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Features of Project Financing on Account of the European Bank for Reconstruction and Development (EBRD) and Its Credit Line

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Abstract: This article provides a description and analysis of the characteristics of the European Bank for Reconstruction and Development (EBRD), its lending standards, and projects financed by the bank's loans.

Key words: EBRD, banking, financing, credit operations, lending policy, management board, requirements and obligations, investment cooperation, legal regulations, social assistance, production, service, industrial sectors.

The European Bank for Reconstruction and Development is an international bank that supports the economic and social development of the countries of Central and Eastern Europe, as well as the countries that are members of the CIS. It was established in 1990, with 10 billion ECU funds allocated by the governments of 42 member countries. It has been operating since 1991. Headquartered in London. The European Bank for Reconstruction and Development provides financial support to the reforms (privatization and expropriation of state property and enterprises; development of entrepreneurship; attraction of investments in the production, service and financial sectors; formation of the capital market, etc.) in countries in transition to a market economy, and will help them join the world economic community faster. The bank pays great attention to issues of supporting small and medium-sized businesses and forming the class of entrepreneurs, participates in the financing of large-scale infrastructure projects in the fields of transport, energy, and production. At least 60% of the bank's resources will be directed to state enterprises or private sector enterprises that are being privatized, and 40% to infrastructure or other projects. In 1997, the value of projects financed by the bank in cooperation with the European Union was 240 million formed in the ECU. Uzbekistan became a member of the European Bank for Reconstruction and Development in early 1992, and its representative office was opened in Tashkent that year. Since 1993, it began to participate in the implementation of projects in Uzbekistan. On January 10, 1994, the Board of Directors of the European Bank for Reconstruction and Development canceled the terms of the negative pledge to the Republic of Uzbekistan regarding project financing.

Governance: Divided between its headquarters in London and offices elsewhere, the European Bank for Reconstruction and Development has a three-tier structure, with the first tier consisting of the president and his team, the second tier of the management board and the third tier of the board of directors. Over time, the banking structure has changed due to concerns about competition within the financial institution. In fact, in the early 1990s, there were two different banking divisions (a commercial bank dealing with the private sector on the one hand, and a development bank dealing mainly with the public sector on the other). As a result, the two divisions were merged into one, and this structure was replaced by another, with seven policy and regional divisions. Governing Council - This council is made up of representatives from each member state, who are empowered.

EBRD Shareholders and Board of Governors

The EBRD is owned by 72 countries from five continents, as well as the European Union and the European Investment Bank. These shareholders have each made a capital contribution, which forms our core funding.

Each shareholder is represented individually on the Board of Governors of the EBRD which has overall authority over the Bank and sets its overall strategic direction. While retaining overall authority over the Bank, the Board of Governors has delegated the exercise of most of its powers to the Board of Directors. However, the Board of Governors remains solely responsible for determining membership to the Bank, changes in capital stock, appointment of Directors and the President of the Bank and decisions around financial statements and determining reserves and allocation of profits.

The Board of Governors have elected the Governor for the Netherlands as Chair and the Governors for Egypt and Lithuania as Vice Chairs for 2023-2024.

Why the EBRD?

The EBRD is investing in changing people's lives and environments from central Europe to central Asia and the southern and eastern Mediterranean. Working together with the private sector, we invest in projects, engage in policy dialogue and provide technical advice that fosters innovation and builds sustainable and open-market economies.

The EBRD is the largest single investor in the region and also mobilises significant foreign direct investment into its countries of operations.

Regional expertise

The EBRD has a strong presence in all of its countries of operations through a network of more than 30 local offices.

Innovative financing solutions

For each project it finances, the Bank assigns a dedicated team of specialists with specific sectoral, regional, legal and environmental skills.

Adding value

The EBRD complements – rather than displaces – private sources of finance. The Bank invests only where it can provide added value, by investing in projects that could not otherwise attract financing on similar terms.

Requirements for EBRD financing

EBRD financing for private sector projects generally ranges from €5 million to €250 million, in the form of loans or equity. The average EBRD investment is €25 million. Smaller projects may be financed through financial intermediaries or through special programmes for smaller direct investments in the less advanced countries.

EBRD funding criteria

To be eligible for EBRD funding, the project must:

► be located in an EBRD country of operations

► have strong commercial prospects

► involve significant equity contributions in-cash or in-kind from the project sponsor

► benefit the local economy and help develop the private sector

► satisfy banking and environmental standards

Project structure

The EBRD tailors each project to the needs of the client and to the specific situation of the country, region and sector. The EBRD typically funds up to 35 per cent of the total project cost for a greenfield project or 35 per cent of the long-term capitalisation of the project company. The Bank requires significant equity contributions from the sponsors, which must equal or be greater than the EBRD's investment. There must be additional funding from the sponsors, other co-financiers or generated through the EBRD's syndications programme.

