

*2<sup>nd</sup> Annual Forum “Agribusiness in Ukraine”, Kyiv, 2010, Adam Smith Conferences, Interviews with Leaders*

**Dear Mr Mounier, 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 **Speaker panel** of our **2<sup>nd</sup> Annual Forum “Agribusiness in Ukraine” in March 2010**. Certainly it is a very positive signal for the participants that CALYON BANK UKRAINE is supporting our event which is the only event of that scale and quality for the agrarian market in Ukraine. Today, we would like to gain your views on some important issues for the industry and share it with our audience before the Forum:

**1. Question:** What is to be expected in the **short term future** (next 12-14 months) and **long term future** in the market in Ukraine **in terms of financing** of agrarian companies? What will be the factors that will have a major influence on bank's decision to finance agrarian companies in 2010?

**Answer:**

Preamble: As it is known now, even if Ukraine in 2009 experienced a GDP decrease of more **than 10%**, **the agrisector specific GDP increased by +/- 3%**.

Such crisis resilience is remarkable because it was obtained in a year during which the crop collected **represented 46.6 m tons versus 53.3 m tons** the year before, in a year during which the public subsidies for the agrisector decreased from UAH 5.7 bn to 2.7 bn, and in a year when banks were much more reluctant to lend to **anybody**, including to this sector.

**The issue is not the agribusiness sector. The issue is the state of the banking sector.** Banks will not be a motor of the economy including of **the agribusiness sector** over the next year or two. Banks are busy provisioning their “bad assets” **and developing**.

**But one could imagine that they would focus a bit more on the agrisector**, and namely on companies that evidence a clear strategy, a **dynamics**, whose productivity increased recently as evidenced **by the 2009 results**.

They should also focus on customers and suppliers of the agrisector significant businesses and finance those companies involved in a long term relationship with the big names.

Anyway, financings are more and more linked to the capacity of a **corporation** to evidence its good health via audited documents, good health meaning enough capital and capacity to generate profit and cash flows... **And much less today on the capacity of a company to provide a guarantee.**

**2. Question:** In terms of the Ukrainian Agrarian sector, do you think that after the Elections in January it would be appropriate to start talking about economic recovery? And how, in your view, **financial institutions** working in Ukraine are positioned for **working with Ukrainian agrarian companies** and the **post-crisis** environment?

From a global perspective standpoint, **after elections, the first thing Ukraine should do is to make sure that the western countries start again to consider Ukraine as a credible counterparty.**

It means that there is **just no choice but to have asap the IMF back on track** and this will open the door for further openings.

From an agrarian sector point of view, what seems to be important, even if it is also **very** important for Ukraine, is **for Ukraine to become a credible exporter**. It means that in a country that is in need of +25 m tons of cereals per year the **additional 20 to 60 m tons of cereals should be exported in a way that every actor involved will feel comfortable** with **such business, starting with the VAT to be, once and for all, reimbursed** to the ones that are true exporters. **As long as Ukraine will not reimburse the VAT to exporters it will be a second class citizen!**

Second, it seems important also for **the land which is being leased to be leased on a much more predictable and long term basis**: one cannot ask a farmer to expect every year a lease to be cancelled. Farming necessitates a long term environment also.

Also, the development of **norms and local standards that are in sink with international ones** is a key for the development and exports of the agrarian related products.

**3. Question:** How do you **rate the availability and cost of finance** for the Ukrainian Agrarian companies today? What needs to be done to improve the situation?

Ukraine is a country where **margins are very significant**, first. Second, it is a country where there is **no credible money market and even less a financial market**.

Third, **and because of that, financing should be limited only to short term needs and made in the local currency**, except if there are export flows to come. Every company that relies on a significant amount of financing for financing its development is just wrong, because it would be exposed to **variable** interest rates that are untenable (no UAH is available on a long term basis) or exposed to foreign change risks, if **the** financing is in hard currencies.

Therefore because **the return investment can be very fast**, given the margins, **the best solution is to finance short term needs via UAH working capital credits**, if those needs are really **campaign related**, and to rely on oneself, that is on its own capital, for everything else.

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

Calyon is financing the agrarian sector. **Such sector's related revenue for Calyon in Ukraine amount to 25% of its revenues**, an evidence that Calyon has a clear focus on this sector. **Criteria are first and foremost transparency (incl. audited financials), profitability and healthy financial structure for those customers**. This obviously limits the potential targets number. **On top of that, as a result of the instability that prevails and of the total lack of visibility we have, we limit our exposure on Ukraine Up**

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to the voters / **the population to make sure that Ukraine’s management changes ... and is being controlled, and if needed so, sanctioned!**

**5. Question:** EBRD and IFC are trying to suggest to the Ukrainian agrarian companies the system under which it would be possible to use **future harvest as a collateral**. This is inspired by Brazilian experience. Do you think this system will work in Ukraine?

**Future harvest as a collateral: it is a promise** and therefore should be done only with customers that have a significant track record. But **we should not forget about financing existing stocks**. It is well known that for almost two decades now the EBRD has been pushing for the development of warehouse receipts (**WHR**) and **financing against them**. In a country where **corruption prevails**, one **cannot trust administrations in managing those documents** and therefore **double controls are in need**. We should not forget also that such type of financing did not succeed in Russia either... probably for the same reason. **Next is the quality of the silos**: very few are western standard ones, maybe 15 to 20%, and very few got a label as an **ISO** one. There is thus probably no short term hope in WHR based financings. You could also wonder about the complete **lack of possibility to cover a price risk or a foreign exchange risk in Ukraine**. This is also something that has to start, but did not even start for foreign exchange, the NBU having, **willingly or not**, taken every step to prevent forwards to exist so far.

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

**The grain and edible oil products sector:** Ukraine is a country where one obtains yields of 3 tons per hectare, yields that could be doubled easily. Ukraine is the first world exporter of sunflower oil ... Return on investment is very rapid... this is a key sector.

Second one is linked to **vegetables and maybe fruits**, as well as their first transformation. There also **the potential is big**.

The third one is **the milk** related one. Today in a significant crisis, but with a significant potential. Ukraine is a country where there is a **milks product tradition ( as France, by the way!)**

**Dear Mr. Mounier, 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!**