The Project
In 2008 the Board of Directors approved a senior loan to an agricultural company (hereinafter referred to as "the Company" or "the Group") in one of the countries of operations. In 2009 the Board approved another loan for the Group under the Mid-Sized Corporate Support Facility (MSCSF). Currently the Group owns several sugar plants, agricultural companies cultivating leased land, cattle farming, a small food cannery and a feed mill. In 2009 the Company had a share of nearly a quarter of the domestic sugar market. Both loans were entirely disbursed and the Company is on schedule with the repayment of both loans. In 2010 the Board approved the third loan to the Group. The new loan is designed to finance the Group's further energy efficiency-related investments and the construction of two storage facilities. Moreover, in mid-2010 the Company received a grant from the Bank's Shareholder Special Fund for energy efficiency management system.

Project rationale
The main objectives of the Projects were:
Loan I (i) purchase and installation of equipment at the Group's plants, which were to improve energy efficiency and productivity; (ii) purchase of agricultural equipment for the farming operations; and (iii) restructuring of the Group's balance sheet.
L**oan II** (i) restructuring of the Group's balance sheet; and (ii) to finance investment in energy efficiency improvements at the Group's plants and farms. The loan was to be a part of a larger short-term debt restructuring programme, which would provide the Group with sufficient short-term debt financing for the next 12 months.

Achievement of objectives
Application of the loan proceeds: The energy efficiency benchmarks have been met and the Company entered into a carbon credit transaction with the EBRD-sponsored fund. Both loans have been applied towards the respective Projects. However, proceeds of loan II were not entirely applied as presented in the Board Report. During the loan negotiations, the Operation Team agreed to the Company's request to allocate 100 per cent of the loan proceeds to short-term debt refinancing and forgo any energy efficiency investments. However, after introducing such a change to the Project, the Team should have returned to the Board, at least to report the change for the Board's information.
Achievement of Project I objectives: The Project I has been completed as planned. All equipment purchased under this Project has been installed in five plants and is fully operational.

Restructuring local production company and demonstrating new processes, including skills transfer: *Achieved*
Production: During 2007 and 2008 the Company made a series of capital investments, including modernisation of its plants and farming machinery, most of which was purchased with proceeds of the Bank's loan. Plant modernisation investments were mostly related to energy efficiency improvements.
Farming: Approximately 30 per cent of the amount borrowed was spent on farming machinery to improve cultivation, harvesting and transportation. Between 2007 and 2010 the Company expanded its farming operations.

Setting business standards: *Achieved*
Energy use: As a result of investments in energy saving equipment and in streamlining the production process, the Company reduced gas usage by about 15 per cent, with further improvements expected in 2010. Due to this reduction, the energy efficiency benchmark is rated as *Achieved*.
Environment: The Company prepared a three-year action plan for the entire Group with the target of being certified for ISO 14001. The procedure is on schedule and management expects to obtain the certification in the first half of 2011. The Company has embarked on introducing a Quality Management System and having its plants Hazard Analysis and Critical Control Point certified. However the Group remains non-compliant with EU Best Available Techniques in Integrated Pollution Prevention and Control and therefore the Team should have requested derogation from the EBRD Environmental Policy. Such a request has not been explicitly stated in the Board reports.
Carbon credits: Encouraged by the Bank, the Company has successfully applied for carbon credits. By mid-2010 the Company had already accumulated substantial carbon credits.

Increasing competition in the production and farming sector: ***Achieved***
Processing technology: The investments in the processing plants have not only decreased energy usage, but have also improved the extraction yield. These are important improvements, which immediately raise the profitability of relevant plants.
Market: The improvements in processing technology have also raised the proportion of higher value products that can be marketed.
Farming: With the high level of investments in the sector, the Group was able to improve yields while at the same time expanding the acreage. Even with reservations about climatic conditions in the future, if these yields can be maintained, the benchmark of this component has been *Achieved*. However, 2010 was a particularly difficult year for the agricultural sector in the region, which is also jeopardising the Company's achievements in relation to farming.

