



**Black
Sea
Trade &
Development
Bank**



DOING Business WITH BSTDB

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BSTDB IN BRIEF

The Black Sea Trade and Development Bank (BSTDB) was established by the 11 founding member countries of the Black Sea Economic Cooperation (BSEC)¹-Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine as a regional multilateral development bank and financial pillar of BSEC.

The aim of the Bank is to foster economic growth and regional cooperation through financing projects and providing financial services to public and private entities in the Black Sea region.

The BSTDB authorized capital is SDR 3 billion (appx. EUR 3.5 billion)². The subscribed capital is SDR 2 billion (appx. EUR 2.4 billion).



¹Black Sea Economic Cooperation was founded in June 1992 with the aim of developing comprehensive multilateral and bilateral economic cooperation in various fields and converting the region into a zone of peace, stability and prosperity.

²The Special Drawing Rights (SDR) rate to Euros (EUR) used in this brochure is as at 31/12/2011.

³0.5% shares are left unallocated after Moldova reduced its shareholding from 1% to 0.5% in 2011.



BSTDB development highlights

June 1994	BSEC Participating States signed Agreement Establishing the BSTDB
January 1997	Agreement Establishing the BSTDB came into force
June 1999	Start of Operations
December 1999	First Project Signed
March 2004	Initial investment grade credit rating of Baa2 obtained from Moody's Investors Service
October 2006	Moody's credit rating upgraded to Baa1
October 2008	Following a decision to triple the BSTDB authorized capital to SDR 3 billion (appx. EUR 3.5 billion) and to double the Bank's subscribed capital to SDR 2 billion, shareholders subscribed to additional shares in the amount of SDR 1 billion
May 2009	First bond issue
September 2010	Moody's credit rating upgraded to A3
June 2011	BSTDB received credit rating of A from Standard and Poor's

The Bank supports sustainable economic development in its member-countries and facilitates regional cooperation by providing financing and technical assistance to eligible projects and trade transactions. Although it does not seek to maximize profits, the Bank does not provide concessional financing; it seeks to offer terms that are competitive with those prevailing in the market, and which allow the institution to cover its costs and to generate sufficient revenues to build reserves and surpluses. Financing may be extended to operations originating in both the public and private sectors, and in practice the market to which the Bank has proven most attractive has tended to be medium sized companies active in the region that are well managed, dynamic and demonstrate potential for growth. The Bank is especially keen to work with such firms which are: involved in cross border activities, export oriented, involved in a sector requiring the transfer of technology and know-how into the region, users of environmentally friendly processes, and generators of new jobs. The Bank mainly concentrates on sectors that are driving forces of economic growth in member countries: energy; transport, public utilities, manufacturing, municipal services, environmental protection, SMEs, telecommunications and the financial sector. The sector focus differs from country to country, according to the demands of local businesses as well as the priorities of national governments. BSTDB enjoys Preferred Creditor Status in its member countries.

In order to establish closer cooperation with countries and institutions interested in the Black Sea region - including the facilitation of project co-financing and other joint activities for the benefit of the region- BSTDB established Observer Status which provides a flexible mechanism for regular contacts and exchange of business information. The following institutions have joined BSTDB as Observers: KfW Banking Group (2006), European Investment Bank (2008), Nordic Investment Bank (2008), Development Bank of Austria (2008), EDFI-Association of the European Development Finance Institutions (2008), International Investment Bank (2009), International Finance Corporation (2010), PROPARCO - Investment and Promotions Company for Economic Cooperation of France (2010), European Bank for Reconstruction and Development (2011) and Vnesheconombank, Russian development bank (2011).

