Project PL9906.03: Joint Phare/EBRD dairy facility

Sub-programme 4: Agriculture

Location: Poland (all regions)

Objectives:

Wider Objectives:

The objective of this project is to modernise some dairies in Poland and to upgrade their products quality to EU standards. It is initially developed on a limited scale, allowing the Ministry of Agriculture and Food Economy (MAFE), EBRD and Phare to better understand the demand for this new instrument and expand it in subsequent years. At a later stage, the participation of other public or private financiers might be sought.

As stipulated in the National Programme for the Adoption of the Acquis (NPAA), “the improvement of Polish milk sector is necessary to strengthen the competitiveness of production as well as the whole marketing channel, to ensure adequate benefits for milk producers and to implement hygienic and sanitary requirements of the European Union”.

Immediate Objectives:

As a result of the project, the following immediate objective will be reached:
- improvement of quality of both raw material and milk products;
- improvement of hygienic conditions and food safety at the level of milk processing;
- improvement of competitiveness of Polish milk sector regarding quality standards
- definition of a pilot project that can serve as a model for other food processing sectors in Poland and in other countries of Eastern Europe
- definition of a financing mechanism for private sector operators
- test case for future SAPARD programme

Description:

The objective of the Joint EBRD/Phare Dairy Facility is to modernise 10 to 15 dairies in Poland to significantly upgrade their production facilities to EU standards. The Facility combines loans (EUR 24m provided by the EBRD) and grants (EUR 8m provided by Phare) directed at investment projects meeting a set of eligibility criteria. Eligible projects consist of capital investments whose exclusive objective is to upgrade a large volume of milk products of the beneficiaries to EU standards. An amount of 50% minimum is requested to improve the liquid milk production and collection, but the beneficiaries will be dairies only, responsible for preparing the quality improvement plan and organising its implementation at all levels.

The Facility will be operated as a wholesale instrument through three Polish commercial banks to be selected by the EBRD on the basis of objective criteria, notably creditworthiness, experience with the sector, and acceptance of EBRD terms and conditions. The role of the banks is to identify potential beneficiaries meeting the eligibility criteria, conduct credit
appraisal and eventually extend finance, taking full credit exposure. Beneficiaries will receive a "Financial Package" of between EUR 1 and 3 million made of loans from banks, priced commercially, and non-interest bearing non-repayable grants at a ratio of 75% loan money and 25% grant money. The tenure of the Package will be of minimum 3 years. The EBRD will assume the full commercial risk towards participating banks and plans to issue fixed interest rate, fully commercial, złoty loans to each of the participating banks. Beneficiaries are expected to finance 20% of the project from their own resources to this effect. The grant element provided by Phare will be disbursed by the Agency for Restructuring and Modernisation of Agriculture ("ARMA") to the beneficiaries through the banks. The grant will become effective only when the beneficiaries have fulfilled all their obligations. There will be an independent Advisor, selected competitively, to assist in (i) assessing the projects’ compliance with the objectives of the Facility (ii) confirming the completion and commissioning of the projects and (iii) advising on procurement of equipment by the Beneficiaries. No Financial Package will be extended unless it has been approved in writing by the EBRD, on the recommendation of the Advisor. For this purpose, the Advisor will seek the opinion of the veterinary inspection and the Ministry of Agriculture, but will formulate his own assessment in the form of an appraisal memorandum which represents the independent opinion of the Advisor. The Phare grant shall be drawn down by the participating banks from the Polish Government's designated paying agent to coincide with the sub-loans disbursements and passed on immediately to the beneficiaries. Procurement of goods and equipment by the dairies, as a result of the proceeds of the loan and the grant, shall follow EBRD normal practice.

**Eligibility criteria:**

In view of the availability of grant money through the Facility, it is necessary to define precise eligibility criteria for the Beneficiaries. Those will be elaborated jointly between EBRD, Phare and the MAFE along the following lines:

**General eligibility criteria**

1. Financing Packages may be extended only to a Beneficiary which is operating in Poland and is not majority owned or controlled by the government of Poland or local governments or government agencies of Poland.
2. Financing Packages are intended solely for the medium and long-term financing of specific projects or investment programmes in the dairy sector.
3. The close relation that exists between the quality of liquid milk collected at the farms and that of the finished products requires an integrated approach. Capital investments will be necessary at both dairy and farm level. However, the best way to conduct the restructuring of liquid milk production and collection will be through the leadership of dynamic dairies (i.e. milk processing entities). Therefore, the Beneficiaries or borrowers of record will be the dairies, which will handle all relations with the Borrower and be responsible for the repayment of the sub-loans. Dairies will be responsible for preparing the quality improvement plan and organising its implementation at all levels.
4. The target Beneficiaries should be the ones capable of surviving the restructuring of the industry to become the backbone of the future Polish dairy sector. They should be credit-worthy to service their debt to the Borrower. Their creditworthiness will be assessed by the Borrower.
5. A condition for participation will be the Beneficiaries’ financial and technical ability as well as willingness to carry out the necessary improvements in hygiene and quality standards. This will be assessed by the Advisor, in close cooperation with the Polish Veterinary Inspection.

6. An important "soft" criteria for eligibility of Beneficiaries will be the quality of their management, their capacity to lead change, build support from the local farmers’ community and become the consolidators of their sector.

7. All uses of the proceeds of a Financing Package shall be consistent with all applicable laws, including the environment, health and safety regulations and standards in effect in Poland, and with environmental standards existing in the European Union on the date of approval of such Financing Package by the Borrower.

Specific eligibility criteria

1. The proceeds of a Financing Package should be used exclusively for the improvement of the quality of liquid milk or dairy products and/or investment in order to reach EU quality and hygiene standards. Production facilities which do not or only partially meet EU standards are eligible for support. Investments which purpose is to increase output, finance working capital or develop other products than dairy ones are not eligible.

2. Dairies, milk collection centres and dairy farms already reaching EU standards in all areas of production are not eligible.

3. Only farms with a production capacity to invest in on-farm cooling equipment are eligible (i.e. small farms delivering milk to collection centres are not eligible.) However existing collection centres are eligible for investment to bring them up to EU standards.

4. Eligible investments on dairy farms include new or up-graded cow housing, milking parlours, replacement or up-grading of milk storage equipment as well as investments associated with environmental improvement, on-farm water supply, slurry disposal etc.

5. Eligible Investments in dairy establishments/dairy processors include machinery and equipment for the collection of high quality milk, and the hygienic production and packaging of liquid milk and dairy products. This includes the up-grading of premises and equipment for production, storage areas, as well as the improvement of facilities for the maintenance of high standards of cleanliness of staff.

6. The investment projects should be consistent with the Programme of restructuring and modernisation of the dairy sector adopted by the Ministry of Agriculture.

Financing Packages characteristics

1. The maximum size of a Financing Package shall be between the Polish Zloty equivalent of EUR 1 million and 3 million.

2. At least 50% of the Financing Package amount should be invested in milk production and collection.

3. The minimum tenure of sub-loans is three years.
4. The sub-loans will bear a fixed rate composed of the cost of funding from EBRD plus the Borrower's commercial margin.

5. The Borrower's commercial margin will not exceed four per cent.

6. The Beneficiaries should fund at least 20% of the Project cost.

Selection of Beneficiaries and operation of the Facility

Beneficiaries meeting the eligibility criteria of the Facility will be identified by Participating Banks. The latter will submit Proposals to the Advisor for review. The Advisor will liaise with his designated counterpart(s) in the MAFE and the Veterinary Inspection to determine whether the Sub-project meets the pre-defined eligibility criteria for the Facility. In the course of this review, the Advisor may visit the proposed Beneficiary.

The Advisor is responsible for checking that Projects comply with the eligibility criteria of the Facility. This is a three-stage process:

■ Desk review of Project Applications

When a PB has identified a potentially suitable Beneficiary, it is required to contact the Advisor prior to finalising their internal decision process. The PB will send the Advisor a set of Project documentation (“the Application”) supplied by the potential Beneficiary, including at least the following elements:

- A presentation of the Beneficiary;
- The detailed Investment Plan, including the list of equipment to be purchased and its cost, the procurement mechanism to be used, the completion criteria;
- The quality improvement plan with a description of the quality improvements to be achieved, the implementation schedule as well as verifiable quality targets; and
- A summary of the financial package to be extended by the PB to the Project company, including the loan from PB and the grant from EU-Phare.

The Advisor may request from the Project company and the PB concerned any additional information necessary to assess the eligibility of the Project. He will notify his designated Counterpart and the Veterinary Inspection of the Application and will forward the Application to them.

The Advisor reviews the Application and decides whether to proceed to the next step. In case the Application is not deemed eligible at this stage, the Advisor notifies in writing the PB, the Counterpart, the Veterinary Inspection and EBRD indicating the reasons for rejecting the Application.

