Market

Programme; Bulgaria – Grain Receipt Programme; and Poland – Rationalisation of Government Intervention in the Financing of Wholesale Markets.

Other types of assignments

Other assignments are used to access the FAO's information network and expertise to improve the quality of data utilised by the EBRD's Operational Leaders (OLs). Two assignments come under this category: Research on Agricultural Market 1 and 2. During these assignments, the FAO also produced agribusiness handbooks to facilitate the work of OLs. One assignment was used to review the relevance of establishing an Agribusiness Advisory Centre in Kosovo. Another aimed to put forward initial recommendations for the restructuring of an agrikombinat in Croatia.

Other assignments are currently under discussion, including Barley Sector Rationalisation in Russia, Financing in Slovenia and a Dairy Sector Review in Romania.

¹The only exception to this rule is when the assignment is carried out in a country of operations that is not a member state of the FAO. In this case, 100 per cent of the costs are borne by the EBRD TC funds. To date, four countries of operations are still not members of the FAO: Uzbekistan, Russia, Belarus and Ukraine.

Countries targeted and consultants involved

The Framework Agreement had been utilised in 13 of the Bank's countries of operations by the end of 2000. The utilisation of FA funds by country is illustrated in Chart 14.2.

Forty-three consultants have taken part in the assignments carried out under the Agreement. Due to the high level of cooperation between the two institutions, these consultants can be identified by either of the two parties, with the final choice being endorsed by the EBRD's OL. Consultants from 14 nations have contributed to EBRD-FAO assignments, as illustrated in Chart 14.3.

Assessment of benefits and performance

The demand for assignments under the Agreement has been high and the requests diverse. Fourteen OLs, 13 of them from the Agribusiness Team, have called upon services under the Agreement. The advantages of the FA include:

- **Expertise** The Agreement has provided the EBRD's Agribusiness Team with a sound level of expertise in agriculture and related fields where the Bank needed additional experience.
- **Efficiency** The implementation of the Agreement has facilitated much improved cooperation between the two institutions. Because of the arrangements provided for in the FA, assignments are easy to launch. The FAO, which co-finances most of the assignments, consistently proves responsive to the requests of the EBRD Agribusiness Team. These include discussions on terms of reference, identification of experts and

preparation of budgets. Over time, the cooperation links with the FAO have continued to improve, which further facilitates the use of technical cooperation under the Agreement. Inside the Bank, notable progress has been made by the Official Co-financing Unit to identify funding sources when a request is put forward by the Agribusiness Team. This makes the intervention of the FAO timely and more relevant to the Agribusiness Team's work.

- **Improved dialogue with governments of countries of operations** The FAO's counterparts are the governments of its member states. A significant number of assignments, particularly the sector reviews, include an analysis of government policies, to better assess the risk profile of the Bank's prospective or signed transactions. The reviews include preliminary recommendations on policy matters, based on the practical experience of private stakeholders. In this respect, the FA has often improved the policy dialogue between the Bank and the governments of its countries of operations.

This technical assistance was instrumental in identifying the legislative and regulatory modifications that were required to introduce and make the programme effective in Russia. While the necessary institutional framework is put in place, the EBRD and Rabobank have implemented a US\$ 150 million facility to start implementing a commodity-backed financing programme.

Chart 14.1 Sources of funding of the EBRD-FAO Framework Agreement

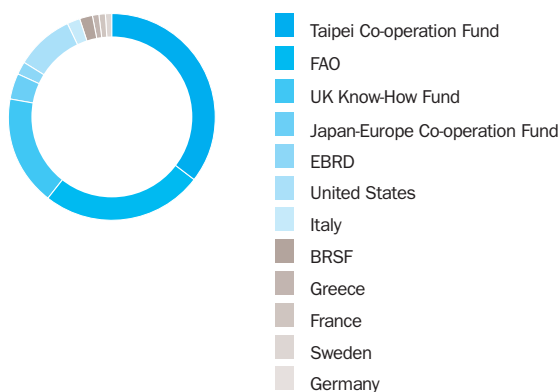
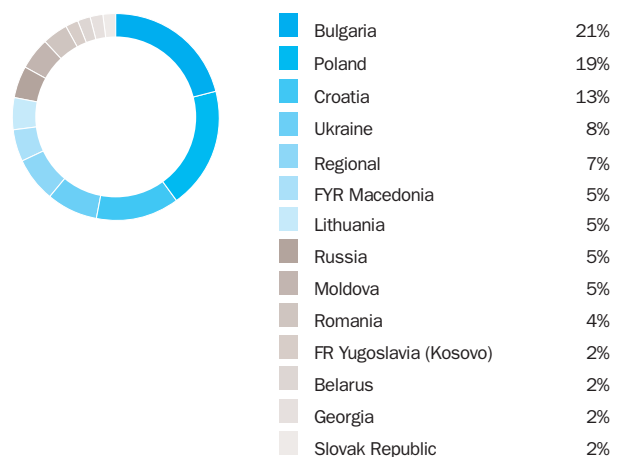


Chart 14.2 Utilisation of the EBRD-FAO Framework Agreement by country of operations



Croatia – Restructuring of the IPK Group

IPK is a diversified agrikombinat located in the war-affected region of eastern Slavonia. Before the war, IPK was a prominent and successful group of companies, with activities ranging from farming to sugar and chocolate production. Since then, IPK has faced increasing commercial and financial difficulties, accumulating an unsustainable level of debt. Technically, the group is privatised. However, its main shareholder is still the Government of Croatia through the State Privatisation and Pension Funds.

Under the EBRD-FAO Framework Agreement, the Bank mobilised technical assistance to make a preliminary assessment of the group's situation and to develop restructuring options. This exercise provided an opportunity to raise the awareness of the Croatian Ministry of Agriculture, which is responsible for the supervision of IPK, to the issues currently faced by the group, including management-related issues. As a result of this intervention, the Ministry of Agriculture and the managers of IPK endorsed a restructuring plan of action. One of the first steps of this plan was the restructuring of the group's balance sheet.

Bulgaria – Investing in private dairy farming

The EBRD has been active in the Bulgarian dairy sector through its investments in the local subsidiaries of Danone and Delta. These companies, particularly Danone which is producing mostly fresh products, have increasing difficulties sourcing enough quality milk to satisfy consumer demand.

In this context, the FAO was asked by the Bank to carry out an analysis of the dairy sector, starting with the problems faced by Danone and other large Bulgarian dairy processors in terms of milk supplies. The work of the FAO focused on the constraints of emerging private farms wishing to specialise in milk production and willing to establish stable relationships with prominent processors.

Discussions with processors, producers and the Bulgarian Ministry of Agriculture resulted in the identification of two main constraints. These were the absence of technical and economic advice for dairy farmers and the difficulties in mobilising credit experienced by even the most successful private farmers engaged in a stable commercial relationship with a processor.

To address these constraints, the FAO made a series of proposals to the Bulgarian Government, including a risk-sharing scheme involving the State Fund for Agriculture.

Chart 14.3 Nationality of consultants used under the EBRD-FAO Framework Agreement

