

# IFC LOCAL CURRENCY FINANCING

IFC-MIGA ハイブリッド・セミナー  
途上国における民間投融資のリスク管理～現地通貨建て融資と保証業務  
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**Julean H'ng, Treasury Client Solutions**



# About IFC

- A member of the **World Bank Group** with a mission to promote development through investment in the private sector
- Owned by 186 member countries
- Providing debt (loans, bonds, guarantees and other fixed income instruments) and equity investments to the private sector in emerging markets for over 60 years
- Strategic priorities include creating and developing markets and opportunities, mobilizing private capital for development and advising businesses and governments
- Global presence in more than 100 countries, working with over 1,900 private sector clients

S&P Global

AAA

Long-term rating  
(February 2023)  
Outlook: Stable

MOODY'S

Aaa

Long-term rating  
(December 2022)  
Outlook: Stable

# What we do

## Investment

- Debt (loans, bonds and other fixed income instruments)
- Equity
- Trade and commodity finance
- Derivatives and structured finance
- Blended finance

\$24.8 billion syndicated over the last 5 years;  
11 funds with \$10.1 billion under AMC's management

## Mobilization

- Syndications (B loans, Parallel loans, Managed Co-lending Portfolio Platform (MCP), Credit Insurance, Local currency syndications, Green loan syndications )
- IFC Asset Management Company (AMC)

