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PERSPECTIVES OF AGRIBUSINESS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES AFTER THE EASTERN ENLARGEMENT OF THE EUROPEAN UNION

by

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1 Introduction

This paper aims at setting out the strategy pursued by the European Bank for Reconstruction and Development in the agribusiness sector. It contains a slightly abridged version of the Bank's document "Agribusiness Operations Policy, Approved by the Board of Directors, 28 May 2002".

The structure of the agribusiness food chain is characterised by a high degree of vertical integration among enterprises and by fragmented markets. Experience has demonstrated that specific risks and features attached to agribusiness ventures are best handled within a food-chain perspective. Therefore early on the Bank adopted a chain approach to its definition of agribusiness. The sector includes all activities in the food and drink production chain from the supply of agricultural inputs and other support activities to farmers, agriculture, including crop production and animal husbandry, via primary processing and food processing, to food distribution and retail.

2 The operational environment

2.1 Key trends in the sector

Over the past decade, the sector has continued to be affected by long term declines in world prices of agricultural commodities, despite significant progress in the liberalisation of world trade and the reduction in tariff and non tariff barriers implemented under the aegis of the World Trade Organisation (WTO). At the same time, the European Union has started to shift its Common Agriculture Policy from price supports schemes to a more uniform fixed per area payments and greater emphasis on quality control and environmental protection. These developments have further increased the competitive pressures that world farmers were already facing. They have also increased the trend towards larger scale farms, mechanisation and lower land value. These trends are unlikely to change soon.

The Bank's countries of operations include more than 20 % of the world's potential arable land with only 7 % of its population. In addition, the region makes a significant contribution to world output in practically all agricultural products. This share can reach 15 or 25 percent for products such as wheat, rape and sunflower, sugar beat and milk. The agricultural sector therefore plays an important strategic and social role in the region, and it often contributes to a significant share of its GDP and employment. However in some countries, this high share also reflects the collapse of industrial production, especially in rural areas. In these countries, transition and economic growth will probably result in a reduction of the contribution of agriculture to the GDP.

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Over the last decade, the agrarian economy of the region has been characterised by a considerable fall in production. This decline stopped in the mid to late nineties but production levels remain only at 60 % of the pre-transition level in most CIS countries while, at best, they have reached between 70 % and 100 % of pre-transition levels in some Central European countries (Poland, Hungary, Czech Republic, Slovenia). In countries such as Estonia, Latvia and Croatia, current production appears to have stabilised at 40 % of pre-reform output.

The agribusiness sector clearly enjoys a natural comparative advantage in the region, but its productivity, however, remains low when compared to most developed economies. If appropriate market conditions prevail, its potential for development is therefore significant.

2.2 Transition challenges

Although the transition challenges might differ widely among the Bank's countries of operations, a number of common denominators can be considered as specific to the sector.

- *The reform process in the agricultural sector has been slower than in other sectors of the economy. Recent developments are more encouraging for the future.*

With few exceptions, significant progresses have been made in terms of liberalisation of prices and trade, de-monopolisation and privatisation of food processing enterprises. However, in most of the Bank's countries of operations, the privatisation of agricultural land, and related land registration and ability to transfer land in accordance with market conditions, have proven to be much more complicated than initially anticipated. In Central European countries, the land reform process is close to completion and the possibility of EU membership has accelerated reforms. In most CIS countries however (particularly Russia, Ukraine and Kazakhstan) the process is still in an initial phase despite significant improvements during the last two years. Furthermore, the restructuring of farming enterprises has not yet happened and Governments have not been able to adjust agricultural and rural institutions to market economies.