Loans

The EBRD's loans are structured with a high degree of flexibility to match client and project needs. The Bank suggests a suitable loan currency and interest rate. The basis for a loan is the expected cash flow of the project and the ability of the client to repay the loan over the agreed period. The credit risk can be taken entirely by the Bank or may be partly syndicated to the market. A loan may be secured by a borrower's assets and/ or it may be converted into shares or be equity linked. Full details are negotiated with the client on a case-by-case basis.

Sectors supported by the EBRD

- Agribusiness
- Energy efficiency
- Financial institutions
- Manufacturing
- Municipal and environmental infrastructure
- Natural resources
- Power and energy
- Property and tourism
- Small and medium-sized enterprises
- Telecommunications, information technology and media
- Transport

The EBRD does not finance

- Defence-related activities
- Tobacco industry
- Selected alcoholic products
- Substances banned by international law
- Stand-alone gambling facilities

Loan features

EBRD loans consist of the following features:

► a minimum amount of €5 million, although this can be smaller in some countries

► a fixed or floating rate

► senior, subordinated, mezzanine or convertible debt

► denominated in major foreign or some local currencies

► short to long-term maturities, from 1 to 15 years

► project-specific grace periods where necessary.

Interest rates - EBRD loans are priced competitively, based on current market rates, such as EURIBOR. The EBRD offers both fixed and floating interest rates (with a cap or collar). The EBRD does not subsidise projects, does not offer soft loans and the Bank does not compete with private banks.

Fees and charges - A margin above the base rate is added to reflect country risk and project-specific risk. This information is confidential to the client and the EBRD. In addition to the margin, the Bank charges the following fees and commissions:

► appraisal fee

► front-end commission and structuring fee, paid up-front

► syndication fee, where applicable

► commitment fee, payable on the committed but undisbursed loan amount

► loan conversion fee, paid at the time of interest rate, or currency conversion on the amount that is to be converted

► prepayment, cancellation and late payment fees where applicable. In line with commercial practice, sponsors are obliged to reimburse the EBRD for out-of-pocket expenses, such as fees for technical consultants, outside legal counsel and travel expenses

Other lending terms - Full lending terms are negotiated with the client for each project.

Recourse - Recourse to a sponsor is not always required. However, the EBRD may seek specific performance and completion guarantees plus other forms of support from sponsors of the kind that are normal practice in limited-recourse financing.

Insurance - The EBRD requires project companies to obtain insurance against normally insurable risks. Examples include theft of assets, outbreak of fire, specific construction risks. The Bank does not require insurance against political risk or non-convertibility of the local currency.

Security - The EBRD usually requires the companies it finances to secure the loan with project assets. These can include:

► mortgage on fixed assets, such as land, plant and other buildings

► mortgage on movable assets, such as equipment and other business assets

► assignment of the company's hard currency and domestic currency earnings

► pledge of the sponsor's shares in the company

► assignment of the company's insurance policy and other contractual benefits. Covenants Typical project finance covenants are required as part of the loan package. Such covenants, limiting indebtedness and specifying certain financial ratios and various other issues, will be negotiated.

Loan repayment - Repayment is normally in equal, semiannual instalments. Longer maturities and uneven repayment schedules may be considered on an exceptional basis – for example, up to 15 years under mortgage-style authorisation for large infrastructure operations.

Hedging possibilities - The EBRD can help manage financial risks associated with a project's assets and liabilities. This covers foreign exchange risk, interest rate risk and commodity price risk. Risk-hedging instruments include currency swaps, interest rate swaps, caps, collars and options and commodity swaps.

Equity - The EBRD can acquire equity in amounts ranging from €2 million to €100 million in industry, infrastructure and the financial sector if there is an expected appropriate return on investment. The Bank will take only minority positions and will have a clear exit strategy.

Equity and quasi-equity instruments The EBRD's equity and quasi-equity instruments include:

► ordinary shares, listed or unlisted

► subordinated and convertible loans

► income notes

► redeemable preference shares

► underwriting of share issues by public or privately owned enterprises.

Other forms of financing can be discussed with EBRD banking staff. The EBRD usually exits within four to eight years of the initial investment, varying from project to project. The Bank's exit strategy typically involves selling its participation to the project sponsors or selling the investment via a public offer. The EBRD also participates in equity funds, which focus on a specific region, country or industry sector, have a local presence and are run by professional venture capitalists. These funds use the same investment criteria as the EBRD when it considers direct investments.

Guarantees - The EBRD provides various types of guarantees. These range from all-risk guarantees, whereby the Bank covers lenders against default regardless of the cause, to partial risk-specific contingent guarantees covering default arising from specified events. In all cases the maximum exposure must be known and measurable and the credit risk must be acceptable. Precise legal definitions of the events guaranteed and pricing are handled on a case-by-case basis.

