



VEB/Agroeko – ECA-backed financing

MLAs:	Deutsche Bank
Borrower:	Vnesheconombank/Agroeko
Amount:	\$117.5 million (RUB815 million Euler Hermes-covered facility, €70 million commercial loan)
Tenor:	Euler Hermes-covered portion: 7 years Commercial portion: 5 years
ECAs:	Euler Hermes
Lawyers:	Deutsche Bank legal team (lenders), Hogan Lovells (borrowers)
Exporters:	Big Dutchman Pig Equipment

This deal holds particular significance for addressing a combination of issues affecting emerging markets trade at the moment. In it Deutsche Bank (Deutsche) closed the first ever ruble denominated Euler Hermes-covered transaction and so tackled the following recent emerging market trends: Firstly, the usage of emerging markets' local currencies and, secondly, the localisation of production and services.

The first addresses one of the recent priorities of the BRIC countries of increasing their local currency usage for cross-border trade financing. The second has become increasingly important for the German export industry. Importing emerging market countries have increasingly been asking for more local content in order to promote

know-how transfers and improve local employment. Consequently exporters have to be present near to the buyers with their own subsidiaries.

Deutsche structured the transaction in a way that meant that the export credit agency, Euler Hermes, covered the financing of German equipment delivered by the local Russian subsidiary of the German exporter to the Russian importer. Euler Hermes thus looked through the Russian contract to the German export, a rare of example of Euler Hermes accepting a 'German Interest Concept'.

In May of last year, Vnesheconombank (VEB) and Deutsche signed the loan agreements to finance a pig-breeding complex construction project in the Voronezh region of Russia. Acting as sole lender and arranger, Deutsche provided a seven-year facility of up to RUB814 million (\$26.1 million), insured by Euler Hermes, for the financing of 85% of the German equipment supply contracts and the ECA premium together with a five-year, €70 million commercial facility to cover local costs.

The loan was on-lent by VEB to the Voronezh-based agricultural firm Agroeko to build the state-of-the-art pig-breeding complex that will have a capacity of 42,000 tons of live weight per year. The equipment was delivered by the local Russian subsidiary of the German agri-equipment manufacturer Big Dutchman Pig Equipment.

Deutsche's internal legal team advised on the deal in collaboration with Hogan Lovells which advised the Russian borrowers. ■