

THE EBRD CO-FINANCING BY LOAN SYNDICATIONS

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Abstract:

The first objective of the EBRD is to mobilise domestic and foreign capital in its countries of operations. To achieve this objective, Loan Syndications has chosen a flexible and market oriented approach. Its goal is to broaden the EBRD's co-financing base by increasing the number of commercial lenders with which it works, continuing to introduce new co-financing structures and methods, and by introducing new countries to the market. The critical factor in the success of these activities is the extent to which commercial sources of finance are willing to commit funds.

Key words: *The European Bank for Reconstruction and Development (EBRD), loan syndications, the lender, the borrower.*

JEL classification: F33

Syndicated loans are loans provided by a group of banks reunited in an entity devoid of juridical personality (called “a consortium” in the syndicate doctrine), with a view to financing an operation, the most often, on a medium term. This operation may consist in general needs, refinancing, export financing, consumer credits or infrastructure financing. They are generally granted to states or big societies.

Syndicated loans represent a very important source of international financing, proving to be at the same time an efficient and flexible resource of risk distribution. Originated in the 19th century United States, syndicated loans were frequently employed in Germany before the First World War and in France in the 1930s. Due to the increasing financing needs, the banks had to face the challenge of finding new means of cooperation with a view to satisfying the cash necessities.

The enhancement of financial exchanges led to the emerging and rapid development of Euro credits and of Phare system loans. Among the most active banks in forming consortia in this period were the Bank of America and Chase Manhattan Bank in the USA, Banco di Roma and Banco Commercial in Italy, Barclays and Midland in Great Britain and Banque Nationale de Paris and Paribas in France. Thus, in 1977, there were 7 syndicated loans whose value was equal to or higher than 300 million dollars.

In the present, the primary market of international syndicated loans represents one of the most active financing sectors, banks often appealing to this technique. Almost all types of loans can be provided by a syndicate, this being the only technique that permits the rapid growth of funds, which is harder to achieve on the other capital markets (assets, bounds).

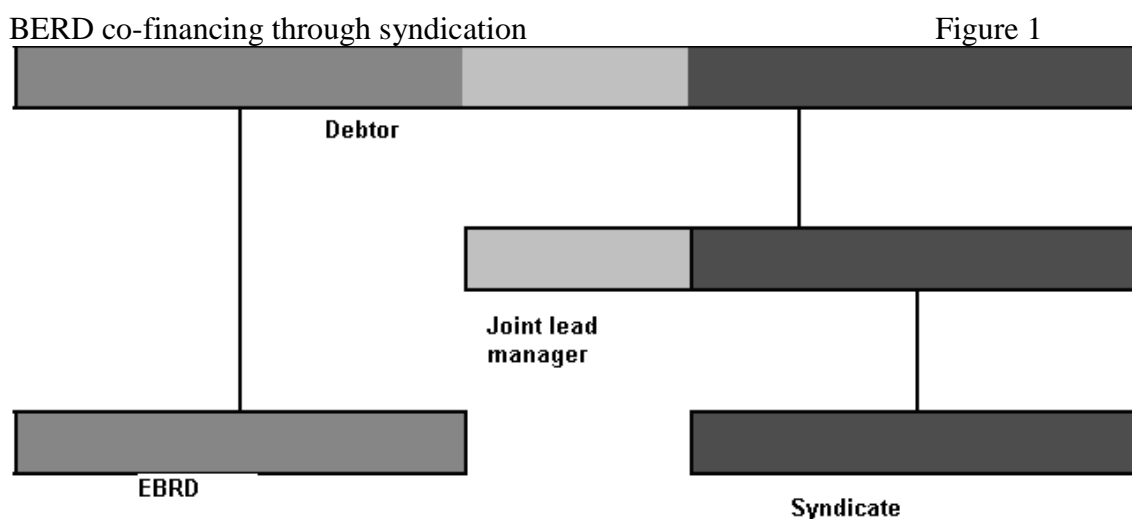
Types of syndicated loan contracts

There are two types of facilities which are usually syndicated, that is to say term loan facilities and revolving loan facilities. With the type of term loan facility, creditors lend a specified sum for a certain time period, known as “term”. The entity to which the loan is granted is usually allowed a short time period after the loan execution (the period of availability or commitment), during which it can attract loans up to a

specified maximum border of the facility. The reimbursement can be made in rates or there can be a single payment at the end of the facility.