EBRD project cycle

The EBRD project cycle consists of the following stages:

Concept Review – The EBRD's Operations Committee (OpsCom) approves the project concept and overall structure, including proposed financing structure and supporting obligations. At this stage, the EBRD and the client sign a mandate letter, which outlines the project plan, development expenses and responsibilities.

Final Review – Once the basic business deal (including a signed term sheet) has been negotiated and all investigations have been substantially completed, the project receives a Final Review by OpsCom. Board

Review – The EBRD President and operations team present the project to the Board of Directors for approval.

Signing – The EBRD and the client sign the deal and it becomes legally binding.

Disbursements – Once repayment conditions are agreed and the Bank's conditions met, the funds are transferred from the Bank's account to the client's account.

Repayments – The client repays the loan amount to the EBRD under an agreed schedule.

Sale of equity – The Bank sells its equity investments on a non-recourse basis. Final maturity – The final loan amount is due for repayment to the Bank.

Completion – The loan has been fully repaid and/or the EBRD's equity investment divested.

Co-financing

The EBRD tries to mobilise domestic and foreign capital because co-financing increases the resources available for funding other projects and introduces borrowers to the international debt markets. Sources of co-financing include commercial banks, official co-financiers (such as government agencies and bilateral financial institutions providing grants, parallel loans and equity), export credit agencies and other international financial institutions, such as the International Finance Corporation and the World Bank. The EBRD aims to broaden and deepen the co-financing base by increasing the number of commercial lenders, and by introducing new co-financing structures and new countries into the market.

By being flexible and responding to the market, the Bank seeks to maximise the sources of finance available to clients and to structure the most appropriate forms of finance. The types of co-financing available include A/B loans (where the EBRD finances a portion of the loan and syndicates the remainder to commercial lenders), parallel loans, export credit agency guarantees, political risk insurance, loans and equity from international financial institutions and grants.

The EBRD works in partnership with other institutions to increase the availability of financing and improve the investment climate in the region.

Information required for financing

To assess the eligibility of a project, the EBRD requires the following information:

Project information

► a brief description of the project, detailing how the Bank's financing will be used

► background information on the sponsor, including operating experience, financial status and how the company will support the project in terms of equity, management, operations, production and marketing

► details of the product or service that will be developed and how it will be produced

► a review of the market, including target customers, competition, market share and sales volume, pricing strategy and distribution.

Financial information

► an accurate breakdown of the project costs and how the funds will be used

► a summary of the implementation requirements, including the appointment of contractors, and an overview of the procurement process

► identification of additional sources of funding

► an overview of the project's anticipated financial performance.

Environmental and regulatory information

► a summary of any environmental issues and copies, where possible, of environmental audits or impact assessments

► details of government licences or permits required, subsidies available, import/export restrictions, border tariffs or quotas and currency restrictions.

When the EBRD has all the necessary information, a deal typically takes three to six months from initial contact to signing. In some cases, however, this can be shorter. The total project cycle, from initiation to re-payment, can range from one year for working capital or trade financing projects to 15 years for long-term sovereign infrastructure projects. If you are interested in obtaining EBRD finance, please complete the online form via the link below to give us a better idea of how we could work together. Forms will only be accepted from commercial companies or by an intermediary authorised to act for them. The EBRD enforces a policy of strict confidentiality. Details submitted will not be disclosed to any other party without prior consent. You will receive a response from an EBRD representative within seven working days of submitting the form.

In conclusion, the cooperation relationship between the European Bank for Reconstruction and Development (EBRD) and many of the world's most prestigious financial institutions and leading countries with developed economies has a long history, and many sectors of the world economy are supported by the bank and particular investments have been made. We considered this investment activity, which continues today, as an example of the description of the bank's loan programs with the most optimal requirements. Of course, no organization or country can develop without cooperation with other institutions and organizations. One of the functions of international financial institutions is the provision of economic and social assistance and financial assistance. Countries and commercial organizations study the goals and capabilities of financial institutions in this international arena and come up with a proposal to conclude agreements with mutual interests. This, in turn, serves as the biggest support in the implementation of a number of goals, such as increasing the well-being of the population, increasing labor productivity and efficiency, and stabilizing the economy. In the European Bank for Reconstruction and Development, these listed goals have been set as the main task, which has created the basis for the establishment of relations with the Bank of many countries and financial institutions around the world. Material assistance and loans of the organization aimed at various social and economic spheres ensured the implementation and support of its activities in the international arena. Many promising strategic cooperation between this bank and the countries of the world are envisaged in the future, and this cooperation reflects the interests of both parties, as well as the population.

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