

IFC Agribusiness –Ukraine and Russia

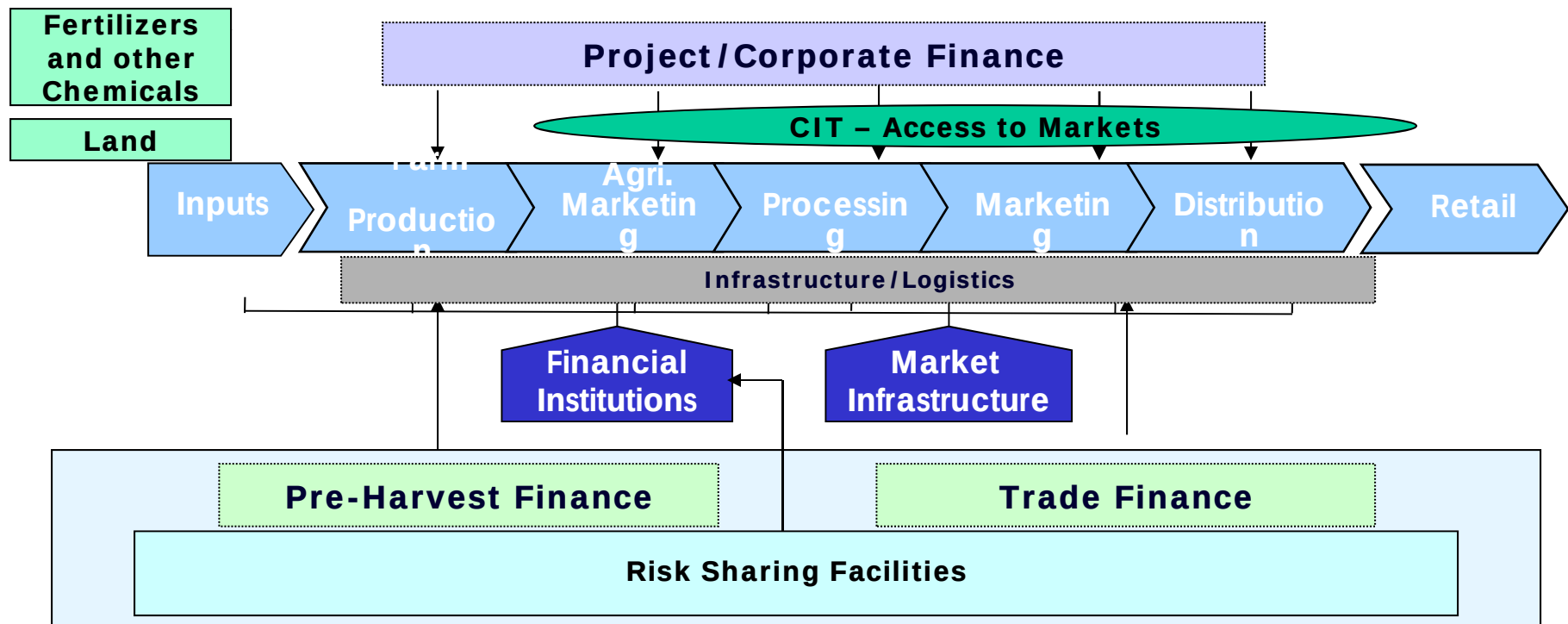
EastAgri Network, Paris

September 12, 2008

IFC Investment in the Agribusiness Value Chain Exceeded US\$1.3 Billion in FY 2008

IFC's Goal:

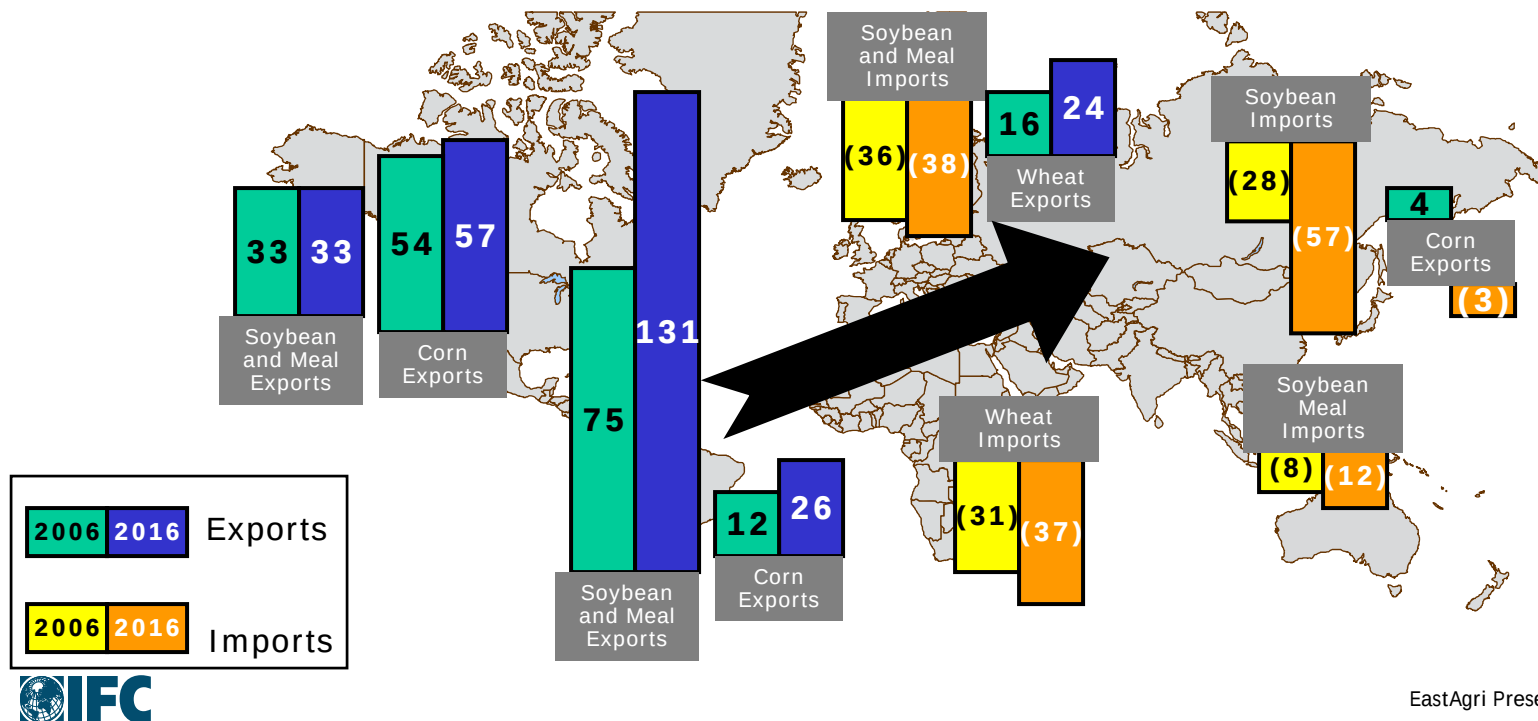
Deliver development impact along the global agri-supply chain, through investments and advisory services with the private sector, to create opportunities and improve peoples' lives



Agribusiness: A Global Industry

- North America, South America and Eastern Europe are key global suppliers
- Asia is expected to remain a major importer of agri-commodities
- Africa and MENA will continue to depend on grain imports

