

*Creating Markets, Creating Opportunities*



# IFC Debt Capital Markets Solutions

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# Overview of IFC





## IFC's Vision and Purpose

**IFC's vision:** People should have the opportunity to escape poverty and improve their lives.

**IFC's purpose** is to create this opportunity by:

Mobilizing	Promoting	Supporting	Helping
Mobilizing other sources of finance for private enterprise development	Promoting open and competitive markets in developing countries	Supporting companies and other private sector partners where there is a funding gap	Helping generate productive jobs and deliver essential services to the poor and the vulnerable

## IFC's History: Six Decades of Creating Opportunity

1956	1957	1965	1971	1984	1989	2000	2009
IFC was founded 12 years after the Bretton Woods Conference created the World Bank to finance post-WWII reconstruction and development by lending to governments	IFC's first investment: a \$2 million loan to help the Siemens affiliate in Brazil manufacture electrical equipment	IFC first syndication mobilizes \$600,000 for Brazilian pulp and paper company Champion Cellulose. The project also launches IFC's syndications program	IFC creates a Capital Markets Department to strengthen local banks, stock markets, and other intermediaries	IFC becomes financially independent from the rest of the World Bank Group, gaining approval to issue its own bonds in international capital markets	AAA Credit Rating: IFC receives the highest possible endorsement of financial health from private rating agencies	IFC launches its first Global Dollar Bond	IFC Asset Management Company is launched as a third business. IFC Asset Management Company invests third-party capital in a private equity fund format





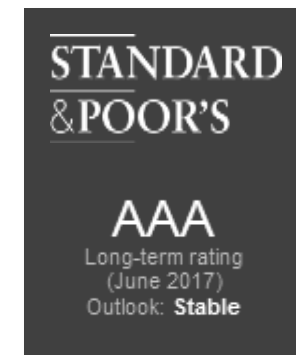
## Who We Are

- A member of the **World Bank Group**
- Owned by **184** member countries
- **Six decades of experience** providing loans, equity, and advisory services to **private sector** companies in **emerging markets**
- **Global presence** in more than **100 countries** and working with over 2,000 private sector clients



## Uniquely Positioned Issuer

- Consistently **rated AAA/Aaa**
- **0% risk weighting** under Basel framework
- Only supranational institution with **fully paid in capital**
- **Well capitalized**: net worth represents a quarter of **\$90 billion balance sheet**
- Consistently recorded **operating profits every year since its founding**
- Annual **funding program of \$17 billion** for FY17





## Five Institutions, One Group

The World Bank Group has adopted two ambitious goals:

- **Ending extreme poverty:** the percentage of people living with less than \$1.90 a day to fall to no more than 3% globally by 2030
- **Promoting shared prosperity:** foster income growth of the bottom 40% of population in developing countries



*Issues Bonds under:  
World Bank*

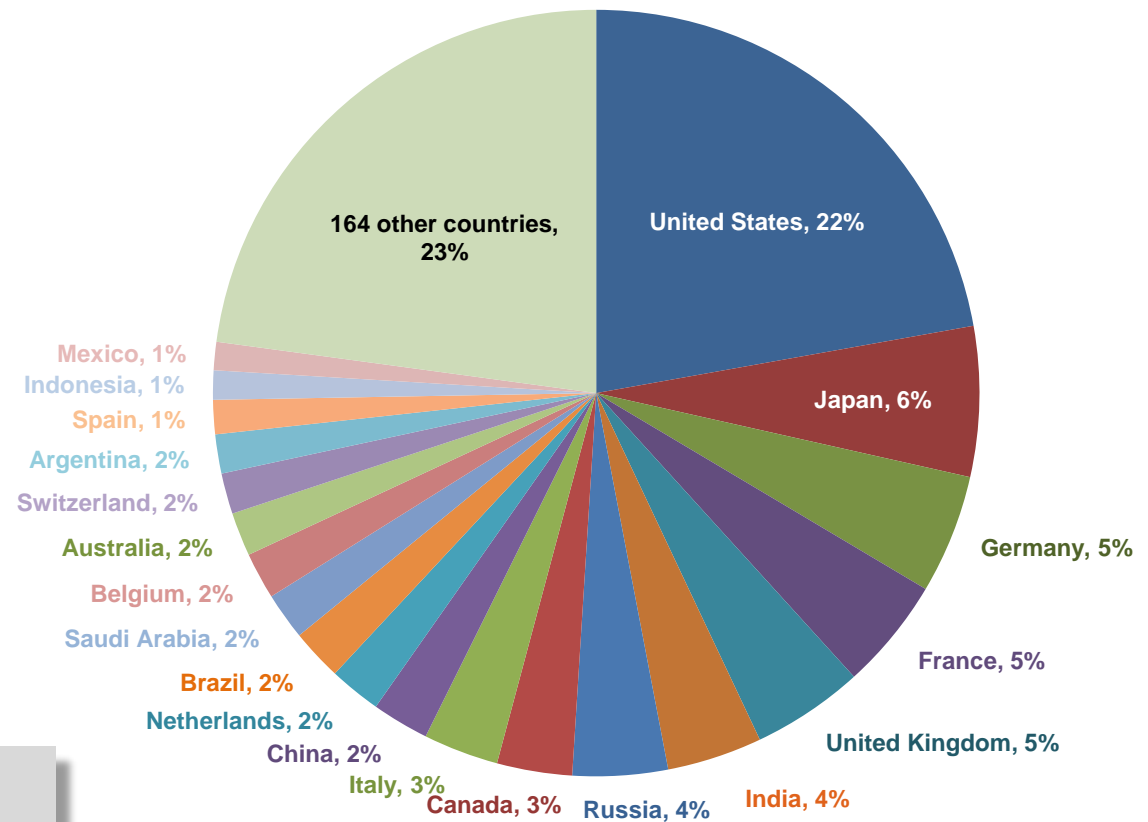


*Issues Bonds under: IFC*



## Strong Shareholder Support

- IFC is a legally distinct entity of the World Bank Group with its own articles of agreement, balance sheet and staff
- **Owned by 184 shareholders:** governments of member countries
- Approximately **60% of capital is held by AAA/AA sovereigns**
- IFC does not pay dividends or taxes; profits are channeled back into investments in developing member countries



*Very solid franchise, supported by 184 member countries, and a track record of about 60 years... An unusually diverse composition of government shareholders compared with most MLIs.*