- *Direct investment targeted at primary agriculture has been marginal, but investments in the downstream industry can represent an efficient way to indirectly support agriculture.*

Insufficient reforms, the uncertainty of climatic conditions, the instability of market prices, the relatively small size of most farms and their low equity levels resulting from lack of land markets, have implied greater risks and higher transaction costs compared to other sectors of the economy. As a result, primary agricultural producers have rarely been able to qualify for, or afford, available commercial credits. Therefore, sound banking principles have been extremely difficult to implement when considering lending to, or investing in the farming sector. - On the contrary, agribusiness, mainly in the downstream sectors, has represented a significant share of the foreign direct investment (FDI) in the region. For example, it is estimated that in 1999 the FDI in the food industry amounted to approximately US\$ 4.5 billion in Russia and in Poland representing around 13 and 11 percent of total FDI respectively. In the Ukraine, with US\$ 660 million it represented 20 % of the total FDI. Investments mainly concerned domestic production of branded food and drinks (so called, Fast Moving Consumer Goods, FMCG's). Investors aimed at decreasing production costs to be more competitive against imports and to increase domestic market shares. - These investments in the upstream and downstream agribusiness sectors have had significant positive spill-over effects on the agriculture producers. They have allowed (i) provision of credit, especially seasonal working capital; (ii) access to reliable cash markets; (iii) training in improved crop cultivation or animal husbandry practices; (iv) support to improve business and management skills; (v) reliable access to quality inputs, often under supply contracts; and (vi) training in improved product storage and handling. These positive impacts have been

demonstrated in most of the EBRD supported investments in the agribusiness sector. As transition moves forward, investment focus could gradually shift towards the upper side of the food chain. Competition and consolidation in sub-sectors such as food retailing have played a particularly important role in this process, primarily by setting standards.

- *Restructuring of former State owned food processing companies is not completed. The process has proven to be significantly more difficult than initially expected but the involvement of strategic partners can help speeding up the process.*

A number of large companies have not yet been restructured. They remain either owned by their management or by public authorities. In most cases, they are still largely vertically integrated and they almost always face significant financial difficulties. - Experience has shown that, when restructuring occurs, involvement of international strategic partners plays a key role in ensuring their success. In some cases, local entrepreneurs have also been able to turn around former State owned companies and develop successful businesses, which are able to favourably compete with the international market. However their ability to raise funding has often been affected by their lack of track record, transparency, reliability of information, as well as poor corporate governance practices.

- *Financing needs in agriculture are still enormous, both for seasonal working capital and for long-term investments.*

Investments in the food processing industries have only addressed part of the problem of some primary agriculture producers, the lack of financing still represents a key constraint. At farm level, the most important needs are represented by seasonal working capital, both before the harvest to buy inputs and services (machines, labour) and after the harvest, to finance storage costs and inventories. Long term investments are also needed to finance agricultural machinery, on-farm equipment and buildings or animal husbandry. - It is clear that these needs are enormous. Amounts are difficult to estimate but, for illustration purposes only, post-harvest seasonal financing needs in the grain sector alone is estimated to exceed € 10 billion a year. Similarly, in Russia alone, investments required to bring the number of tractors per hectare up to a level that is comparable to the rest of the world (from one tractor per 135 hectares of arable land to one per 50 hectares) could reach in excess of € 30 billion.

3 The Bank's activities in the sector to date

3.1 Agribusiness portfolio to date

To date, the Bank has committed a total amount of approximately € 2.56 billion in 153 transactions (including frameworks) amounting to a total investment value of € 7.43 billion in the agribusiness sector. Roughly 80 % of these operations were directed to the enterprise sector, the rest was channelled through financial institutions or through some public organisations in the case of food wholesale markets infrastructure.

The Current portfolio (i.e. cumulative portfolio net of repayments, cancellations; prepayments and frameworks) amounts to € 1.2 billion with € 700 million of performing assets. The Bank's agribusiness investments concerned 21 countries of operations amounting to 38 % of the portfolio in advanced transition countries, 37 percent in early/intermediate and 25 percent in Russia (compared to 35 percent, 41 percent and 18 percent respectively for the total Bank's portfolio). Investments were well spread among Agribusiness sub-sectors as shown by the following shares in total commitments: Commodities and Banks: 27 %; Brewery: 17 %; Beverages: 11 %; Food Distribution: 8 %; Retail: 3 %; Other and Food Processing: 14 %; Edible Oil: 9 %; Dairy Products: 5 %; Confectionery: 6 %.