As for the revolving loan facility, this one offers an entity which takes a loan a maximum total sum of the capital, available throughout a certain time period. However, unlike the term loan, the revolving loan facility permits the entity that borrows money to reduce, reimburse and withdraw credits from the available capital for the respective time period. Each loan is taken for a certain time period, usually one, three or six months, after which it is, technically, callable. The reimbursement of a revolving loan is effectuated either by programming the reductions of the facility's total sum in time, or by the reimbursement of all owing loans which are reimbursed on the date of the conclusion.

Syndicated loan contracts may contain either a single term or revolving loan facility or a combination of the two types of financial facilities. Syndicated loans are used for the financing of greater value investments, such as the infrastructure ones: highways, railways, bridges, airports, telecommunication and others. Syndication consists in forming a group of co-financers led by the main co-financer (joint lead manager), well-placed on the financial market, who generally contributes with the greatest sum and takes the risk of the entire action. Among these a financial arrangement is established, regarding the syndication sharing and the relations to the joint lead manager. In this structure the main role is attributed to the joint lead manager and to the agent. The joint lead manager represents the syndicate in the relations to the loan borrower, negotiates the loan conditions, organizes the lending, surveys the reimbursement and responds to the syndicate for the loan administration. The technical development of the entire complex of operations is assigned to the agent, which as a rule is one of the banks that take part in the syndicate and effectuates all the banking operations, that is to say it collects the sums for the loan granting, effectuates the pays, receives the reimbursements and charges, distributes the collected sums to the syndicate, etc. Any problem that occurs along the run is in charge of the joint lead manager that manages the loan administration. In the 1 figure, the scheme co-financing through syndication is shown:



Loan syndication offers the participant banks the advantage of risk reduction and these do not have to preoccupy individually for the risk and conditions of the investment. For the syndicated loan borrower, the advantage lies in the possibility of getting a high value loan, which otherwise would be impossible to get, as well as getting in contact with more commercial banks on the financial market. By means of such loans important resources can be mobilized in favor of great projects, especially infrastructure projects, and the BERD participation in such a loan, as arranger or as simple participant,

confers credibility to the syndicate, stimulating bank association and acts in the direction of risk reduction. The BERD financially supports the sector of public utilities, acting in the direction of governmental politics of decentralization of their services. Furthermore, such an intervention of co-financing highly grows the lever effect achieved at the lending.

Loan syndication techniques used by the EBRD are:

- The A/B loans syndications structure, where the EBRD remains the lender of record for the entire loan and the commercial banks derive benefit from the EBRD's preferred creditor status;
- Assignments of part of EBRD loans to domestic commercial banks in its countries of operations to promote their cooperation in the medium term lending;
- Co-financing with other international financial institutions;
- Parallel loans with commercial banks
- Parallel loans with official government agencies
- Various guarantee facilities
- Private placements of equity;
- Debt co-financing with institutional investors.

A/B loan structure and preferred creditor status

For private sector projects, the EBRD is normally prepared to provide in the form of debt or equity up to 35% of the long term capital of a single project or company. Pricing of debt will primarily reflect the commercial risk and will be set to conform to prevailing conditions in the syndicated loan market.

In the most emerging markets or economies, commercial banks can be expected to have initial concerns relating to country risk. This risk might embrace among other things, risks such as debt rescheduling, nationalization of assets currency convertibility and hard currency transfer.

The country risk, while taken into account in the pricing is to a degree mitigated by the EBRD's status as a preferred creditor does not mean that the EBRD guarantee against country risk.