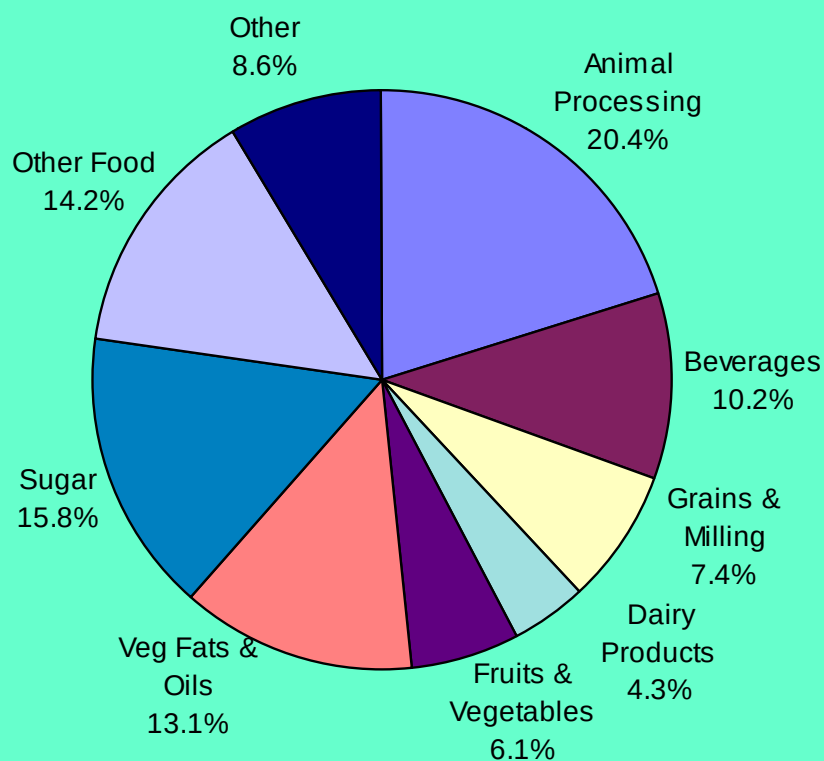
Regional Imports and Exports of Selected Agri-Commodities (in millions metric tons)



