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**OPERATION EVALUATION SUMMARY**

# **An agribusiness company**

**April 2013**

**EBRD EVALUATION DEPARTMENT**



**European Bank**  
for Reconstruction and Development

## An agribusiness company

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### 1 Executive summary

This evaluation concerned a senior loan made by the ERBD to a wholly-owned subsidiary ("the Company") of a producer of aluminium and steel can packaging ("the Sponsor"). The loan was to co-finance the construction and equipping of the Company's new can production facility. The Sponsor is a market leader in central and eastern Europe and parent of a group of companies involved in aluminium, steel and glass packaging production in several countries.

The operation is rated "successful" overall. It fully complied with the Agribusiness Operations Policy and the country strategy. Additionality has been "largely verified" as the project started shortly after the 2008 financial crisis. Moreover, the intended partial syndication of the Bank's loan failed, further reflecting the difficulty of raising commercial financing in the country of operations at that time.

Effectiveness is rated "good", as the operational objectives of the construction and equipping of the new factory were fulfilled, albeit with a seven month delay, and the project's financial performance was good, remaining largely in line with the projections. Efficiency (Bank handling) is rated "satisfactory" as, in EvD's opinion, the team missed an opportunity to achieve substantial transition and environmental impact which could have been achieved if the team had chosen to follow up on addressing obstacles to aluminium can recycling, identified by an initial technical cooperation (TC). The "satisfactory" rating also reflects minor gaps in project implementation planning.

Transition impact and sustainability are rated "good" as the Company was able to achieve most of the transition benchmarks set at approval. The transition impact was realised mainly through tackling the monopoly in the aluminium can market in the country of operations which was dominated by only one producer before the project commenced. The potential to introduce the recycling of used beverage cans was duly investigated, as was promised at approval. However, the Bank stopped short of following up with a more ambitious TC to address the issues preventing the introduction of a recycling scheme.

#### Findings

##### **1. Ensuring follow up on TCs with negative conclusions.**

If the conclusions of a feasibility verification TC are negative, while the potential transition impact of a given measure is high, the Bank should explicitly identify how the obstacles will be addressed, including with a follow-on TC.

##### **2. Integrating technical cooperation part of a project with its financing part.**

The Bank's operations often have distinct TC and financing parts. The TCs should be well integrated with overall operation, especially if the expected results of a TC are important for the achievement of the project's transition impact.

#### Recommendation

##### **Address the issue of beverage can recycling in Russia**

The Bank committed to two operations with the Company in the country of operations. The possibility of introducing the recycling of used beverage cans under the first project received a strong welcome from

the Board and OpsCom and was hailed as an important transition and environmental benefit. Enquiries were also made by the Board in respect of the recycling issue during the approval of the second loan to the Company in 2012 but this issue has not been adequately addressed and remains unresolved.

The Bank should consider addressing this issue properly under the next project for financing aluminium can production in Russia, be it with the same Company or another client. As a minimum, the Bank should consult the legal transition team to consider the ways of addressing the legal deficiencies preventing the Bank's client (and other can producers in Russia) from participating in used beverage can recycling schemes.

## 2 Project ratings

Table 1. Summary of ratings

<b>Relevance</b>	
Additionality (Fully verified, largely verified, partly verified, not verified)	<i>Largely verified</i>
<b>Effectiveness</b>	
Achievement of operation objectives (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>
Project financial performance (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>
<b>Efficiency</b>	
Bank handling (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Satisfactory</i>
Bank investment performance (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>N/A</i>
<b>Impact and sustainability</b>	
Transition impact (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>
Environmental and social performance (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>
Extent of environmental and social change (Outstanding, substantial, some, none/negative)	<i>Some</i>
Overall performance rating (Highly successful, successful, partly successful, unsuccessful)	<i>Successful</i>

### 3 Project relevance to the EBRD's mandate

#### 3.1 What was the rationale behind this project?

The rationale behind the project was primarily to introduce competition to a *de facto* monopoly dominated by one producer. The project was also considered as having an intended demonstration effect by encouraging new entrants to the Russian beverage can manufacturing market.