BSTDB IN ACTION

Key operational objectives

Operationally, the Bank has adopted a strategy of managed growth which allows it to respond flexibly and promptly to changes in economic and market conditions in its countries of operation. The Bank's activities are guided by the following principles:

- Consistency with sound banking principles and prudent banking practices
- Transparency, accountability and effective corporate governance
- Fair and rapid consideration of any business proposal
- Efficiency and flexibility
- Focus on clients' needs

Corporate and Project Finance

Eligible Projects

The Bank provides financing to operations taking place in member countries, although it works with financiers and investors from outside who wish to invest in the Black Sea region. The Bank gives priority to those operations which best fulfill its dual mandate of supporting development and promoting regional cooperation. In this respect, high priority project sectors include:

- investments or joint ventures in one member country by one or more firms from another
- investments which receive funding from financial institutions of another member country
- projects with upstream and downstream linkages that provide benefits to the economies of more than one member country
- projects which bring indirect region-wide benefits, for example the introduction of a new technology or best practice which may subsequently be applied region-wide

The Bank's project and corporate financing can be extended to public or private promoters in support of projects in a variety of sectors, with priority assigned to telecommunications, manufacturing, financial services, transport, public utilities, energy, municipal services, environmental protection, tourism and agribusiness.

Eligible operations may include the construction of new productive capacities or the upgrade and modernization of existing facilities, as well as working capital, refinancing and general corporate purposes. Financing of the restructuring of an enterprise or its privatization is possible as well.

GEK Terna Group, Greece

Support of the company's investment program in Greece and the Black Sea region.

EUR 20 million
5 years corporate loan

Kulon-Yugros, Russia

Construction of office / warehouse complex.

EUR 9.8 million,
project finance loan



Fees and Expenses

In line with commercial practice, beneficiaries reimburse the Bank for administrative expenses incurred, including travel and accommodation costs and technical consultancy legal fees. A front-end fee may be charged at signature to cover these expenses. Annual commitment fees on undisbursed loans may also be charged.

Security and Covenants

The Bank will generally require security for its loans. This security may take the form of project assets (mortgages), assignment of earnings, or other appropriate collateral. In specific cases, the Bank may require a sovereign guarantee.



Amount of Financing

The Bank acts as a complementary source of financing, supplementing funds from sponsors and other sources. For project finance, the Bank's contribution is normally up to 35% of the total project cost. The Bank's equity participation in a single company will not exceed 33% of the total equity capital of an enterprise. For corporate loans, BSTDB may provide up to 80-100% of the required financing. Loans to a single borrower may not equal greater than 7.5% of paid-in capital, reserves and retained earnings, and not more than 3% for equity investments. The maximum financing which may be provided to a single borrower amounts to EUR 41 million (at 31 December 2011)⁴. These limits do not apply to sovereign exposure. The minimum amount of financing for direct Bank involvement in an operation varies around EUR/USD 3 million.

EUROTERM, Armenia

Agro-product producer
Modernization of production and packaging equipment
USD 3 million
5 year secured term loan

Istanbul Metropolitan Municipality

Construction of 21 km double-track system metro line
USD 50 million
10 years loan

Petrom Environmental Loan, Romania

Support of the company's environmental investment program.

EUR 25 million
7 years corporate loan

Balkan Accession Fund

Private equity fund for SME support
Equity investments in small and medium sized enterprises in Albania, Bulgaria, Moldova, Romania, and Ukraine
EUR 10 million

Banca Romaneasca - KfW

SME financing
EUR 5 million guarantee facility

Loans

The Bank provides a variety of loan types, modified to meet an individual operation's requirements.

A. Interest Rates

Rates may be fixed or floating.

B. Currencies

Loans may be denominated in any convertible currency or a combination of convertible currencies in which the Bank is able to fund itself.

C. Tenors

Project loan maturities generally range from 3 to 10 years depending on the individual operation while the availability term does not generally exceed two years.

Equity

The Bank may make equity investments in a variety of forms depending on the investment vehicles. When the Bank takes an equity stake it requires an appropriate return on its investment and a clear exit strategy.

TELESET, Russia

Fixed-line telecom operator
Network expansion
USD 3 million equity investment
USD 20 million loan

Guarantees

The Bank may assist borrowers to obtain finance through the provision of guarantees.