The Bank's direct commitment to the agribusiness sector has been higher than in other International Financing Institutions (IFIs). In 2000, it represented 14.7 percent of the total EBRD commitment. This compared with 8.44 percent for the World Bank/IDA approved

commitments in agriculture or 5.9 percent for the Inter-American Development Bank. Only the Asian Development Bank exceeded this level with 18 percent. In 2000 alone, the Bank's agribusiness signings in the region amounted to € 426 million while the International Fund for Agricultural Development (IFAD) or the IFC's approved commitments for all their countries world wide, amounted to € 440 million and € 185 million respectively.

The Bank is therefore clearly among the largest players in the agribusiness sector in the region. In Russia for example, the Bank is the second largest private investor behind The Coca Cola Company. In The Ukraine, the Bank is supporting all major foreign and several large local investors and is the biggest private investor in the sector. The Bank is now well recognised within the industry for its support and technical expertise. It has built a database of more than 700 companies operating in the sector and keeps in regular contact with these companies. The positive effect of the agribusiness investments on primary agriculture has also been demonstrated, It is estimated that up to 50 % of the Bank's commitments in agribusiness directly supports the farming community.

Most of the Bank's agribusiness investments have, however been limited to large food and drink companies operating in the largest consumer markets. The Bank has supported 10 specific credit lines, which have benefited a large number of Small and Medium Enterprises (SMEs) in the sector (more than 1000 in Hungary and 150 in Romania for example). These credit lines included sector specific technical co-operation programmes which have proven to provide significant positive benefits and clearly improved transition impact under the projects. The Bank has also provided significant financing to agribusiness SMEs through general, non targeted credit lines, which are also aimed at supporting the development of local banks. In most cases, these banks were too weak to handle sector specific financing instruments and the resulting potential increase in their portfolio's risk profile. The lack of strong financial institutions and their related ability, or willingness, to provide sector specific credit lines, have clearly limited the Bank's capacity to deliver agribusiness operations in smaller countries.

The Bank's direct financing to primary agriculture has been limited. The few attempts (eg Ukraine, Kyrgyzstan) to provide crop financing focused projects have not been successful. The recent the involvement of international strategic partners has hopefully provided adequate risk profiles and critical mass for the Bank to finance some farming or integrated operations in the more advanced countries (Poland and Czech Republic).

The Bank has been more active in promoting specific forms of financing particularly suited to agribusiness. For the last three years, the Bank has been helping to reintroduce warehouse receipts financing in ten countries, by maintaining a proactive policy dialogue and working with authorities, traders, processors and local banks. In leasing, which is another traditional way of financing agricultural investments, the Bank's efforts still have to bear fruit due to the lack of suitable legislation and limited interest from qualified operating partners.

Transition in Agribusiness has varied from region to region but overall is generally regarded as being a sector with a slower transition to date than others. The Bank's approach in the Agribusiness sector has evolved in line with the transition process and subsequent business opportunities. A notable portion of the Bank's efforts have focused on operational restructuring of agribusiness enterprises alongside strategic investors, introducing technology transfer, product diversification as well as operational know-how. At the same time, the Bank has gradually begun the provision of direct funding to primary production especially through the Banks Regional Warehouse Receipt Programme as well as machinery leasing and funding farmers' working capital, a move that provides greater support to the rural community.

In Ukraine for example, the Bank's investments to date have almost entailed the entire food chain. The Bank has supported strong western sponsors in setting new standards of corporate governance and developing significant backward linkages into primary agriculture. The Bank was among the first to work with local private sector companies, such as the Obolon Brewery and the Svitoch confectionery company, the later representing the first direct equity

investment in a wholly Ukrainian-owned enterprise. The development of the brewery and confectionery sectors is also having some positive spill over effects on barley and sugar-beet production as demonstrated by recent investments arising in these sub-sectors.

