

# EBRD Social Bonds

July 2022



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for Reconstruction and Development



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# EBRD Microfinance Bonds



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# EBRD Microfinance Bonds – Focus on Micro, Small and Medium Enterprises (MSME)

## MSMEs are at the heart of EBRD’s mandate:

- Article 2.1 (i) of the Agreement Establishing the EBRD says: “to promote, through private and other interested investors, the establishment, improvement and expansion of productive, competitive and private sector activity, in particular small and medium-sized enterprises”;
- Article 2.1 (iii) says: “to foster productive investment, including in the service and financial sectors, and in related infrastructure where that is necessary to support private and entrepreneurial initiatives, thereby assisting in making a competitive environment and raising productivity, the standard of living and conditions of labour”;
- MSMEs are vulnerable to transition gaps (including financing constraints and the dominance of large-state-owned companies);
- MSMEs are an important source of jobs and growth, and an essential part of a healthy modern economy.

## EBRD’s MSME activities\* build on the following products:

- Debt finance through partner institutions in our countries of operation (including microfinance banks, non-bank microfinance institutions and universal banks ): senior and subordinated debt to for on-lending to MSMEs
- Equity: stakes in microfinance or commercial banks, which have focus on MSMEs
- Technical assistance to create lending expertise, supported by donor programmes
- Investment in microfinance funds
- Micro-leasing to create solution for asset finance for smaller companies in production sector, facing lack of collateral
- Local Currency Lending Programme, which allows borrowers to avoid foreign currency exchange risk and borrow in their own currencies.

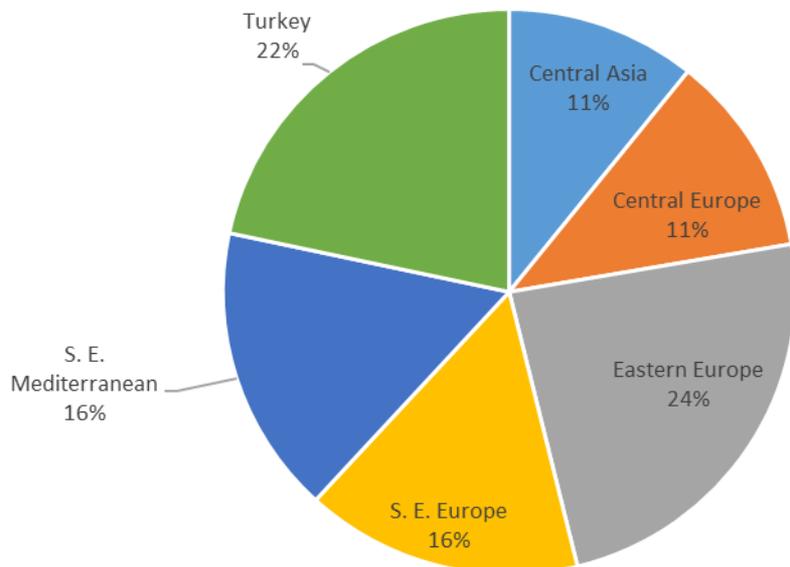
\* At EBRD, the category of micro, small and medium-sized enterprises (MSMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

# EBRD Microfinance Bonds – Focus on Micro, Small and Medium Enterprises (MSME)

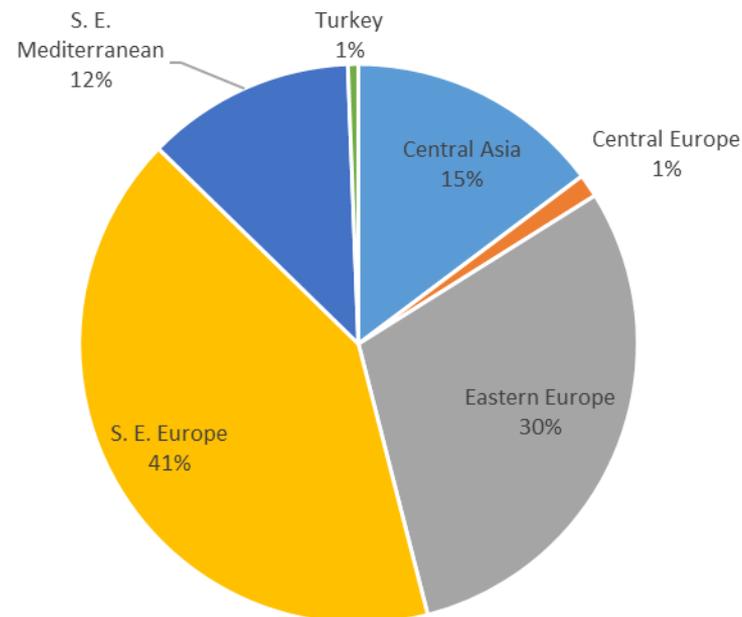
As at 30 December 2021, EBRD's MSME portfolio was €4,543 million (€4,493 million in 2020) of which €3,816 million (€3,711 million) had disbursed.