- \$43.7 billion committed in FY23\*
- \$69.5 billion outstanding portfolio

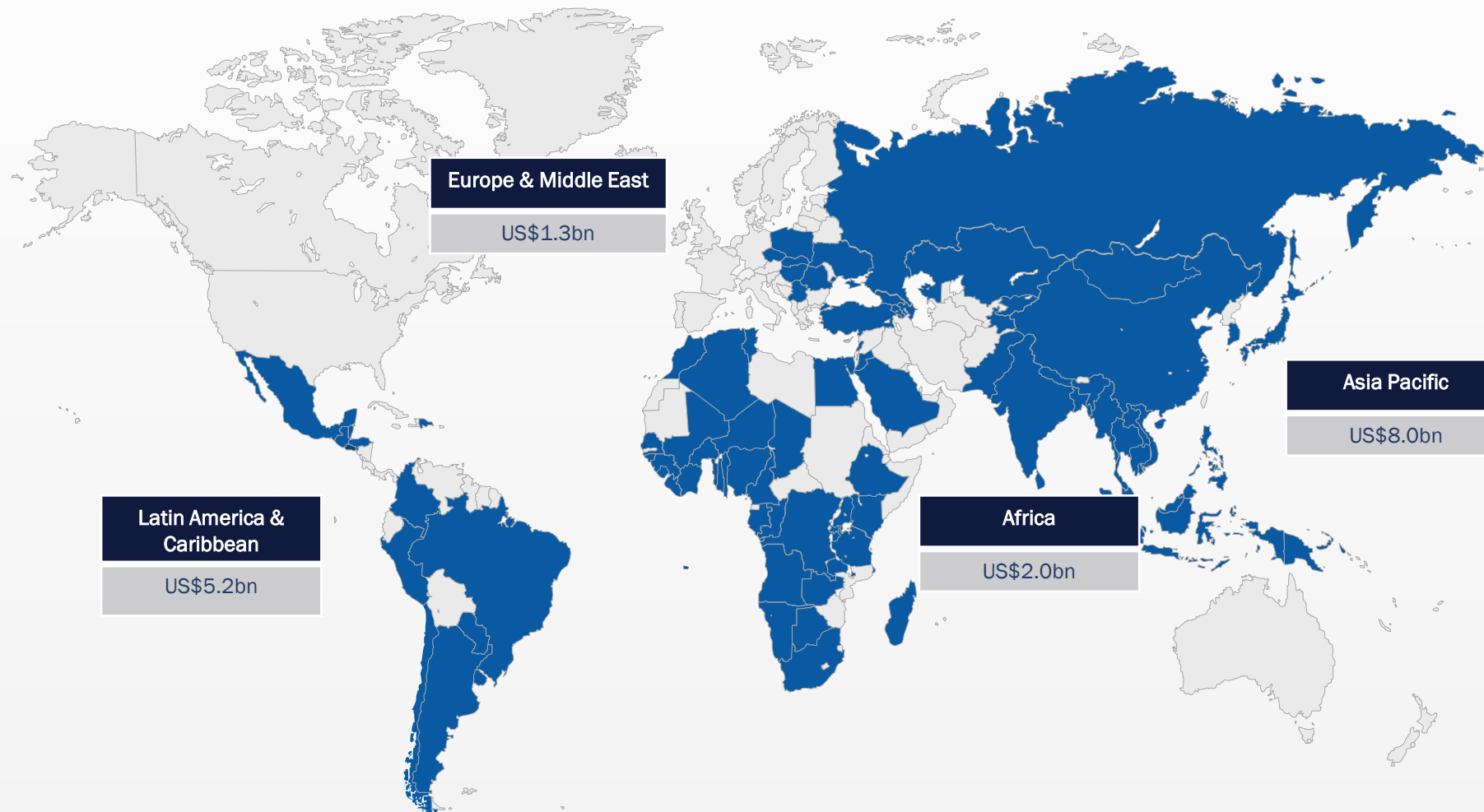
## Advisory

Providing solutions and technical assistance to:

- Companies
- Financial institutions and funds
- Industries
- Governments

\$247 million in advisory services income in FY23

# IFC's Local Currency Loan Track Record



- IFC has helped clients provide local currency financing in over **70** currencies across the globe.
- Close to a third of IFC's long-term debt commitments have been in local currency.
- Over the previous 5 years IFC has committed **\$16.4bn** in local currency funding across **350** projects and **58** different currencies

# Why Local Currency Lending?

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## Risk reduction

A mismatch of currency between the revenues and debt service leads to higher balance sheet risk to the company and greater income variability

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## Simplification

Local currency lending can reduce the need for separate hedging arrangements (as compared with USD or JPY lending) leading to simplified project documentation

