

EBRD: ETC Products and proposed areas of cooperation with USAID

18 May 2011



ETC Initiative (ETCI)

- Countries - All ODA eligible: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan;
- The ETCI Approach/Action Plan rests on:
 - EBRD taking more risk within sound banking principles, focusing on smaller operations, and expanding/ adapting existing core instruments;
 - Increasing EBRD's dedicated resources;
 - Increased donor support for TC/grant co-financing
- Financing of local small and medium-sized private enterprises:
 - Senior loans direct to SMEs via Direct Lending Facility (DLF)
 - Subordinated loans, mezzanine capital and equity direct to SMEs via Direct Investments Facility (DIF)
 - Co-financing with local banks via Medium-sized Cofinancing Facility (MCFF)
- At December 2010: 209 operations (for total business volume of approx. €400 million) signed with local SMEs under these facilities since the inception of the ETC Initiative
- All this activity with local SMEs has only been possible thanks to TC contributions

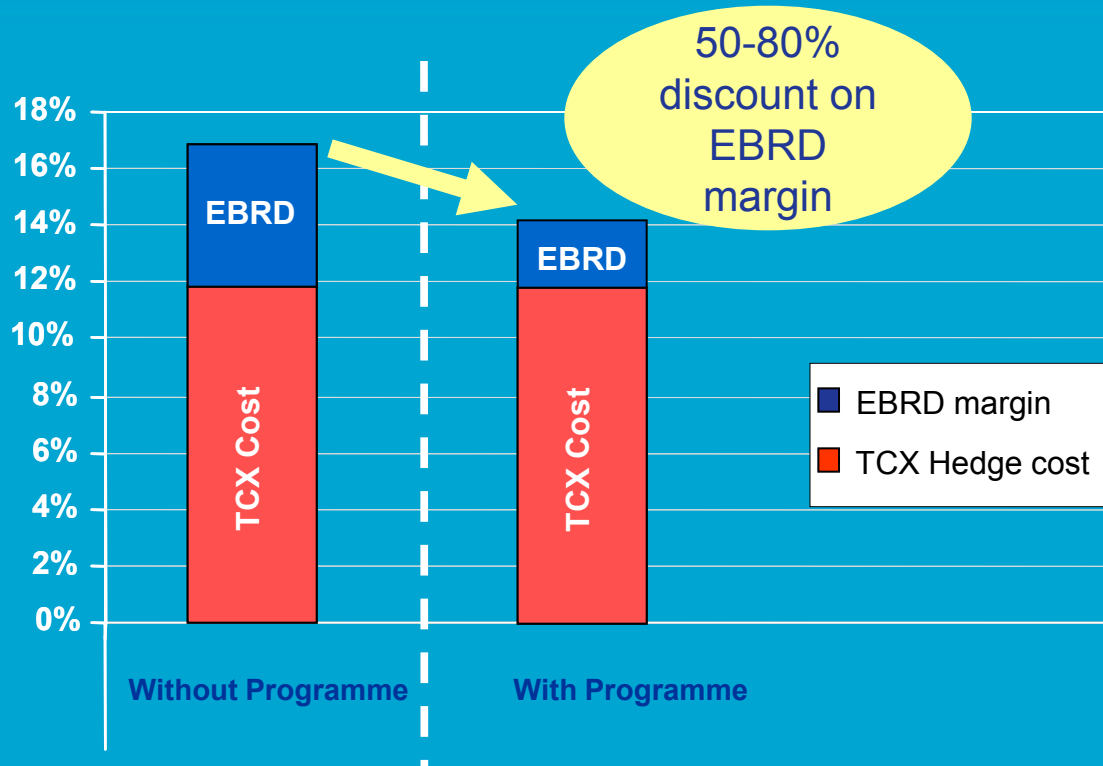


New Programme for local currency loans in ETCs

- Two innovations designed to improve EBRD's ability to complete more transactions more efficiently while providing significant additionality:
 - 1: New risk sharing programme to reduce interest rates on local currency senior loans
 - 2: New local currency mezzanine capital programme to complement common equity
- Donors provide guarantee for 100% first loss up to 15 % of portfolio. Donor grants to reduce EBRD credit margin. Greater losses for EBRD capital.
- Allows EBRD to reduce credit margin from 5- 6% to 1-2% reducing all-in rate to be more competitive with USD rates
- Eligibility:
 - Initially capped at EUR 10 million per borrower
 - All Senior Loans for Financial Institutions
 - Private Corporates under DLF and MCFF



Pricing of LCY deals in programme



- Reduced EBRD margin
- TCX hedge cost unaffected
- All-in rate lower
- Does not create material market distortion



Areas of potential cooperation with USAID

Proposal 1: Risk sharing on EBRD – US loans and investments to local small and medium-sized enterprises

- A “Fund” capitalised by EBRD and USAID: The USAID up to USD 20 million and EBRD USD 140 million. EBRD:USAID funding ratio: 7 to 1
- EBRD would write internal documents for the approval of the Eligible Assets
- Over the life of an Eligible Asset, EBRD would pay all amounts received for the loan/investment into the “Fund”
- If there are no defaults and losses, the Fund would grow in size, thereby being able to support more and more Eligible Assets
- In the event of loss on an Eligible Asset, the Fund would incur the full loss. Losses would be distributed to the Fund participants on a phased basis:
 - first charge to the cumulative interest earned by the Fund over its life.
 - Any further losses then charged second to the USAID until the USAID capital is depleted
 - Any further losses then charged to the EBRD capital until depleted.

The risk sharing programme would be clearly communicated to beneficiaries as a joint EBRD – USAID initiative ensuring good visibility



Areas of potential cooperation with USAID

Proposal 2: Risk sharing between EBRD, the USAID and local banks on loans from local banks to local small and medium-sized enterprises

- EBRD lends all the cash proceeds to the local bank to make the loan to the SME
- EBRD, the USAID, and the local bank share in the risks one-third each
- The USAID can consider being a risk participant on either a “first loss” or “pari passu” basis.

The risk sharing programme would be clearly communicated to beneficiaries as a joint EBRD – USAID initiative ensuring good visibility