In 2021, the EBRD extended €1,266 million (€868 million in 2020) in finance to small firms in 148 (146) transactions.

2021 year-end MSME funding by region  
(EUR 1,266 million)



2020 year-end MSME funding by region  
(EUR 868 million)



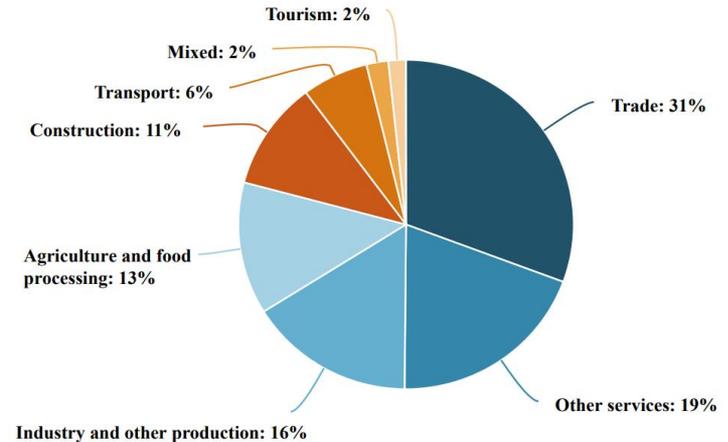
# Microfinance Portfolio H1 2021



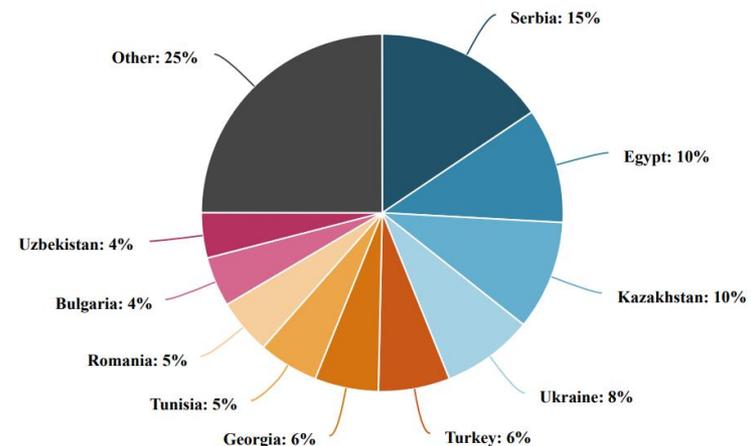
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- EBRD’s Microfinance Portfolio (“MFP”) focuses on funding to FI intermediaries that is earmarked for micro or small enterprise finance
- The MFP had €957 million of operating assets through 219 projects with 115 clients as at H1 2021:
- The MFP has an average:
  - Initial tenor 4.8 years
  - Remaining tenor 2.6 years
  - Margin 2.1%
  - Loan size to intermediary institutions €8.3mn
  - Sub-loan size to underlying micro or small enterprise client less than €6,000
- Key Eligibility Criteria for inclusion in the MFP:
  - Projects with documented use of proceeds for MSME lending
  - Cap on sub-loan size of €1mln
  - Debt instruments only
  - Accruing projects only (i.e. impaired projects are excluded)
- The MFP has €957 million of operating assets vs €727million of outstanding in microfinance bonds (76% utilisation) as at May 2022.
- Since 2010, EBRD has issued €804mn in microfinance bonds (8 transaction)
- Use of Proceeds reporting on the MFP takes place at least annually (note a lag in reporting due to the need for our partner FI intermediaries to compile and provide us with information)

## MFP Operating Assets Industry



## MFP Operating assets by Country



The European Bank for Reconstruction and Development (EBRD) is an international financial institution that invests in projects in more than 30 countries, from central Europe to central Asia and the southern and eastern Mediterranean. It was established in 1991 to support the development of market economies following the collapse of communist regimes (for more information see presentation “EBRD – Investment of Choice” at <http://www.ebrd.com/investment-of-choice.pdf>).