■ Site visit

The Advisor will organise a visit of the Project company. The visit will include the following:

- physical inspection of processing facilities; visit of a sample of supplying farms;
• discussion of the quality improvement plan and the Investment Plan with the management of the Project company;
• additional verification that all eligibility criteria are met;
• discussion of procurement mechanisms and project management techniques to be applied to the Project;
• discussion of any other issues arising from the Application.

In case the Advisor determines that the Project does not meet eligibility criteria, he notifies in writing the PB, the Counterpart, the Veterinary Inspection and EBRD indicating the reasons for rejecting the Application.

■ Project sign-off

Prior to producing his own assessment, the Advisor is required to collect the Veterinary Inspection's opinion on how the Project company complies with hygiene and quality standards at present, what may be needed in future as well as any opinion the Veterinary Inspection may have on the Application. He will also collect the opinion of the MAFE on the consistency of the Project with the Programme of restructuring and modernisation of the dairy sector adopted by the Ministry of Agriculture.

When the Advisor has gathered sufficient information, he produces a concise Appraisal Memorandum (AM) of maximum 10 pages, without attachment. The Application is systematically attached. The AM represents the independent opinion of the Advisor. It includes the following:

• Beneficiary and Project key data summary;
• Comments on the realism of the quality improvement plan, and how the proposed investment contributes to meet quality targets;
• Comments on the technical merits of the investment plan;
• Comments on the procurement mechanisms to be applied and the completion criteria;
• Opinion of the Veterinary Inspection; and
• Conclusion on eligibility with a recommendation for EBRD to authorise the PB to proceed.

The AM will be sent to the PB concerned, to the Beneficiary, to the Counterpart, to the Veterinary Inspection, to the European Commission and to EBRD. EBRD will then write a letter to the PB, copied to all parties above, authorising the PB to finalise and sign the Project with the Beneficiary.

The review process may be an iterative one. The original Investment Plan submitted to the Advisor may be amended as a result of discussions between all parties. The Investment Plan assessed in the AM is deemed to be the final one, agreed with the Beneficiary and the PB.

The Advisor will make sure that all parties mentioned above are consulted as necessary and kept well informed of progress.

■ Monitoring Project procurement and implementation
The Advisor checks that the Project is implemented in compliance with the Investment Plan. It should pay particular attention to procurement mechanisms and the type of equipment purchased, which should be in accordance with the Investment Plan. This may involve site visits if necessary. Any substantial deviation from the Investment Plan, justified or not, should be notified in writing to the PB and copied to EBRD, who will inform the European Commission as appropriate.

- **Signing off Project completion**

The Advisor signs off the Project Completion Certificate, which indicates that the equipment has been procured and installed according to the Investment Plan and is ready to be or has been commissioned. The Project Completion Certificate should make note of any substantial deviation from the Investment Plan and explain the reason why. The Advisor ideally combines thorough understanding of the dairy industry at a practical level, knowledge of EU standards and experience in Poland and/or in Eastern Europe. It should have both the necessary technical experience and the relationship skills to liaise with the different parties to this assignment as well as the administrative capacity to organise meetings, trips and general follow-up in Poland.

The Advisor can be a firm, a consortium, or a group of individuals. It is advised that it is made of western European experts, possibly on a fly-in basis, as well as Polish experts.

The budget total to finance the Advisor is not expected to exceed EUR 300,000 over the said period of time. Selection of the Advisor will be subject to a standard tender procedure and will be organised by the EBRD.

**Institutional framework:**

The project will be implemented in the following institutional framework:

- **EBRD** will extend zloty loans for a countervalue of 24 million EUR. EBRD will assume the credit risk of the Participating Banks and monitor compliance with the conditions of the loans. In addition, EBRD will supervise the work of the Advisor.
- **Phare** will provide a grant of 8 million EUR to be further contributed to dairies for up to 20% of each project financing.
- Participating Banks (PBs) will assess the investment projects from a financial point of view and submit the selected ones to the Advisor. In addition, PBs will: assume the credit risk of the dairies, require the appropriate collateral from the dairies, release the funds to the dairies, make sure that the proceeds are used for the intended purpose and report regularly to the EBRD about progress of the project.
- **Beneficiaries - dairies** will have to prepare the investment plans requested by PBs and the Advisor showing, inter alia, what quality improvements will be achieved and how. They will receive the loans, repay them and will be obliged to allow on demand the Advisor and the representatives of MAFE and Veterinary Inspection to visit the premises in order to check whether the quality of dairy products has improved up to the required level. In addition they will finance at least 20% of total project investment costs from their own resources.
- **Advisor -** is an individual or a firm with combination of dairy expertise, knowledge of Polish market and the market for second hand equipment (cooling tanks, milking machines, lorries, etc.). Advisors will review the investments plans prepared by the dairies...
and previously selected by PBs in order to ensure their compliance with the Fund objectives. He will closely co-operate with the representatives of MAFE and Veterinary Inspection in order to monitor the whole project at all stages of the implementation.