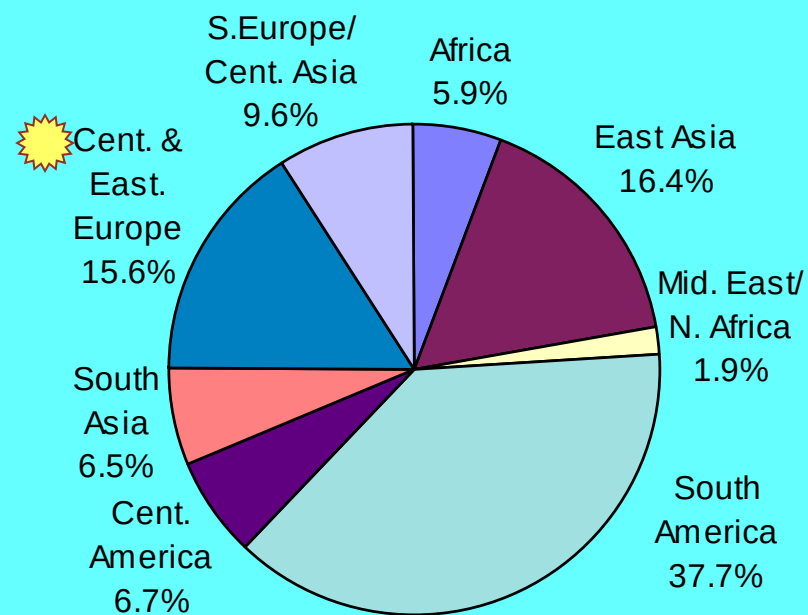
Agribusiness Committed Portfolio

\$2.2 Billion Committed Portfolio As Of June 30, 2008

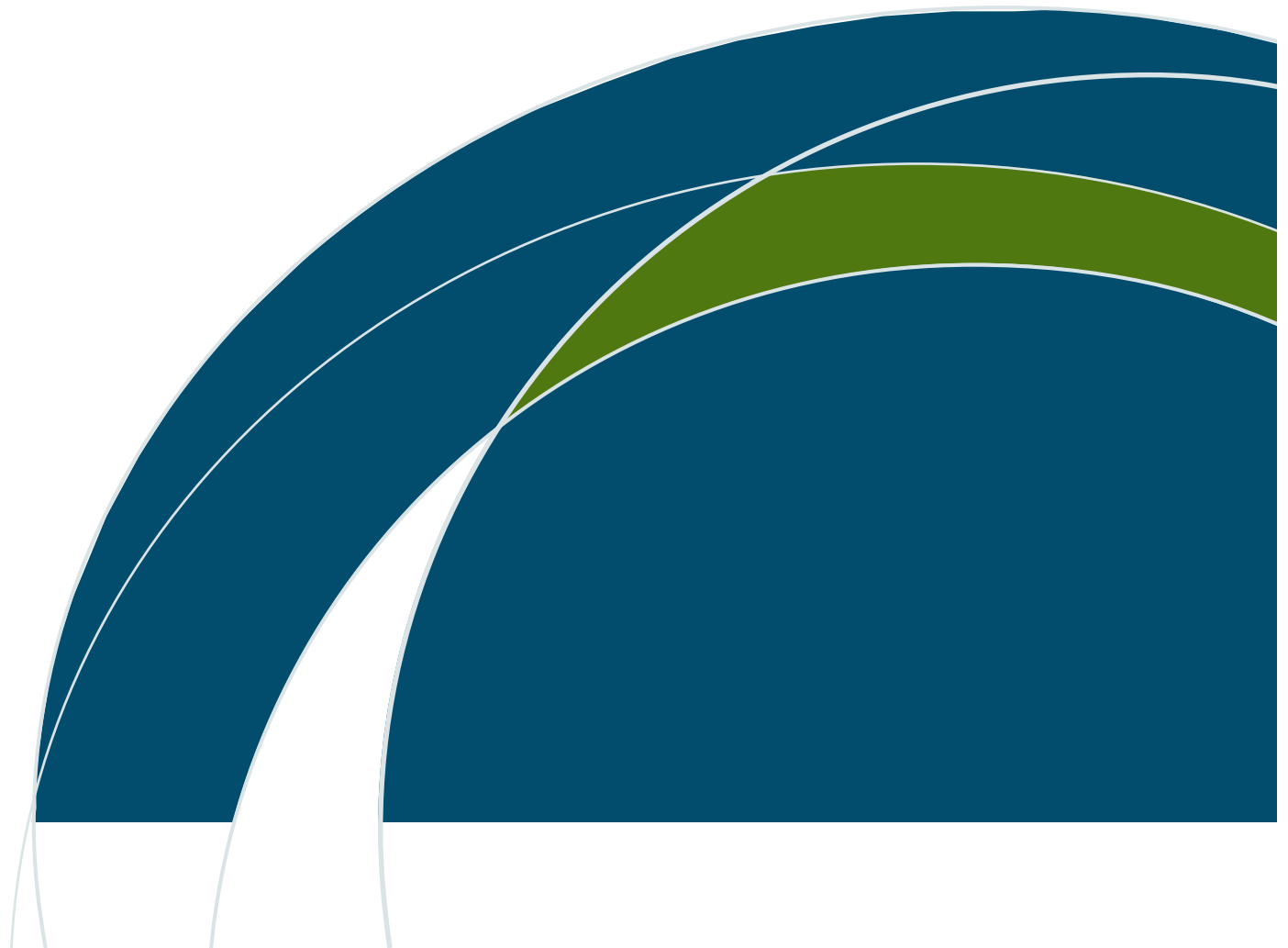
By Sector



By Region



Strategy for Addressing Rising Food Prices



Agribusiness' Multi-Channel Response

Direct Investments

- Investment in productive assets with more scale and impact
- Support integrated value chains
- Explore land funds

Indirect Investments

- Wholesaling via Financial Intermediaries (debt & equity)
- Portfolio risk sharing
- AS for the FI and clients

Partner with World Bank, FIAS

- Investment climate (land titling)
- New products (warehouse receipts, weather insurance)
- Infrastructure and distribution

