

November, 2009, London

Interviewer Aya Nazarova, Adam Smith Conferences

Dear Mr Mettetal, on behalf of Adam Smith Institute, thank you for taking the time to speak with us today! We are delighted that you have agreed to join the **Expert Committee** of our **2nd Annual Forum "Agribusiness in Ukraine" in March 2010.**

Certainly, our event is the only strategic meeting for the industry, for all the key movers at one time at one place and it is a very positive signal for the participants that EBRD is on board. Today, we would like to gain your views on a couple of key issues and share it with our audience before the Forum:

AN: *In your opinion what are the **key challenges and issues** affecting global agrarian markets today? And what are the main challenges for Ukrainian agrarian companies?*

Mr Mettetal: Thank you very much for inviting me and I am looking forward to participate in this event next year. I enjoyed very much last year and I look forward to have an even bigger and more important event. The food crisis that was very much close to the hearts of people a couple of years ago is still very much there. Although it has been overshadowed by the overall financial crisis. But there are still challenges for the world to produce more food more efficiently. With more respect for the environment. And this is clearly one of the key challenges that the world will be facing. In this context Ukraine will and can play an important role. It is clearly one of the regions of the world where productivity improvement can be still one of the most important and without too much damage for the environment. And so, the challenge for Ukraine will be to achieve this improvement. This will mean stable policies, this will mean good infrastructure also and right investment plans.

AN: *Thank you. In terms of the Ukrainian Agrarian sector, when do you think we will have a turning point away from the economic recession towards recovery? And how, in your view, Ukrainian companies, working in the sector, are positioned for the **post-crisis** environment?*

Mr Mettetal: Funnily enough, it is possible that the agriculture and agrarian sector might have been one of the sectors less affected by the financial crisis. The fact that the local currency in Ukraine is devaluated means that the local production has been more competitive towards the world market. That's probably acted as a certain promotion of exports. When we talk to our partners banks a lot of them are still willing to continue

supporting agrarian sector. Of course this is not enough and of course a lot of people have been suffering from crisis. But I would say that companies that had solid strategies with conservative balance sheets have been going over this crises, stronger than they were before. And hopefully we shall start to see some more positive developments

AN: EBRD is involved in a number of projects in the agrarian sector. What are the most interesting ones? What were the **criteria for EBRD to choose these projects** (companies)?

Mr Mettetal: Every project is interesting, every project has its own merits. We decide mainly on the quality of the companies, their transparency, their willingness to be completely transparent in their financial management, their corporate governance and their conservative financial management also. And the fact that they are also oriented at quality products. Once this criterion is met we also look at how our investment can have some “demonstration” effect to the rest of the economy. On how these companies that we are supporting can be used as reference by other companies that continue to grow. We have done a wide spectrum of investments and financing in agrisector starting from farming where we financed a number of foreign investors in farming, so far they are doing well, to packaging, like glass bottles for example, processing (we supported a crushing industry) to the retail sector (which probably has been the one more effective because retail has been affected by devaluation whenever they were borrowing hard currencies but this is also the sector that we are very much supporting.

AN: In 2009 Forum there was a session devoted to the issue of **Infrastructure development** in Ukraine. In 2010 we will return to discuss these questions and also enhance the plenary session with the **Interactive discussion on “building sustainable supply chain”**. How do you rate the importance of infrastructure issues for the agrarian sector in Ukraine? And what, in your view, should be the **steps in the short and medium term** in this respect?

Answer: Well it is true that it is good to produce agriculture, but if you cannot store the products and you cannot export them and if you do not have the right infrastructure then there’s no point. And there has been a lack of good quality infrastructure in Ukraine. There are a few elements here. One part should be developed by the private sector. Storage facilities, grain handling are better handled by private operators than by public. But of course this is only possible if the public sector is always working in partnership with the private sector to help in terms of roads, railways and other facilities that are needed in the

infrastructure. And also I should mention the water management irrigation systems which are also very important.

AN: Question: During our 2nd Forum we are going to have an **Interactive discussion with Industry Leaders: State and Business – effective cooperation**. This panel will comprise decision makers from the Government authoritative bodies and leaders of agrarian holdings to discuss the effectiveness of government measures on contributing to the industry’s development. In your view, should you join this discussion, what would be **the 3 most important questions** to ask?

Mr Mettetal: First question might be what are the long term policies and what are the long term directions and principals under which the authorities want to build the policies. The 2nd question which I think is a key question in Ukraine, is what is happening with the land ownership and when will land markets be able to develop. Because the land market is a clear condition for farmers to raise financing. Because this is the only asset they can use as a collateral for the bank to provide financing.

AN: In the current conditions when land market is still not liberalized in Ukraine, how agrarian companies **deal with the issue of collateral**, what are the available options?

Mr Mettetal: They don’t. They are at the moment providing the financing with equity which is not a healthy way of doing it and it is costing them a lot of money. We are trying to implement a possibility to use harvest as collateral which we call the grain warehouse receipt program. And we are now in partnership with IFC developing a **new system** inspired by Brazilian experience on the capacity to use **future harvest as collateral**. Some call it the CPR system and the plan is to organise a trip for Ukrainian officials to go to Brazil early next year, in February to look at this possibility and many be try to see how that could be replicated.

AN: And the trip to Brazil, who will be in that delegation? Agrarian holdings or regulatros or both?

Mr Mettetal: We don’t know yet. What we know is that we have seen a very strong interest from private sectors, so strong that some of the private companies are interested to finance it.

AN: Which agrarian **sectors** in Ukraine do you rate as the most attractive for the international investors at the moment? What makes them attractive?

2nd Annual Forum “Agribusiness in Ukraine”, Kyiv, 2010, Adam Smith Conferences

Mr Mettetal: Well, I think that in the current environment the export oriented agri-industries are clearly attractive because with devaluation the county is becoming more competitive. But the other important sector in Ukraine which is still significantly underdeveloped is food retail. And because the food retail actually has very strong linkages to the supply chain and will by itself help a lot in the development of the wider range of food products for the consumers in Ukraine.

Mr Mettetal, thank you for talking to us! We are looking forward to meeting you at our Forum in March next year! Our most sincere wishes of every success for the future!