Operations through Financial Institutions

Trade Finance

Promotion of regional trade by providing trade financing to exporting and importing firms in member countries, primarily through local financial institutions, is an important feature of BSTDB's operations. BSTDB has developed a range of trade finance products which are designed to improve access to financing, and thus competitiveness, of local firms, as well as to enhance the capacity of local financial institutions to finance regional export and import transactions. Trade finance products currently provided include the following:

- Pre-Export Finance Facility
- Multiple Buyer Credit Facility
- Combined Trade Finance Facility
- Single Buyer Credit Facility
- Single/Multiple Supplier Refinancing Credit Facility
- Guarantee Facility

Direct operations with firms - Supplier Refinancing Credit and Buyer Credit products - are undertaken on a case-by-case basis. Priority is given to transactions which improve regional exporting capacity and exceed USD 3 million.

Trade Finance products are available through financial intermediaries in Albania, Armenia, Azerbaijan, Georgia, Moldova, Russia, Turkey, and Ukraine (see annex in the end of brochure).



Guarantees for trade transactions

The Bank seeks to increase trade in the Black Sea Region by providing country risk and commercial risk cover on short-term trade finance instruments. A Guarantee may apply to trade related payment instruments, issued by selected banks and/or export credit agencies within the region, to benefit small and medium sized companies, as well as large exporting companies.

Maturities of trade finance credit lines range from 180 days to 5 years depending on the type of product. Financing of up to 100% of the transaction value may be provided by the Bank.

Supporting Micro, Small and Medium-Sized Enterprises

The Bank's SME Strategy prioritizes the identification and support of local micro, small and medium-sized enterprises through financial intermediaries. The Bank provides medium-term SME finance facilities to financial institutions in the member countries, designed to extend medium-term financing to eligible local SMEs. The following factors are also taken into consideration:

- Creation of new employment
- Promotion of exports
- Facilitation of knowledge and technology transfer
- Promotion of intra-regional investment
- Mobilisation of foreign capital
- Facilitation of "networking", i.e. creating contacts between SMEs in the region

SME finance facilities are provided through financial intermediaries in Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Russia, Turkey, and Ukraine (see annex in the end of brochure).

SME Leasing Facilities

The Bank supports leasing companies in member countries by providing medium-term SME and trade finance facilities for financing eligible leases extended to micro, small and medium-sized enterprise clients.

SME leasing facilities are currently provided through financial intermediaries in Bulgaria and Georgia (see annex in the end of brochure).

Credit Lines for Mortgage Financing

The Bank supports development of mortgage finance markets by extending medium and long-term credit lines to eligible financial institutions in the member countries. These funds are then on-lent to residents-clients of the local partner banks and are used to finance purchase, repair or renovation of residential immovable property.

Credit lines for mortgage financing are currently provided through financial intermediaries in Azerbaijan and Russia (see annex in the end of brochure).

Co-Financing

The Bank places great emphasis on encouraging the involvement of other sources of financing in its operations, thereby increasing the total resources available for financing in the region.

The Bank's co-financing partners include:

- international financial institutions
- export credit agencies
- commercial banks
- official co-financing institutions (bilateral donors)

Northern Capital Gateway, Russia

Construction and operation of a new air terminal in St. Petersburg

EUR 1.2 billion PPP project co-financed on the debt side by EBRD, IFC, BSTDB, Nordic Investment Bank, Eurasian Development Bank and Vnesheconombank.

15 years Project Finance Loan
BSTDB participation: EUR 15 million

Technical Assistance Special Funds

Among the significant operational challenges for BSTDB is the leverage of its assets to maximise flows of capital and expertise into the region, to improve access to information, and to contribute to the development of greater managerial, technical, and financial capacity. To meet these challenges, the Bank has made provision for the establishment of Special Funds - which are trusts or other pools of financial resources.

Currently the Bank is administering two such funds: a Technical Assistance Special Fund made available by the Government of the Hellenic Republic, and a Technical Assistance Special Fund provided by the Austrian Development Bank (OeEB).