#### 3.2 Did the project provide additional support to the market?

The project was developed shortly after the 2008 financial crisis when long-term financing for new start-up operations was not available from commercial sources in Russia. The Bank's leadership in the financing of this operation did not attract any syndication, which suggests the degree of negativity in market sentiment at that time. However, the Sponsor could have attracted shorter-term financing or would have had to contribute more equity in order to obtain a loan from a commercial bank.

Table 2. Additionality ratings

Additionality	<i>Largely verified</i>
<small>(Fully verified, largely verified, partly verified, not verified)</small>	

### 4 Project objectives

Table 3. Rating of objectives

Achievement of objectives	<i>Good</i>
<small>(Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)</small>	
Company financial performance	<i>Good</i>
<small>(Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)</small>	
Project financial performance	<i>Good</i>
<small>(Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)</small>	

#### 4.1 What were the objectives and to what extent were they achieved?

The main operational objective of the project was to build and equip the Sponsor's new aluminium production factory. Due to the delay in obtaining the necessary building permits and licences, the start and subsequently the completion of the construction was delayed by seven months.

#### 4.2 How did the project/company perform financially?

The delay in starting the operation had an adverse effect on the Company's financial performance in 2009 and 2010. The Sponsor had already signed delivery contracts with major clients and had to import cans from its production facility elsewhere during these two years. This had a negative impact on profitability.

The financial performance improved considerably since 2011 and has been largely in line with the projections.

## 5 Project handling efficiency

Table 4. Efficiency ratings

Bank handling (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Satisfactory</i>
Project financial performance (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>

The Bank structured the transaction adequately. It obtained the Sponsor's completion guarantee which can be released only on the achievement of certain operational and legal milestones (such as the perfection of mortgage security). The risk of construction delay was also mitigated to a large extent by ensuring that, in case of delay, the company's obligations in Russia would be met by importing cans from its production facility elsewhere.

Although the introduction of a recycling scheme for used beverage cans was set only as a "potential" TI benchmark (depending on the outcome of the TC study), in EvD's opinion, the TC did not go far enough to address the issues preventing the initiation of such a scheme.

## 6 Project transition impact and sustainability

Table 5. Transition and environmental impact ratings

	OPA	EvD
<b>Realised transition impact</b> (Excellent, good, satisfactory, marginal, unsatisfactory, negative)	<i>Good</i>	<i>Good</i>
<b>Potential transition impact</b> (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>	<i>Good</i>
<b>Risk to potential transition impact</b> (Excessive, high, medium, negligible, low)	<i>Low</i>	<i>Low</i>
<b>Overall transition impact</b> (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>	<i>Good</i>
<b>Environmental and social performance</b> (Excellent, good, satisfactory, marginal, unsatisfactory, highly unsatisfactory)	<i>Good</i>	<i>Good</i>
<b>Environmental and social change</b> (Outstanding, substantial, some, none/negative)	<i>Some</i>	<i>Some</i>

## **6.1 What was the project's transition impact?**

The project resulted in the Company achieving a large share of the Russian beverage can market, well above the benchmark of 8 per cent. However, the operation did not encourage any other market entrants. In terms of market expansion, the project target was to source 90 per cent of inputs locally. Currently, all aluminium is sourced from Samara/Russia, while paint and lacquer comes from abroad due to high quality requirements. More than 50 per cent of workers have taken training in other Company facilities, based on a rotation system.

In terms of demonstration effect, the Company was expected to set up a recycling scheme for used beverage cans in Russia, depending on the results of a TC study commissioned by the Bank. The TC study concluded that the conditions necessary to initiate an aluminium can recycling scheme in Russia are not currently in place. The major issue highlighted by the consultants was the lack of appropriate fiscal incentives for Russian corporations to get seriously involved in recycling.

According to the Company executives interviewed by EvD, the ban on scrap metal exports from Russia is the main obstacle to the Company's involvement in the recycling of used beverage cans. There are only three aluminium smelting-rolling plants in Europe (in Germany, France and the UK) capable of smelting and rolling scrap aluminium to produce new sheet metal of flexibility and quality suitable for beverage can production. Therefore, the ban on exporting scrap metal from Russia automatically prevents the full process of recycling from taking place.

## **6.2 What was the impact on the environment?**

The Company has made good progress in implementing the ESAP, including the introduction of ISO14001 and OHSAS18001 Environmental and Health and Safety Management Systems. The used beverage can recycling scheme, however, was not implemented.

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