## EBRD - Key Facts as at 1Q22

- AAA/Aaa/AAA (stable outlook) ratings by S&P/Moody’s/Fitch
- €34.4 billion development related exposure (2,209 active projects)
- €17.8 billion available capital (paid in capital plus retained earnings and reserves) with an additional €23.5 billion of callable capital (over 60% rated AA/Aa or better)
- Up to €10 billion borrowing programme in 2022 (although due to a very strong liquidity position, borrowing will likely be up to €8 billion)
- Headquartered in London, UK, with over 40 regional offices
- 0% risk weighted (Basel II)
- Global MTN programme (exempt from US SEC filing) enables liquid benchmark bond issues, as well as issuance of public and private bonds in a variety of currencies and structures

## EBRD Microfinance Bonds

- Previous issue example 1
  - ✓ Issue Amount: € 200 million
  - ✓ Issue Date: 11 February 2021
  - ✓ Maturity Date: 11 February 2051 (annually callable from 11 February 2022)
  - ✓ Coupon: 0.775% paid annually
  - ✓ Redemption Price: 100%
- Previous issue example 2
  - ✓ Issue Amount: € 100 million
  - ✓ Issue Date: 15 April 2021
  - ✓ Maturity Date: 15 April 2031 (callable annually from 15 October 2021)
  - ✓ Coupon: 0.215% payable annually
  - ✓ Redemption Price: 100%
- Proceeds of the bonds support the development of micro and small enterprises in the EBRD’s countries of operations.

The language set out under the heading “Use of Proceeds” in the Base Prospectus shall be replaced by the following:

“The Issuer will seek to maintain, during the life of the Notes, financial support in an amount equal to, or greater than, the net proceeds of the Notes, directly or indirectly via a holding company, equity fund, collective investment vehicle or other special purpose vehicle, for financial institutions which provide micro or small enterprise finance to entrepreneurs in the Issuer’s countries of operations and, otherwise, the Notes’ proceeds will be used for the general operations of the Issuer in accordance with the Agreement Establishing the European Bank for Reconstruction and Development.

For the avoidance of doubt, payment of principal of and interest on the Notes shall not be subject to and will not in any way be linked to the performance of investments and loans under the Issuer’s Microfinance Program.”

# EBRD – Microfinance Bonds

## Case Study I

- The European Bank for Reconstruction and Development (EBRD) is expanding its support for rural areas of [Tajikistan](#) with a new loan to microcredit deposit-taking organisation FINCA LLC.
- The multi-currency loan equivalent to US\$ 4 million, will be used by FINCA to increase financing for micro and small businesses mainly outside the capital, in regions underserved by banks.
- FINCA has a strong presence across the country, serving clients through its 36 branches and service outlets in central, northern and southern Tajikistan. Since its establishment in 2003, FINCA has mainly been serving smaller microfinance borrowers with an average loan size of around US\$ 1,100.
- The EBRD has been working with FINCA in Tajikistan since 2012, providing a total of US\$ 7 million for on-lending to local small businesses. The Bank also works with FINCA in [Jordan](#) and [Kosovo](#) as well as other countries in Central Asia and the Caucasus.



# EBRD – Microfinance Bonds

## Case Study II

- In September 2015 the European Bank for Reconstruction and Development (EBRD) provided its first credit line under the new Women in Business Programme in [Kazakhstan](#) with a 3.7 billion tenge financing package to Bank CenterCredit, one of EBRD's partner banks in Kazakhstan.
- The financing package will support female entrepreneurship and participation in the economy by helping women-led small and medium-sized enterprises (SMEs) to access finance, know-how and advice.
- The Women in Business programme, which the EBRD has already successfully rolled out in Turkey, the Western Balkans and the Caucasus, combines credit lines to women owning or running businesses with know-how and advice provided through the EBRD's Small Business Support programme supported by donors.
- In May 2015 the government of Kazakhstan provided over US\$ 43 million in grant financing towards several EBRD programmes aimed at promoting SMEs and regional investment.
- Five out of the seven EBRD offices in Kazakhstan are dedicated to supporting micro, small and medium-sized businesses, and the Bank is planning to open more offices around the country.



