

## A detailed note on Indian Private sector/Bank's engagement with EBRD

1) European Bank for Reconstruction and Development (EBRD) is a Multilateral Development Bank (MDB) established in 1991 to help build a new, post-Cold War era in Central and Eastern Europe. It has since played a central role in supporting finance in these economies and has also expanded beyond.

2) India recently joined EBRD on 11<sup>th</sup> July 2018 as its 69<sup>th</sup> shareholder. EBRD is committed towards the promotion of private and entrepreneurial initiative. A prime objective for the Bank as stated in its founding Agreement is, "to mobilise domestic and foreign capital" in its countries of operations. The Bank's business model is centred around strong sector expertise and experience, supported by presence on the ground and in-depth knowledge of local markets. EBRD is currently operational in more than 37 countries in South Eastern Europe, Central Europe and Baltic States, Eastern Europe and Caucasus, North Africa, Central Asia, and Southern and Eastern Mediterranean (SEMED) region.

3) India is currently not a country of operation of EBRD i.e. investments through EBRD will not be channelized in India. However, India's membership with EBRD is expected to bring potential opportunities for Indian companies to invest and work in other regions of the world where the Bank is operational and help to step up the pace of joint investments with EBRD.

4) **EBRD offers a range of Products and Services**

(a) **Project Finance**

EBRD finances private sector projects, in the form of loans or equity. Smaller projects may be financed through financial intermediaries, such as banks in which the EBRD has an equity stake or with which it has signed a loan, and investment or venture capital funds in which the EBRD has made an investment or through special programmes of loans, equity etc., for smaller direct investments in the less advanced countries. Similarly as above, EBRD also supports small and medium-sized enterprises through financial intermediaries. For example, ZAO SREI Leasing (ZSL) is a heavy equipment leasing company incorporated in Russia with majority owned by SREI Infrastructure Finance Limited (Srei), a leading non-banking financial institution incorporated in India. In 2007 and 2012, EBRD provided ZSL with a financing line for the purpose of extending leases to SMEs.

**Loans:** EBRD loans to large private sector projects can range from €5 million - €250 million. The average amount is €25 million. Loan currency and interest rate formula are determined on projects from case to case basis. For smaller projects, EBRD supports local commercial banks, which in turn provide loans to SMEs and municipalities in EBRD's countries of operation. Tools that may be available include credit lines, bank-to-bank loans, standby credit facilities and equity investments in the local banks. (for more details: <https://www.ebrd.com/work-with-us/project-finance/loans.html>).

**Equity:** EBRD invests in equity ranging from €2 million - €100 million. It uses innovative approaches and instruments and expects an appropriate return on investment. EBRD only takes **minority positions with a clear exit strategy.**

EBRD's **Equity Participation Fund (EPF)** mobilises funds from global institutional investors to take part in Bank's direct equity investments with the goal of attracting long-term

institutional capital into the private sector in the focus countries (for more details: <https://www.ebrd.com/work-with-us/infrastructure-finance/>).

**(b) Trade Finance**

EBRD runs the Trade Facilitation Programme with the aim to promote foreign trade to, from and amongst the EBRD countries of operations and offers a range of products to facilitate this trade. Through the programme, EBRD provides guarantees to international confirming banks, taking the political and commercial payment risk of international trade transactions, in the countries of operations (the issuing banks).

EBRD also provides short-term loans to select banks and factoring companies for on-lending to local exporters, importers and distributors (for more details: <https://www.ebrd.com/work-with-us/trade-facilitation-programme.html>). List of confirming banks from India are available on EBRD's Website.

**(c) Business Advisory**

EBRD provides businesses advisory support and necessary information on specific project opportunities. EBRD has local expertise to guide project proponents through the process.

**(d) Procurement**

EBRD provides opportunities for suppliers, contractors and consultants worldwide. Most of these procurement opportunities are related to EBRD-financed projects in its region of operation. There are also some opportunities to tender for contracts involving internal EBRD projects and departments (for more details: <https://www.ebrd.com/work-with-us/procurement.html>).

