



INTERNATIONAL FINANCIAL INSTITUTIONS (IFIS): HOW MUCH MONEY DO AGROHOLDINGS NEED? MORE!

18 June 2018 - International financial institutions (IFIs) play an important role in the capital formation of large agroholdings. In order to expand their businesses, agroholdings conclude many loan agreements with various IFIs every year. This allows agricultural companies to build new production facilities, invest in new technologies and expand their land operations. On the other hand, such activities are often criticized in Western countries, because IFIs get their funding predominantly from Western taxpayers.

The activities of agroholdings are often susceptible to public criticism because of the established negative attitude to large scale farming. Frequent accusations of overuse of pesticides, cultivation of GMOs, violation of environmental norms and social standards contributed to the overall negative image of agroholdings.

At the same time, loans from IFIs improve the country's investment attractiveness. More investment - more business development. In recent years, particularly Ukrainian agroholdings succeeded in raising capital from IFIs as the number of loan deals between agroholdings and IFIs has been growing. Special programs for investing in agriculture are part of the IFIs working agenda. For example, International Finance Corporation (IFC) has a strategy to accelerate agricultural growth, which requires necessary financing.

This allows agroholdings to access necessary funds. For example, in May 2018, IFC allocated a \$ 30 million loan to the Astarta agroholding for the development of agro-logistics and improvement of resource efficiency. As reported by Astarta, over the past five years the company signed agreements with the European Bank of Reconstruction and Development (EBRD), the Dutch Development Bank and the European Investment Bank (EIB). All of them are mainly aimed at improving the use of natural resources.

The funding of certain projects often gets extended. For example, in summer 2012, the Agrotrade group and the EBRD signed a loan agreement for the replenishment of working capital for up to \$ 15 million and a senior loan of up to \$ 8 million for upgrading the elevator network of the group.

Thanks to this, the group built the first stage of the modern elevator in Chernihiv region from scratch and reconstructed three more grain elevators - Hadyachskyy, Kolomakskyy and Doch-Khleby. Also, Agrotrade invested in the purchase of equipment for the seed factory. In 2015, the parties signed a new agreement until 2020 to continue the construction of these facilities.

The requirements for companies in these loan agreements are quite strict. According to Elena Vorona (COO, CFO of the Agrotrade group), the activities of the applicant company should be open and transparent. She sheds light on the conditions the EBRD sets for its borrowers.

"It is necessary to provide audit reports, confirmed by auditors accredited at the EBRD. The bank trusts the "Big Four" auditors and a number of other international companies," she explains. Without audit reporting, the EBRD will refuse to allocate funding. This is quite logical, since the Bank can be sure the company will be able to repay the loan.

In addition, there are requirements related to social responsibility and compliance with environmental standards. "For example, when Agrotrade was applying for funding to change the dryers at its elevators, one of the main preconditions for a loan was that the new equipment was more environmentally friendly," - Vorona tells.

Another requirement of the EBRD is regular reporting. The company must submit financial, managerial and audit reports annually in due time, in which it describes in detail what and how is done, and most importantly – why it is done.

"Compared to other banks, the EBRD has more requirements, they control everything more carefully, more documents must be provided. However, the presence of the EBRD in the lender portfolio is prestigious for any company. This is a reliable partner that will support in case of a crisis, because its task is to help the business develop," - Vorona adds.

Representatives of the IMC agroholding note that the publicity of the company is not a mandatory requirement to get a loan, but it is a significant advantage. The same applies to the experience with international lenders. The company says that the main thing is business profitability and a clear strategy supported with a sound financial model.

Astarta's managers echo this point and maintain that projects have to be consistent with the development impact indicators set by an IFI (development indicators, energy efficiency indicators, and others).

The trust of financial institutions toward Ukrainian agribusinesses seems to be growing in the future. Andriy Perederiy, the analyst of the Concorde Capital investment company says the increase in the number of loan agreements between agroholdings and IFIs is expected in the years to come. "IFIs actively cooperate not only with public organizations, but also with private agricultural companies in Ukraine. The most often funded projects aim to improve crop yields using modern technologies, renewable energy production, and logistics efficiency. Many agricultural producers are interested in this type of finance as it provides the possibility to improve cost efficiency," Perederiy says.