Financial restructuring: ***Achieved***
Due to the financial crisis, at the end of 2008 the Company experienced difficulty with maintaining appropriate liquidity. The EBRD therefore agreed to provide a new loan to refinance short-term debt. In addition, the Group's management team successfully negotiated an extension of the loan maturities provided by other banks. As a result, short-term debt was reduced. The capital expenditure programme was postponed. The Borrower is now in compliance with the covenants under the EBRD loan.

Overall assessment
Both Projects are rated as ***Successful***. The Company has proven to be a successful company and an excellent partner of the EBRD in this country of operations. Out of 10 covenanted Transition Impact (TI) benchmarks under Project I, the Group has achieved or exceeded eight. The remaining two benchmarks are on track and are expected to be achieved by 2011. Under Project II, the main objective of successful short-term debt restructuring and reduction has also been achieved. Lastly, an important achievement was that the Group has entered into a carbon credit agreement in this country of operations. The overall environmental and social impact is rated as *Good*. This rating reflects on the one hand: (i) the successful reduction of gas used in production, *Achieved;* (ii) the agreement to sell carbon credits, *Achieved*; and (iii) the work on implementing an Environmental and Social Action Plan (ISO 14001), *On track*. However, all three projects do not comply with EU IPPC BAT nor are they expected to comply in the foreseeable future.

Transition impact and additionality
Overall transition impact
The Team rates the overall transitional impact as *Good*. The Company achieved almost all transition objectives, which were agreed at appraisal (with the remaining two being on track). These ranged from product extraction rates and energy efficiency improvements to the signing of one of its first carbon credit transactions. In addition to improving the production process**,** the Company has modernised its agricultural production, thereby increasing productivity. Lastly, even before the financial crisis, the Bank raised the Company's awareness of the refinancing risk. On the Bank's insistence, the Group restructured its balance sheet and replaced most short-term obligations with long-term debt.

Company impact
The loans have made a positive impact on all Company's operations. The investments in modern equipment, improved management techniques and strategy are all yielding positive results, while the Company maintains acceptable leverage and Debt Service Cover Ratio. The Company is perceived in this country of operations as well managed and dynamic. By introducing new technologies, it serves as an example to be followed by its competitors. In the category "Skills transfer", the Projects are rated as *Good*. To save costs and to gain competitive advantage, the Company has to ensure that its dependence on gas and electricity decreases. This was the Company's strategy and the main purpose of the first project. Following this strategy has yielded good results. The Company's efforts to set new standards for its business, particularly operational, can be rated as *Good*. The energy efficiency improvements implemented under the project and the new agricultural cultivation methods are proving to be a success and have given the Company an edge over its competitors.

Industry impact and impact on the economy
The key objective of Project I was to strengthen the Group that was and still is a key player in the food industry, both as producer and as an industrial processor. This industry is important in this country of operations. The Project has therefore a strong developmental impact on the industry. The Company's competitors are also likely to observe how the Group was able to reduce energy consumption, increase extraction rates and improve the quality of the product. The Company's strategy of increasing the production share of the ingredients and introduction of energy efficiency improvements has proven to be successful. The Project has a *Good* demonstration effect. Weakness in backward linkages is counter-balanced with strong, positive demonstration of benefits stemming from energy efficiency investments and from the carbon trading transaction. The industry still remains fragmented, which is unsustainable in the longer term. However the number of plants producing similar goods has decreased in recent years. The Company acts as an example of a strong local company, extracting value through improved techniques, modern processing technology and energy efficiency improvements. It is in a very good position to take a lead in the future consolidation of the industry.

Energy efficiency
As described earlier, the Bank financed an energy efficiency audit prior to the final design of the Project. This audit highlighted the Company's energy deficiencies and was used by the Group as a blueprint for strategic energy efficiency investments. Therefore, the Team attributes a part of the positive impact to the energy efficiency audit process. Currently, for most projects, the Energy Efficiency and Climate Change (E2C2) team has no direct involvement with the clients or projects post due diligence. The Department recommends that the E2C2 team has a continuing monitoring role in all energy efficiency projects.

