

IFC and Local-Currency Financing

AT A GLANCE:

- IFC uses local-currency financing to help clients mitigate foreign-exchange risk and to develop capital markets in emerging-market economies.
- Using market-based instruments, IFC provides local currency debt financing in several forms: loans, risk-management swaps that allow clients to hedge foreign-currency liabilities back into local currency, and credit-enhancement structures that enable clients to borrow in local currency from other sources.
- During fiscal year 2008, \$3.7 billion out of IFC's total \$11.4 billion of investment commitments was denominated in local currency. That includes \$2.2 billion worth of equity investments and \$1.5 billion of loan products--including \$1.2 billion using derivatives and \$344 million using structured finance investments.
- In addition, IFC's Structured and Securitized Products Department mobilized another \$1.1 billion worth of local currency financing from third-party investors.
- In fiscal year 2008, IFC committed its first local-currency loans in Argentina, Costa Rica, Ghana, Guatemala, Kenya, and Zambia, and we were particularly active in providing financing in Brazilian reais, Russian rubles, and South African rand.
- During the first half of fiscal year 2009, IFC committed \$400 million of local-currency loans using derivatives and provided \$13.5 million of local-currency financing using structured finance investments.
- Since 2000, IFC has directly committed the equivalent of approximately \$6.5 billion in local-currency financing for 261 non-equity projects in 39 currencies. Of the total, derivative products were used to provide \$5.4 billion of direct-local currency financing for 177 projects in 26 currencies. Structured finance products supplied direct IFC investment totaling \$1.1 billion of local currency for 84 projects in 27 countries.

Deepening Markets

In countries where there are derivatives or swaps markets, IFC can tailor local-currency financing to the needs of the client by offering local-currency loans or overlay swaps. A local-currency loan can be based on a fixed or variable rate (typically using local liquid benchmark indices). An overlay swap allows IFC clients to convert existing or new foreign currency liabilities – such as a bank loan or bond issue – into local currency.

IFC provides these hedging products to clients that otherwise would not have access because of their credit profile. IFC works with market counterparts and government regulators to expand the availability and liquidity of such markets because, when managed carefully, they can promote development by helping businesses mitigate a variety of financial risks.

- Hygeia Nigeria Limited: IFC used the swap market to provide a \$3-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 in a market where currency movements can be volatile. From 2000 through 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. Under the country's Programa Luz para Todos (PLPT), CEMAR has connected over 125,000 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 eight years to CEMAR.

Structured and Securitized Products

IFC has three primary structured finance products that can assist clients to mobilize local currency funding: partial credit guarantees, securitization enhancements, and risk-sharing facilities. Completed transactions utilizing these products are described below. In addition, IFC has a number of structured products under development in response to the crisis that will expand the options for clients to access local currency funding.

- Tamweel: This was the first mortgage-backed transaction issued from the UAE and the first Shariah-compliant securitization with a mezzanine-level component. 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 inflation. The transaction was the first securitization of student tuition payments and the first future flow securitization in Chile. Through use of the IFC partial guarantee, 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 undertaken 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 of the bond, allowing it to achieve a credit rating of mxAA (two notches above the company's standalone 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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