# EBRD – Microfinance Bonds

## Case Study III

- The European Bank for Reconstruction and Development (EBRD) is supporting the expansion of non-banking financial services in [Bosnia and Herzegovina](#) with a €6 million loan to Partner Microcredit Foundation for on-lending to micro and small enterprises (MSMEs).
- With this project, the EBRD is strengthening Partner Microcredit Foundation as one of the leading non-bank microfinance institutions in the country and is helping the company to further expand its lending to MSMEs.
- Medium to long-term refinancing for micro-financial institutions is limited and has become less available in the last few years in Bosnia and Herzegovina. Despite the relatively low share of the banking sector assets, the micro finance sector is an important source of funding for more than 200,000 clients which are not served by local banks.
- The financing of this project comes under the [EBRD Small Business Initiative](#), a platform for supporting micro, small and medium-sized enterprises (MSMEs) through the Bank's partner financial institutions



# EBRD – Microfinance Bonds

## Case Study IV

- The European Bank for Reconstruction and Development (EBRD) is providing €5 million to Banca Intesa A.D. Beograd to support women entrepreneurs in [Serbia](#).
- The funds will be on-lent to small and medium-sized enterprises (SMEs) managed by women from across the country under the newly launched [Women in Business Programme](#) focusing on the Western Balkans.
- The EBRD loan to Banca Intesa is associated with a first loss risk cover which is funded with a grant from the EBRD's own resources. The financing is combined with advisory services to women-led SMEs which are jointly funded by the governments of Sweden and Luxembourg.
- Banca Intesa Beograd, Serbia's largest bank, is the first lender in Serbia to join the programme which is dedicated to Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro and Serbia.
- Under this programme, which includes financing, technical assistance for participating financial institutions, business advice for women entrepreneurs and a risk-sharing mechanism, the EBRD is planning to contribute €20 million to create credit lines for on-lending to women-led businesses via local banks throughout the region.



# EBRD – Microfinance Bonds

## Case Study V

- The European Bank for Reconstruction and Development (EBRD) is boosting its support for the financial sector in [Tajikistan](#) with a multi-currency loan facility, equivalent to US\$ 5 million, to AccessBank Tajikistan CJSC for the benefit of its micro, small and medium-sized enterprise (MSME) customers.
- The EBRD aims to boost [local currency](#) lending in Tajikistan, to build up local sources of domestic funding and reduce the use of foreign exchange in the country's financial system.
- AccessBank is a microfinance bank established in April 2010 with the participation of the EBRD, International Finance Corporation (IFC), KfW and AccessHolding to create a financial institution that offers a wide range of loan and deposit products to MSMEs in Tajikistan, a country with one of the lowest levels of financial intermediation. AccessBank Tajikistan has been an EBRD client since 2009 and has received US\$ 8 million in debt and equity financing from the organisation to date.
- The bank's vision is to become the leading microfinance institution in Tajikistan and to set new standards for the domestic banking industry in terms of professionalism, transparency and efficiency. By delivering appropriate financial services to its target group, AccessBank seeks to contribute to private sector growth and investment, thus helping to create new business and employment opportunities for the Tajik population.



# EBRD Health Bonds



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In 2018, we issued our inaugural Health Bond which finances projects that seek to improve access to, and the quality of, **health services and pharmaceutical products**.

The **Health sector** in which the Bank seeks to invest comprises general hospitals, specialty hospitals, outpatient treatment centers, diagnostic imaging and laboratory facilities, long-term care as well as medical technology producers. Separately, the Bank is financing Hospital Infrastructure PPPs, which are Facility Management Projects (no medical service provision).

- The EBRD's approach in this sector is to:
  - finance facilities that complement the existing public health system, rather than duplicate existing infrastructure; and
  - to serve as a catalyst for improving standards of care and attracting other sources of finance to the sector.
- By providing investment financing to a private health care provider serving public and private patients alike the Bank seeks to improve access and quality of health services in the Region.

Since its founding, EBRD has invested over €600 million in the **Pharmaceutical sector**. This includes investments in pharmaceutical manufacturing, distribution and retail pharmacies.

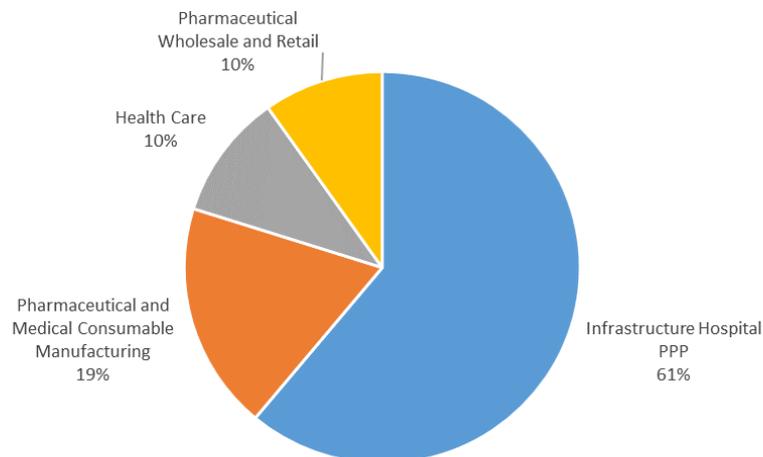
- The Bank's involvement in the area of pharmaceutical production has in large part been in:
  - pre-privatisation projects
  - assisting upgrades of existing pharmaceutical facilities to increase production capacity and process efficiency
  - facilitating new product development; and
  - bringing the company up to Good Manufacturing Practice (GMP) standards.
- There are increasingly projects under consideration where pharmaceutical producers are attempting to produce original pharmaceuticals.