Standard & Poor's | 27 June 2017

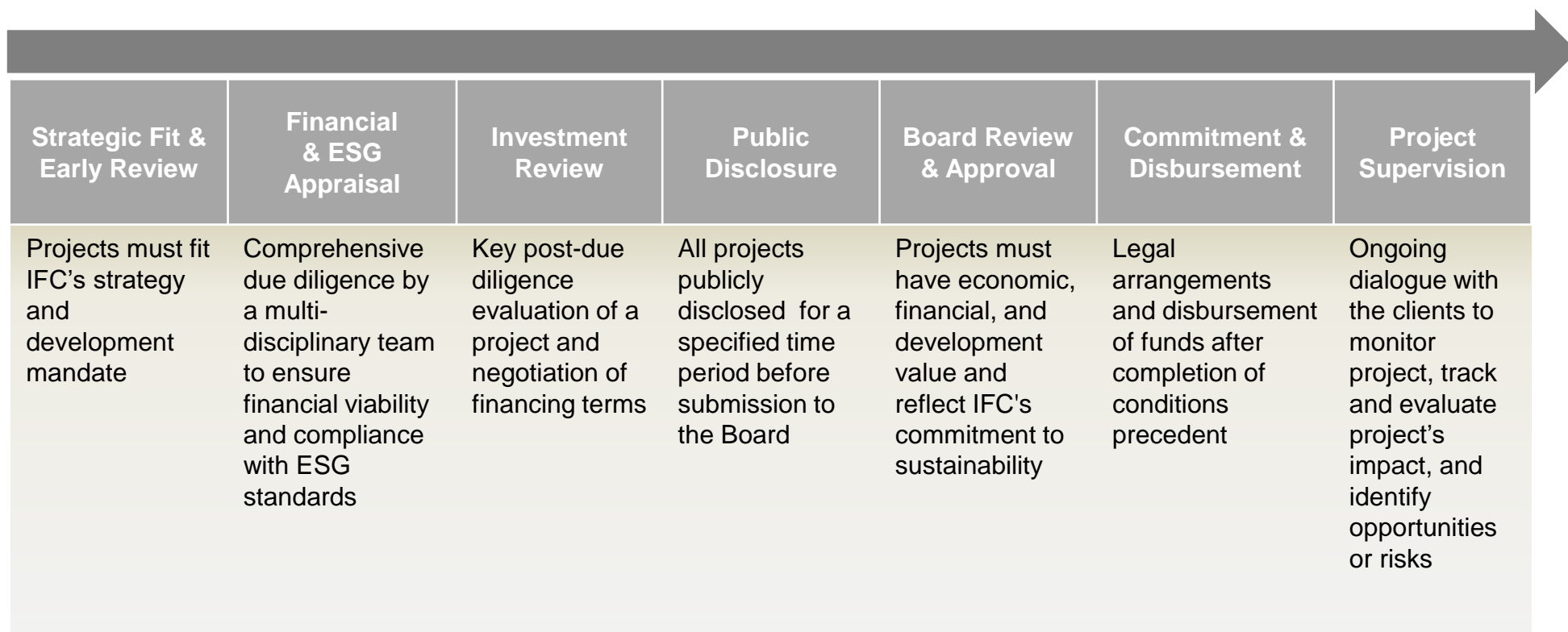
# What We Do

## Integrated Solutions, Increased Impact

INVESTMENT	ADVICE	IFC ASSET MANAGEMENT COMPANY
<ul style="list-style-type: none"> <li>• <b>Loans</b></li> <li>• <b>Equity</b></li> <li>• <b>Trade and Commodity Finance</b></li> <li>• <b>Syndications</b></li> <li>• <b>Derivative and Structured Finance</b></li> <li>• <b>Blended Finance</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Innovative Solutions Combining IFC's Expertise and Tools to:</b> <ul style="list-style-type: none"> <li>- <b>Help Create New Markets</b></li> <li>- <b>Unlock Investment Opportunities</b></li> <li>- <b>Strengthen Clients' Performance and Impact</b></li> <li>- <b>Improve Environmental, Social, and Corporate Governance Standards</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mobilizing and Managing Capital for Investment</b></li> </ul>
<p>\$19.3 billion committed in FY17</p> <p>\$55 billion committed portfolio</p>	<p>over \$200 million</p> <p>in advisory services income annually</p>	<p>12 funds with \$9.8 billion</p> <p>under management</p>

## Investment Project Cycle

- IFC invests in productive private enterprises targeting **satisfactory economic returns** and **development impact**
- Credit risk in investment projects is actively managed throughout the project life cycle to verify full business potential, risks, and opportunities associated with the investment through discussions with the client and visits to the project site





## Sustainability: Key to IFC's Mission

All projects financed must adhere to IFC's stringent **environmental and social requirements** focusing on transparency and accountability. Specific performance standards cover:



Assessment and management of environmental and social risks and impacts



Labor and working conditions



Resource efficiency and pollution prevention



Biodiversity conservation and sustainable management of living natural resources



Community, health, safety and security



Land acquisition and involuntary resettlement



Cultural heritage



Indigenous people

## Creating Markets

A comprehensive approach to tap the power of the private sector through:

- Establishing regulatory and policy frameworks that improve public governance and **enable markets to thrive**
- Promoting **competition and innovation**
- Achieving **demonstration effects** that encourage replication
- Introducing **new solutions** driven by improved technology and logistics
- Building capacity and skills to **open new markets**



Cote d'Ivoire

## Strong Fundamentals

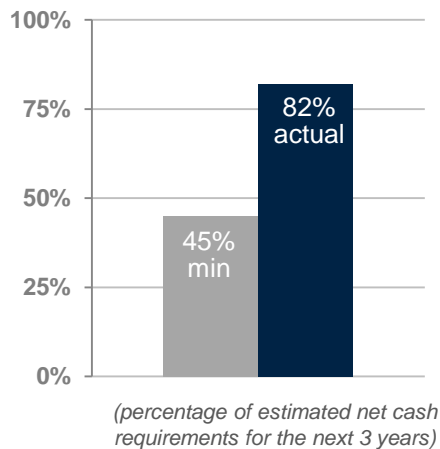
IFC exercises prudent financial discipline

- IFC has one of the **lowest leverage ratios** of any supranational
- Equity investments are **funded by IFC's net worth**, not its borrowings

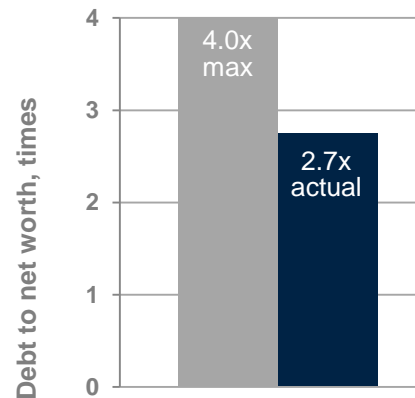
*Extremely strong financial profile, as demonstrated by our risk-adjusted capital ratio after adjustments of 23% and stronger liquidity ratios than most peers*

Standard & Poor's | 27 June 2017

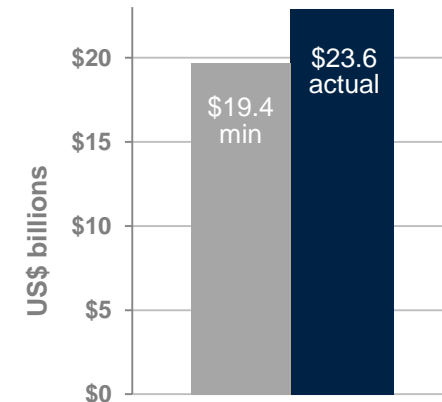
### Liquidity ratio



### Leverage



### Risk-adjusted capital



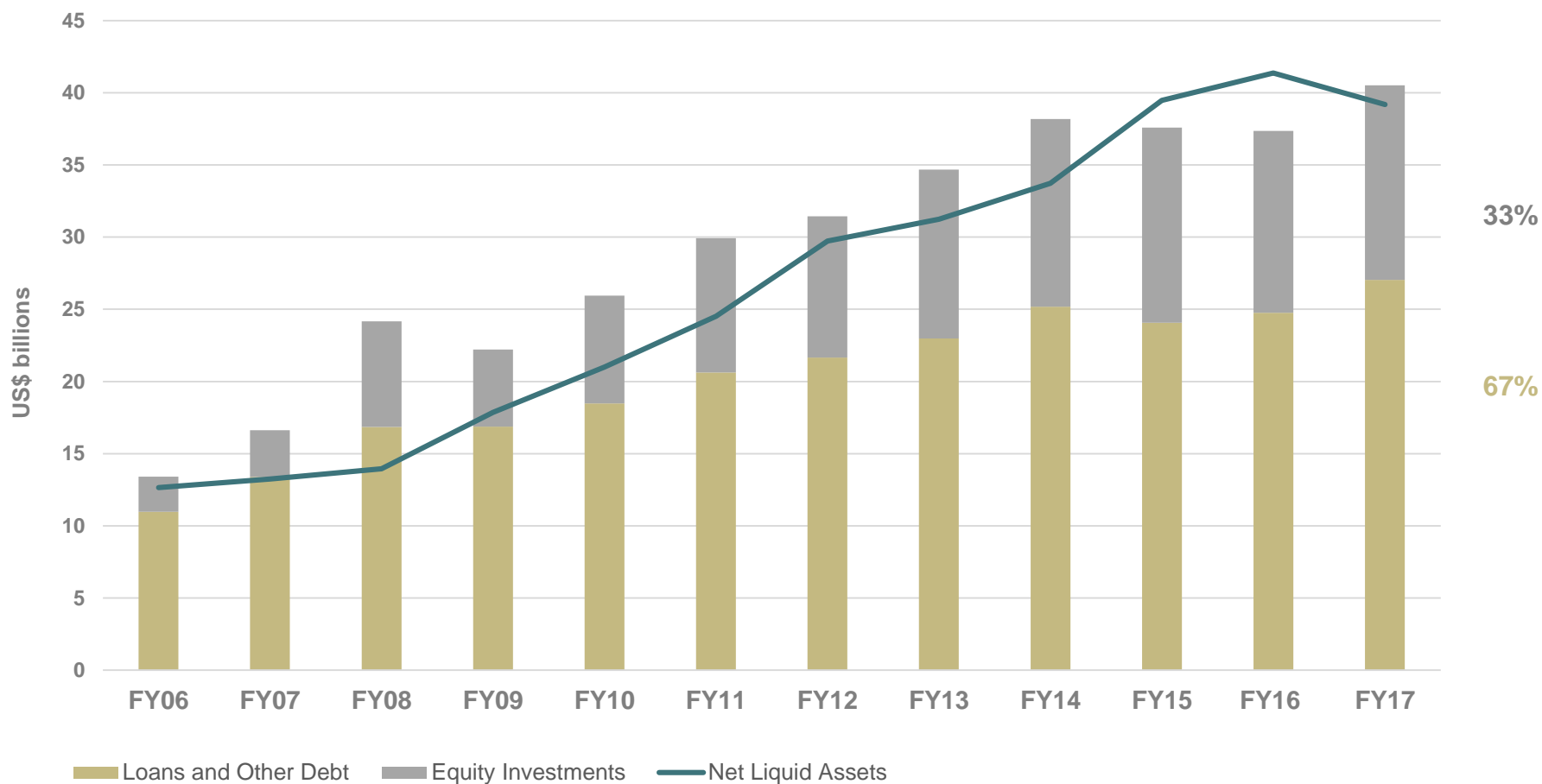
Actual level figures as of 30 June 2017

Minimum and maximum thresholds based on triple-A rating methodology guidelines as agreed with rating agencies