The Hellenic Fund: Eligible beneficiaries are private sector entities in all BSTDB Member States.

The eligible uses include:

- Upgrade feasibility studies
- Accounts conversion to International Accounting Standards
- Assistance in Business Plan preparation
- Technical Assistance for sensitivity analysis

The Austrian Fund: Eligible beneficiaries are private sector entities in BSTDB Member States qualified for Official Development Assistance, which currently include Albania, Armenia, Azerbaijan, Georgia, Moldova, Turkey and Ukraine.

The eligible uses include:

- consultancy services for the preparation of feasibility studies
- business plans preparation
- business studies
- financial analysis
- conversion of financial accounts according to International Accounting Standards
- training for financial sector professionals

Advantages of Working with the Bank

The Bank seeks to play the role of stable and loyal financial partner providing its clients with a sustainable and long-term source of funding at competitive terms. There are many advantages to working with the Bank:

For Member Countries

- Priority financing for regional projects with high development impact
- Facilitation of official and commercial co-financing for public sector projects
- Improved institutional and regulatory environments through technical assistance programs
- Advisory services

For Enterprises and Sponsors:

- Medium-to-long term financing on attractive terms
- Country risk mitigation
- Financing instruments tailored to the needs of each project
- Access to funding not readily available from commercial sources
- Improved prospects for mobilization of additional financial resources
- Enhanced credit standing for projects
- Enhanced access to technical assistance for project preparation

For Commercial Financial Institutions

- Assistance in developing a local client base and extending a regional presence
- Additional funding for on-lending to clients in the region
- Risk sharing on projects and trade transactions
- Access to international financial markets
- Advisory services

For other International Financial Institutions and Export Credit Agencies

- Co-financing and risk sharing
- Local expertise
- Introduction of prospective clients and opportunities
- Reduced project preparation costs

Approaching BSTDB

Requests for the Bank's assistance may come from private companies and financial institutions as well as governmental, public and non-profit entities. The Bank does not distinguish between any categories of potential clients and evaluates each application on its merits.

Initial Approach

Initial contacts may be established through the Bank's website: www.bstdb.org. BSTDB's website also gives short descriptions of some operations that have been financed by the Bank and of the products and services available. Consultants interested in working with the Bank can also register through the website. All inquiries for financing operations should be sent directly to BSTDB headquarters. Although the Bank proactively manages inquiries and applications, the quality and availability of information are key factors in the response times achieved. The Bank ensures the confidentiality of all the information it receives.

Approval

All projects undergo a thorough appraisal process, after which they are presented to the Board of Directors. Approval by the Board represents a formal commitment by the Bank.

Technical Assistance

The Bank may provide clients with access to grants or financing through Technical Assistance Special Funds managed by BSTDB (see p.8), to assist in project preparation or development of necessary regulatory or institutional infrastructure. Determination of eligibility is based on operational priorities and needs.

Environmental Procedures

The BSTDB is committed to promoting environmentally sound standards and sustainable development in all its financing activities, therefore all its operations are required to be at a minimum environmentally neutral, that is they do not add to the existing pollution. All the operations are subject to Environmental Assessment as prescribed by the BSTDB Environmental Policy and Environmental Assessment Procedures before any financing decisions are made. Environmental Assessment is an integral part of the Bank's overall portfolio management that seeks to identify all the environmental risks and impacts associated with the operation and is proposing efficient mitigation and monitoring measures. In carrying out Environmental Assessment the BSTDB uses a number of tools such as Environmental Impact Assessment (EIA), Environmental Audit, Environmental Action Plan (EAP), Environmental Monitoring, etc. The BSTDB applies the European Union and the World Bank Group environmental norms and standards as well as International Environmental Conventions.

Procurement Procedures

The Bank's procurement policy is based on the principles of fair and open competition for suppliers of goods, works, and services for operations to be supported by the Bank. BSTDB is committed to international competitive tendering of major contracts in the public sector without country restriction or impediment, although, in some cases, a margin of preference may be applied to suppliers and contractors from Member States. A set of rules and requirements for the procurement of goods, works, and services applies to public sector projects to ensure that contracts are awarded in a clearly defined manner that guarantees fairness, integrity, transparency, as well as economy and efficiency.