# Health Bond Portfolio – Use of Proceeds Reporting

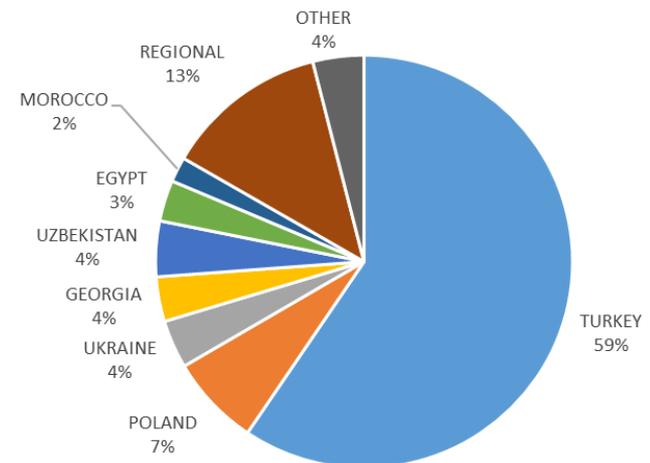
As at YE 2021, the Health Bond Portfolio included 40 Projects with €471million operating assets and €141million undrawn committed amount.

As at 31 May 2022 outstanding issuance for Health Bond Portfolio €335million (71% utilisation) in 9 transactions.

Committed Amount by Sector



Committed Amount by Geography



# Health Bond Portfolio – Impact Reporting

Over 71 per cent of the HPP committed amount is allocated toward Infrastructure Hospital PPP and Health Care projects, with the remaining 29 per cent focused on Pharmaceutical and Medicine Manufacturing

<b>Industry/economy</b>	<b>Project count</b>	<b>Sum of beds</b>	<b>Sum of pro-rata beds</b>
<b>Healthcare</b>	<b>12</b>	<b>914</b>	<b>528</b>
Albania	1	220	57
Egypt	2	261	189
Georgia	4	353	275
Montenegro	2	80	6
<b>Infrastructure hospital PPP</b>	<b>7</b>	<b>8,758</b>	<b>990</b>
Turkey	6	8,758	990
<b>Grand total</b>	<b>19</b>	<b>9,672</b>	<b>1,518</b>

# Annex 1 – EBRD Microfinance Bond Framework



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## Microfinance Bond Portfolio

- Our Microfinance Bond issuance is linked to the disbursed amount of the Microfinance Portfolio (MFP). This is a replenishing portfolio with strict eligibility criteria (see below) that ensures that the proceeds of our Microfinance Bonds are directed towards projects with positive socio-economic impacts.

## Use of proceeds for EBRD's microfinance bonds

- The proceeds of our microfinance bonds are dedicated to support the smallest loans provided under the EBRD Small Business Initiative (SBI). This strategic initiative builds on our long experience in this field and provides a range of flexible instruments that are combined into integrated products to help SMEs. Apart from funding MSMEs, the proceeds to financial institutions are mostly earmarked for specific target groups for example, specific underserved groups, such as women entrepreneurs and those based outside major cities, or to promote specific priorities, such as trade, competitiveness or innovation.
- The proceeds are disbursed via our network of more than 200 partnering local financial institutions, which helps us reach hundreds of thousands of enterprises every year. Technical assistance (often through donor funding) typically accompanies these programmes to help our local partner banks adapt the way they do business with small clients for the long term, creating a sustainable impact.
- Apart from the earmarked proceeds, which are documented in the respective loan agreement, the partner financial institutions also report on various aspects of the sub-loans. This can include basic information such as the size of the loan, whether it is a new or repeat borrower to the lender as well as whether the borrower is located in the country's capital or not. Depending on any specific target groups that the loan might focus on, other tailor-made reporting will be in place with regards to, for example, the distribution of currencies, maturities and purpose of the sub-loans.

