Guide to EBRD financing

European Bank
for Reconstruction and Development

January 2018

Why the EBRD?

The EBRD invests to build up effective market economies across three continents and to make a positive impact on people's lives.

With a focus on private sector investment and support for policy reform, we work to ensure that economies in our regions are competitive, inclusive, well-governed, sustainable, resilient and integrated.

The EBRD is the largest single investor in the region and also mobilises significant foreign direct investment into the economies where it operates.

Regional expertise

The EBRD has a strong presence in all of the economies where it operates, 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.

Strong appetite for risk

The Bank draws on its government contacts, special creditor status and sizeable portfolio to assess and bear risk and to open the options for financing.

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-developed countries.

EBRD funding criteria

To be eligible for EBRD funding, the project must:

- be located in economies where the EBRD operates
- 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 economy, 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.

At a glance

Number of projects (since 1991)

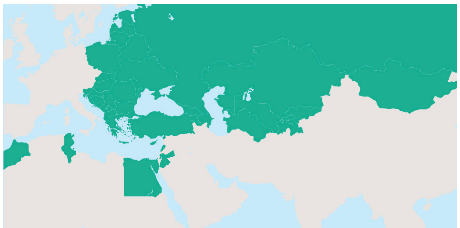
5,035

Cumulative business volume

€119.6 billion

Cumulative disbursements

€91.5 billion



Where the EBRD invests

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Egypt
Estonia
FYR Macedonia
Georgia
Greece
Hungary
Jordan
Kazakhstan
Kyrgyz Republic
Kosovo
Latvia
Lebanon
Lithuania
Moldova
Mongolia
Montenegro
Morocco
Poland
Romania
Russia
Serbia
Slovak Republic
Slovenia
Tajikistan
Tunisia
Turkey
Turkmenistan
Ukraine
Uzbekistan
West Bank and Gaza

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

Types of funding available

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.

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, semi-annual 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.

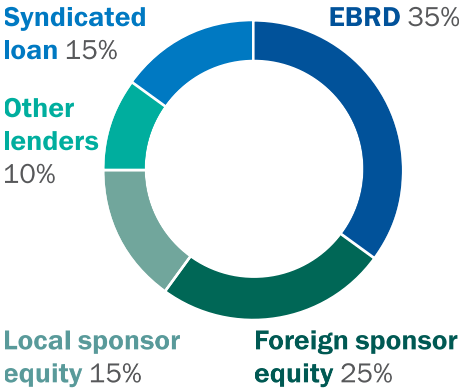
Sources of co-financing include commercial banks, official co-financiers (such as government agencies and bilateral financial institutions providing grants, parallel loans and equity), export credit agencies and other international financial institutions, such as the International Finance Corporation 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.

Typical capitalisation structure



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.

Apply for EBRD financing
www.ebrd.com/apply

Contacts

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London EC2A 2JN
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Resident Offices
For contact details of the EBRD's Resident Offices, see the Bank's website:
www.ebrd.com/contacts.html

New project proposals
(Business Development Support Unit)
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
Email: newbusiness@ebrd.com

Project enquiries (existing projects)
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
Email: projectenquiries@ebrd.com

Direct Investment Facility
Tel: +44 20 7338 7750
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