The principal form of mobilising external financing is to provide for participation by commercial banks in EBRD loans. Through this technique, the commercial banks can share with the EBRD the benefit of its status as an International Financial Institution (IFI). Other IFIs include the World Bank, International Finance Corporation, Asian Development Bank, European Investment Bank.

The EBRD, as a lender of record, extends a loan to a borrower on terms pre-arranged with, and to be funded by, bank lender and the EBRD. Structurally the EBRD sells participations without recourse to itself, in such loan to the banks. The portion which the EBRD lends is often referred to as the A loan with the commercial bank portion being referred to as the B loan. Through the participation mechanism, each bank may benefit from the EBRD's preferred creditor status.

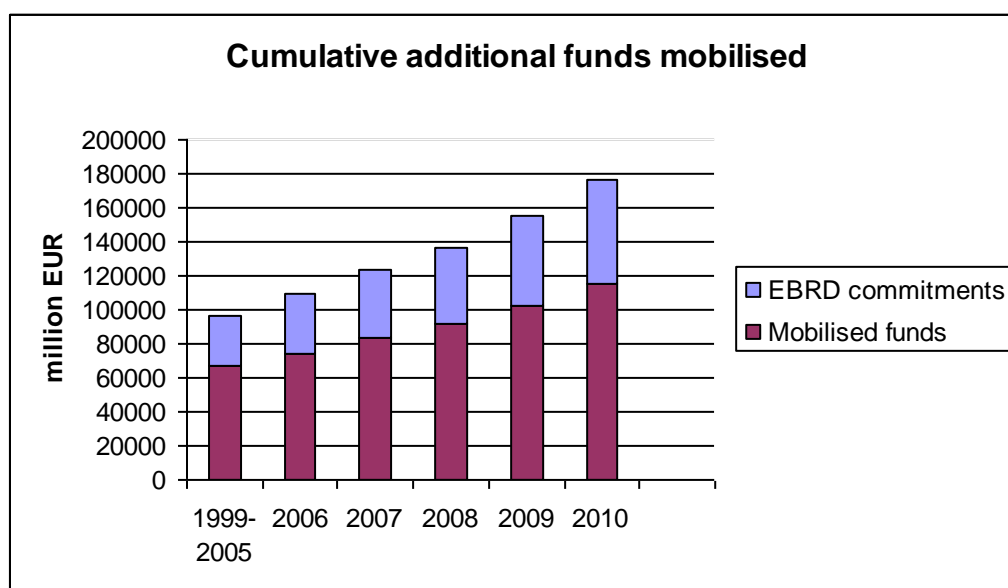
According with its status, EBRD policy is not to reschedule debt payments or participate in debt rescheduling agreements with respect to its loans to private sector borrowers when the borrower's inability to service its debts is due to a general foreign exchange shortage in the borrower's country.

In practice, loan by IFIs including loans extended and participations sold under the lender of record participation technique have been excluded from sovereign debt reschedulings. Banks that participate in loans to private sector borrowers made by the EBRD, where the EBRD remains the lender of record may share in the benefit of this preferred creditor status.

In addition, banking supervisors in many countries recognise either expressly in regulations or in less formal guidance that co-financing through the participation technique used by the EBRD should be given preferential treatment in applying country risk provisioning requirements. As a result, participations by banks regulated in these jurisdictions are exempt from country risk provisioning requirements.

Although preferred creditors status is intended to give a degree of comfort to commercial lenders against country risk. It is important to note that the EBRD is not able to represent as to its future efficacy as the preferred status is largely a matter of agreement by governments and bank regulatory authorities supported to a large extent by past experience.

Since 1991 until 2010, the EBRD investments have attracted an additional EUR 115,012 million from domestic and foreign investors as shown in the 1 chart.



Source: www.ebrd.com

Loan syndications is a very important element in mobilization of funds. Every EUR invested by EBRD mobilized 1,8 EUR in the total project cost. This kind of loan has greatly extended recently.

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