

Treasury Client Solutions | Partial Credit Guarantee

Sociedad Acueducto, Alcantarillado y Aseo de Barranquilla

HIGHLIGHTS

- **First partial guarantee for a bond issued by a non-financial institution in Colombia.**
- **US\$63mn equivalent 10-year senior secured bond issue by a Colombian water, sewerage, and waste services provider.**
- **IFC partial credit guarantee equal to the greater of 25% of principal or 5 coupon payments.**
- **Pioneering transaction by a Colombian corporate rated below double-A.**

THE COMPANY

In 1993 Sociedad Acueducto, Alcantarillado y Aseo de Barranquilla (Triple A) was awarded a 20-year concession, which was later extended to 2033, to provide water, sewerage, and solid waste services to the city of Barranquilla, the fourth largest city in Colombia. As part of this concession, the company undertook a project, the Suroccidente project, to extend water and sewerage services to the south west of Barranquilla, which is the poorest part of the city, resulting in 350,000 low-income inhabitants being connected to the network. These investments were financed through short-term and hard currency debt.

FINANCING OBJECTIVES

Given the nature of the initial financing incurred for the Suroccidente project, and other capital expenditures over the last few years, Triple A wanted to take steps to strengthen and stabilize its financial position.

The company believed that by issuing a long-term, local currency bond to refinance its debt, it would be in a better position to continue providing water, sanitation, and solid waste management services to Barranquilla.

With this in mind, Triple A sought credit enhancement by IFC of its bond issue to improve the credit rating and allow a bond maturity of up to ten years in the local capital market; a tenor which would have otherwise not been obtainable.

The enhancement was in the form of a partial credit guarantee up to a maximum of 25% of the principal amount of the bond issue. This allowed the company to lower the cost of borrowing, extend the maturity of the debt portfolio, match debt service obligations to project cash flows, and reduce currency risk.

THE STRUCTURE

The issue consisted of US\$63mn equivalent 10-year senior secured bonds. The yield on the bonds was IPC (inflation index) plus 8.5%; equivalent to 120 basis points above Colombian government debt.

The issue benefited from IFC's partial credit guarantee, as well as dedicated collateral accounts. The guarantee covered bond principal and interest for an amount equal to the greater of five coupon payments or 25% of the outstanding principal, up to US\$18.24mn equivalent.



OUTCOME

The bonds were rated AAA on the national rating scale by both Duff and Phelps de Colombia and BRC Investor Services, a three-notch increase over the company's corporate rating. The issue was fully subscribed by over fifteen domestic institutional investors.

Furthermore, the transaction supported a high caliber, local multi-utility company with a regional focus in Latin America, to gain the size and visibility of an international player in a market currently dominated by a limited number of global water companies. Equally important, the issue contributed to the further development of the domestic capital market in Colombia.

TERMS AND CONDITIONS

Amount	Peso 180bn (approximately US\$63mn)
Currency	Colombian Peso
Issue Date	May 20, 2003
Maturity	10 years
Series	1 Series
Interest Payment	IPC+8.5%, payable quarterly
Principal Payment	Equal annual payments over the last 5 years
Rating	AAA.co by Duff and Phelp de Colombia and BRC Investor Services
Enhancement	IFC guarantee for the greater of five coupon payments or 25% of the outstanding principal, up to US\$18.24mn. Company revenues administered by a Trustee. Reserve account contributed by sponsor.