

DOING BUSINESS WITH **ETDB**



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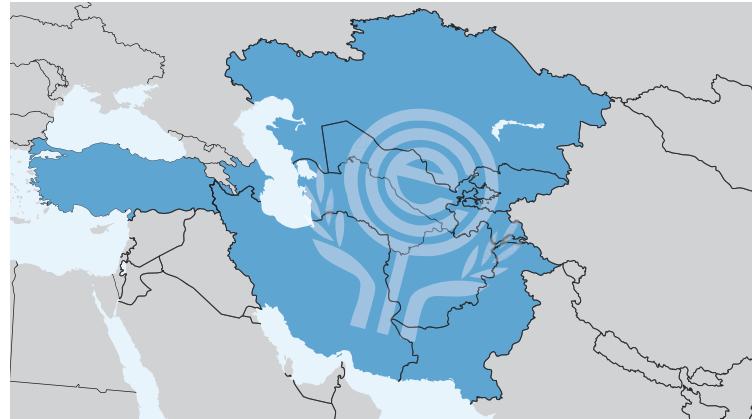
ETDB in Brief

The Economic Cooperation Organisation (ECO) is an inter-governmental regional organization established in 1985 by the Islamic Republic of Iran, the Islamic Republic of Pakistan and the Republic of Turkey for promoting economic, technical and cultural cooperation. It is the successor organization of the Regional Cooperation for Development (RCD). In 1992, the organization was expanded to include seven new members, namely the Islamic Republic of Afghanistan, the Republic of Azerbaijan, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Tajikistan, Turkmenistan and the Republic of Uzbekistan.

Since its establishment, the ECO member states have been collaborating to accelerate the pace of regional cooperation and development through the implementation of joint programmes and projects in areas like energy, infrastructure, trade, transport, manufacturing, agriculture, communications and human resource development. The ECO Trade and Development (ETDB) was established as a Multilateral Development Bank for the purposes of initiating, promoting and providing financial facilities to expand intra-regional trade as well as accelerating economic development.

The Articles of Agreement establishing the ETDB became effective on August 3, 2005 following the parliamentary approvals of the founding members of the Bank which are the Islamic Republic of Iran, the Islamic Republic of Pakistan and the Republic of Turkey. The United Nations (UN) registered the Articles of Agreement on May 19, 2008 under the number 44939, acknowledging the international legal status of the Bank.

The Headquarters Agreement of the ETDB was ratified by the Republic of Turkey in July 2007 and the Bank started its operations in December 2008. Its headquarters is in Istanbul (Turkey) and representative offices are in Karachi (Pakistan) and Tehran (Iran). The Republic of Azerbaijan and the Islamic Republic of Afghanistan became the member of the ETDB at the end of 2013 and the beginning of 2014 respectively. The vision of the ETDB is to become the financial pillar of economic cooperation among all ECO member states by fostering sustainable development and integration. Thus; the other ECO member countries are highly regarded and furthermore would be greatly welcomed into the fold.



ETDB in Brief

What are the Major Socio-Economic Highlights of the ECO Region?

As a result of real economic growth of 5.0% average per annum since 2003, the ECO regional GDP surged to USD 1.86 trillion in 2013. The ECO region is endowed with rich gas and oil resources and mineral deposits. It is estimated that the region possesses one third of the world's energy resources. With a young and dynamic population of 460 million (of which nearly half of the population is under age 29), a vast area of 8 million square kilometers and an increasingly business-friendly environment, the ECO region is presenting an efficient domestic market for the private sector as well as an export base due to its easy access to customers in Europe, Eurasia, the Middle East and North Africa.

What is the Mandate of the ETDB?

The ETDB was established to bring new dynamism to the economic development and cooperation in the ECO region by providing financial support and technical expertise to development projects as well as the expansion of intra-regional trade within the ECO region.

The main functions and activities of the ETDB inter alia include:

- Financing development projects and intra-regional trade activities
- Facilitating private and public sector investments
- Cooperating with national and international financial institutions
- Mobilizing resources and providing other banking services as may be necessary for the advancement of its purposes

What is the Amount of Capital of the ETDB?

The unit of account of the ETDB is ECO Unit (EU), which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF). Including the capital contributions of both Azerbaijan and Afghanistan, the subscribed capital of the ETDB is EU 1,082,500 thousand and the size of the "paid in capital" is EU 324,750 thousand.



ETDB's Main Principles

Corporate Governance in the ETDB

The ETDB has a sound corporate governance structure managed through well-defined responsibilities distributed to the Board of Governors, the Board of Directors, the Audit and Management Committees. All powers of the ETDB are vested in the Board of Governors, which consists of one governor appointed by each member state.