Working Capital Facilities

- Producers
- Processors
- Distributors and traders

Agribusiness' Action Plan for Rising Food Prices

Food prices have risen 80% over past 3-years

Main drivers of food price inflation

**Fundamentals:
Supply and
Demand**

**Financial Markets:
Supply and Demand**

- Higher demand (especially in emerging markets, diet changes – more meat, biofuel mandates)
- Inadequate supply (bad weather, lower grain production, depleted buffer stocks, competition for land by biofuels and urbanization, dearer fertilizers)
- Poor foresight in a politically charged sector (industrialized as well as emerging countries)
- Prices quoted in depreciated dollar
- Financial investors interventions on commodity markets

Agricultural commodity prices
S&P/GSCI



Source: Thomson Datastream

IFC is well-positioned to provide interventions at several levels

Fundamentals -Supply and Demand

- **Short Term: Provide Working Capital** to producers, traders and processors

- **Long Term:**

- i) increase output and productivity through improving land use, farmer inputs and training;
- ii) improve supply chain logistics through infrastructure improvements;
- iii) develop wholesaling facilities for rural credit to farmers and MSMEs, particularly in Africa; and
- iv) explore the systemic development of **financial instruments related to agriculture** (e.g., weather-index insurance and warehouse receipts)

Financial Markets

Land

Operators/
Farmers

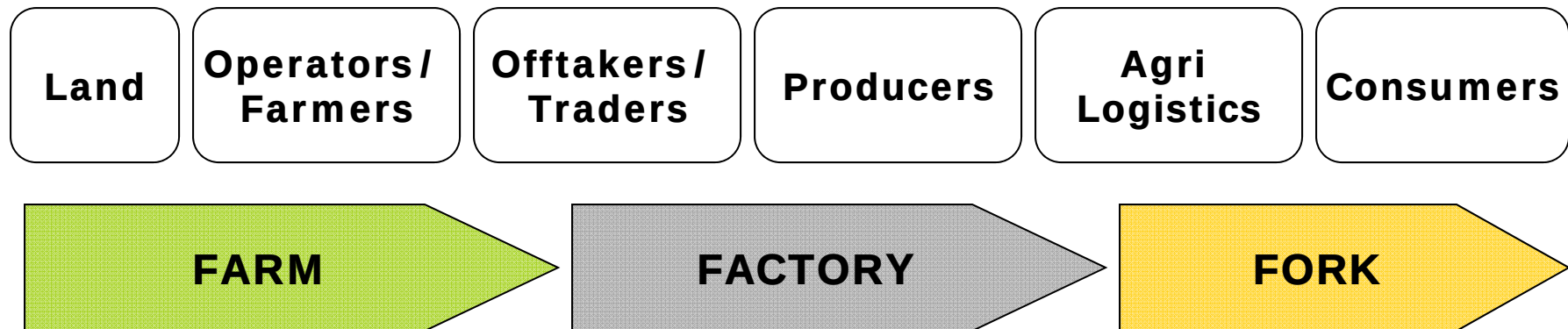
Offtakers/
Traders

Producers

Agri-
Logistics

Consumers

Ukraine and Russia are critical in global agribusiness supply chain



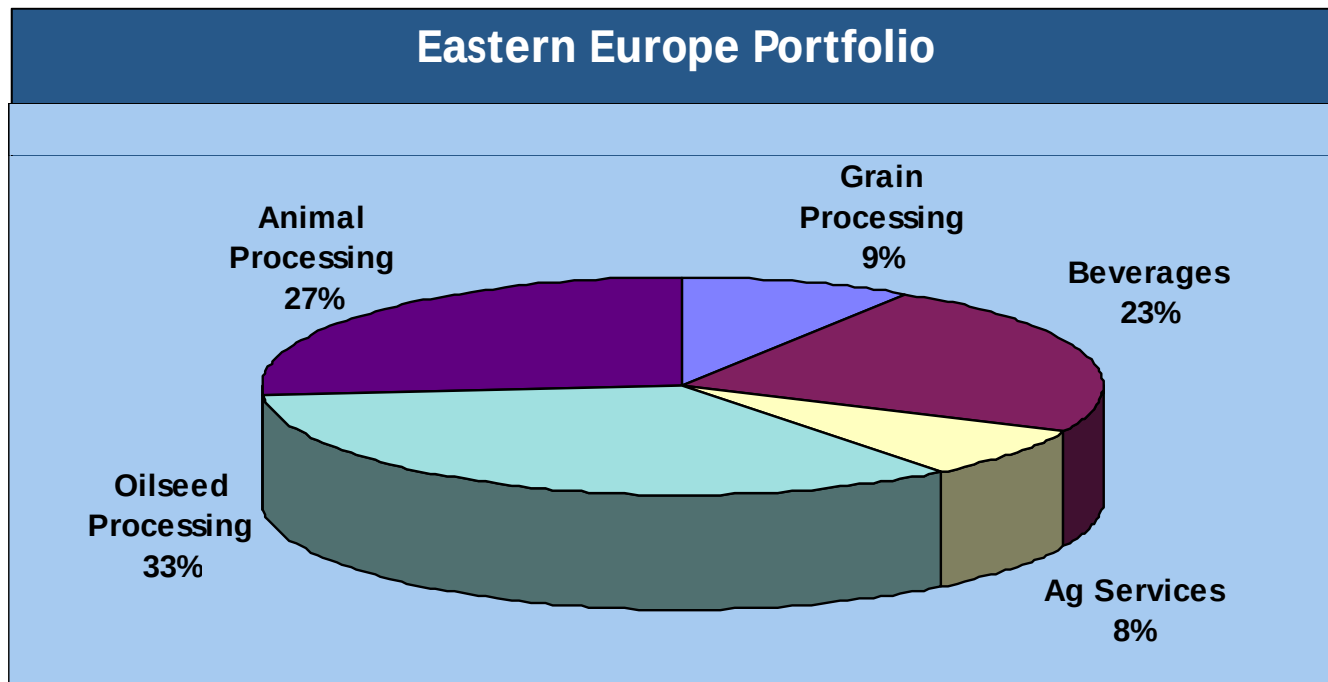
- Large, populous countries
- Location near major consumer markets (Russia, Central Europe, Western Europe)
- Countries of vast arable land potential, mostly high quality soils. Compares with Canada, Argentina.