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## Funding diversification

Local currency loans can enable greater access to a wider universe of lenders, diversifying the lender base and allowing better management of global funding lines amongst lenders

# Local Currency Lending – Why IFC

## 1 Longer tenors

- IFC has a global footprint and is experienced in funding in developing markets
- IFC's AAA rating allows it to transact derivative and fixed income transactions with tenors and structures which may not be accessible to other financial institutions.
- IFC has diverse funding ability using domestic and offshore treasury markets.

## 2 Flexible structuring

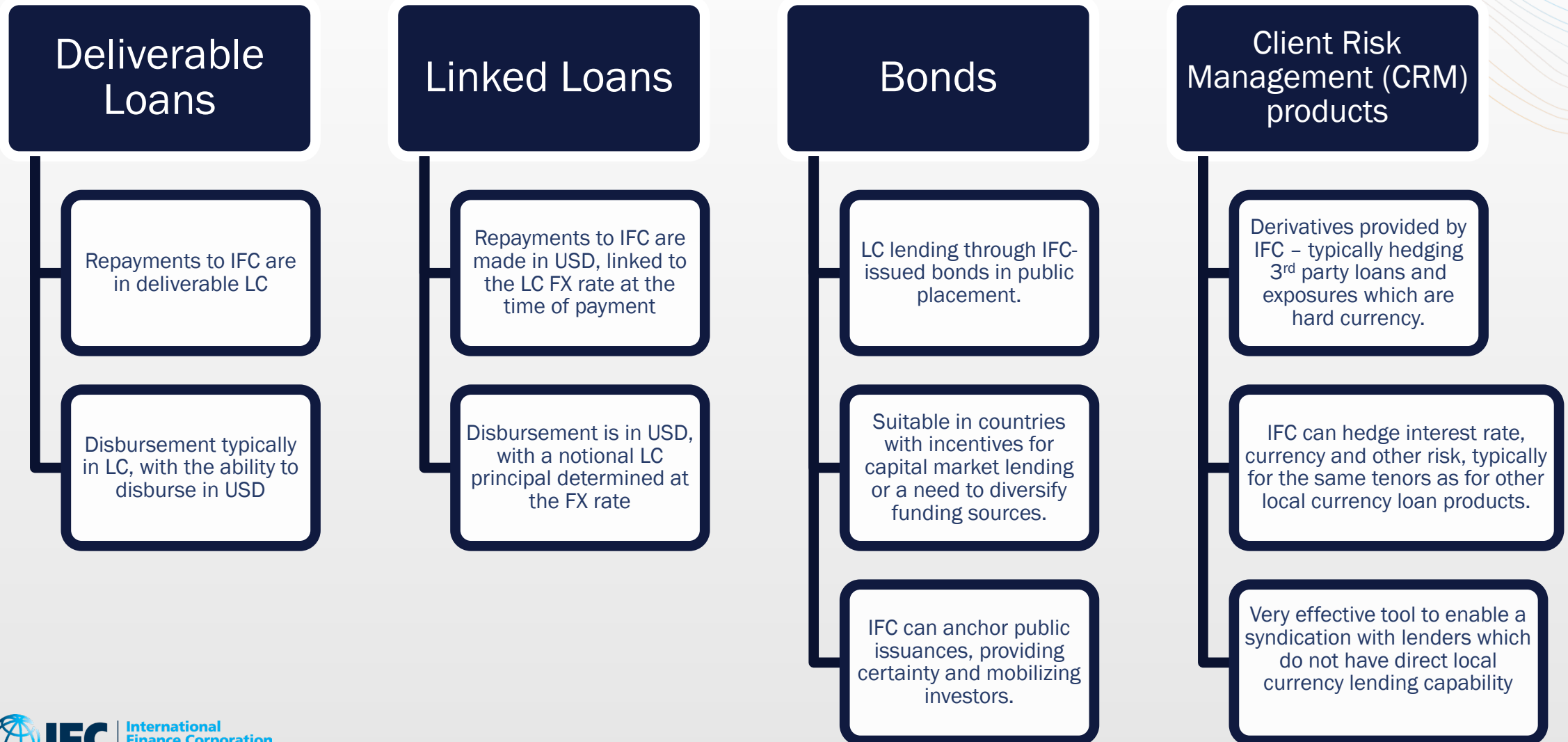
- IFC offers fixed-rate lending until maturity, resettable fixed-rate lending, and floating-rate linked to market index.
- IFC provides long and short tenor financing with sculpted repayment profiles.
- Repayment options in local currency or settled in hard currency ("Linked Loans").
- Disbursements in USD or local currency, with repayments in local currency.