Funding provided to Ukrainian agroholdings by IFIs in 2009-2018

Company	Lender	Sum, \$ million	Funding purpose

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<i>Kernel (https://www.kernel.ua/)</i>	EBRD 2014	50	To support Kernel's working capital needs related to the purchase of grain in Ukraine, as well as subsequent storage, transportation and transshipment
	EBRD 2016	20	To finance field operations
	IFC 2016	95	To support the company's working capital
	Syndicate of European banks 2017	200	To finance working capital in the sphere of sunflower oil production in Ukraine
<i>Agroprosperis (NCH) (https://www.agroprosperis.com/en/index.html)</i>	EBRD 2009 for New Europe Property Fund L.P., controlled by NCH Capital Inc.	50	To finance the needs for working capital of Ukrainian companies controlled by the fund
	EBRD 2014 for New Europe Property Fund L.P., controlled by NCH Capital Inc.	40	To increase the efficiency of the NCH Fund's projects in Ukraine in the field of agriculture

Company	Lender	Sum, \$ million	Funding purpose
<i>MHP (https://www.mhp.com.ua/)</i>	IFC 2013	50	To support expansion in the Central Ukrainian region of Vinnytsa
	IFC 2014	250	To expand the production and develop the supply chain
	EBRD 2015	85	To develop and expand operations
	EBRD 2017	250	To construct a biogas plant with a capacity of 10 MW in Ladyzhyn, Vinnytsya region
<i>Astarta-Kyiv (http://www.astartakiev.com/en/index.htm)</i>	EBRD 2016	20	To improve energy efficiency, reduce the use of natural resources, transfer to the Best Available Techniques of sugar production
	EBRD 2017	25	To improve storage infrastructure
	IFC 2018	30	To improve energy efficiency, reduce the use of natural resources, transfer to the Best Available Techniques of sugar production; purchase of agricultural machinery
	EIB 2017	43,3	To improve storage infrastructure

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<i>Mriya</i> (https://www.iamo.de/typo3/mriya.ua/en/)	EBRD 2011	25	To replenish the working capital of M-Trade LLC, a subsidiary the Mriya agroholding
	IFC 2011	35	To expand production operations and grain storage infrastructure in Ternopil, Ivano-Frankivsk, Chernivtsi and Khmelnytsky regions
	IFC 2013	65	\$ 60 million in the form of a three-year revolving loan to replenish working capital, and \$ 5 million to improve the company's energy efficiency
<i>IMC</i> (http://www.imcagro.com.ua/en/)	IFC 2014	30	To expand agricultural operations and increase working capital of the company's subsidiaries
	EBRD 2016	20	To provide pre- and post-harvest finance
<i>Nibulon</i> (http://nibulon.com/?t=1529311860)	EBRD 2015	130	To replace the previous \$ 125 million syndicate, which was signed in 2012 and expired in June 2014

Company	Lender	Sum, \$ million	Funding purpose
	EIB 2016	71	To develop and modernize the company's logistics infrastructure
	IFC 2017	100	To complete the reconstruction of the shipbuilding and ship-repair plant in Mykolayiv and ensure the development of the river transport infrastructure
	EBRD 2018	50	To expand and modernize the company's grain logistics infrastructure in 2018-2019, as well as to construct a fleet
<i>Agrotrade (http://www.agrotrade.ua/en/index)</i>	EBRD 2012	23	To replenish working capital of up to \$ 15 million and a senior loan of up to \$ 8 million to finance energy efficiency activities and expand the capacity for processing and storage of cereals
<i>Milkiland-Ukraine (https://www.iamo.de/typo3/www.milkiland.ua/en/)</i>	EBRD 2009	30	To develop and expand the company's operations

Company	Lender	Sum, \$ million	Funding purpose
<i>Nyva Pereyaslavshchyny</i> (http://niva-group.com/en)	EBRD 2014	30	To establish two new farms, expand the capacity for meat processing and grain storage, increase land under operation and purchase agricultural machinery
	IFC 2015	25	To support plans to expand the company's operations and to refinance its medium-term credit obligations

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Source: www.agroportal.ua (<http://agroportal.ua/publishing/analitika/mfo-kholdingam-skolkodeneg-nuzhno-bolshe/#>)



(/microsites/www.largescaleagriculture.com/_processed_/c/f/csm_AdobeStock_91102929_755eaa9239.jpeg)

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FURTHER INFORMATION

The Financialisation of Farmland in Ukraine

(http://www.mattersburgerkreis.at/dl/oqqqJMJLloJqx4KooJK/JEP-2-2014_03_PLANK_PLANK_The-Financialisation-of-Farmland-in-Ukraine.pdf)

The financialization of agri-food in Canada and Australia

(<https://www.sciencedirect.com/science/article/pii/S0743016715300036>)



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