

Interview with Mark Appelman, Country Manager, ING Ukraine and Oleg Kababchian, Head of Agri Sector, ING Ukraine



Mark Appelman, Country Manager, ING Ukraine

ING has been committed to Ukraine for almost 25 years, supporting Large Corporates and Multinationals who are active in Ukraine. ING remains committed to service its client base in Ukraine. ING's more than 51,000 employees offer retail and commercial banking services to over 32 million private, corporate and institutional clients in over 40 countries.

UkrAgroConsult: How important is Ukrainian agri sector for ING?

Mark Appelman: ING strongly believes in the accelerated growth of the Ukrainian agriculture sector and is very keen to extend its commitment to the sector. ING has been doing business in Ukraine for more than 24 years. We recall back to 1994-1997 our first projects in Ukrainian agri, where we started with industry risk limits of USD 10-15 Mln, now we can proudly say that we have more than USD 650 Mln of limits allocated to the sector in Ukraine, representing approx. 1/3rd of ING's total business in Ukraine. The commitment has been growing steadily, even in the times of economic crisis or export bans. Moreover, we see that our experience in Ukraine is copied by our colleagues in other countries, so we can say that best practices of ING in Ukraine are being shared globally.

UkrAgroConsult: What is your opinion about general investment climate in Ukraine?

Mark Appelman: In the agri&food sector we observe quite positive and promising trend in the actions of Ukraine's authorities:

- We had seen successful implementation during last 2 years of several projects, which will significantly influence further export development of agri/food commodities industry in Ukraine:
 - o New oil crushing plants, located in sea ports – Bunge and Allseeds
 - o New export infrastructure constructions – Cargill (Yuzhniy), COFCO (Nikolaev), Nibulon (river terminals), Louis Dreyfus (Odessa)
- We also see examples of proactive forward thinking by regional/city administrations on building local places with the developed infrastructure, adapted tax benefits for new constructions of value added business (plants, farms, etc.) – Vinnitsa, to the best of our knowledge is one of such explicit examples
- Other example – transparent administration of export VAT – to the best of our understanding from our key clients-exporters – the whole process of export VAT reimbursement is now more predictable, less time consuming and (undoubtedly) more transparent
- As bankers, we cannot forget about gradual improvements of FX regulation, related to payment of dividends, mandatory sale of export proceeds, non-resident loans, import payment settlement.

To sum up – we see that FDI in agri sector continues to grow in 2016-2017 from USD 0.5 Bln per annum to almost USD 1 Bln p.a. (ING in-house estimate), we also see growing dynamics for Capital investments in the agri sector up to USD 2-3 Bln p.a. Despite these positive signals it will continue to need attention and focus of Government to step in and take responsibility on key reforms.

UkrAgroConsult: What should the government do more to make it possible to find investors with more competitive projects?

Mark Appelman: There are still remaining factors which need to be improved. There is slow progress in the dialogue between Government, business, financial institutions, which does not positively influence the country's macroeconomic development. For instance, we are sure that for years Ukraine had tremendous non-realized potential in re-activating cargo and passenger transportation via interior water ways (rivers, channels, seas). We also see optimistic declarations about this opportunity from the Government, Parliament, business – running for several years already. But the solution is not yet in place. This means, that large potential for development of

foreign trade infrastructure is still delayed. Slow process of privatization (like Odessa Port Plant), structural reform delays in land reform – these are all long time expected projects, which are delaying potential foreign investments.

Ukraine stays in front of the task: how to build predictable environment for professional investor to come in, to implement the project, to keep this investment safe and to expatriate returns.

Look at neighboring countries, who did it already: Ukraine could consider to build a “red carpet” for large investment projects, whereby strategic investors will be sure, that their concerns will be solved. Ukraine still has reputation of difficult administrative bureaucracy, where the small problem can delay a large project for many months. It needs to be radically changed, and if needed for the Government to take initiative and responsibility of ultimate decision for individual projects, let it be done!

To our opinion the recent progress with construction of MV Cargo terminal in Yuzhniy port (Cargill and TIS), closely connected to Governmental project of dragging works in the port – is one of most recent cases, proving positive dialogue between investors and local authorities, port authorities and the Government. ING believes that an acceleration of the infrastructural reforms will support FDI.

UkrAgroConsult: How do you see the interest rate development trend for Ukraine’s agri sector?

Mark Appelman: 2016 and 2017 marked the return of institutional investor appetite for Ukrainian Agri risk. International banks are prepared to establish higher limits, and accept longer tenors. This is a result of strong performance of the whole sector, and in particular of the lead producers – Kernel, MHP, Nibulon, Astarta, Agroprosepris, Vioil, IMC and many other companies.

Last year ING was the lead lending bank in 3 out of 5 largest syndicated credit facilities, arranged by international financial institutions to support agri export; this year we lead in 5 out of 7 large facilities.

The success of 2 Eurobond deals of Kernel and MHP (USD 500 Mln each) earlier this year evidences the investor appetite for the Agri sector in Ukraine. We strongly appreciate that ING’s expertise was chosen, and we acted as co-arranger in both deals. We have seen first hand during these roadshows, how hot the interest is and how big the potential is for financing.

So, now we can see the new benchmark, set by these Eurobonds for 5-7 year Ukraine’s agri risk. I can say, that comparing to 5-7 years ago – there is almost 200 bps improvement.

We optimistically foresee in case of successful realization of complex reform in the country, the benchmark can go down by a further 100-200 bps in coming years.

UkrAgroConsult: Will the possible reform of land market increase funding for Ukraine?

Mark Appelman: Yes. Sure. We experience this in other European countries. But the structure and substance of land reform remain as the principal issue. We think that Ukraine will only win, if attracts professional international land investors, who bring a proven experience in land farming business, those who can bring innovative technologies, and those who undertake commitments for ecological and social development of rural area, connected to their investments.