**(e) Loan Syndication**

For private sector projects in EBRD's countries of operation, EBRD has chosen loan syndications to broaden the EBRD's co-financing base by increasing the number of commercial lenders with which it works and continues to introduce new co-financing structures. As per the requirements of this product, for private sector projects, EBRD generally provides in the form of debt or equity, up to 35 per cent of the long-term capital requirements of a single project or company. Pricing of debt will reflect primarily country and commercial risks and will conform to prevailing conditions in the syndicated loan market. As a multilateral development institution, EBRD enjoys a de-facto Preferred Creditor Status. This means that member governments grant EBRD loans preferential access to foreign currency in the event of a country foreign exchange crisis. The Preferred Creditor Status therefore mitigates transfer and convertibility risk for EBRD and its B Loan participants. Banks participating in loans for which the EBRD remains the lender of record (i.e. borrower signs a single loan agreement with EBRD) share the benefits of EBRD's preferred creditor status in its countries of operation.

Loan Syndications techniques most frequently used to date by the EBRD are:

- **A/B loan syndication structure:** When an EBRD loan includes financing from the market through the B Loan structure, EBRD retains a portion of the loan for its own account (the "A Loan"), and sells participations in the remaining portion to participants (the "B Loan"). The borrower signs a single Loan Agreement with EBRD, and EBRD signs a Participation Agreement with the participants. IN this arrangement, the participating banks derive benefit from the EBRD's preferred creditor status.

- **Assignment of loans:** EBRD assigns part of its loans to domestic commercial banks in its countries of operations to promote their cooperation in medium-term lending. In a way, EBRD syndicates loans with the commercial banks to whom the loan is assigned.
- **Parallel Loan Structure:** EBRD acts as a parallel lender. Each lender group of lenders enters into direct contractual relationships with the Borrower. Parallel lenders do not share Preferred Creditor Status and therefore are suitable for domestic banks and ECAs
- **Guarantee facilities:** The EBRD may help borrowers to gain access to the financial market through the provision of guarantees. Various types are available, ranging from all-risk to risk-specific contingent guarantees, but in all cases the maximum exposure must be quantifiable and the credit risk acceptable.
- Private placement of equity
- Co-financing with institutional investors and other international financial institutions

## 5. Opportunities available to Indian private sector

There are thus several opportunities through which Indian businesses and companies can engage with EBRD and seek benefits from India's membership of EBRD:

(a) Through provision of financing from EBRD for projects sponsored by Indian companies in EBRD's countries of operation. It may be noted that often manufacturers and suppliers take the project sponsor's role through equity participation, for example, to facilitate entry into a new market and /or project developers role (for details please refer to <https://www.ebrd.com/work-with-us/project-finance.html>). It is informed that this is often the case in the renewables segment when equipment suppliers invest in an equity stake to take projects off the ground. Two recent cases are asunder:

(i) Chinese<sup>1</sup> solar panel manufacturer Risen Energy Co. Ltd. signed a mandate letter with EBRD for financing construction of a 63MW solar project in Kazakhstan during the 27th annual meeting held on May 10, 2018 in Jordan. The mandate letter confirmed EBRD's interest to consider financing for this specific project.

(ii) EBRD is planning to provide US\$26 million debt financing for Indian firm ACME Cleantech to develop a 29MW solar PV project in the Zhambyl region of Southern Kazakhstan as per a recent development in August 2018.

(b) Indian suppliers, developers, consultants and manufacturers can participate through provision of equipment or consultancy services for projects financed by the EBRD in its countries of operation. In terms of initiating the contact with the Bank, the Indian manufacturers/ suppliers can follow Bank's official website where the Bank discloses information related to the projects and respective procurement opportunities (for details please refer to:

<https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html>

<https://www.ebrd.com/work-with-us/procurement/project-procurement.html>

(c) Indian businesses may approach Bank's representatives to meet and seek necessary information on specific project opportunities. Any query from Indian companies to EBRD or more generally about its region of operation can be referred to the following contact from EBRD who in turn can connect Indian businesses to the right persons in EBRD Resident Offices or Headquarters.

