

SUMMARY OF THE OPERATION PERFORMANCE EVALUATION REVIEW

1. The project

In July 2005 the European Bank for Reconstruction and Development (EBRD) approved an operation that consisted of a loan and equity facility to a brewery company in the amount of USD 8 million (€6.5 million). The loan was intended for the restructuring and expansion of the brewery, which had been fully privatised in 1994 via a concessionary voucher privatisation scheme.

2. Project rationale

The project aimed at providing funds to a company whose management team is committed to turning the company into a leading national brewer that could attract foreign direct investment (FDI) by a leading international brewery group. For the Bank this operation provided an excellent opportunity to work with the private sector in this particular country of operations.

3. Achievement of objectives

Financing of the ongoing expansion programme and support for the restructuring of the operations by improving efficiency

The expansion of production went hand in hand with a new polyethylene terephthalate (PET) bottling line and marketing campaigns for different types of beer. Production is set to reach its limit in 2008 due to the limited space available at the brewery's present location. The company is actively looking at new sites for future expansion. This objective has been achieved in full.

Raising quality and consistency of the end product

Shortly after the EBRD's entry, a consultant had been retained to develop a quality measuring system. The company won a gold medal in a major competition for one of its beer brands. This objective has been achieved in full.

Expansion of distribution channels and brand building

A complex quality communication campaign (television, public relations, national promotion) was developed in 2007. An advertising game for consumers was organised in autumn 2007 and achieved its objectives only in part. A regional campaign to promote glass bottle sales in participating stores was more successful. Multipack promotions also contributed to sales growth. This objective has been achieved in full.

Strengthen the company in view of organising a competitive tendering process for the selection of a strategic shareholder

Following a competitive tendering process and three-month long negotiations with the Bank, the company's key shareholders and an internationally active brewery group, which had successfully acquired 30 per cent of the company in December 2006. This objective has been achieved in full.

4. Overall assessment

On the basis of its independent review of the operation's performance to date, EvD assigns a "Successful" performance rating. This rating acknowledges the well-timed investment by the Bank and the extremely successful competitive tendering process for finding the most suitable strategic investor.

The transition impact is rated "Good". This is based on an excellent impact of the strategic investor who

- is a market leader in most of the neighbouring markets
- has supported the appointment of a new management team
- provides the company with high levels of support in all critical areas.

The impact at industry level was good given the very significant demonstration effect, which possibly encouraged another strategic investor to enter the local brewery market. The company also had an excellent impact on increased competition between the local breweries and in relation to an increased market share of imported beers.

The environmental performance of the project is rated "Satisfactory/Good", and the extent of environmental change is rated "Substantial/Some". These ratings are due to the brewery's age and its very central and, therefore, confined location. These reasons made it difficult to achieve the levels considered in new greenfield projects.

The Bank's additionality was "Verified in all respects". The company's financial performance is rated "Satisfactory". Many of the initiated improvements/restructuring efforts will contribute to improved performance when production can be further increased. The fulfilment of project objectives is rated "Excellent". Bank handling as well as the Bank's investment performance are also rated "Excellent". This project is a very good case study in showing the Bank's capabilities in a difficult market. It demonstrates how good cooperation between the local resident office (RO) and its local industry contacts together with an active sector team from London can successfully achieve the Bank's objectives.

5. Bank handling

The Bank's RO was in contact with the local shareholders of the company from about 1998 onwards. The opportunity for Bank involvement with an equity and loan operation arose when the company needed additional funding and management support. The Bank representatives are very familiar with the local situation and sector, and their intervention is appreciated by all parties. Bank handling is rated as "Excellent".

6. Main OPER issues and lessons learned

Early focus on governance and integrity issues

The Bank's equity investment in the local company in September 2005 (in the amount of about €2.9 million or USD \$4.2 million, respectively) did not have a pre-determined exit. Hence, besides the covenants stated in the financing agreements, the hands-on approach and close interaction with the client, its management and shareholders were crucial. The interaction was facilitated through regular attendance of supervisory board and shareholders meetings, field

visits and direct talks with management with regards to resolving key issues. In this way it was possible to achieve implementation of all the corporate governance improvements that, later on, facilitated the process of finding the right strategic investor.

Lessons

- Well-balanced conditionality enhances corporate governance. It is important to define appropriate conditionality from the outset in order to ensure important governance improvements. This will facilitate the search process for an appropriate strategic investor.
- Sufficient EBRD staff resources need to be allocated to an equity investment in a local company in the absence of a strong strategic partner. The allocation of the EBRD's local resident office and specialist team resources is crucial in an equity investment where the Bank does not have an interface in the form of an equity fund. The active involvement of Bank representatives in the board is important in small local companies where major management changes need to be supported by all shareholders. In some cases the Bank may need to continue this role even after the investment by a new strategic shareholder.

Technical assistance can contribute to the improvement of a local company prior to finding an external strategic partner

The Bank provided technical assistance for hiring a business development consultant who was beneficial in assisting the company in the context of the restructuring and investment plans. The changes initiated by specialised external consultants funded through the TC created a solid platform for further improvements in the company. This has assisted the company in the process of searching for a strategic investor.

Lesson

- A well-defined TC input during restructuring of a local manufacturer can facilitate the tendering process for suitable strategic investors. In this case the well-targeted TC, which was delivered by an experienced specialist in the beverage industry, contributed to improved offers from strategic investors who took confidence from the Bank's ongoing active role and the strengthening of management and production processes already underway.

Backward integration in a government-controlled primary agriculture sector and a government-controlled malting plant

One of the most important ingredients in beer production is a good and consistent quality of malting barley, which is converted into high quality malt in the malting plant. In this case the company has to buy malt from a designated government-owned malting plant that, in turn, has to acquire its barley from large state-owned agricultural production units. These production units do not put a high priority on barley production. Hence, the quality is very poor and not consistent. The malting plant is unable to achieve reasonable quality malt that would form the basis of a high-quality beer production.

The company periodically requests permits to import malt but they have been denied. The Bank's experience with malt and beer production in a variety of countries should provide an excellent basis to provide some input into this sector through policy dialogue and, possibly, TC support. Initial reactions from the company suggest that it will not be easy to change government policies and attitudes in this respect.

Lesson

- The Bank's specialist team can encourage the government to enhance the quality of crucial raw materials produced by government-owned companies. Sector dialogue with a focus on improving malt quality could be helpful to all beer producers in the country. The Bank also seeks to improve sector framework and enhance product quality and competition in the upstream sector. Therefore, the Bank may be able to enter into dialogue with government to review barley and malt production standards and evaluate measures to improve these standards in the interest of all local beer producers.