With regard to small and midsize farmers, who represent vast majority of land operators, we are convinced that at initial stage of reform they will need the support of Governmental banks (long term CAPEX financing, lower interest rates etc.). In fact, Ukraine would benefit from a Governmental agrarian bank to support small and midsize farmers at least at initial stage of the land reform.

Together with other IFIs we are discussing vision of international banks at most critical consequences of land reform. Jointly with others we address them to business, to Government. I hope the finally chosen model of land reform will account opinions of all stakeholders – the rural population, farmers, Government, investors, banks.

UkrAgroConsult: Will ING bank start funding small and midsize companies or keep focusing on large scale businesses?

Mark Appelman: Our bank operates in Ukraine for almost 25 years, developing together with international and Ukrainian businesses solutions, which stimulates the Ukrainian exports. Our focus remains in the sector of large Ukraine’s corporate business, because we evidence that our global expertise, skillful staff and innovative ideas are mostly beneficial for this part of the Ukrainian economy. That does not relate only to lending, connected to foreign trade projects, but also to successful experience in introducing top Ukrainian corporations to global money markets (Eurobonds), equity investors (IPOs etc.), structured M&A, documentary instruments in foreign trade etc. At the same time, we are looking into developing mid-size business in agri sector, possibilities here are a portfolio approach using predictive analytics (Big Data), maybe in cooperation with other strategic partners – we’ll see in future but ING is applying these kind of approached in other parts of the world already.

UkrAgroConsult: How do you predict Ukrainian growth in agriculture with the help of ING bank?

Mark Appelman: Experience of last 20 years demonstrated that Ukrainian agri business is implementing the latest innovative technologies, which lead to increase of efficiency, provide attractive returns, develop social and ecological environment. Look at growth of Ukrainian grain/oil production – certain commodities dynamics is more than 50% increase during last 10 years. We believe forecasts of 80 Mln tons of crop in 5-7 years quite realistic. In particular, we see more potential for growing crops of corn, soya, sunflower, wheat.



Oleg Kababchian, Head of Agri Sector, ING Ukraine

Oleg Kababchian:

We believe that 80 M tones forecast of harvest within 5-7 years is very realistic. This requires investments in technology, long-term liquidity available to farmers, and the further development of midsize farmers. But we trust that commodities like corn, wheat, soybeans and to some extent even sunseed – still have a big reserve in terms of growing yields. Thus, increasing current harvest from in average 60 M tons, which is already 50% more than 10 years ago, by another 20 M tons to 80 - is realistic. It could even go up further if more investments are made.

Then in 5-7 years we will discuss the possibility of another 20 M tons. Nothing is impossible. There is a lot of opportunity in Ukraine. It stands or falls with making right investments and creating the right investment climate.

Thus, there we see 20 M tons for sure spread between following commodities – corn, wheat, soybeans and sunseed. Let's look how market develops infrastructure in Ukraine – roads, railways, rivers take part in that. That would be the accelerator to further growth. But this requires big investment and also a view from Ukrainian government. The river is a big opportunity. It doesn't require a big investment. If we look at US and the Mississippi, Western Europe and the Rhine, everyone, focusing on export, could benefit from a river being developed in the right way.

Ecologically, one vessel with 3 000 tons of grains, which is a midsize vessel for the Dnieper, takes of hundred trucks for all Ukraine from north to south. It's so essential now for the country. I

think, if that strategy is going to be formed and executed - indeed the growth can be very realistic!

UkrAgroConsult: Where do you see your bank in Ukraine in the next 5 years?

Mark Appelman: Next 5 years are very essential for Ukraine's sovereign development, global financial standing, macroeconomic dynamics. We will continue to grow the international business development in Ukraine and support the expansion of most successful Ukrainian producers to new export markets.

We shall continue supporting innovations in agriculture and sustainable lending –promoting ecological initiatives, green energy, transparent publicity, constructive dialogue between farmers and local communities. We keep our commitment to help Ukraine's business expanding to global markets, and cooperating with international investors in stimulating their investments in Ukraine.

Oleg Kababchian:

A new trend that will find its way to Ukraine is sustainable financing. In other part of the world we are currently arranging sustainable loans or sustainable facilities whereby we link the price of the credits to the parts to the sustainable index that a client is getting. So we have there the external providers, like Sustain Analytics, the rating company, and they provide a rating based on the sustainability of the company's business model. If the company is able to improve that rating they will receive discount on a better margin, but if also they decrease, their sustainability rating has to become less sustainable, it makes the credit more expensive. This is something new for Ukraine. In general, it's very important that we promote sustainability in this industry. And this is something where ING can help. We have very good connection with sustain analytics. We arrange financings which provide mutual benefits.

If the company invests in sustainability, we have green financing as well. If a project has a positive impact for instance is biogas. We can provide a cheaper funding, because ING only wants to finance those transactions that

are sustainable, not only because we like the world to be there for a long time, but our own researches show that companies, where sustainability is one of the key objectives perform better over time. It's also risk management point for us to look at the sustainability.

We will still be the leading bank in Ukraine for the large corporates in the agricultural market. We want to continue what we do today. What we want to achieve is innovation – portfolio financing that we talked about, we want to introduce about sustainable lending in Ukraine. We'd like to help new investors in Ukraine, provide them with good banking services. That's where we would like to be in 5-year time, helping with our expertise worldwide, bringing more exporters to the new markets and helping them to open new marketing channels. There are a lot of specifics in different markets and areas of the world. We were recently adjusting here our foreign payment services for some Mediterranean regions, adjusting them to Sovereign requirements for exports and imports of certain Mediterranean and Mid East countries. ING will continue to play an essential role for those companies, who explore the world markets.