- MAFE - will review and provide an opinion on the investments plans prepared by the dairies to ensure their compliance with the Restructuring Programme for Polish Dairy Sector. MAFE will closely monitor the whole project at all stages of the implementation.
- Veterinary Inspection will review and provide an opinion on the investments plans prepared by the dairies to ensure their compliance with Polish veterinary requirements at the level of dairies selection and signing off the projects.

**Budget: (million EUR)**

<table>
<thead>
<tr>
<th>Joint EBRD/Phare Polish Dairy Facility</th>
<th>Investment Phare</th>
<th>Institution building Phare</th>
<th>Total PHARE</th>
<th>Financing by beneficiaries out of own resources</th>
<th>International financial institutions EBRD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8</td>
<td>-</td>
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<td>8</td>
<td>24</td>
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<td>8</td>
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<td>8</td>
<td>8</td>
<td>24</td>
<td>40</td>
</tr>
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</table>

**Implementation Arrangements:**
The following implementation arrangements apply to the Phare grant only and should be seen in the context of the project as a whole.

The Central Finance and Contracts Unit (CFCU) will be the Implementation Agency for the purposes of the Phare grant, in line with the Phare DIS Manual. For the purposes of this grant, the CFCU will enter into a contract with the Agency for the Modernisation of Agriculture (ARMA) who will be the paying agent for the purposes of the Facility as described above.

**Implementation schedule:**
Start of tendering: June 1999  
Start of project activity: June 1999  
Project completion: September 2000 (this date relates to the disbursement of the grant)

**Equal opportunity:** The Polish Government and the European Commission have agreed to equal access to all activities and results of this project.

**Environment:** Major environmental effects of this project consist in lower water consumption as well as the reduction in both water wastes and its pollution load. The report on environmental impact of milk processing industry has been prepared within the framework of Phare project „Environmental protection in the Polish Food Industry” (see below).

**Rates of return**
Economic analyses of investments will be presented in each project separately. On their basis the Participating Banks will make a selection of the beneficiaries of Polish Dairy Facility.

**Investment criteria**
Catalytic effect: the Phare grant of 8 million EUR is intended to generate investment in quality improvement equivalent to 40 million EUR and will lead to investment decisions by the dairies that would otherwise have taken place at a much later date.

Cofinancing: the EBRD will cofinance 24 million EUR.

Additionality: through the leverage effect, the Phare grant will stimulate investment in the dairy sector in Poland in the field of quality improvements. Since most investment in the dairy sector, either by own resources or foreign investment or domestic capital, currently takes place in order to increase production capacity, this scheme will not displace or crowd out other investment, since its exclusive objective is quality improvements.

Project readiness and size: feasibility and other studies have been completed and the Facility is expected to be presented by the EBRD for Board approval in May 1999, after which the EBRD plans to issue the loan.

Sustainability: the objective of the Facility is investment in EU norms and standards and is therefore sustainably beyond the date of accession

**Conditionality and Sequencing:**

- Selection of the Advisor before the start of the project
- Public announcement of the existence of the project and sufficient publicity for the Facility in Poland as a joint Phare (EU)/EBRD project
- Cofinancing by the Polish Government after one year from the start of the project.
## LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Programme Number</th>
<th>Planning Period</th>
<th>Project Title</th>
<th>Total Budget of Project</th>
<th>Date of Drafting</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support of the milk industry resulting in quality improvement of Polish milk products through:</td>
<td>• improvement of quality of milk and its products</td>
<td>MAPE</td>
<td>insufficient increase in national demand for milk products</td>
</tr>
<tr>
<td>• improvement of quality of both raw material and milk products</td>
<td>• improvement of environmental protection</td>
<td>questionnaires prepared by the National Union of Dairy Co-operative, Polish Dairy Association</td>
<td>long lasting downward trend with regard to the export possibilities of Polish milk products</td>
</tr>
<tr>
<td>• improvement of hygienic conditions and food safety</td>
<td></td>
<td>data obtained from Main Statistical Office, State Inspection for Purchasing and Processing of Agri-food products, Agency for Rural Market</td>
<td>long lasting process of consolidation and concentration at production and processing level</td>
</tr>
<tr>
<td>• improvement of environmental protection</td>
<td></td>
<td>studies prepared by Institute of Agricultural Economics and Food Economy (IERiGZ)</td>
<td>slow down of consumer demand</td>
</tr>
<tr>
<td>• improvement of competitiveness of Polish milk sector regarding quality</td>
<td></td>
<td>FAPA reports</td>
<td></td>
</tr>
</tbody>
</table>