## Consistent Asset Growth

IFC's growth is financed predominantly by retained earnings:

*IFC's total disbursed loans, equity, and net liquid assets at fiscal year-end*

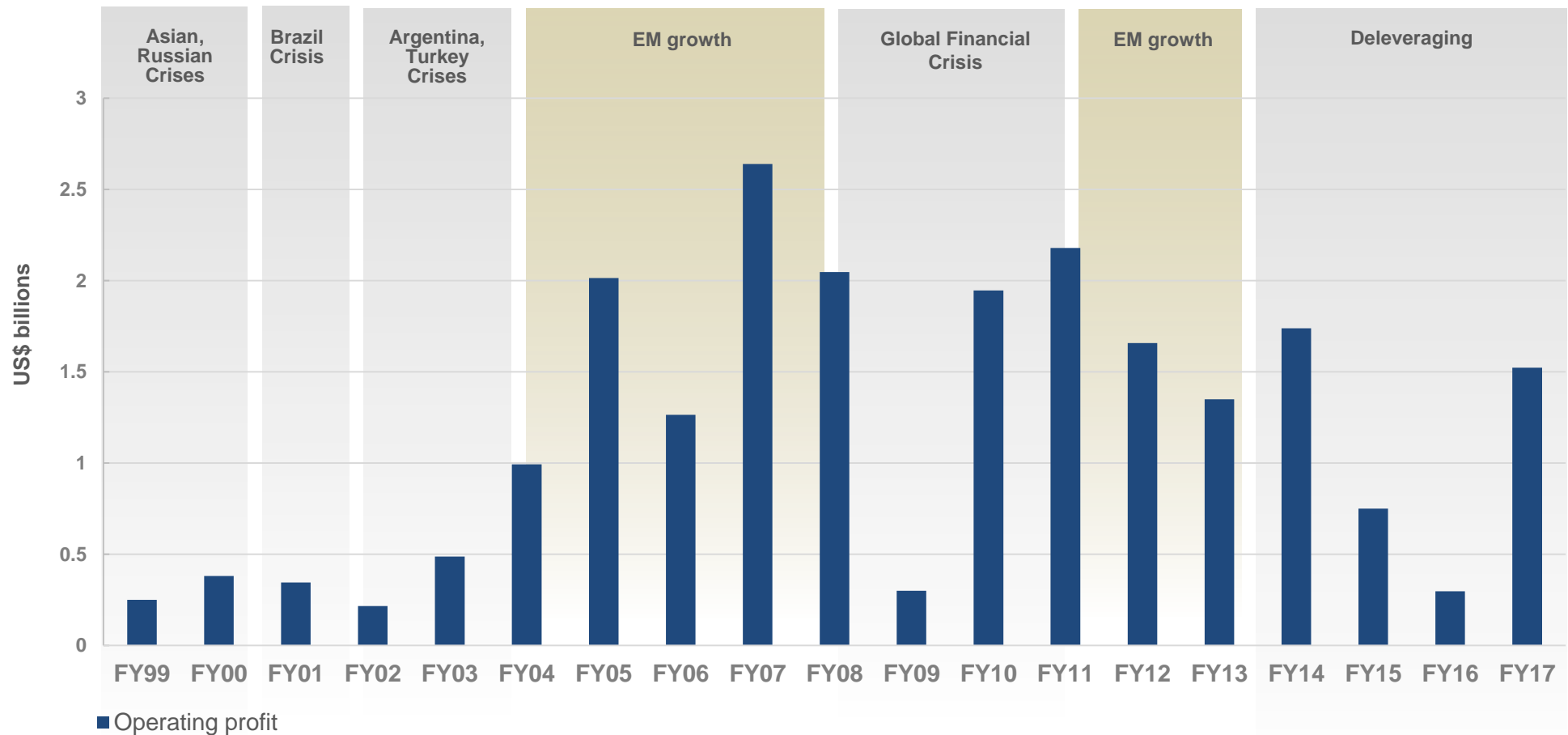


IFC's fiscal year-end is 30 June



## Track Record of Profitability

*IFC has recorded operating profit in every year since its founding in 1956*

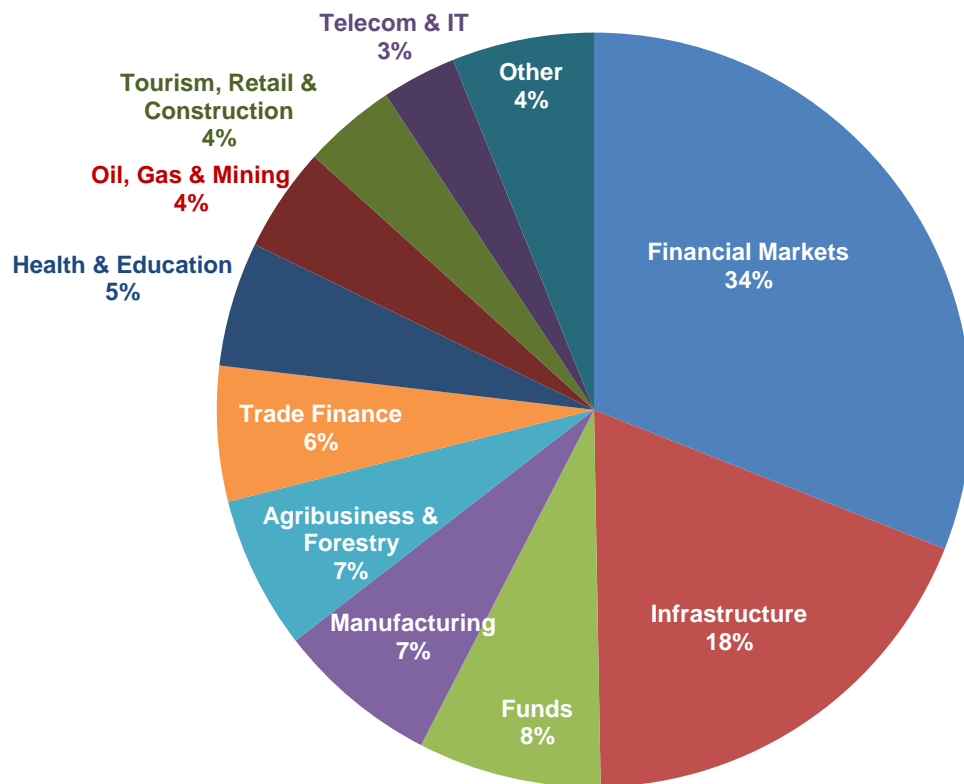


*IFC's fiscal year-end is 30 June*

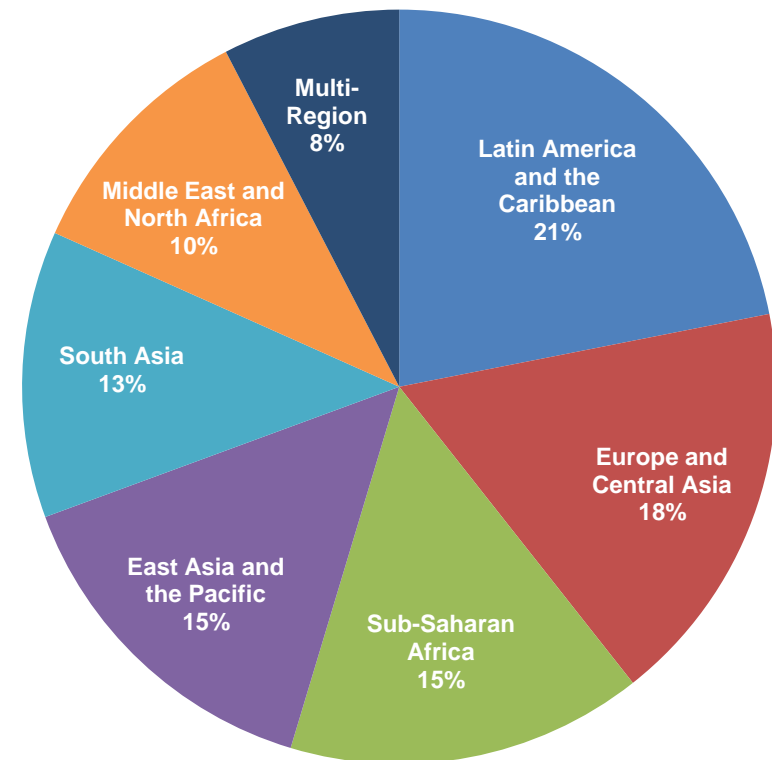
## Highly Diversified Global Portfolio

IFC has debt and equity exposure in **125 countries** and **over 2,000 companies**

*Industry portfolio diversification*



*Regional portfolio diversification*



Figures as of 30 June 2017

Focus on  
Debt Capital  
Markets





## Why are Debt Capital Markets important for IFC?

- Sound financial markets are **vital to development** as they ensure efficient resource allocation, create jobs, and spur economic growth
- Debt markets in particular are **crucial sources of capital funds**, especially to help close huge financing gap in sectors like Infrastructure and Housing
- They **create channels for domestic savings** – such as those managed by pension funds and other institutional investors – to be put to productive use in the local economy.

