

The EBRD in

EGYPT AND THE BALTIC STATES

SUPPORTING THE ISSUANCE OF COMMERCIAL PAPER



European Bank
for Reconstruction and Development

Impact case study

SDG contribution



Context

Commercial paper is a short-term financing instrument widely issued in advanced markets to help companies meet their working capital requirements. While traditional equity and debt securities involve lengthy and more costly issuance processes, short-term debt instruments provide issuers with fast-track, simple and cost-efficient solutions to their near-term financing needs. Commercial paper allows investors to boost returns on their short-term cash surpluses and gives them exposure to a wider range of issuers. Simultaneously, it helps corporate issuers become familiar with market-based finance, broadening their options away from traditional bank finance such as overdrafts and lines of credit. From a capital market perspective, these instruments are key to developing money markets and supporting the development of fixed-income funds. Despite these benefits, however, the use of commercial paper in the European Bank for Reconstruction and Development's (EBRD) regions is limited due to stringent or unclear regulatory requirements and the underdevelopment of markets, as well as a lack of company awareness about the product amid ample banking-sector liquidity.

How we work

Recognising the need to expand the range of capital market products available in its regions, the EBRD has collaborated with the authorities in several countries to introduce commercial paper, also known as short-term debt instruments. The first project was completed in Egypt in 2018 and followed by policy engagement in the Baltic states in 2020.

The Egyptian project involved amending the country's capital markets law and developing regulations to align with the short-term nature of the instrument. EBRD advocacy efforts played a crucial role in securing the approval of legislative amendments by parliament and executive regulation by the Financial Regulatory Authority. To promote the new product, capacity-building events were organized to engage issuers, arrangers, investors, rating agencies and law firms.

The successful introduction of short-term securities in Egypt was followed by a framework for commercial paper in the Baltic states. Policy dialogue in Estonia, Latvia and Lithuania focused on creating a common commercial paper market to address specific national needs, overcome the size limitations of the individual markets and align with European Central Bank collateral eligibility requirements for financial instruments. The EBRD signed a memorandum of understanding with the Baltic central banks and the Nordic Investment Bank to develop a regional commercial paper market. Consequently, issuers from the three Baltic states benefit from common issuance documentation for commercial paper.

Achievements and results

Egyptian issuers can now raise funds through short-term securities, with a streamlined issuance process and the option to benefit from tax exemptions in case of listing. The new debt product provided institutional investors with an alternative asset class to Egyptian T-bills, which were previously the only asset class of short duration.

The EBRD's commitment to supporting the new product continued with its EGP 500 million (€29 million) subscription to the inaugural short-term bond issued by the New Urban Communities Authority (NUCA). The investment demonstrated the potential to create a new commercial paper market and established a benchmark for other companies. NUCA's EGP 4 billion (€232 million) placement marked the return of an important issuer to the debt capital market after a decade's absence. The innovative structure of the deal brought global recognition, winning it the Securitisation Deal of the Year in Africa award by *The Banker* magazine, part of the *Financial Times* group in 2020.

The successful introduction of the new product not only drove the resurgence of the local-currency debt capital market, but also paved the way for repeated deals. Following the initial bond transaction by the NUCA, other real-estate developers, car leasing and financial services firms seized the opportunity to issue short-term debt securities.

The EBRD invested €4.2 million in the inaugural €40 million commercial paper issue in the Baltics by retail chain Maxima, giving confidence to other institutional investors who participated in the debut placement. The notes were bought by institutional investors from the Baltic states, Scandinavia, the United Kingdom and other European countries. The project proved an important Covid-19 response, addressing banking-sector challenges that had constrained the availability of sufficient working capital for local companies. Following this successful first issue, the EBRD invested €5 million in Maxima's second, €35 million commercial paper placement, raising the profile of the instrument.

Partnerships

The technical cooperation programme to develop short-term debt in Egypt was funded by the EBRD's Shareholder Special Fund. The Financial Regulatory Authority, the Central Bank of Egypt and the Ministry of Finance are among the Bank's key partners in advancing capital and financial market development in Egypt.

The Bank's policy engagement to develop a commercial paper framework in the Baltic states was achieved in close collaboration with the central banks of Estonia, Latvia and Lithuania, the Nordic Investment Bank and the European Commission, with assistance from Banque de France.