In Russia, despite the difficulty in achieving a critical mass, the Bank has had a considerable transition impact in the Agribusiness sector. The Bank has, in particular, been a key driver of change in the brewery sector. The successful privatisation of the Vena brewery has had a demonstration effect leading to positive changes throughout the brewery industry in Russia. The New Prince Rurik Brewery Project was the first greenfield brewery in Russia, further strengthening competition. As a result of the Bank's participation in the brewery industry, the Bank has been able to contribute to the strengthening of backward linked industries, such as the maltery Soufflet in St. Petersburg. The Danone Milk Procurement project, has a strong transition impact potential, as it is helping develop the upstream linkages in the Russian milk sector and improve the productivity of the Dairy Farms and quality of milk in Russia. The technical assistance provided to selected farms by the Sponsor (training of personnel and provision of technical expertise) facilitates the transfer of know-how, which is likely to go beyond participating farms. The project also has a good demonstration effect, given the visibility of Danone's investment in Russia and the technical assistance provided under the project by the Sponsor. In addition, transfer of know-how is also taking place at KMB and derive from KMB's learning experience and growing portfolio of dairy farm loans.

3.2 Summary of lessons learned

The following selection of lessons learned are particularly relevant in the agribusiness sector and are extracted from 28 evaluation abstracts of Operation Performance Reviews undertaken by Project Evaluation Department (PED) between 1993 and 2001. It is also based on the outcome of a seminar between the Agribusiness Team and PED which took place in October 2001.

When screening transactions:

- Strong sponsorship: Sponsor strength and experience in emerging markets is key to Operation's success. Strong sponsors, such as Danone, Carlsberg, Efes, Groupe Soufflet or Cargill, among others, have clearly played an important role to ensure the success of the EBRD supported investments.
- Raw material: Issues such as (i) availability; (ii) quality; (iii) price; (iv) logistic, should be taken into account when screening operations. This has been particularly the case for projects which relied exclusively on local supply of raw materials (Domaine Boyar or Storco in Bulgaria for example).
- Cost competitiveness and industry risk: Low margin industries (sugar, flour milling, meat processing) or highly seasonal industries (storage and freezing of fruits and vegetables); where profitability mainly depends upon economies of scale and risks are high, should be considered carefully at screening.

Structuring and designing:

- Project design: Beginning with the assessment of a prospective sponsor's suitability, a project design should always be driven by end-markets for its products.
- Supply/Demand approach: The Bank should avoid product/production oriented projects and favour client/market oriented investments. In some cases, such as the Moldova wine export promotion project, the EBRD projects have been more product oriented (Moldova has good natural conditions for the production of grapes). Market demand and distribution was not properly taken into account. Similar conclusions could be reached in the case of the Kiev Atlantic and Kyrgyzstan Agribusiness Company projects.

- Industry/Performance and market analysis: Appraisal projections typically prove optimistic. Analysis of commercial performance, capacity utilisation, market risks should be performed by independent experts. For example, food wholesale markets projects have had important positive impacts in the region. They clearly improved market transparency and competition. In the case of the EBRD supported markets, however, projections have proven to be systematically too optimistic and the commercial viability of these markets has remained questionable considering the size of the investments supported by the Bank.
- Restructuring: Sponsor commitment to a defined timetable for a restructuring programme will aid successful completion. Restructuring requires change of culture at all levels of the organisation. This was particularly the case in Hortex or Rolimpex in Poland.

Supervising and monitoring:

- Constructive alliances: The Bank can, through close co-operation and a continuous dialogue with its clients, assist in the identification of constructive alliance partners. For example, promoting dialogue between private sector operators and public sector institutions can bring significant benefits to the projects.
- Allocation of projects among teams within the Bank: It is experienced that projects executed by sector teams have greater chance of success

4 Strategic objectives and priorities

4.1 Key transition objectives

The Bank, through careful selection of projects and transaction structuring, will pursue a number of key transition objectives which will aim at addressing specific challenges affecting the agribusiness sector. Key transition objectives can be summarised as follows

- to promote market expansion by stimulating competitive behaviours through the project's interactions with suppliers (backward linkages) and related industries (forward linkages) in order to compensate the lack of reform and commercially oriented services in the sector;
- to increase competition and, through the project's contributions, to stimulate greater efficiency, innovation and customer orientation of other companies through competitive pressure;
- to allow the transfer and dispersion of skills and/or demonstration of replicable products and processes, with particular attention to improving technological processes, hygiene/environmental standards, and quality controls;
- to demonstrate ways of successful restructuring, either through the involvement of foreign strategic partners or through the implementation of clear restructuring milestones such as the introduction of International Accounting Standards (IAS), MIS, or streamlining of business activities;
- to test and demonstrate new ways and instruments to finance activities in the agribusiness SME sector, particularly in the primary agriculture sector which in turn should provide ongoing support to the rural areas in the Bank's countries of operations;
- to set new standards of corporate governance and business conducts in all operations; and
- in co-operation with other better suited International Finance Institutions (IFIs), to develop frameworks for markets by promoting directly or indirectly private land ownership and farming, the liberalisation of prices and other State controls, the development of an adequate legal framework, market information and essential infrastructure.