The President is the legal representative and the Chief Executive Officer. The President is appointed by the Board of Governors and also serves as

the Chairman of the Board of Directors. The President and the two Vice Presidents constitute the Management Committee.

The ETDB is fully committed to abide by the standard global corporate governance principles and models. The Articles of Agreement establishing the ETDB defines the necessary and appropriate levels of responsibility in terms of accountability and a system of checks and balances for its activities. In this respect, it is strictly forbidden for the Bank to have any association with an entity or individual considered to be engaged in the money laundering, fraud, corruption or criminal activities.

The ETDB's Corporate Governance Policy, Codes of Conduct and Staff Regulations also strictly enforce all measures to prevent fraud and corruption in its operations. In other words, the ETDB, as a policy, does not work with any institution or an individual who is involved in any illegal or unethical activity.



ETDB's Main Principles

The Audit Committee has the oversight responsibility over the operations of the ETDB as well as enhancing the accountability environment for creating adequate controls. The Public Information Policy also acknowledges that the public has a right to know about the financial activities of the ETDB in line with the principles of transparency and accountability.



Principles of the ETDB Financing

Being a multilateral development bank, the ETDB focuses on financing development programmes and projects at reasonable costs with favourable repayment conditions. Overall, the ETDB takes lending decisions solely on the merits of projects, programmes and transactions proposed by clients. It also tailors its lending activities in line with the best opportunities available in the capital markets by considering the development objectives of the member countries.

The ETDB undertakes its activities within the framework of its Operation Cycle Policy and relevant principles. Accordingly, all operations must be technically, economically, financially, legally, and environmentally sound. In line

with the Bank's mandate, its operation is guided by the following basic principles:

- Efficiency and flexibility
- Consistency with sound banking principles and prudent banking practices
- Transparency, accountability and effective corporate governance

The ETDB is strictly committed to the provisions that restrict or prohibit the usage, proliferation and generation of goods and services that pose a threat to the health and safety of humans and also the environment in general. To this end, the ETDB follows its Negative List of Products Policy which defines the restricted goods and services.

ETDB's Main Principles

Risk Management

This function deals with credit and market risks. The ETDB provides loans to private and state owned entities. In the countries of operations, the ETDB pays due regard to the quality, commitment and experience of the management and owners of the final beneficiaries in its exposure to both sovereign and non-sovereign-risk entities.

Project Finance Loans: All project loans (sovereign and non-sovereign risk) provided by the Bank are fully assessed by the Bank in terms of risk/return, repayment prospects and the capacities of guarantors of the borrowers. The timely repayment capacity is the key risk factor for co-financiers who do not have the ETDB's relationship with the borrowing member country.

Corporate Loans: The ETDB ensures that its funds are used to create value for the economies of member countries. Certain products typical for commercial banks (balance sheet restructuring loans, and revolving general purpose credit lines) are not provided by the ETDB to its clients.

Guarantees: Operations involving guarantees are appraised, processed and supervised by the ETDB in the same manner as those involving direct credit extensions and are subject to the same limits and requirements.

Equity investment: Equity investments reflect the value of the investee company and thus often involve a currency risk for the Bank. Foreign exchange risk from equity investments is monitored and, when hedging instruments are available at a reasonable cost, is minimized.

Liquidity, Currency and interest rate risks:

Market risk management, particularly those of liquidity, currency and interest rate, is also followed. Although the ETDB is quite liquid, as per the policies in place, liquidity is closely monitored by relative departments and the Asset Liability Committee of the Bank. As a development bank denominated in SDR, currency risk management is a necessity for the Bank to tackle it by applying suitable derivatives. Interest rate risk is automatically managed by matching the related items on the both sides of the balance sheet, which are of similar tenor and currency.

ETDB's Main Principles



Prominent Criteria to Work with the ETDB

The ETDB conducts a preliminary evaluation (eligibility review) of all applications and proposals in order to ensure consistency with its mandate and other prevailing policies.

Initially the following basic information (most of which are preferred to be provided in a well-developed business plan) is required:

- Description and objectives of the proposed operation/transaction
- General information about the applicant
- Applicant's financial records
- Costs of the operation/transaction
- Financing requirements

If a proposed operation or transaction passes the eligibility review, the applicants are requested to provide further information which is deemed necessary in conducting a comprehensive assessment before deciding on the proposals.