## Evaluation and selection of the MFP

- The MFP is based on MSME earmarked loans to financial institutions under the SBI. This portfolio is then reduced by a cap on the size of sub-loans of €1 million (the average sub-loan size tends to be below €7,000).
- We review the MFP projects at least annually according to our established criteria to ascertain continued compliance. As the financial institutions will assume delegated responsibility for sub-project appraisal and monitoring, please note in particular EBRD Performance Requirement 9 that deals with Financial Intermediaries. The effectiveness of the financial intermediaries' environmental and social risk management will be evaluated and monitored on a continuous basis throughout the life cycle of a project.

## Management of proceeds

- The net proceeds of the EBRD's microfinance bonds are tracked on a euro equivalent basis and the information is made public in the "EBRD Microfinance Bonds" presentation in relation to the annual update of the MFP. The EBRD also seeks to ensure that the bond proceeds can be directed in full to its MFP by limiting the total amount of microfinance bonds outstanding to 75 per cent of the MFP.
- In the unlikely event that the issued bond amount exceeds the value of the MFP, the excess funds will be invested separately in money market instruments specified in the terms of the bonds until they can be allocated to projects in the MFP. In such a case, the frequency of tracking the proceeds and updating the MFP would be increased.

## Reporting

- The EBRD reports at least annually on the MFP on an aggregate basis due to confidentiality restrictions. The presentation "EBRD Microfinance Bonds" contains information on average tenor, margin and number of financial partner institutions for the loans, as well as the average sub-loan size across all financial institutions. The breakdowns of the MFP (by sector and country) are approximate, as they are based on the full reporting provided by the financial institution for their MSME activities (however, the restriction to not include any sub-loans larger than €1 million might lead to a difference in the actual MFP portfolio in relation to the full MSME portfolio as reported by the partner financial institution).
- For further information on the full SBI activities, and to put the MFP into the strategic context of what the EBRD is aiming to achieve, see the annual "Small Business Impact Report".

# Annex 2 – EBRD Health Bond Framework



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## Health Project Portfolio

- Our Health Bond issuance is linked to the disbursed amount of the Health Project Portfolio (HPP). This is a replenishing portfolio with strict eligibility criteria (see below) that ensures that the proceeds of our Health Bonds are directed towards projects that seek to improve access to, and quality of, health services and pharmaceutical products in the economies where we invest.

## Use of proceeds for EBRD's health bonds

- The proceeds of our health bonds are dedicated to support investments in general hospitals, speciality hospitals, outpatient treatment centres, diagnostic imaging and laboratory facilities, long-term care as well as medical technology producers. Separately, the Bank is financing hospital infrastructure PPPs, which are facility management projects (no medical service provision).
- The EBRD's approach in this sector is to:
  - finance facilities that complement the existing public health system, rather than duplicate existing infrastructure
  - to serve as a catalyst for improving standards of care and attracting other sources of finance to the sector.
- By providing investment financing to a private healthcare provider serving public and private patients alike, the Bank seeks to improve access to and quality of health services in the EBRD regions.

## Evaluation and selection of the HPP

- The HPP is based on all EBRD projects for which the entire or substantially the entire amount disbursed or invested is directed to any of the following areas:
  - the construction, expansion, refurbishment, upgrading, equipping and/or operation of hospitals, healthcare centres, diagnostic centres and/or
  - the manufacture of medical and diagnostic equipment; improving the quality, accessibility and affordability of medicines through the upgrading of pharmaceutical facilities and processes to increase production capacity and process efficiency;
  - facilitating the development of new pharmaceutical products; support of wholesale, distribution and retail channels in respect of pharmaceutical products
  - ensuring good manufacturing practice in pharmaceutical manufacturing.
- We review the HPP at least annually according to our established criteria to ascertain continued compliance.

## Management of proceeds

- The net proceeds of the EBRD's health bonds are tracked on a euro equivalent basis and the information is updated annually. The EBRD also seeks to ensure that the bond proceeds can be directed in full to its HPP by limiting the total amount of Health bonds outstanding to 75 per cent of the HPP.
- In the unlikely event that the issued bond amount exceeds the value of the HPP, the excess funds will be invested separately in money market instruments specified in the terms of the bonds until they can be allocated to projects in the HPP. In such a case, the frequency of tracking the proceeds and updating the HPP would be increased.

## Reporting

- The EBRD reports at least annually on the HPP. See page 16

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