

IFC continues its mission

The International Finance Corp's local markets platform, five years in the making, has come into its own this year, with activity culminating in a pioneering Chinese renminbi issue. Besides inaugurating new markets, the World Bank's private sector development arm is deeply engaged in leveraging its Triple A credit with structured finance. Nina Shapiro, vice-president, finance and treasurer at IFC, spoke to IFR's **James Crombie**.

IFC celebrated record profitability in the fiscal year to June 30, but for its treasurer, work with local market clients delivered the bulk of the satisfaction. "The biggest benefit in terms of development is what IFC can do to encourage sustainable local currency markets," said Nina Shapiro in a recent interview.

"IFC is trying to use its credit aggressively for development. We have initiated structured finance and derivative finance for our clients, and through these means intermediate the benefits of modern finance. IFC realised that many things we were doing for our own balance sheet we could also facilitate for our own clients."

Shapiro returned to IFC five years ago after a stint at the World Bank and has been building the local effort ever since. "We have an excellent staff and a broad innovative product line that has taken five years to develop," she said.

"When we have opened markets with our own bond issues, we have been able to introduce transparency and internal practices. In several countries, government officials have felt that we have accelerated the process by three to five years."

Shapiro took the helm with a mandate to set up an investment banking presence with a focus on structured finance, and she has a reputation for mucking in. "Nina fills in on deals . . . She likes to get her hands dirty," said a colleague.

Shapiro had eight years' experience of development projects in the field – including India and Bangladesh – in infrastructure and housing finance for the World Bank before going back to IFC. "[This] has been very beneficial because it gave me an accurate notion of how difficult it is for regulators and policy makers to actually make changes," she said.

From partial credit guarantees and stand-by purchase commitments to technical assistance, IFC has provided clients with new ways of getting access to new local markets, at longer tenors. It has also built a team to originate, structure and execute structured finance transactions and can close deals with no dependence on outside parties.

Since 2000, IFC has often been a lone voice trumpeting the advantages of domestic securitisation. It has taken until 2005 for many issuers, investors and bankers to wake up to the opportunity. Meanwhile, IFC has wrapped up the equivalent of US\$4bn in deals since 2001, including US\$1.3bn in the fiscal year to July 2005. This year marks the first for IFC in which the volume of domestic issuance has outweighed cross-border transactions, and the trend looks set to continue.



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"In developing countries we are at the forefront in securitisation . . . We are being copied, which is fine as long as the structure and the pricing are market-driven," said Shapiro. Notable transactions include a debut LatAm non-performing loan securitisation for Colombia's Titularizadora Colombiana. The US\$67m equivalent issue carried a US\$3.3m-equivalent IFC partial guarantee.

IFC cracked open the Latvian mortgage market with a US\$65m Baltic American Enterprise Fund deal that included a US\$7.1m investment by IFC in mezzanine and senior notes. It also did a rare EM CDO with Pimco, and has helped Financiera Compartamos securitise loans for micro-finance in Mexico. The biggest bang for development buck is seen in small and medium-sized enterprises, and the mortgage sector is a major driver of local markets. "In structured finance and derivatives we have developed very efficient structures and have spent a lot of effort and intellectual capital to get there and establish credibility with the ratings agencies," said Shapiro.

IFC breaks into new local markets not for a long-term advantage, but to guide the process and help the regulators. It has done this in 31 different markets, recently including Colombia, Peru and Morocco, as well as the first domestic Islamic finance in Asia.

IFC also has an innovative syndicated loans department, with a B loans programme cranking out US\$1bn–\$2bn a year. "It's very valuable for IFC to have that capability and also, frankly, that relationship with the major banks. The B loans programme is well recognised and has been made more market friendly," said Shapiro. "We're using the syndication department not just for B loans but to also to feed back information to our investment departments about the conditions in the market . . . and also to source deals for IFC, so we've changed a bit the way they operate."

IFC also intermediates swaps for clients that cannot get longer-term hedges. It does fixed to floating and commodity hedges, racking up US\$370m for 13 clients in six currencies last year.

"We started intermediating swaps for clients because that's a market that is extremely credit-sensitive. Obviously, IFC has excellent access and our clients need a better way to hedge themselves, especially in the longer term," said Shapiro. IFC recently did swaps in Philippines pesos and Indonesian rupiah, and in Russia it did a synthetic swap since there was no market. "We have established special structures and relationships with key banks to push the swap market," said Shapiro. "For IFC to be at the forefront, introducing new products into the developing markets is clearly a way to help grow business and add a lot of value."