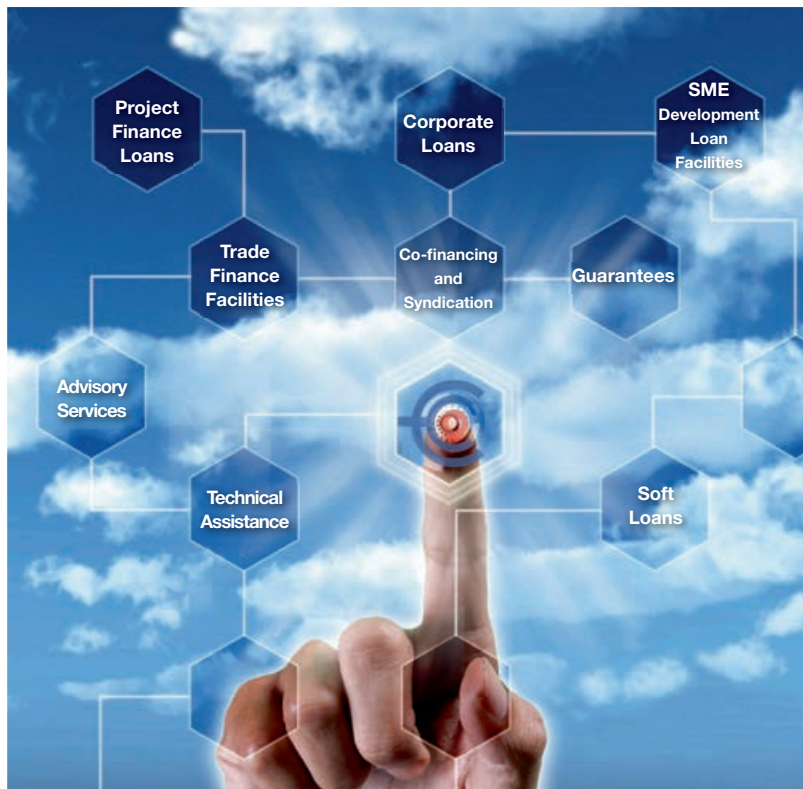
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Products and Services Offered by the ETDB

The ETDB offers a wide range of products and services in order to respond with flexibility and effectively to the diverse needs of its clients and to address their specific financial risks. It tailors the loans to specific financial requirements of its clients, such as project, corporate and trade transactions. Furthermore, it strives to afford its clients the benefit of the sophisticated financial facilities available in the financial markets, enabling the beneficiaries to manage risks and broaden their access to domestic and foreign capital markets.



The main portfolio of operations inter alia includes



ETDB in Business

The primary target of the ETDB is to finance programmes and projects covering a wide range of socio-economic activities in line with regional development objectives. The ETDB supports project and corporate financing of both public and private enterprises operating in the member countries. Based on the detailed analysis of the business environment and national priorities, the ETDB mainly focuses on following sectors:

- **Transportation & Telecommunication**
- **Construction & Infrastructure**
- **Energy**
- **Agriculture**
- **Manufacturing & Information Technologies**
- **Infrastructure**



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Project Finance Loans: The Bank envisages financing new projects as well as existing projects of the public and private enterprises in member countries with tenors normally up to ten years. Project loans are limited to 50 per cent of the total estimated project costs and these loans range from 2 million USD to 40 million USD.



The ETDB provided a long term loan facility for purchasing metro vehicles used for a metro line in Istanbul in support of cost savings on road traffic.



Another loan agreement is to support a project for the installation of a waste heat recovery plant. The financed projects in Pakistan are environment friendly and the general belief is that these projects will pave the way for the diversification of the fuel mix of the power sector in Pakistan away from its current heavy dependence on fossil fuels.

Under the project finance facility, a loan agreement was also signed to establish a wastewater treatment plant in Iran in favour of improving the health and environmental conditions of 180,000 inhabitants in the region.



Corporate Loans: The ETDB mainly aims at financing the business needs of companies from short to medium term in order to support their acquisitions of other businesses, equipment and inventory purchases as well as other similar purposes. However, the projects and businesses that the ETDB would like to finance must be viable and clearly demonstrate the value added to the respective economies of the member countries.

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- **Trade Finance:** This facility is provided to companies operating in the member countries for increasing their share in both regional and global trade. The maximum 100% of the value of transaction, depending on the type of financing instrument and circumstances can be financed.

- **Investment loans:** Investment loans are provided for the purpose of purchasing equipment, modernization of plant, the acquisition of new technologies and other related requirements. It involves the provision of medium-term funding (one to five years) to eligible clients. Borrowers which are eligible for such financing are preferred to have export-oriented businesses. The ETDB may finance up to 85% of the value of the transaction.

