

Issue Brief: IFC and Local Currency Financing

AT A GLANCE:

IFC is a pioneer in developing and providing local currency financing to companies in developing countries. Our purpose is two-fold: reduce currency risk for our investment clients by providing local currency finance at a tenor they need; and to broaden and deepen local currency markets for all companies operating in developing countries.

The local currency can come directly from IFC in the form of a loan or swap. IFC also mobilizes other sources of local currency, for example local banks or capital markets, and through structured and securitized products, such as partial credit guarantees and risk sharing facilities.

During the fiscal year 2008, **\$3.7 billion out of IFC's total \$11.4 billion investment commitment was in local currency.** This included \$2.2 billion worth of equity investments, and \$1.5 billion of loan products through derivatives (\$1.2 billion), and structured finance (\$344 million).

In addition, IFC's Structured and Securitized Products Department mobilized **another \$1.1 billion worth of local currency financing from third-party investors.**

Excluding equity investments, IFC has, since 2000, committed over \$5.7 billion equivalent in local currency financing for 221 projects in 31 currencies. Of this, IFC has used derivatives to provide local currency financing for 168 projects in 24 currencies for over \$5.2 billion. Through structured and securitized products, IFC has completed 83 local currency transactions in 27 countries, and mobilized a total of \$4.7 billion with IFC credit exposure of US\$1.01 billion.

Derivatives

In countries where there are derivatives or swaps markets, IFC can tailor local-currency finance to the needs of the client. These loans might carry a fixed or variable rate and repayment terms vary. An overlay swap allows IFC clients to convert existing or new foreign currency liabilities, for example a bank loan or bond issue, into local currency. The currency swap can be set up so that currency payments from IFC to the client exactly offset currency payments owed by the client under the original foreign currency loan.

IFC makes these hedging opportunities available to clients that otherwise wouldn't have access because of their credit profile. IFC works with market counterparts and government regulators to expand the availability and liquidity of these markets.

- Hygeia Nigeria Limited IFC used the swap market to provide a \$3.0 million equivalent loan in local currency to help a private provider of hospitals, HMO services and health insurance expand in Nigeria. In the past Hygeia had borrowed in dollars and accepted currency risk. From 2000-2003 the Nigerian naira depreciated by over 40% against the dollar, increasing the value of Hygeia's foreign currency liabilities. The swap used to fund this loan is the longest maturity currency swap to date in the Nigerian market, and should pave the way for more longer-term naira/dollar swaps.
- Companhia Energética do Maranhão (CEMAR) is the electricity distribution company operating to expand electricity access in rural areas of Brazil. CEMAR has connected over 125,000 PLPT customers to the electricity grid and is working to connect an additional 145,000 PLPT customers

by the end of 2009. The company had trouble finding long-term financing from Brazilian banks and bond markets to rehabilitate, expand and modernize its electricity distribution system. Through the use of derivatives, IFC provided a long term loan with the flexibility, size, and interest rate that the company needed. Earlier this year, IFC disbursed an \$80 million equivalent loan for 8 years to CEMAR.

Structured and Securitized Products

IFC has four primary structured and securitized products to assist clients in maximizing the mobilization of local currency funding: partial credit guarantees, securitization, risk participation facilities, and the MATCH local currency loan product. Completed transactions utilizing these products include:

- Tamweel: The deal marked the first mortgage-backed securities issued from the UAE and is the first Shariah-compliant securitization with mezzanine tranches. IFC's credit enhancement helped the UAE-based mortgage originator obtain the highest credit rating to date by international rating agencies for debt issuance by a corporate, bank, or sovereign from the UAE. It bridged Tamweel's need for local currency funding and Islamic investors' demand for Shariah-compliant products.
- Universidad Diego Portales: IFC provided a partial credit guarantee of \$6.9 million on a \$23 million equivalent eight-year secured bond issue in local currency indexed to the inflation. It marked the first securitization of student tuition payments and the first future flow securitization in Chile. The university attracted affordable financing to expand and modernize facilities to accommodate higher enrollment in medicine, engineering and humanity courses.
- Compartamos: IFC provided a partial credit guarantee on a 500 million peso issue by the Mexican microfinance lender to fund expansion of credit services to mostly women in rural areas. The guarantee covered up to 34% of the outstanding principal amount, allowing the bond to achieve a credit rating of mxAA, two notches above the company's stand-alone rating of mxA+.

Development of Local Capital Markets

IFC promotes development of emerging capital markets by issuing bonds in the domestic capital market. IFC was the first foreign issuer in the domestic market in: Colombian pesos, Peruvian soles, Malaysian ringgit, Chinese renminbi, Moroccan dirham, Brazilian reais, and West Africa CFA franc. These issues required years of work with government regulators to put legal structures in place. In some cases, IFC has used part of the proceeds of the bonds to fund local lending to clients.

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