## 3 Transparent pricing

- Interest on IFC loans is the sum of Base Rate (the rate that IFC raises funding) and Spread (compensation for risk)
- IFC's Base Rate is market determined, with the timing and price setting in coordination with the Borrower through a Limit Order process



# IFC's Key Local Currency Lending Products



# Local Currency Pricing and Disbursement



IFC funds local currency loans through market sources (swaps, bonds, borrowings). The Base Rate reflects the cost of raising funding at disbursement. IFC sets the Base Rate in a fair and transparent manner via a Limit Order process



## Disbursement request

Agreed upon conditions of disbursement are completed



## Limit Order process

IFC communicates with Borrower the market levels for the Base Rate  
Borrower submits its intent to receive funding based on a highest acceptable Base Rate through a Limit Order



## Base Rate determined

IFC raises funding based on the instructions in the Limit Order  
Cost of raising funding is crystalized as the Base Rate for the disbursement

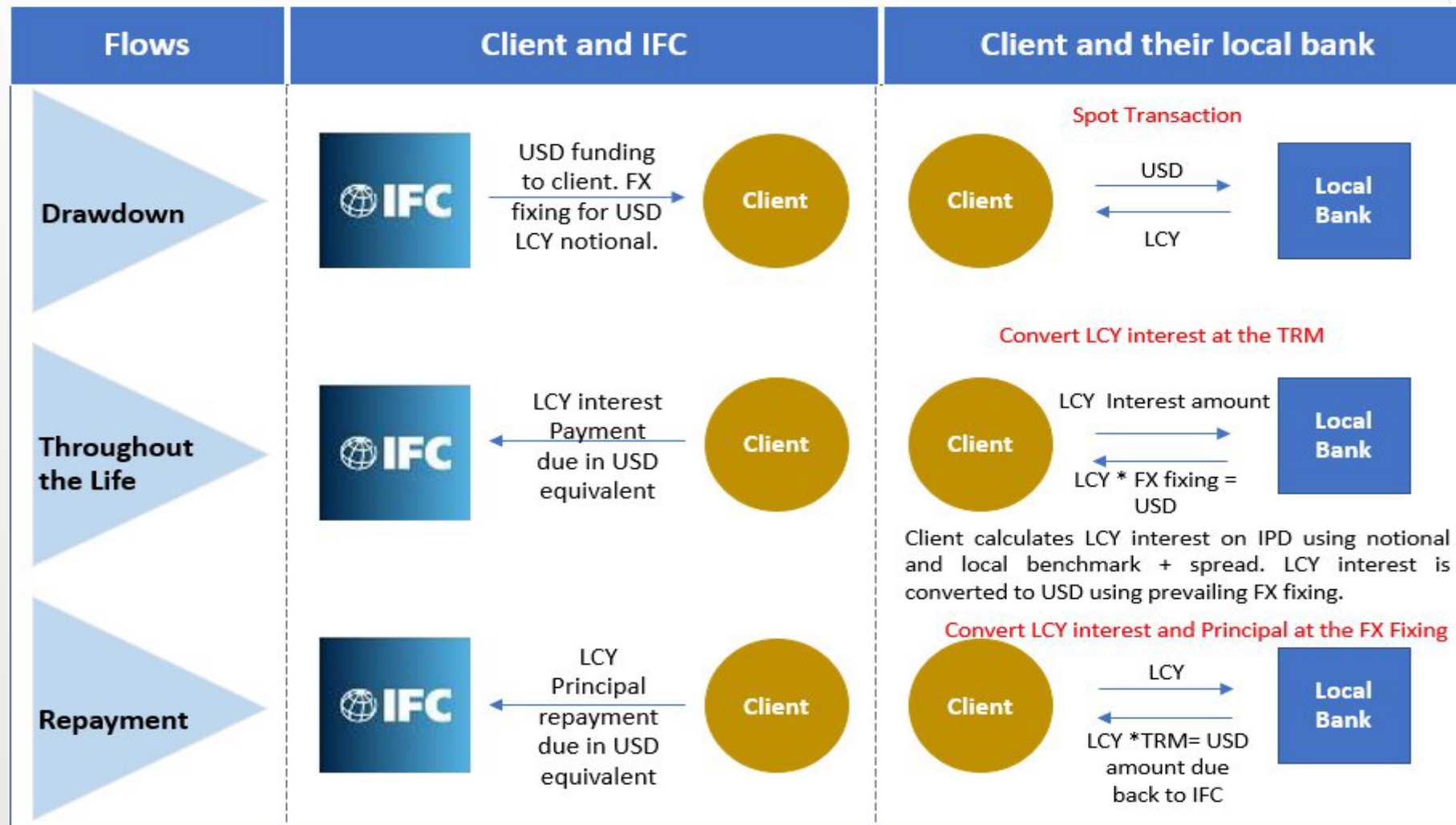


## Disbursement released

Borrower receives funds into its nominated account, typically onshore



# Linked Loans

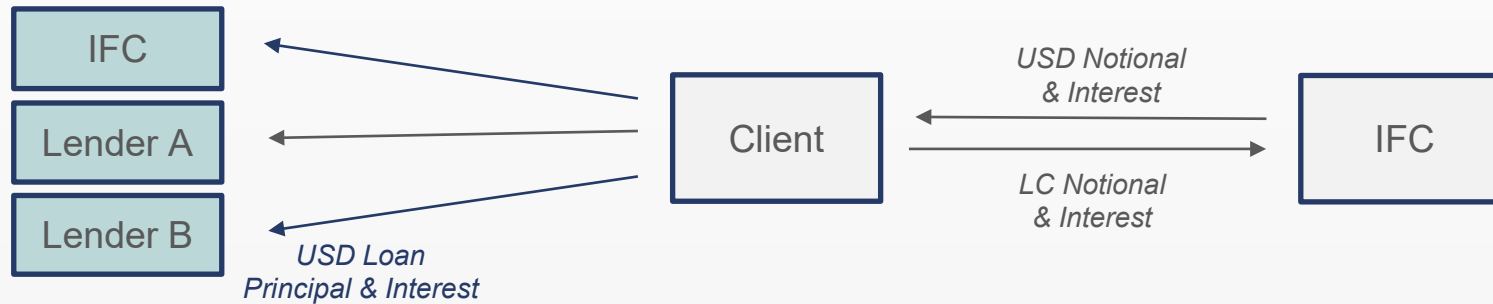


# Client Risk Management (CRM) Products

1) Client has a USD floating rate loan from another lender but would like to pay a fixed interest rate.



2) Client needs local currency, but a syndicate of lenders will only lend in USD.



3) Client is lending local currency and wants a USD return.



- IFC can provide long tenor and competitive risk management products in many emerging and frontier markets
- CRMs are very effective in facilitating mobilization/syndication with lenders unable to provide local currency or to enable a harmonized hedging strategy
- IFC can hedge interest rate, foreign exchange, commodity and other risks for clients
- IFC can offer uncollateralized swaps (subject to exposure and approvals). Most CRM swaps offered by IFC are uncollateralized.

# CRM Legal & Regulatory Considerations

## Local regulations for derivative transactions

- Essential to ensure that both IFC and the client are allowed to enter derivative transactions under the local regulation.

## Legal documentation for each client

- Legal opinion on client eligibility and legal enforceability of the transaction.
- Legal opinion on enforceability of ISDA and close out netting

## International Swap and Derivatives Association (ISDA) framework documents

- CRM transactions are documented under ISDA Master Agreement, Schedule, and CSA

## Structuring considerations

- CRM swaps structures need to be consistent with agreed upon hedging strategies which are in coordination with borrower and lenders
- IFC can transact CRM swaps in coordination with other providers, often subject to lenders' approval

# EthioChicken Group

## Case Study: Producer of Day-Old-Chick (DOC) and Poultry Feed in Ethiopia



In March 2021, IFC committed a senior secured Ethiopian Birr (ETB) loan of up to \$10 million equivalent to EthioChicken Group (EC or the Group), the leading producer of day-old-chick (DOC) and poultry feed in Ethiopia, focusing on selling these poultry input products to rural farmers.