*\$57 trillion: Global Infrastructure Funding Gap for 2013-2030 --- \$3.2 trillion a year through 2030.*

**McKinsey** | January 2013

*"Infrastructure productivity: How to save \$1 trillion a year"*

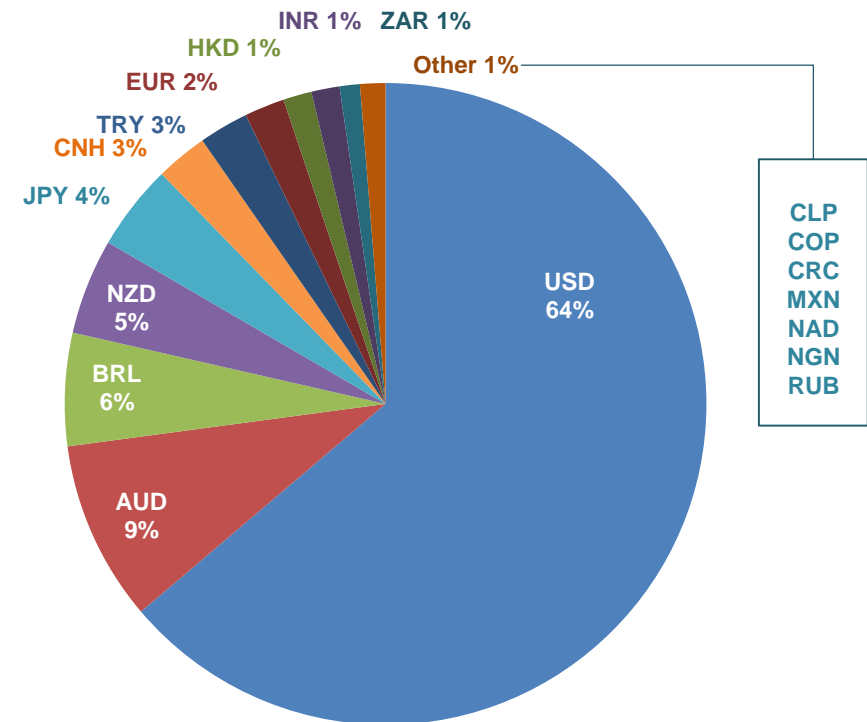
# IFC: A One-Stop Shop for Capital Markets

- IFC supports **domestic capital market development** through:
  - issuing local currency bonds
  - advice to regulators, authorities, and market participants; and
  - helping first-time issuers access capital markets
- IFC promotes access to **local currency finance through loans, swaps, and structured products** that are customized to best meet client needs

## IFC is a Frequent Issuer in Global Debt Capital Markets

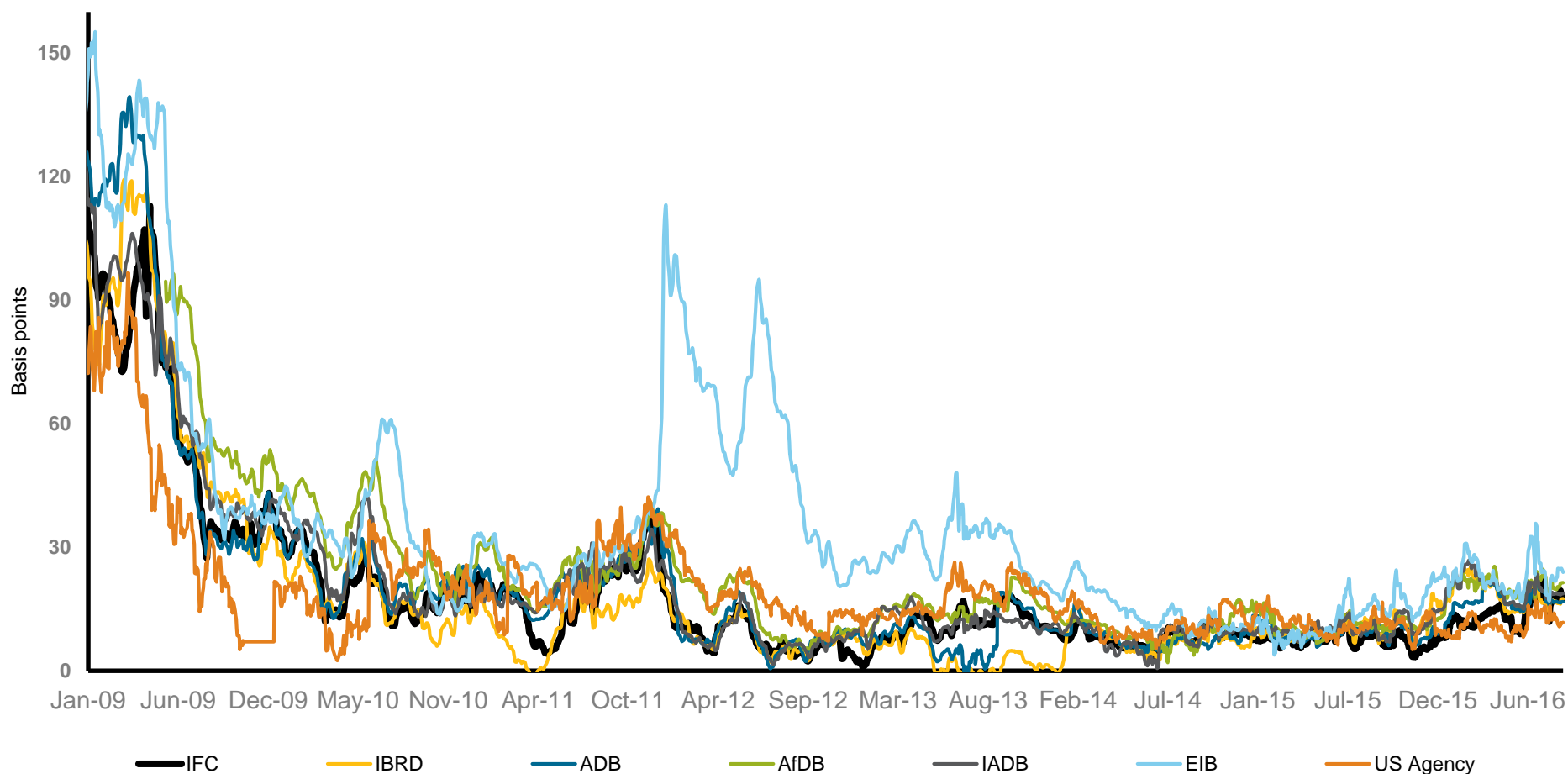
- IFC raises funds in global capital markets to
- support investments in the private sector in
- emerging markets
- Funding strategy in global markets focused on:
  1. **Establishing a regular presence in its core markets** such as USD
  2. **Ensuring access to a wide range of markets** to benefit from opportunistic and competitively priced transactions
  3. **Promoting development of emerging capital markets** by issuing bonds in local currencies, often in domestic markets.

