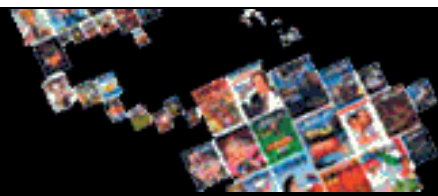


# LATIN FINANCE

## DEALS OF THE YEAR 2004



### Best Structured Bond

**Issuer:** Financiera Compartamos

**Issue:** MP190 million (\$16.6 million) floating-rate note

**Coupon:** 1.50% over Mexican interbank rate

**Rating:** AA (local)

**Guarantor:** International Finance Corporation (IFC)

**Bookrunner:** Citigroup (Accival)

**Closing Date:** July 20, 2004

### MICROFINANCE BREAK

Microfinance firms could grow more rapidly if only they could access financial markets. Mexico's Financiera Compartamos has engineered a bond deal that represents a significant advance in breaking down some existing barriers to the growth of these increasingly fashionable lenders.

Some 300,000 Mexican small businesses, most run by women, rely on micro-loans from Compartamos, an organization that does not disclose net income, but which boasts a 20% return on assets. Like many micro-finance institutions (MFIs) in Latin America, however, Compartamos is registered in Mexico as a Sofol, or non-deposit taking financial institution. As such, it needs to look to investors and, ultimately, capital markets to provide growth.

The company's inability to tap the markets had prevented it from expanding its client base. Until July 2004, that is. That's when Compartamos issued MP190 million (\$16.6 million) in five-year bonds partially guaranteed by the International Finance Corp. (IFC), proving that it could attract institutional investors to what had previously been seen as a marginal, faddish business.

"This is a milestone transaction for Compartamos as it opens the way for a broader and deeper investor base for future growth of the company," says Compartamos Co-CEO Carlos Danel. "We are excited that institutional investors in Mexico are willing to invest in microfinance and, therefore, continue to build a stronger and more inclusive financial sector in the country."

The note is the first tranche of a planned total issuance of MP500 million over the next three years. The bond has a three-year grace period and principal repaid over its final two years. Up to 34% of total principal and interest is covered by a partial guarantee from the IFC, the World Bank's private sector arm, which is also one of Compartamos' three major shareholders. This structure won the issue an AA local scale rating from Standard & Poor's. Citigroup was bookrunner on the deal.

Compartamos plans to use the proceeds to expand lending to an estimated 1 million new clients through 2008. Compartamos provides micro-loans to individuals and social lending groups. The loans average \$300.

Bob Annibale, director of Citigroup's Office of Microfinance, says: "This is the first time we've taken an MFI in Mexico to local investment grade." Citigroup, acting through the Accival brokerage arm of its Mexican subsidiary Banamex, first worked with Compartamos on a MP15 million private placement in 2002.



Structured Finance

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The 2004 issuance was divided into three tranches to keep the company's debt ratios stable. Compartamos has a loan book of only \$90 million, so the IFC also provided a standby loan facility equal in value to its guarantee to guard against liquidity problems. The standby has a 270-day payback window.

The structure let Compartamos, which has a local A+ rating, to raise the transaction's rating to AA. This is important in Mexico, where managed pension funds, or Afores, with \$63 billion in assets, are now the major source of domestic capital. By law, they can allocate only 5% of their portfolio to A-rated private-sector domestic debt.

"Market reaction was exceptional," says Lee Meddin, deputy treasurer and global head of structured finance at the IFC. Meddin explains that the "look of the order book was similar to higher credit issuers, thanks to Banamex's placement [of the bond] in the market." The IFC wants to have Compartamos issue in the future without assistance.

Microfinance has become so fashionable because it combines altruism with business principles. There are plenty of poor people in Mexico and elsewhere in Latin America, so microfinance houses have no shortage of eligible clients. The main obstacle to growth has been the inability of microfinance institutions to convince institutional investors that they can be profitable and self-supporting. "Banks have traditionally looked at MFIs philanthropically," says Annibale. Citigroup studied Compartamos' size and financial sophistication and saw an opportunity to dash that misperception.

The Mexican deal opened the doors of the capital markets, but microfinance entities may still find opportunities are limited. "Compartamos is exceptional at what they do, and most MFIs are too small to get a credit rating," says Meddin. However, Citigroup's Annibale says he can see other MFIs accessing domestic capital markets as early as this year. LF

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