### Results of Project

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• technological lines compliant with HACCP system,</td>
<td>specialised publications on the dairy sector;</td>
<td>lack of sufficient funds of the project beneficiaries</td>
</tr>
<tr>
<td>• standards of dairies compliant with the requirements of the Directive 92/46,</td>
<td>documentation issued by MAPE;</td>
<td>decrease in interest rates</td>
</tr>
<tr>
<td>• raw milk quality improved.</td>
<td>knowledge of the experts involved in the project</td>
<td>dispersion of the investment activities undertaken by the dairies</td>
</tr>
<tr>
<td>• increase of extra class milk percentage in the total amount of milk delivered to dairies,</td>
<td>data obtained from Main Statistical Office, State Inspection for Purchasing and Processing of Agri-food products, Agency for Rural Market</td>
<td>close co-operation between Advisor and all institutions involved</td>
</tr>
<tr>
<td>• increase in number of Polish dairies meeting the EU export criteria</td>
<td>studies prepared by Institute of Agricultural Economics and Food Economy (IERiGZ)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FAPA reports</td>
<td></td>
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</table>

### Outputs of Sub-Projects

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
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<tbody>
<tr>
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<td>(9)</td>
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</table>
| • delivery of equipment being subject of the investment projects to the selected dairies,  
  • training of bank staff and diaries | • adequate number of equipment delivered to the project beneficiaries in time, | • project reports,  
  • knowledge of experts participating in the project | • sufficient access of the dairies to information on the project,  
  • proper assessment of the dairies’ needs  
  • allocation of project funds |
Annex No 2

DETAILED COST BREAKDOWN (million EUR)

<table>
<thead>
<tr>
<th>Joint EBRD/Phare dairy facility</th>
<th>EBRD</th>
<th>Phare</th>
<th>Dairies</th>
<th>TOTAL (EUR)</th>
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<tr>
<td>Investment – loans – grants – own resources</td>
<td>24,000,000</td>
<td>8,000,000</td>
<td>8,000,000</td>
<td>40,000,000</td>
</tr>
<tr>
<td>TOTAL (EUR)</td>
<td>24,000,000</td>
<td>8,000,000</td>
<td>8,000,000</td>
<td>40,000,000</td>
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**Annex 3**

**IMPLEMENTATION SCHEDULE: Joint EBRD/Phare Dairy Facility**

<table>
<thead>
<tr>
<th>Date of Drafting</th>
<th>Planning Period</th>
</tr>
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<tbody>
<tr>
<td>March 99</td>
<td>June 99 – Dec 2001</td>
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<table>
<thead>
<tr>
<th>Programme</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects</td>
<td>Implementation Schedule (Quarters)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Project</th>
<th>Sub-Projects</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>V</th>
<th>VI</th>
<th>VII</th>
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<table>
<thead>
<tr>
<th>Total Project</th>
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<tbody>
<tr>
<td></td>
<td>40 m EUR</td>
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</tbody>
</table>

**Legend:**

- **D** = design of sub-projects.
- **C** = tendering and contracting.
- **I** = contract implementation and payment.
### Annex No 4a

**Contracting Schedule: Joint EBRD/Phare Dairy Facility**

<table>
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<th>Programme Title</th>
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<table>
<thead>
<tr>
<th>Projects Sub-Projects</th>
<th>Cumulative Contracting Schedule (Quarters)</th>
<th>Budget Allocation Cost Estimate</th>
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<tbody>
<tr>
<td></td>
<td>PLANNED</td>
<td></td>
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<tr>
<td></td>
<td>I</td>
<td>II</td>
</tr>
<tr>
<td></td>
<td>Jul 99 – Sep 99</td>
<td>Oct 99 – Dec 99</td>
</tr>
<tr>
<td></td>
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<tr>
<td>Total Project</td>
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**Legend:**