*Borrowings by currency in FY16*



## Historical Data

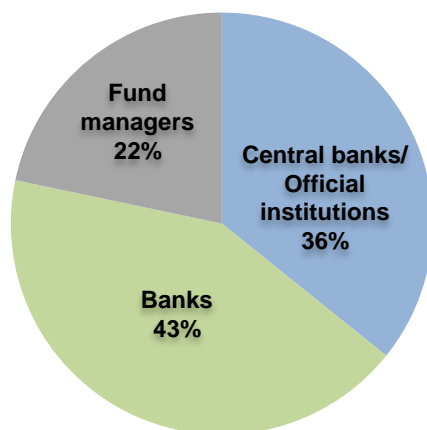
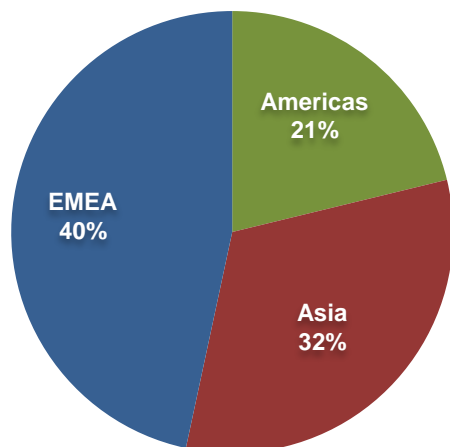
*Historical performance of 5-year benchmarks issued by IFC and its peers*



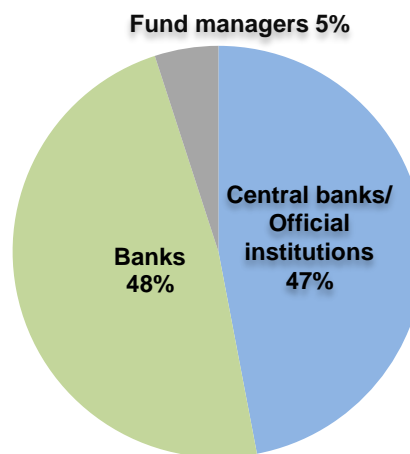
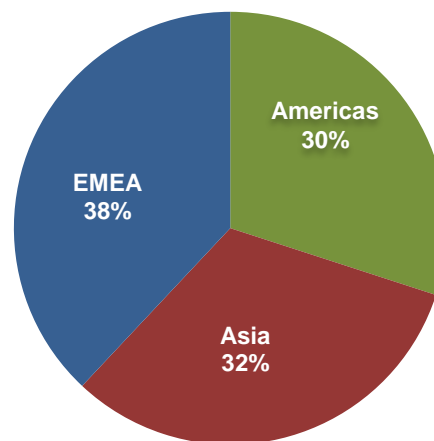


## USD 5 year Global Distribution

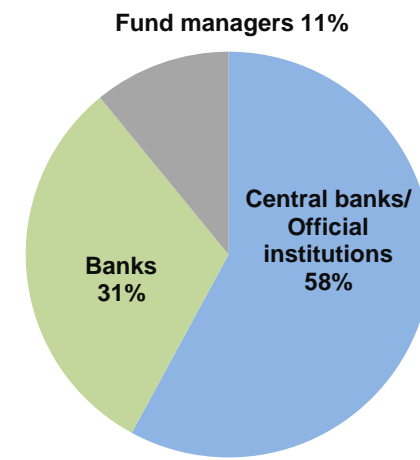
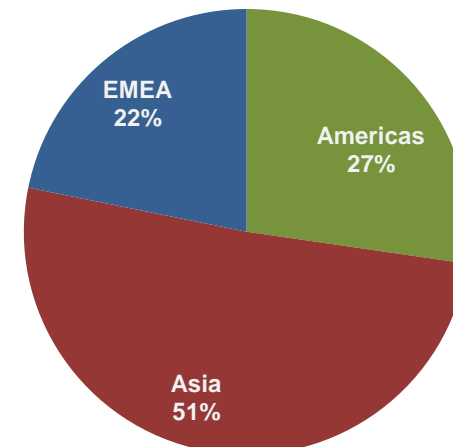
**USD3.0 billion September 2019**  
(issued July 2014)



**USD2.25 billion July 2020**  
(issued July 2015)



**USD2.5 billion July 2021**  
(issued July 2016)



## Issuing in Local Markets



## Strong focus on Local Currency Bond Issuances

- IFC aims to help develop local capital markets :
  - To create **catalytic impact for future corporate bond issuances and facilitate financing through demonstration and signaling effect**
  - To test and **improve domestic processes** for bond issuance and encourage **changes in regulation** (e.g. cost of issuance, pension fund asset allocation)
  - To provide access to **new breed of investors**, particularly international investors
  - To help local markets decouple from more volatile global funding sources
- For local investors, IFC issuances introduce **a high-quality new asset class** to the domestic market.

*Kenya has annual infrastructure financing deficit of \$2.1 billion.*

**World Bank** | November 2012



## IFC Local Currency Bond Issuances: Benefits

1. **Alternative to foreign currency borrowing**, reducing various risks
2. **Diversify sources of funding** beyond banks and equity markets
3. **Support major trends** that stem from economic and financial growth
  - Issuers: Infrastructure development, privatization, securitization and government decentralization create demand for bond issuance
  - Investors: The growth of insurance and social security create institutional investors that have an appetite for long-term assets such as bonds
4. **Strengthen the financial sector**
  - Transparency through public disclosure of business operations
  - Competition with local banking sector through dis-intermediation

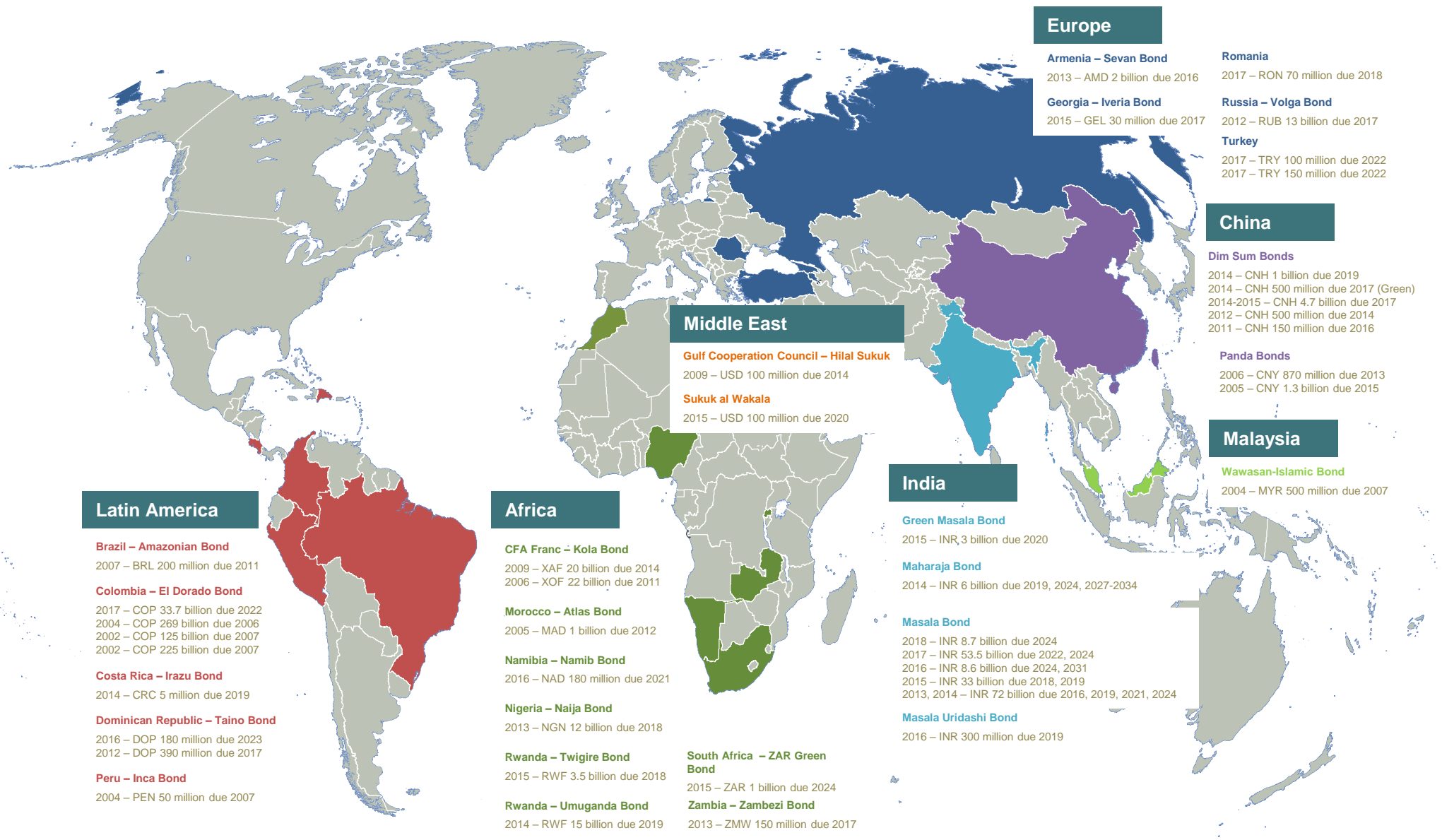
*\$2.5 trillion: Additional infrastructure financing by 2030 if institutional investors meet their target allocations.*

