



Luxembourg, 10 December 2020
Environment & Sustainable Territorial
Development Department
Agribusiness & Rural Development Division
Operation No.: 2016-0653

PROJECT COMPLETION REPORT

TOMATO PROCESSING LINE

Ukraine

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The financing for this project benefits from an EU guarantee to the Bank under DECISION No 466/2014/EU of the European Parliament and of the Council. Pursuant to Article 9 (2) of this Decision, the Bank "shall require the project promoters to carry out thorough monitoring during project implementation until completion, inter alia, on the economic, development, social, environmental and human rights impact of the investment project. The EIB shall verify on a regular basis the information provided by the project promoters and make it publicly available if the project promoter agrees. Where possible, project completion reports related to EIB financing operations shall be published excluding confidential information."

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Scope

1. Project Description

Purpose and Location

The project consisted of: (i) the construction and operation of a new plant (called “Eastern plant”) for the production of tomato paste in the Mykolaiv region and (ii) the expansion of their agricultural production, through a significant increase in irrigated land, envisioning the modernization of existing assets, with a specific focus on producing the industry tomatoes required by the new processing line.

Context and Background

The Promoter is a family owned Ukrainian vertically integrated group (“Agrofusion”) producing tomato paste. Established in 2007, the group is the largest tomato paste producer in Ukraine. The Promoter is active at each stage of the supply chain – i.e. seedlings production, field tomato growing, processing into paste and distribution.

The Promoter currently operates two processing factories, as follows: (i) the Southern factory, built in 2008 in the Kherson region, and (ii) the Northern factory, built in 2009 in the Mykolayiv region.

Agrofusion exports 70 % of their total tomato paste production. Agrofusion has a series of competitive advantages, such as a full and tight control of the entire tomato supply chain, including growing their own industrial tomatoes, low cost of production (due to supply chain control as well as a relatively inexpensive access to highly productive agricultural land), a strong understanding of the processing technology, and ultimately the capacity to produce various high quality types of paste at customers’ requirements.

Technical Aspects

The project was implemented in line with the Promoter’s primary design.

2. Implementation and Operation

The construction works started in December 2016. The project implementation followed the plan. No delays were reported. All building, machines and ancillary equipment, including agro-equipment, reported in the technical description were implemented following the schedule calendar.

3. Link to Website

<https://www.inagro.ua/>

4. Investment cost

Project Investment Cost	Total (planned investments) m USD	Total (planned investments) m EUR - USD=0.94 EUR (Dec 2016)	Total (realized investments) m USD	Total (realized investments) m EUR - USD=0.85 EUR (Oct 2020)	Variation (%) m EUR in reals terms
Land	0.02	0.02	0.02	0.02	0 %
Construction works & Processing equipment	26.36	24.78	29.52	25.09	1 %
Agricultural equipment	16.19	15.22	16.19	13.76	-10 %
Total costs (including contingencies)	42.57	40.02	45.73	38.87	-3 %
Net increase in permanent working capital	4.76	4.47	4.76	4.05	-10 %
Total project cost	47.33	44.49	50.49	42.92	-4 %

The project has however displayed some cost overrun (USD 3.2m, ca. 6.2%). The range of cost overrun is acceptable for the bank as there were rather limited contingencies for this projects, lower than the usual ones implemented by the bank for Ukrainian projects.

In real terms, the cost in EUR is less (-4 % difference) that the one expected at the beginning of the project.

The loan amount of EIB (USD 23m) did not overpass 50% of the project cost.

Performance

1. Market aspects

The Promoter did not achieve its sales targets for the last 2 years (2018 and 2019). Nevertheless, it still has many competitive advantages vs its competitors. At PCR stage, the Promoter did display evidence that their sales are currently improving both in volumes and in prices (2019 vs 2020), with a good balance of customer portfolio.

2. Financial and Economic aspects

The Promoter under performed in 2018 (weak harvest due to heavy rains) and 2019 (plant disease outbreak).

Therefore, the problems encountered recently by the Promoter had a negative impact on the group's EBITDA and liquidity position. As a consequence, the IRR decreased (from 13 % to 8.2 %) as well as the ERR (which still remain above 10 %, qualitative estimate).

During its implementation the project have provided employment to 465 person-years, 100 new FTE jobs were created to operate the new plant.

EIB Involvement

1. Environmental and social conditions

No significant environmental and social conditions were identified nor materialised during implementation or at the time of project's completion. The Promoter did perform an annual environmental and social report, in line with EIB E&S standards requirements.

2. Bank's involvement

There was limited EIB's involvement during the project implementation and no TA was required.

ESCS

The ESCS has been published separately.

Promoter's Optional Final Comment

The PCR was sent to the Promoter, who agreed to its publication.