- **D** = design of sub-projects.
- **C** = tendering and contracting.
- **I** = contract implementation and payment.
## Disbursement Schedule: Joint EBRD/Phare Dairy Facility

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<th>Programme</th>
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<th>June 99 – Dec 2001</th>
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<table>
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<th>Projects</th>
<th>Sub-Projects</th>
<th>Cumulative Disbursement Schedule (Quarters)</th>
<th>Budget Allocation Cost Estimate</th>
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<th>I</th>
<th>II</th>
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<tr>
<td></td>
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<td>Jul 99 – Sep 99</td>
<td>Oct 99 – Dec 99</td>
<td>Jan 00 – Mar 00</td>
<td>Apr 00 – Jun 00</td>
<td>Jul 00 – Sep 00</td>
<td>Oct 00 – Dec 00</td>
<td>Jan 01 – Mar 01</td>
<td>Apr 01 – Jun 01</td>
<td>Jul 01 – Sep 01</td>
<td>Oct 01 – Dec 01</td>
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</tbody>
</table>

Total Project

|       |   |    |   |   |   |   |   |   |   |   | 40 m EUR |

Legend:
D = design of sub-projects.
C = tendering and contracting.
I  = contract implementation and payment.
Annex 5
Relation of the project with the previous Phare projects

1. Programme of restructuring and modernisation of milk sector

Due to the necessity of adjusting the Polish milk sector to new economic conditions the management of the Ministry of Agriculture and Food Economy adopted in 1994 a “Programme of restructuring and modernisation of milk sector”. This programme had for objective to create the modern dairy sector as a complex system of collection, processing and distribution of milk products.

The “Programme of restructuring and modernisation of milk sector” has created appropriate conditions for dairies to obtain preferential loans aiming at all undertakings related to milk production and processing, modernisation of energetic improvements in dairies as well as protection of environment. Investments that are being implemented by dairies within the above programme consist of modernisation of production and technological lines, improvement of milk products’ package design, quality improvements and finally the widening of milk products’ assortment.

At the same time the milk suppliers were allowed to benefit from the preferential credit lines aimed at purchase of cows, modernisation of cow sheds and finally the purchase of milking and transportation (milking machines and bulk milk collection lorries).

The “Programme of restructuring and modernisation of milk sector” is still being implemented by the Agency for Restructuring and Modernisation (ARMA) that are using the budgetary resources.

2. Phare project PL9506-02-08 - Co-operative Investment Scheme - 1 MECU (financial participation of coops. - 3 MECU).

A pilot project took place in 1997 and 1998 to provide the farmers via the co-operatives with the necessary equipment for cooling and transporting of raw materials from farms / collection point to the dairies. As the milk ban had shown, Polish dairy plants had enormous problems with ensuring quality standards of their products which is mainly due to the poor quality of raw material collected at farm level.

The beneficiaries of the Scheme were the milk co-operatives, however the equipment purchased within the above project was designated for farmers possessing specialised milk farms with the minimum number of 10 cows and who are able to produce high quality milk meeting EU norms at competitive prices.

The maximum EU PHARE grant per one project amounted to 50,000 ECU (all prices being quoted without VAT or taxes). Phare participation represented 25% of the total project costs with the co-operative contributing at least 75% of total costs.
Annex 6

Reference to feasibility studies

1. Government programme

Modernisation and restructuring of Polish milk sector is a long term transformation process that necessitate constant modifications and improvements. Integration of Poland with the European structures as well as the full membership in the EU are strategic objectives of Polish foreign and economic policies. In order to allow the full implementation of acquis communautaire in the dairy sector, the Ministry of Agriculture and Food Economy adopted in 1994 a “Restructuring programme of dairy sector in Poland”. At the moment a corrected version of this programme is being completed the main objectives of which are as follows:

- concentration of high quality milk production at the level ensuring the right level of profitability as well as the adequate level of income for Polish milk producers;
- concentration and specialisation of existing milk processing industries; and
- integration of processing industries in order to create viable units of production, trade and marketing of dairy products.

The implementation of the above objectives aims at directing Polish milk sector development at the best processing industries in order to obtain high quality raw material and its products as well as to meet all requirements of strong market competition.

2. Feasibility studies and other documents

- The Facility is based on a pre-feasibility study, financed by the FAO in 1998, available at the EBRD
- Terms of Reference for the Advisor are ready and are available from the EBRD.
- The Facility benefited from a study, financed by the UK KHF, on environmental protection in the food industry in Poland, available from the Ministry of Agriculture.