**McKinsey** | January 2013

*"Infrastructure productivity: How to save \$1 trillion a year"*



## Focus on Domestic Capital Market Development



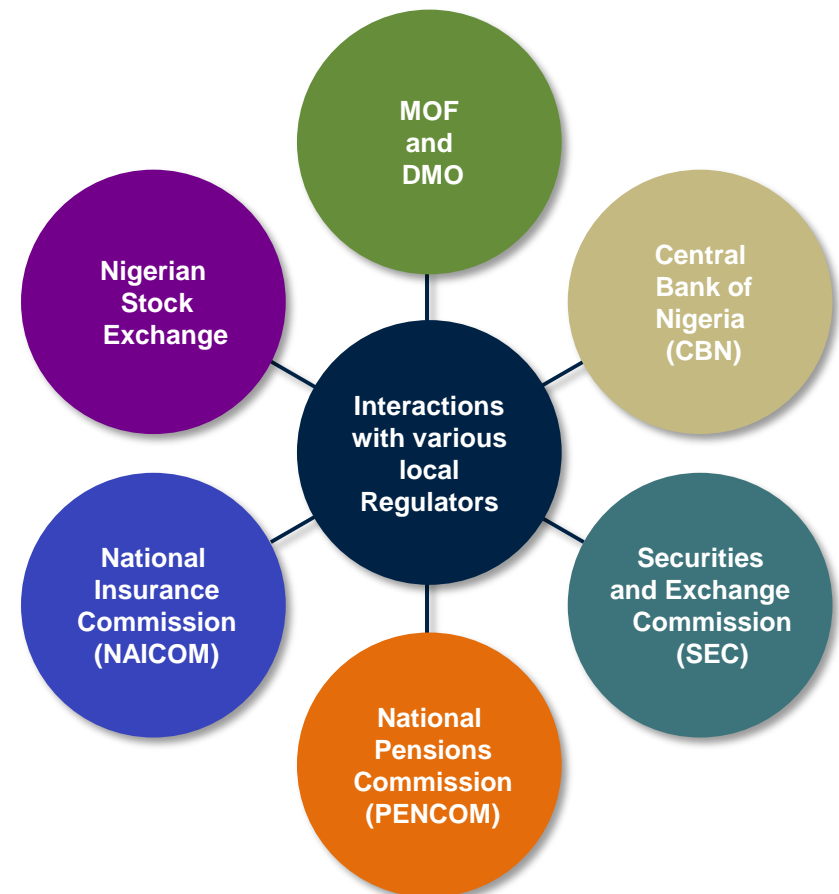
## IFC's Local Currency Track Record in Asia - Highlights

- IFC has a **distinguished track record** in lending long-term in local currency to the private sector
- Over the past 5 years IFC has committed **over \$2.3 billion equivalent in 13 local Asian currencies**
- IFC has been the first international issuer of **CNY “Panda” bonds (2005, 2006)**
- IFC has also issued in the **CNH Dim Sum Bond Market (2011)**, has been the first to utilize proceeds in mainland China and has been the first multilateral to issue a green bond in the offshore markets
- In August 2012, IFC set up a **CNH Discount Note Program** in Hong Kong. The first of its kind Program provides short-term liquidity to IFC clients. As a first such program in the CNH market, the facility will also offer diversification to domestic and international investors seeking high quality (AAA) short-term paper.
- IFC has **entered into swap facilities with two policy banks in China** to provide long term CNY financing – the first Multilateral to do so.
- IFC has **successfully executed 10 risk sharing facilities under the CHUEE Program** in China providing CNY financing to renewable energy projects
- IFC within the last two years has successfully launched both **onshore (“Maharaja”) (2014) and offshore Rupee (“Masala”) bond programs (2013-2015)**, successfully creating yield curves in both markets
- IFC provided **the first Partial Credit Guarantee on a corporate bond** issuance in Indonesian domestic bond markets **(2014)**

## Local Currency Issue Case Study: IFC Naija Bond

- Issued in February 2013
- IFC's inaugural Naira-denominated bond
- First ever issuance by a nonresident issuer and the first international AAA-rated Naira-denominated bond in the domestic market in Nigeria
- Fixed Rate Senior Unsecured Notes due 2017
- Initial notional size of NGN 8 bn (\$50 million equivalent), increased to NGN 12 bn (\$76 million equivalent) with a 5 year tenor
- Semi annual coupon and bullet repayment
- Offer for subscription by way of book-build
- Priced below the government yield curve
- Listed on the Nigeria Stock Exchange (NSE)
- Lead manager: Standard Chartered Bank Nigeria Limited
- Co-lead arranger and broker: Chapel Hill Advisory Partners Limited

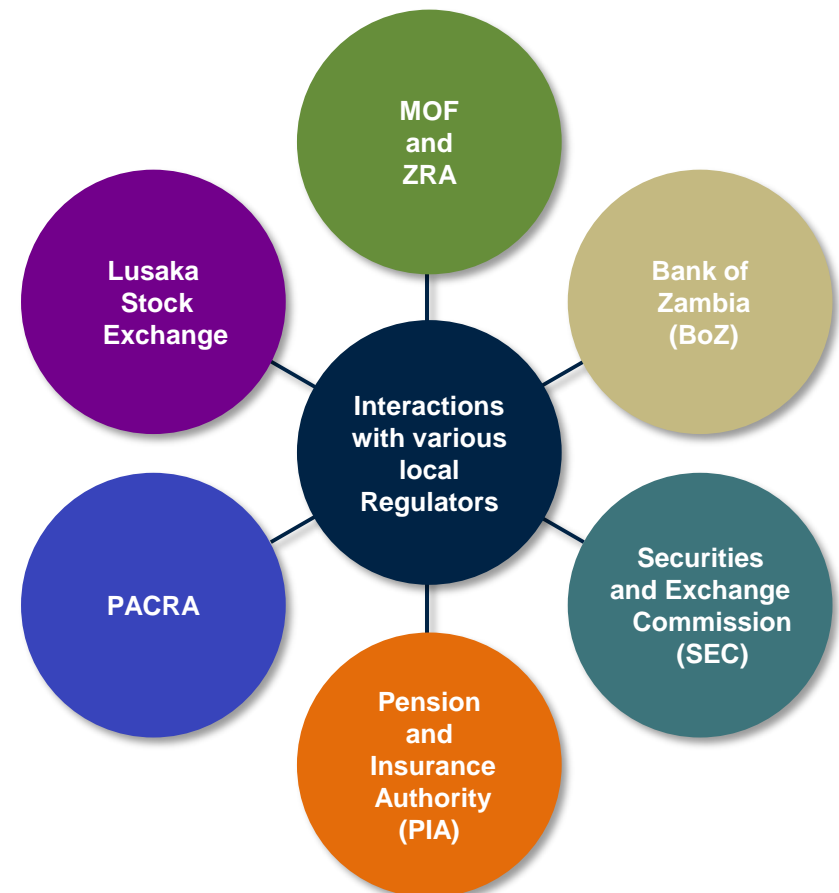
*First domestic placement by  
an international triple-A rated issuer*