The investment is to support the Group's capacity expansion program as well as the working capital and refinancing needs.

The Project was **supported by IDA PSW Local Currency Facility**, which was created by the World Bank Group to catalyze private sector investment in IDA countries, with a focus on fragile and conflict-affected states, by providing financing in local currency for high impact projects where local currency solutions are underdeveloped or missing.

# NMB

## Case Study: Retail Bank in Tanzania

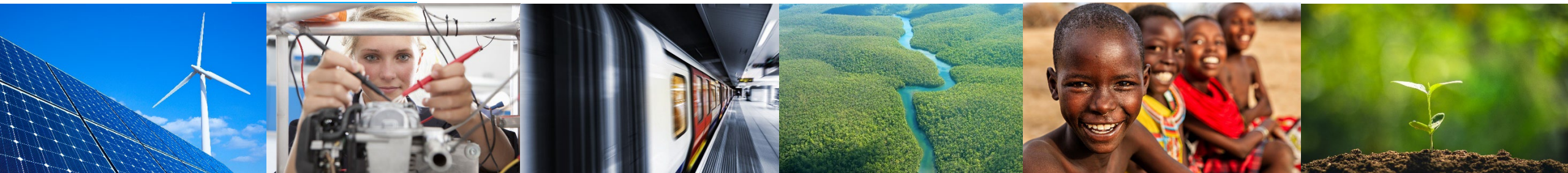


NMB is the leading retail bank in Tanzania both in customer base and branch network. It was established under the National Microfinance Bank Limited Incorporation Act of 1997, following the break-up of the old National Bank of Commerce, by an Act of parliament.

IFC committed multiple loans in local currency over the last five years to enhance NMB's strategic focus on Micro, Small and Medium Enterprises (MSMEs) and expand its reach in commodity/agri-finance, which are particularly underserved segments in the country.

The loans are **supported by IDA PSW Local Currency Facility**, which enables IFC to provide the long-term local currency financing needed to unlock financing for MSMEs as well as agribusinesses in Tanzania.

# LOCAL CURRENCY EVERGREEN POOL



# Evergreen Pool

Structuring innovative loan solutions to achieve greater financial flexibility and impact

## What is it?

- **A more flexible Local Currency Solution** IFC can offer in selected countries / currencies.

## The Benefit for the Client

- **Price Certainty at Commitment:** The all-in pricing is fixed at the signing of Loan Agreement (vs at the disbursement when using swap)
- **Flexible Prepayment:** The client would be able to prepay at anytime for COP and BRL (as interest rate is overnight with no duration), and at an Interest Payment Date for MXN and ZAR, without Make Whole Amount .

## Which Country/Currency?

Country	Local Benchmark	All-in rate to the client	Repayment Frequency
Colombia	ONIBR	ONIBR + Spread	Quarterly
Brazil	CDI	CDI + Spread	Semi-Annual
Mexico	28d TIIE	28d TIIE + Spread	Monthly
South Africa	3M JIBAR	3M JIBAR + Spread	Quarterly

## Eligibility Criteria

- **Tenor up to 10 years:** The final maturity of the loan shall be up to 10 years from the commitment date
- **Availability Period up to 18 months:** the last date of the Availability Period for disbursement shall be within 18 months from the commitment date

# Case Study

## Troncales de Magdalena, Colombia



### Troncales del Magdalena, Colombia

IFC committed two senior secured loans of up to US\$222 million (in Colombian Pesos - COP equivalent) to Autopistas del Magdalena Medio S.A.S. and Autopistas del Rio Grande S.A.S. to finance the Troncal del Magdalena 1 and Troncal del Magdalena 2, two toll road projects tendered under Colombia's 5G concession program. **Both transactions were funded with the COP Evergreen Pool under a mini-perm structure.**

The use of the COP Evergreen Pool **provided price certainty for all disbursements in the project finance facilities**, ensuring stability in the financing costs throughout the disbursement period.

Evergreen Pool COP funding **allows projects to avoid the financial cost of the Make-Whole-Amount payment** in case of prepayment or early termination.

IFC's provision of local currency financing and a mini-perm tailored structure, aligned with local banks, is **vital for avoiding currency mismatch and solidifying its role in major infrastructure projects**

Under the right conditions, IFC can support local currency funding and mini-perm structures in challenging environments