4.2 Operational objectives

In the future, the Bank will concentrate its activities on downstream of agricultural production, mostly in agro-processing, marketing and distribution. Interventions in input supply and agricultural production will be more selective and mostly concentrate in the countries with an important agricultural sector.

The objectives take into account not only the fact that the countries of operation differ widely but also the sub sectors within each country differ. In the Advanced Countries (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia) the sector focus will be increasingly in the upstream part of the food chain, introduce new financing products and structures and continue our close co-operation with EU (e.g. SAPARD). In the Early / Intermediate Countries, the Bank's project opportunities will have an emphasis on the downstream sectors and financing of capital expenditure and infrastructure. In Russia, the Bank will continue working throughout the agribusiness food chain and continue refining the Bank's inventory of products. In Central Asia, particular focus will be put on the trade and commodity finance. The Bank will also promote projects that have a positive impact on the balance between rural and urban areas within the countries of operation.

Taking into account transition challenges affecting the sector as well as lessons learned during the transition process, the Bank will however adjust and refine its operational objectives as follows:

Objective 1: Continue to finance the downstream food and drink sectors as an effective means to support upstream primary production and related industries.

Building on its successful experience so far, the Bank will continue to support leading international and local food and drink companies willing to invest in the region. To achieve this objective, it will continue its systematic business development efforts in the sector. This will include:

- continue to improve its company's awareness of the Bank with marketing efforts and by adding new companies to the 700 companies already included in the sector client data base;
- maintain regular contact with these companies ensuring consistent communications and co-ordinated approach within the Bank;
- maintain the Bank's good reputation by providing quality services to our clients (be responsive and flexible); and
- develop specific marketing plans by sub-sectors and, when necessary, by country.

The Bank will continue adapting its product offering to the needs of its client and the characteristics of the agribusiness sector. Emphasis will be given to flexibility, strengthening of relationships with suppliers and enabling the Bank to take advantage of its ability to provide a variety of risks and return profiles. Where other IFIs are active in our countries of operation, the Bank will continue to seek a joint approach in identification, structuring and financing of projects.

The Bank will also continue in its effort to address transition challenges in agriculture through investments at all levels of the food chain. This strategic approach has proven to be extremely effective approach. Operators in the sector have confirmed that the Bank's presence and expertise at all levels of the food chain played an important role in their decision to involve the Bank in their investments in the region.

The Bank will focus its business development efforts on industries with strong upstream linkages and higher investment needs thus providing a framework from which SMEs can also gain support. This will allow the Bank to pay due attention to the development of rural based

agribusiness SMEs. Particular attention will be given to support the expansion of modern food distribution and retail networks, as these networks have proven to play an important role in accelerating the transition by increasing market competition, price transparency and providing reliable market outlets to local food suppliers.

The Bank will also intensify its efforts to co-operate with selected leading local agribusiness companies. In these cases, the Bank will try to obtain returns commensurate to the risks assumed and the effort needed, by introducing when possible quasi-equity features in its financing. The Bank could use Technical Co-operation funds if necessary to improve the local companies' business standards and enable them to qualify for Bank financing.

Objective 2: Expand the range of products specifically geared to the agribusiness sector.

Carefully designed and implemented sector specific initiatives play an important role in addressing key transition challenges.