## Local Currency Issue Case Study: IFC Zambezi Bond

- Issued in September 2013
- First non-government debt issue since 2009
- First and only international AAA-rated Zambian Kwacha-denominated paper in Zambia
- Strong local involvement with Stanbic Bank Zambia and Stockbrokers Zambia chosen as lead arrangers
- Strong participation from both local and international investors: Issue oversubscribed 4.8 times
- Bond details:
  - 4-year tenor, bullet repayment
  - Notional size of ZMW 150mn (\$28mn) increased from ZMW 100mn
  - For IFC: First issue under its Pan-African Domestic Medium Term Note Programme (PADMTN)

*First domestic placement by  
an international triple-A rated issuer*



## Local Currency Issue Case Study: IFC Umuganda Bond

- Issued in May 2014
- IFC's inaugural issuance under the PADMTN in East Africa
- First ever international AAA-rated Rwandan Franc bond issuance in Rwanda and the first non-sovereign issuance since 2010
- Issuance to expand the availability of long-term local-currency finance for local businesses while strengthening the country's domestic capital markets
- Offer for subscription by way of book-build
- Listed on the Rwanda Stock Exchange (RSE)
- Strong participation from both local and international investors: 2.2x oversubscribed
- Issuance managers: Standard Bank / Stanbic Kenya, Bank of Kigali
- Bond (Senior Unsecured Notes) Details:
  - 5-year tenor, bullet repayment, due 2019
  - Semi-annual fixed rate coupon (12.25%); no 5 year government benchmark yield
  - Notional size of RWF 15bn (\$22mn equiv.)
  - Regulatory Status: 0% risk weighting for computing capital adequacy; liquid asset status; Repo eligible; 100% admissible asset for insurance companies' solvency ratios

*First domestic placement by  
an international triple-A rated issuer*





Helping  
Clients Access  
Capital Markets



## IFC Debt Capital Market (“DCM”) Product Offering - Overview

IFC offers a range of instruments aimed at helping clients successfully issue debt instruments (e.g. straight bonds, themed bonds, structured debt) in both international and domestic capital markets.

### 1. Anchor Investment

Product:	Investment in: <ul style="list-style-type: none"> <li>Plain Vanilla Bonds</li> <li>Green Bonds</li> <li>Asset Backed / Structured Debt, etc</li> </ul>
What:	Direct financing via purchase of a substantial portion of an issuance.
How:	IFC commits to subscribe to an issuance ahead of the public offering, which can be communicated to prospective investors to send a positive signal.

### 2. Credit Enhancement

Product:	Guarantee on: <ul style="list-style-type: none"> <li>Bonds</li> <li>Asset Backed / Structured Debt</li> </ul>
What:	Partial guarantee of an issuance to improve the risk profile of the instrument.
How:	IFC provides a partial credit guarantee to improve the credit rating of an issuance for wider investor access and longer term financing.

### Best Practice

Supporting the process:

- Leverage IFC’s experience as a bond issuer to offer advisory on regulations, documentation and structuring across products
- Bring in partners that can provide additional resources

### Comprehensive Financing Solution

Flexible approach to tailor offering to issuance process:

- IFC’s approval to invest can be applied flexibly in the form of an Anchor Investment, Partial Credit Guarantee, or Loan disbursement / bridge financing if the bond issuance is delayed

## Anchor Investments

### Basics

- IFC can provide its support to a bond issuance by committing to purchase a portion of the notes issued
- After its due diligence and credit approval, IFC can sign a commitment agreement, and IFC's anchor investment can then be announced to the market during the roadshow
- Depending on the pre-agreed structure and auction format, IFC can offer to reduce its allocation depending on subscription levels

### Benefits to Investors

- IFC's public support of the issuance reduces pricing uncertainty
- Investors derive comfort from IFC's due diligence and "stamp of approval"

- May provide better economics compared to a PCG for investors who are less focused on ratings

### Benefits to Issuers

- Like a partial underwriting, an IFC anchor investment ensures a successful issuance
- IFC's public endorsement will help to boost subscription levels and reduce the clearing yield
- IFC can support the structuring and marketing process as needed

## Anchor Investment Example 1: Bayport Financial Services (Zambia)

### About Bayport Financial Services

- Bayport Financial Services (Bayport) is a non-bank financial institution in Zambia servicing retail customers. The company has experienced a dynamic growth of its portfolio with plans for further expansion.

### Accessing the Zambian Domestic Bond Market

- To support its growing business, Bayport needed to diversify its funding sources beyond local banks and tap into the nascent Zambia capital markets.
- Following IFC's inaugural Zambezi bond issuance in September 2013, Bayport established a domestic Medium-Term Note program to issue Zambian Kwacha (ZMW) denominated bonds.

### IFC as an Anchor Investor

- New IFC client.
- IFC committed to investing ZMW 60m (c. USD 9.4m) via a parallel private placement note, thus providing funding and sending a strong signal of support to potential investors.
- IFC's first anchor investment in Africa and first ZMW-denominated corporate bond investment.

### IFC Advisory Support

- IFC shared experience in structuring, collateral and legal arrangements, regulatory approvals, and marketing, in close collaboration with the lead managers and legal advisors.

### Issuance Summary

Issuer	Bayport Financial Services Ltd, Zambia
Issuance Status	Senior Secured
Pricing Date	16 April 2014
Settlement Date	25 April 2014
Size	ZMW 172m, approx. USD 27m
Maturity	25 April 2018
Tenor	4 years
Coupon	Tranche 1: 2.50% over 182-T-Bill Tranche 2: 1.52% over 364 T-Bill
Listing	Lusaka Stock Exchange
Arranger	Barclays Bank Zambia, ABSA
Sponsoring Broker & Placing Agent	Stockbrokers Zambia
Governing Law	Zambian Law

### Achievements

- Issue size was raised to ZMW 172m (c. USD 27m) from ZMW 150m following strong investors' demand.
- Successful placement with domestic and international investors: diversification of funding sources for Bayport.
- Stimulation of the domestic capital markets: Bayport's inaugural bond was one of the largest issuances in the Zambian market and one of the very few secured issuances in Zambia.



## Anchor Investment Example 3 – Petra Diamonds (South Africa)

### About Petra Diamonds

- Petra is a producer of rough diamonds that has developed into a leading independent diamond mining group and an increasingly important supplier of rough diamonds to the international market.
- Founded in 1997, during the company's early history, Petra focused on diamond exploration but in 2007 started acquiring a series of De Beers' mines to transform itself from an explorer to a producer.
- The company is geographically diversified with four producing mines in South Africa, one producing mine in Tanzania, and one exploration project in Botswana.

### IFC Anchor Investment

- Supported Petra's first bond offering and attained high oversubscription levels.
- IFC investment of USD 30mm amounted to 10% of the total issuance
- Pre-committed participation in public offering sent a positive signal to the market.
- Petra is a long-term IFC client and the notes purchase follows a \$40 million IFC loan to the company in 2010 to support the expansion of the Williamson diamond mine in Tanzania.

### Issuance Summary

Issuer	Petra Diamonds US Treasury Plc
Issuance Status	Senior Secured Second-Lien Notes
Issue Rating	B2 / B+ (Moods, S&P)
Issue Format	144A / Reg S
Pricing Date	6 May 2015
Settlement Date	13 May 2015
Size	USD 300 million
Final Maturity	5 years
Non-Call	31 May 2017
Yield	8.25% p.a.
Coupon	8.25% p.a.
Listing	Irish Stock Exchange
Governing Law	New York
Bookrunners	Barclays, RBC Capital Markets, Rand Merchant Bank

### Highlights

- Provides Petra with financial flexibility to broaden its sources of funding.
- Proceeds enabled the replacement of a 50-year old processing plant at Cullinan diamond, a 112-year old mine.
- IFC's anchor investment allowed a reach to a wider international investors' base and a multiple times oversubscribed issuance.

