The Role of International Financial Institutions in Financing Private Sector Development in Southeastern Europe: the Experience of BSTDB

Rejuvenating Growth through Private Sector Development and Foreign Direct Investments
12th Economic Summit of the Republic of Serbia
Belgrade, 22-23 October 2012
Outline of Presentation

- Economic growth, development, and the role of the private sector
- What are the benefits of IFI support?
- What is the role of BSTDB in the Black Sea region?
Economic Contraction Results in Rising Poverty / Economic Growth Reduces Poverty

Poverty Rates
Europe & Central Asia: People Living on Less Than $5/ Day

Europe & Central Asia: Real Annual GDP Growth Rates

Sources: World Bank Poverty and Equity Databank, & World Development Indicators
Growth is Essential for Poverty Reduction and the Private Sector is Essential for Growth

- Private investment is strongly associated with economic growth—East Europe 2000-08 an excellent example
- The private sector is the source of over 90% of jobs in developing countries
- Public sectors are often overburdened and struggling to meet debt and deficit targets.
- Even for the provision of public goods and key infrastructure, governments face significant fiscal constraints
- As a result, the private sector is playing a growing role in provision of key services and construction of infrastructure, via instruments such as concessions & PPPs
**Finance** where others have insufficient risk appetite, with longer maturities & competitive terms

**Advisory products** for investment climate, project performance

**Assurance** to bring in other investors

**Country risk mitigation** allowing investors to focus on commercial risks

**Demonstrating viability** in difficult or new areas

**Catalytic effect**- every dollar of IFI capital stimulates about 12 dollars in private investment

**Easy on the Public Purse**- IFIs are self-sustaining through repayments and profits & mobilize resources and provide financing far in excess of amounts originally paid in by shareholders
IFI Finance is Particularly Needed in Times of Crisis – When Private Capital Retreats

Private Sector Development Institutions Commitments to the Private Sector and Global Gross Flows to the Private Sector

Source: IFIs & Development Through the Private Sector
IFIIs: Value Added & Limitations

IFIIs are good at:

• Providing long term financing at attractive terms in markets which lack access
• Mobilizing additional resources & donors
• Covering risks the private market is unable to bear, esp. country risk mitigation
• Providing networking benefits for clients
• Supporting good projects that otherwise would not take place

IFIIs are not good at things such as:

• Predicting market innovations and trends
• Taking over the role of the private sector
• Pushing projects that lack ownership of principals
• Participating in high risk/ speculative investments more suitable for venture capital
IFI Trends Going Forward

- Growing private sector focus of IFIs
- More partnerships (e.g. with governments, other IFIs, investors, private sector, NGOs)
- Greater focus on development impact & results
- Innovations, especially for instruments such as PPPs/blended finance, local currency financing, diversified risk products
- Seeking new ways to increase resource mobilization
- Growing attention to public sector & private sector (corporate) governance issues
- Increasing emphasis on (i) awareness of importance of sustainability & (ii) development of standards-environmental, trade, social
Why a Regional Development Bank?

- Knows Region and its needs better
- Mobilizes financial resources through co-financing with other IFIs, non-regional commercial banks, and Development Agencies and FIs
- Assumes elements of political and country risk that often keep private investors away
- Improves access to financing for companies in the Member Countries
- Operations financed by the Bank are open to investors from outside the BSEC Region when investments made in the region
BSTDB: Shareholding Structure

- Turkey: 16.5%
- Russia: 16.5%
- Azerbaijan: 5.0%
- Albania: 2.0%
- Georgia: 0.5%
- Bulgaria: 13.5%
- Armenia: 1.0%
- Romania: 14.0%
- Ukraine: 13.5%
- Unallocated: 0.5%
- Greece: 16.5%
BSTDB: In Brief

- **REGIONAL FOCUS:** supporting investors and companies in 11 Black Sea Region Member Countries
- **CAPITAL BASE:** Authorized Capital Increased by BoG to €3.6 billion in Dec 2007- Subscribed Capital at €2.4 billion- exclusively dedicated for BSTDB member countries
- **CREDIT RATING:** Rated A by Standard & Poor’s and A3 by Moody’s. Better than the long term sovereign rating of all shareholders
- **FINANCIAL PRODUCTS:** Mainly mid to long term debt, equity, some guarantees
- **SPECIAL PROGRAMS:** to support SMEs and trade financing (via local financial intermediaries)
- **FLEXIBILITY:** combining resources of a developmental bank with the flexibility of a commercial institution. Quick review of operations, able to deal directly with small firms.
Sample BSTDB Operation - KCM Metallurgical Smelter, Bulgaria

**Project Cost**
Total: US$ 75,000,000  
BSTDB: US$ 9,000,000

**Borrower**
KCM S.A., Bulgaria

**Summary Description**
Major environmental and health/safety improvement, preservation of 1500 jobs, preservation of exports/revenues (1.3% of total for Bulgaria), private sector development, competitiveness.