- After a slow start, the Bank's attempt to develop partnerships with larger food groups investing in the region through Multi Project Facilities (MPF) or similar instruments, have yielded results. For example, with Groupe Danone, the Bank has now signed 6 transactions under the MPF. With Groupe Soufflet, the MPF has been fully committed and the Bank has recently received new proposals under the Parmalat MPF. The Bank should continue to expand these partnerships.
- The Regional Warehouse Receipt Programme is playing a key role in addressing the chronic lack of short term financing in the sector, and in particular the programme provides a crucial source of working capital to primary producers. The Bank should continue its efforts in this direction, by deepening and extending the institutional dialogue and by increasing the number of countries in which the programme is operating.
- Leasing is a standard way of financing agricultural machinery for primary producers in the market economy and an option of doubtless potential in the Bank's countries of operations, especially given the lack of equity at farm level. The Bank will step up its efforts in this respect by increasing the institutional dialogue and by co-operating with local banks, leasing specialists, and equipment suppliers and equipment manufacturers.
- The Bank will also continue to invest in logistical support activities such as storage and distribution facilities for food commodities. The Bank will investigate ways to increase its support by providing specific financing products.

Objective 3: Improve rural credit systems.

Experience has shown that the most effective way to finance SMEs is via local financing intermediaries. The Bank initially tried to encourage SME agribusiness lending by providing agribusiness credit lines. This practice was discontinued, as the Bank believed it should not restrict local banks to certain sectors of the economy as this could lead to non commercial decisions and might ultimately have negative effects on the bank's financial performance.

The Bank could still encourage the increase of lending to the agribusiness sector through local intermediaries in the following ways:

- Providing credit lines or co-financing/risk sharing arrangements aimed at encouraging the introduction of new financing products (i.e. warehouse receipts, agricultural leasing) possibly backed by technical assistance and institutional initiatives.
- Setting up co-financing and risk-sharing schemes in which the presence of a major company acts as a risk mitigant (as Danone milk programme in Russia), and makes possible the Bank's involvement in an efficient way.
- Providing specific technical assistance to local banks who are beneficiaries of the Bank credit lines, and may have an interest to expand their lending to the agribusiness sector. This will especially benefit smaller countries where agriculture plays an important role.

Objective 4: Increase policy dialogues with member countries in co-operation with other development institutions.

The Bank has regularly co-operated with Ministries of Agriculture on specific topics related to sub-sectors in which the Bank had invested. Sometimes, this co-operation was also handled with the assistance of the United Nations Food and Agriculture Organisation (FAO) with which the Bank has signed a Framework Technical Co-operation (TC) agreement. These specific initiatives have often brought concrete results.

The Bank will continue and expand its policy dialogue on specific, investment related topics, it will particularly focus on topics which will strengthen backward linkages between the industry and primary production. When requested or when appropriate, the Bank will co-operate with other IFIs and institutions on broader and more systematic policy dialogue related to issues such as land privatisation, farm restructuring and taxation. The Bank however recognises that other institutions such as the World Bank, the European Commission (EC) or the IMF will most likely take a leading role on these policy issues.

The Bank as a regional organisation should however still seek systematic ways to co-ordinate its activities with other Institutions whenever needed and possible. Given its presence, credibility and accumulated expertise the Bank can play a greater role to foster the transition in the agribusiness sector. It can use its unique position to promote dialogue between private and public sectors, and interact more with other IFIs and development institutions in the region. To achieve this objective, the Bank intends to move in two concrete directions:

- Organise, jointly with the FAO, a series of fora involving other IFIs operating in the sector and in the region, as well as private operators and professional organisations. Seminars may focus on specific sub-sectors or countries. They will aim, among others at ensuring good co-operation among institutions operating in the sector and in the region.
- Discuss with local governments, specific institutional priorities (i.e. investment climate in agribusiness, agricultural leasing, specific supports to crop development) in which the Bank may co-operate by providing financing to private operators, and getting their feedback on the proposed reforms.

The Bank has also worked with the EC to provide targeted credit lines aimed at improving quality and hygienic standards to meet with EU standards. The implementation of these facilities has proven to be more complicated than initially anticipated due to the lack of an appropriate institutional framework. The Bank intends to continue co-operating with the EC on its institutional building activities by contributing its own expertise when requested (for example, the Bank is currently a member of the SAPARD committee in Bulgaria). The Bank will also continue to work with its larger clients to support investments aimed at improving quality and hygienic standards to bring them in line with EU and other international standards.