In private sector operations, the Bank encourages its clients to use procurement methods that lead to the sound selection of goods, works and services at fair market prices and to make their capital investments in a cost effective manner. Businesses often achieve these aims by following established commercial practices other than formal international competitive tendering for their procurement. Nevertheless, wherever appropriate, the Bank will encourage the use of international competitive tendering methods by private sector clients, particularly for large contracts. Overall, careful procurement planning that takes into account the particular needs of the project is essential for the Bank's evaluation and agreement.

FREQUENTLY ASKED QUESTIONS

Why should my company prefer BSTDB?

Five main reasons should make a company in the Black Sea region prefer BSTDB: competitive financing, speed of decision-making, loan size, competence of the staff and absence of a “political agenda”.

BSTDB provides financing on competitive terms, with additional benefits such as country risk mitigation, networking possibilities, improved access to additional resources, and last but not least knowledge of the region.

Though BSTDB follows international standards in its procedures, the Bank is smaller than other international financial institutions (IFIs) and thus, able to respond more quickly to a business proposal. While the approval of most projects takes around six months, BSTDB has been able to process and approve some financings in less than four months.

BSTDB is flexible, i.e. able to process projects, especially in its smaller member countries, under the 5 million US dollars limit applied by many other IFIs.

The BSTDB project teams are staffed by professionals with extensive banking experience that blend international and local expertise and are closely involved with the Black Sea countries.

Finally, the Bank has no political agenda or political or macroeconomic policy conditions attached to operations. The Bank was created by the countries of the region to promote economic activity and regional cooperation.

Is there any economic activity excluded from BSTDB financing?

BSTDB follows the general rules of international financial institutions in this respect. In general, and as a part of the negative list, the Bank cannot finance projects that are environmentally harmful and/or linked to the production of military equipment, narcotics, tobacco and products derived from hard alcohol. (However, BSTDB can finance the production of beer, wines and other products with a moderate alcoholic content). BSTDB's full Negative List of Products is available at www.bstdb.org.

What is the approval procedure for BSTDB financing?

BSTDB follows internationally accepted standards in its project cycle. After a project proposal is presented to the Bank and initially screened, the concept is cleared by the Bank's Credit Committee. Then, after appraisal and due diligence, the Credit Committee undertakes Final Review and, if approved, sends the operation for final approval to the Board of Directors. Once this approval is obtained, the loan agreement can be signed, followed by the disbursement of the loan. The same approval procedure applies for credit lines to financial intermediaries.

How long does it take from the project proposal to the signing of a loan?

BSTDB proceeds as quickly as possible, depending on the quality of information obtained from the client, the capacity of the client, the complexity of the project itself and the risk involved. In general, the Bank aims for 3-6 months. However, the Bank will not proceed with financing until it is completely satisfied with all appropriate information and the legal documentation is fully verified.

What is the pricing of a BSTDB loan?

The pricing and the terms of a loan are subject to individual appraisal. As with other institutions, pricing of an operation depends upon the cost of funds, a margin to cover costs, and a risk margin. As for fees and commissions, the Bank normally requires a front-end fee and a commitment fee. Following international practices, BSTDB may also request other fees depending on circumstances, such as an appraisal fee, a syndication fee, a management fee, etc.

What security does BSTDB require?

A standard commercial security package, including - but not limited to - a pledge of shares, assets, bank accounts, etc., is generally required, while the Bank may also accept an offshore security. For certain short-term and low risk transactions, financing may be provided unsecured, but this is an exception, not a rule. The Bank does not normally seek a sovereign guarantee, but certain projects - particularly where state owned entities or official agencies are involved and the nature of the operation may generate general economic benefits but not a direct financial return - may require such a guarantee.

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Financial Intermediaries of BSTDB

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