Independent evaluation of operation published by the World Bank as international best practice, confirming that over 1540 jobs and 1.3% of the country’s annual exports were preserved by the project;

Without the project, KCM would not have met recently introduced EU environmental requirements and would have been closed due to non-compliance and public pressure – prior to project, KCM was a major health hazard /polluter.
Creatively Design Products Which:

• Are tailored to the needs of clients and partners
• Are responsive to changing environment
• Support investment
• Channel resources to the Region
• Establish business networks
• Promote Regional integration & development
### Assisting a Public-Private Partnership: Sabiha Gökçen Airport Financing Facility

| **Project Cost** | Total: € 451,000,000  
BSTDB Participation: € 29,000,000 |
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<td><strong>Borrower</strong></td>
<td>Istanbul Sabiha Gökçen Uluslararası Havalimanları Yatırım Yapım ve İletme A.S., (Consortium SPV)</td>
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<td><strong>Term</strong></td>
<td>13 years</td>
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<td><strong>Sector</strong></td>
<td>Transportation</td>
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<td><strong>Summary Description</strong></td>
<td>Facility to construct a new international terminal building &amp; complementaries via BOT model, &amp; upgrade, operate and maintain the existing domestic and international terminals</td>
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Main Products and Services

- Project Finance (up to 35% of total project cost)
- Corporate Finance
- Credit Lines to Financial Institutions
  - Trade Finance
  - SME Financing
  - General Purpose Lines
  - Mortgage Financing
  - Subordinated Loans
  - Leasing
- Equity Investments (up to 33% of the total equity)
  - Direct
  - Investment Funds
- Guarantees
Evolution of BSTDB Portfolio: Steady, Manageable Growth

![Graph showing the evolution of BSTDB Portfolio with steady, manageable growth over time, measured in Euros Million. The graph includes three lines: Total Active BoD, Total Active Signed, and Outstanding.](image-url)
Sample BSTDB Operation - Köprübaşi Hydroelectric Station

**Project Cost**
- Total: US$ 55,000,000
- BSTDB Participation: US$ 18,000,000

**Borrower**
- Yüksel Enerji Elektrik Üretim ve Ticaret A.Ş.

**Term**
- 8 year maturity, 3 years grace

**Summary Description**
- Anti-flooding and energy project on the Devrek River in the region of Bolu in NW Turkey. The loan will be used to finance construction and operation of two units with a combined capacity of 74 MW.
BSTDB: 2011 impact assessment

- Indirect financing of over 1000 SMEs, employing over 50,000 and having annual GDP contribution of 850 million euro;
- Supporting a dozen large strategic infrastructure investments across the region, essential for the improvement of the overall economic, social and business environment;
- Direct financing of over 100 businesses, employing over 300,000 people and generating over 20 bn euro in annual output, with upstream and downstream economic linkages to about 2500 companies with comparable economic role;
- Enhancing corporate social responsibility, as well as major environmental, health and safety improvements in about 40 companies, with notable demonstration impact.
Benefits for Serbia & Serbian Firms from Joining BSTDB

- Provision of long term financing on highly competitive terms—mainly loans, but also equity & guarantees
- Country risk mitigation for international investors & financiers
- BSTDB is a ‘club of borrowers’, located within its region of operation and therefore close & attuned to all countries
- As with other IFIs, levels of financing provided significantly exceed amounts paid in, achieving powerful leveraging effect
- Bank can contribute to firms in its member countries in a role akin to that of an export credit agency as well as a national development bank
- Would significantly strengthen and diversify Serbian participation in regional cooperation and make a powerful statement of support to this end
- Fully consistent with Serbia’s aspirations for EU membership, as the Bank participates in various forums for cooperation between the European Commission and IFIs