<sup>1</sup> China is not EBRD's country of operation.

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(d) EBRD is working with Indian banks, including State Bank of India and EXIM Bank, for trade finance, and also as potential financier of projects. EBRD provides trade guarantees to facilitate trade. Full list of Indian Confirming Banks who are members with EBRD is available on their website.

(e) EBRD can organise outreach and capacity building programmes for Indian investors and businesses willing to operate in EBRD's countries of operation.

## 6. India's engagement with EBRD till now

In the past, Indian businesses have cooperated on EBRD projects worth €1 billion. EBRD is also working closely with leading Indian organisations, such as FICCI, CII, and ASSOCHAM. Recently, EBRD and International Solar Alliance have also agreed to strengthen cooperation in pursuit of their shared goal of mobilising green energy financing. Details are provided below:

(a) EBRD signed MoU with FICCI on 2<sup>nd</sup> November 2017. According to the MoU, the parties recognise the importance of promoting open-market economies and agree to increase their efforts to support privatisation, as well as to provide financing for small and medium-sized enterprises (SMEs). Lending to, and co-investing in, projects in the EBRD region to boost energy efficiency, facilitate trade and improve municipal services are also key priorities.

(b) EBRD signed MoU with CII on 6<sup>th</sup> April 2016<sup>2</sup>. According to the MoU, CII will seek to promote information about EBRD's products and services among its member companies. On the other hand, EBRD will seek to inform CII regularly about the development of new EBRD products and services, and administrative matters that may be relevant to the work of the CII.

(c) EBRD also signed MoU with ASSOCHAM on 29<sup>th</sup> July 2015. The aim was to promote Indian mid-sized companies are now expanding internationally and looking for new markets.

(d) A joint declaration between EBRD and ISA was signed in New Delhi on 2<sup>nd</sup> November 2017, to promote solar energy in the countries where both organisations operate. The two parties have agreed to collaborate and exchange information in recognition of their mutual goal of fostering sustainable development.

## 7. Other benefits to the private sector

EBRD membership will provide easy access to information such as market analysis, country strategies and reports on the political economy of different countries to Indian businesses, the government, and other stakeholders seeking such information. This may be of great value to businesses for planning long-term investments<sup>3</sup>. Investing with EBRD in its countries of

<sup>2</sup>[www.ebrd.com/documents/comms-and-bis/mou-with-indian-industry-group-cii.pdf](http://www.ebrd.com/documents/comms-and-bis/mou-with-indian-industry-group-cii.pdf)

<sup>3</sup><http://www.thehindubusinessline.com/news/indias-ebrd-membership-opens-opportunities-for-its-businesses/article34255777.ece>

operation makes the investments safer. It provides greater protection to Indian businesses as the countries where they would be operating are also EBRD members.

#### 8. Focus areas for EBRD operations

Investment in EBRD countries of operation is all demand-driven. Since the establishment of EBRD in the early 1990s, it has invested over €120 billion in more than 5,000 projects<sup>4</sup>. Focus areas of EBRD investments are Agribusiness strategy, Energy strategy, Financial Sector Strategy, Information and Communication Technologies Sector Strategy, Municipal and Environmental Infrastructure, Mining operations policy, Micro, small and medium-sized enterprises, Property policy, Shipping Operations Policy, Transport Sector Strategy.

Some new areas of focus recently approved by EBRD Board of Directors is promotion of gender equality for which Bank will expand its Women in Business programme. Safeguarding the environment and a commitment to sustainable energy are also central to the EBRD's activity.

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<sup>4</sup><https://www.thehindubusinessline.com/news/indias-ebrd-membership-opens-opportunities-for-its-businesses/article26055777.ece>