Co-Financing and Syndication: The ETDB may act either as a member of a financing syndicate or as a separate financier to mobilize additional resources in favour of its clients. In this regard, it may participate in co-financing of projects with other financing institutions. Furthermore, in some cases it may play a catalyst role in mobilizing other financiers in favour of a project.

The ECO Trade and Development Bank signed a loan agreement jointly with ADB, IFC and Habib Bank for the establishment of a 56.4 Megawatt Wind Power Farm in Jhampir, Pakistan. This loan was announced by the Project Finance Magazine as the 'Middle East Renewables Deal of the Year 2011'. It is the first internationally financed wind farm in Pakistan by a foreign investor and this deal lays the groundwork for future foreign investments in the Pakistani Renewables sector. According to the Project Finance Magazine, Pakistan relies heavily on imported fossil fuels for its energy needs and 30% of the population does not have access to electricity. Moreover, power demand has increased by over 40% in recent years resulting in regular blackouts in all major urban centers and the introduction of power rationing. This project will help to lower the reliance on fossil fuels.



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Guarantees: The ETDB may extend guarantees for eligible projects which support priority sectors in member countries by providing either comprehensive or limited coverage.

Soft Loans: The ETDB may extend soft loans in cases where any member state has faced critical threats to the security and wellbeing of a large community of its people (such as natural disasters, epidemics, famine or any other major emergencies). The financing to be provided shall be utilized for the purposes of high developmental priority of the areas concerned.

For instance, the ETDB allocated USD 10 million soft loan financing to the Government of Pakistan for the recovery of the devastating flood disaster which occurred in 2010.

Advisory Services: The ETDB can advise on customized financing packages as well as providing advisory services to corporate private and public parties.

Technical Assistance: The ETDB's technical assistance is aimed at enhancing capabilities of member countries and their organizations in fostering and managing economic growth, industrial development and trade promotion. It seeks to generate and disseminate knowledge and assist in designing appropriate macroeconomic, industrial and trade policies.



ETDB in Business

Key Products and Services Offered through Financial Institutions

In line with its mission to foster the growth of intra-regional trade and promote the development of small and medium-sized enterprises (SMEs), the ETDB offers the following facilities through the banks and financial institutions operating in the member countries:

SME Development and Microfinance Facilities: For promoting human welfare in the way of socio-economic development in member countries, the ETDB aims to stimulate job creation as well as contributing the alleviation of poverty through SME development and microfinance facilities.

SME Facilities: These are loans extended to the financial institutions for onward lending to SMEs in order to cater to their investment or working capital needs.

Purposes of the utilization of SME development facilities:

- Export financing (no destination limitation)
- Import financing (only from the ECO member states)
- Working capital needs of the small and medium enterprises (SMEs)

The ETDB has an Islamic finance window for SME development facilities to serve Islamic banks with SME development facilities.

Microfinance Facilities: These facilities are extended to financial institutions in order to encourage them for onward lending to lower income groups who are perceived by the financial institutions as “un-bankable” due to their inability to comply with conventional loan collateral requirements.

The ETDB's microfinance facilities aim to alleviate poverty in the member countries through providing sustainable finance to micro enterprises in the lower income group.



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Trade Finance Facilities: These products are extended to finance institutions with the aim of promoting intra-regional trade by supporting export capacity of the companies operating in the member states. These facilities are structured to fund trade related advances to local companies exclusively for the purpose of pre-shipment finance and post-shipment finance which are necessary for the performance of the foreign trade contracts. These facilities include:

Short Term Trade Finance Loans

Export Finance Facilities are transactions for goods produced in the ETDB's member countries, exported all over the world. Exporters may utilize funds through the ETDB's intermediary institutions under this facility.

Import Finance Facilities work through the ETDB's intermediary institutions for buyers/importers based in its member countries for the transaction of goods produced in the ECO member states. Because these facilities primarily aim at increasing competitiveness of goods produced in the ECO, import facilities are preferably extended to importers of the ETDB's member countries for the products imported from the 10 ECO member countries.

The imports of health and food related items as basic humanitarian needs as well as the imports of capital equipment (machinery and relevant spare parts), raw material (mainly energy related items such as oil, gas, coal, etc.)

and intermediary goods from non-ECO member states may be also supported by the Bank while considering that the financed items will meet the critical supply for basic humanitarian needs, or enhance competitive advantage or for greater exports, intra-regional trade and job creation.

ETDB has an Islamic finance window for import / export finance facilities and it also serves Islamic banks for trade finance under the Islamic banking principles.



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