4.3 Technical co-operation

Around € 17.4 million of technical co-operation funds have been committed in the Agribusiness sector through 138 different commitments implemented in 21 countries. Most of these funds were used to finance project preparation and implementation. The bulk of the funds were committed in the early nineties when the Bank supported a number of decentralised Projects Preparation Units, investigated a number of business development opportunities and financed a few public sector projects (mainly food wholesale markets). More recently, limited amounts of TC funds have been used for sector or sub-sector reviews which were used as material for policy dialogue (Rape seed production in Poland, grape or dairy production in Bulgaria, grain in Russia, review of agro-processing enterprises in Ukraine or Azerbaijan for example). A number of these reviews have been financed through

the FAO/EBRD Framework Agreement which has proven to be an efficient and cost effective way provide good quality technical assistance on an ad hoc basis.

The application of technical co-operation funds have changed over time, with less emphasis on project preparation and implementation and an increased emphasis on institutional building and sector reviews, e.g. Warehouse Receipt Programmes and leasing. The use of TC funds might be considered to:

- prepare sector and sub-sector reviews as a means to strengthen policy dialogues with member countries;
- organise training and workshops on specific issues;
- provide specific ad-hoc support to policy dialogue;
- assist local agribusiness companies in providing information required for the due diligence requests, in most cases, through reimbursable TCs; and
- whenever appropriate, help developing business activities.

4.4 Environment

The Bank recognises that the agribusiness sector, from primary agriculture and food processing through to food retailing, can have a profound effect on human health through safer food products and the general environment. Countries within central and eastern Europe and the Former Soviet Union are home to a rich diversity of habitats and species which may be subject to a variety of both positive and negative impacts as a result of activities associated with the food chain. These impacts are most obvious at the primary agriculture level where issues such as land management, the use and impact of various inputs (i.e. fertilisers and pesticides) and intensive animal rearing make primary agriculture the subject of intense public and policy debate. Activities further up the food chain can also present important environmental and health challenges and both food producers and retailers have an important role in reducing environmental impact, safeguarding human health and using their influence to improve the agribusiness sector as a whole.

Key considerations in defining the Bank's approach to health safety and environmental ("HSE") issues in the agribusiness sector include:

- the need to promote environmentally sound and sustainable development;
- the need to take account, in the due diligence process, of good international practice, respect for international HSE conventions and the precautionary approach;
- the Bank's project focus as opposed to general policy dialogue;
- the need to meet the Bank's other objectives including sound banking and the promotion of market orientated behaviour;
- the primary focus on downstream food and drink processing and retail whilst pursuing various initiatives in the upstream sectors; and
- the Bank's influence as the largest regional investor in the agribusiness sector.

Key policy aims for the Bank's work in this sector are summarised as follows:

- The Bank will continue to require that all projects financed meet national requirements for environment, health and safety.
- The Bank will continue to require that projects meet relevant EU HSE standards and in the absence of relevant EU HSE standards, World Bank Group guidelines.
- The Bank will explore with clients, the possibility of more proactive environmental initiatives including the adoption of environmental management systems and certification to ISO 14001, the implementation of cleaner production measures and total quality management. If dealing with primary agriculture, then other possibilities might include biodiversity protection measures, crop diversity or integrated pest management.

- The Bank will seek to leverage its clients influence both upstream and downstream to improve the HSE performance of both suppliers and customers. Examples might include (i) working with clients to develop screening criteria for the approval of, and HSE requirements for the on-going use of, suppliers; and (ii) working with local, regional or national authorities in the development of networks for the reuse and recycling of packaging and other non-product outputs.
- Finally, the Bank will explore, with existing clients and key industrial players, opportunities to develop stand alone environmental projects within the sector.

4.5 Co-operation with other IFIs and development institutions

The Bank has kept regular contacts with the key institutions involved in the agribusiness sector. The Bank has co-financed a few transactions with the IFC and regularly co-operated with its agribusiness department to share lessons learned and to co-ordinate approaches in the region. However, the number of agribusiness projects financed by IFC in the region is significantly lower than the Bank (one agribusiness transaction was financed by IFC in 2001).

The Bank also recognises that, as a leading investor in the sector it should play a bigger role in promoting co-operation among public and private, bilateral and multi-lateral institutions involved in the sector.