Environmental and social impact
Project I was screened B/1 under the Environmental Policy, and Project II was screened B under the Environmental and Social Policy (EBRD). The Company is in the process of implementing the Environmental and Social Action Plan (ESAP) with the target of being certified for ISO 14001. In addition to the implementation of the ESAP, the Team noted (i) the successful reduction of gas used in the production; and (ii) the agreement to sell carbon credits.

Environmental performance: The environmental performance is rated as *Satisfactory*. This rating gives weight to the Company's substantial investments in energy efficiency technologies and the introduction of the Environmental and Social Action Plan, which will lead to ISO 14001 certification. However, without a clear, Board-approved derogation, the Bank's environmental benchmarks appear to be EU Integrated Pollution Prevention and Control requirements and these benchmarks have not been met. Moreover, the request for derogation to ESP should have been clearly stated in the internal reports (this applies to both Projects).

Environmental change: The Project has achieved positive environmental change through a 15 per cent reduction in gas through various plant upgrades.

Environmental and social impact (ESI): The overall Environmental and Social Impact (ESI) is rated as *Good*. This is based on separate ratings for environmental performance *(Satisfactory)* and environmental change (*Substantial*). This ESI rating gives weight to the Company's substantial investments in energy efficiency technologies and the introduction of the Environmental and Social Action Plan.

Country strategy and sector policies
The Projects are in line with the Bank's transitional goals, as specified in its strategy for this country of operations, as well as the Bank's Operations Policy for the sector and the Bank's Energy Operations Policy.

Additionality
The additionality rating for the Projects is *Verified in all respects* due to: (i) the conditions of both EBRD loans could have not been matched by any local bank; (ii) the energy efficiency consultant, introduced by the Bank, has provided the Group with a concept for energy efficiency improvements, which the client has implemented to the extent agreed under Project I; (iii) with the Bank's assistance, a carbon credit programme was put in place under the EBRD Multilateral Carbon Credit Fund facility.

Bank handling

"Bank handling" is rated as *Good*. The Projects were appropriately selected to fit the Bank's mandate and the Group's priority needs. Project I was correctly focused on relatively low-cost, high-impact cost-control measures, related mainly to energy efficiency improvements. The incorporation of carbon credit generation into this project provided a particularly strong demonstration effect. Project II constituted the first project under the Mid-Size Corporate Support Facility, which was a key element in the Bank's response to the global financial crisis.

Environmental bank handling – recommendation: When derogation to the Bank's Environmental and Social Policy is requested, this should be explicitly stated in the text of the internal report or included in the report's President's Recommendation section.

Key issues and lessons learned

Setting transition impact benchmarks for the Bank's follow-up operations.
Transition impact benchmarks for follow-up operations with the same client should be updated or new benchmarks set if the original benchmarks have already been met. This should apply also to "crisis response" projects being undertaken with relatively strong clients who have already achieved transition benchmarks set for the original operation.

Using refinancing loans as "bargaining chips" to encourage environmental compliance. The Company obtained three loans from the EBRD while remaining incompliant with EBRD Environmental Policy. The Bank should identify opportunities to obtain environmental commitments from the clients when providing repeated, substantial and highly advantageous financing (including grants). In line with its mandate, the Bank should make an effort to encourage/incentivise clients who remain incompliant with the Bank's Environmental Policy to allocate at least a small part of the EBRD loan to start addressing the most urgent environmental issues.

Encouraging consolidation of fragmented industries through policy dialogue. The Bank's financing of sensitive commodity operations, should take into account the overall structure of the sector and, where suitable, incorporate policy dialogue actively promoting the sector's consolidation and restructuring. Supporting the modernisation programmes of too many industrial facilities might not be the best long-term strategy for the Client and the country in question. This could be particularly important if the experience of the EU peers indicates that consolidation of the operations is the only way to achieve the best operational results and compete effectively in the long term, while ensuring environmental compliance of the facilities remaining in operation.

Change of use of loan proceeds must be reported to the Board. This applies also to the crisis response-related projects. The Teams should take care to follow re-approval or reporting procedures contained in the Manual.