 - **Potential to double grain production from 40 to 80 million tons annually by:**
 - Increasing commercially farmed acreage**
 - Ukraine has 43 million hectares of agricultural land, of which 33 million hectares is being commercially farmed at this time. 17 million hectares are among THE best land quality in the world;
 - Increasing Crop Yields:**
 - Potential to increase grain yields by 70-200%, depending on the crop;
 - Reduce Crop Losses through Investment in Agri Infrastructure:**
 - Major logistical deficiencies in storage infrastructure such as grain silos, fruit/vegetable storage, cold/chilled product storage.

Ukraine Agribusiness potential

- **Significant future opportunities for agri commodities for export markets,** hence emphasis on cost, quality and logistics/infrastructure
- **Incomplete transition from USSR to a market economy**
 - Soviet farm structures, input supply channels and markets have disappeared but new farm structures and commercial channels are slow to emerge, due to the following:
 - Land is privatized but there is no land market.
 - Land is not cultivated to its potential because ownership of land is limited,
 - Lack of capital, inputs, and poor agri practices.
- **Policies**
 - Inconsistent government policies - trade, prices, land are a hindrance to progress
 - Overall, there is a moderate level of support to agriculture, but highly skewed in favor of animal products (highly subsidized by international standards) and to the detriment of crops with comparative advantage which are taxed.
- **Integration into the international economy**
 - WTO member since May 2008
 - While competitiveness was not a concern in the past, it is now becoming a necessity.
- **Preconditions for successful agribusiness-based development model**

CAG Eastern Europe Portfolio by Sector

\$341 million Committed portfolio (as of June 30, 2008)





THANK YOU