## Growing Corporate Green Bond Issuance in Emerging Markets

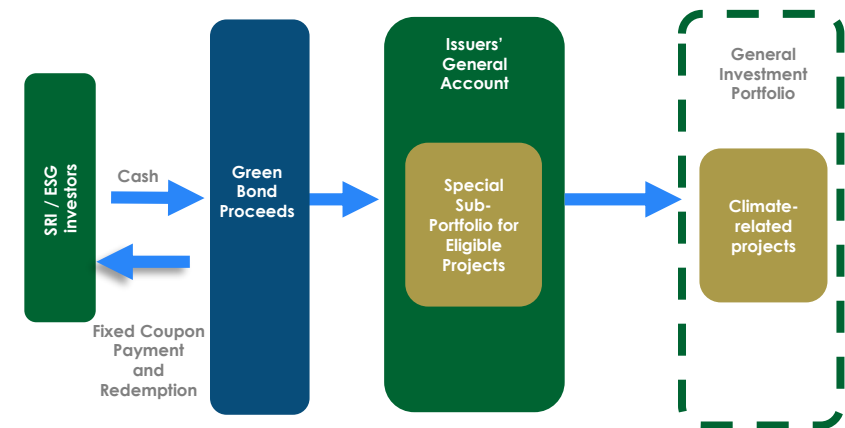
### Benefits to Issuers

- Investor diversification
- Franchise Value
- Industry leadership, enhances reputation in the market by generating environmental benefits from investments and by integrating debt management into firm-wide commitments to reduce GHG emissions
- Cultivate a positive internal culture of long-term sustainability and environmental governance

### IFC's Value Proposition

- Ability to share expertise in Climate business, capital markets and Green Bond market in one package
- Transfer knowledge and guide the issuance process to comply with the Green Bond Principles
- Ability to share impact reporting tools and training available to IFC's clients, an essential element of the green bond
- Ability to commit and invest in local currency green bonds and ability to catalyze off-shore investors along side IFC
- In-depth knowledge of Impact Investors who participate in Green Bonds

### GREEN BOND STRUCTURE DIAGRAM



***“Green bonds are fixed income instrument which proceeds are earmarked for projects and activities that promote climate or other environmental sustainability purpose”***

### Key Elements of Green Bonds

- Criteria for use of Proceeds
- Second opinion
- Management of Proceeds
- Reporting (environmental benefits)

## Yes Bank Green Bond (India)

### About Yes Bank Financial Services

- Yes Bank, is India's fourth largest private sector Bank, it is a "Full Service Commercial Bank" and has steadily built a Corporate, Retail and S&E banking franchise.
- The Bank is the only Greenfield Bank license awarded by the RBI in the last two decades.

### A pioneer in the Indian bond market

- To support its growing investment in Renewable energy infrastructure, Yes Bank needed to establish a Green Bond program that would help diversify its funding sources beyond local banks and tap into the nascent Green Bond capital markets.
- Yes Bank established its Green Bond Medium-Term Note program that follows the 4 pillars of the Green Bond Principles. This framework will enable Yes Bank to raise funding from international Social Responsible investors looking for diversification in domestic markets
- Yes Bank's green bond of INR 3.15b (approx. US\$ 49.2m) issued in August 2015 was the second green bond under the bank's EMTN program and the first issued for an international investor under the Green Bond Principles guideline opening doors for other international investors in future issuances.

### IFC as an Anchor Investor

- IFC committed to purchase up to US\$ 50 million notes in Yes Green Bond issuance, providing both funding and sending a strong signal of support to potential investors who are looking for diversification into emerging markets.
- IFC supported the issuance by sharing IFC's experience and expertise in Green Bond market, review of Yes bank's pipeline of green investment and IFC's climate definitions helped draft "Use of Proceeds Language", and provided impact reporting tool and training to provide future investors environmental impact data.

### Issuance Summary

Issuer	Yes Bank Limited
Status	Green Bond, Senior Unsecured
Pricing Date	3 August 2015
Settlement Date	5 August 2015
Size	INR 3.15b (approx. US\$ 49.2m)
Maturity	5 August 2025
Tenor	10 years
Listing	Bombay Stock Exchange
Governing Law:	Indian Law

### IFC's Investment

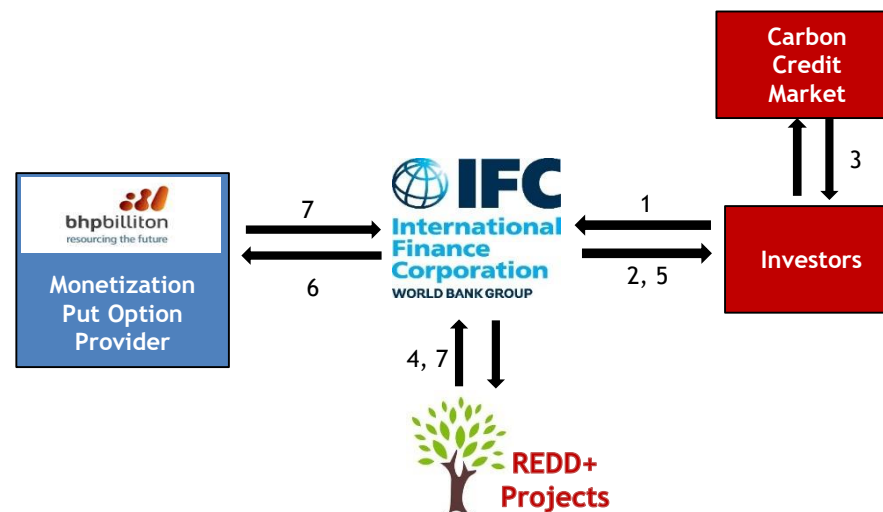
- Fully Subscribed by IFC
- Pre-committed private placement
- IFC's first Green Bond investment, and IFC's first green corporate bond investment in Indian Rupee

### Achievement

- Setting the market standard for Green Bonds in India and EM Markets
- Stimulating the domestic capital markets and opening the door for climate change investments

## Forest Conservation through Financial Innovation

- **Forests Bond** - First-of-its-kind principal protected, issued under IFC's AAA-rated program, fixed income instrument that will aim to pay a coupon in the form of carbon credits to bondholders
- It is intended that the coupon will support the conservation of projects that seek to protect forests in Kenya and has an option to deliver REDD+ credits to bondholders
- The supported project is expected to reduce deforestation, protect endangered plant and animal species and develop sustainable economic opportunities for communities in developing countries
- Forests Bond will aim to provide measurable environmental and social returns



### Notes:

1. On the Issue Date, investors in the Notes will pay up to US\$150 million, in aggregate, to IFC in issue proceeds, in consideration for the issuance of the Notes
2. On an annual basis Noteholders will receive a fixed cash coupon with an option for a coupon fully deliverable in Verified Carbon Units (VCUs) per Note at a pre-agreed price per VCU.
3. In addition to retire the VCUs, a noteholder may also wish to independently sell them to the VCU market
4. IFC will buy the VCUs generated by the Projects during the generation period on an annual basis
5. On each payment date, IFC will use the VCUs purchased from the Projects (per note 4) to meet investor demand for physical delivery of the VCUs, and it will put VCUs to BHPB under a put option in order to monetize them at a 100% of equivalent cash coupon for noteholders who will receive cash settlement and have not elected VCUs.
6. BHPB will provide full price support under the put option. The total cash value of the price support will be escrowed on or prior to issuance date, accordingly investors are not exposed to any credit or performance risk of BHPB.
7. If any portion or all of the annual price support made available by BHPB under the Put Option is not used as cash coupon, but as election of VCUs, then BHPB, by agreement with and via IFC, will apply the remainder to purchase VCUs from the Projects for BHPB's own account

### Investors will have 3 options for their coupon:

1. to receive the coupon in carbon credits and retire them to offset corporate greenhouse gas emissions;
2. To receive the coupon in carbon credits and sell the credits in the carbon market;
3. to receive the cash coupon.

## Securitization

### Basics

- A form of off-balance sheet financing which involves pooling of financial assets and issuance of securities that are repaid from the cashflows generated by these assets
- IFC provides credit enhancement to the senior tranche by investing in a mezzanine tranche or by covering payment shortfalls due to senior Noteholders
- As a Structuring Investor, IFC can support the process with arrangers, regulators and credit rating agencies and provide best practice from other markets.

### Benefits to Issuers

- Allows highly rated securities to be created from less credit worthy assets
- Access to wider investor base
- Facilitates Rating increase
- Alternative form of longer term funding
- Can improve balance sheet management and potentially provide capital relief

### Benefits to Investors

- Reduced probability of default
- IFC due diligence and supervision



## Case Study: Mercantile Rental Finance SME Securitization

### About the client

- Mercantile Rental Finance (the “Client”) is a South African rental finance company majority owned by Mercantile Bank that provides financing targeted at mostly small and medium enterprises to allow them to rent equipment they need to operate, rather than purchasing it and tying up capital.
- Until IFC’s investment the Client had relied solely on Mercantile Bank (it’s parent) to provide funding for growth.

### Accessing the capital market

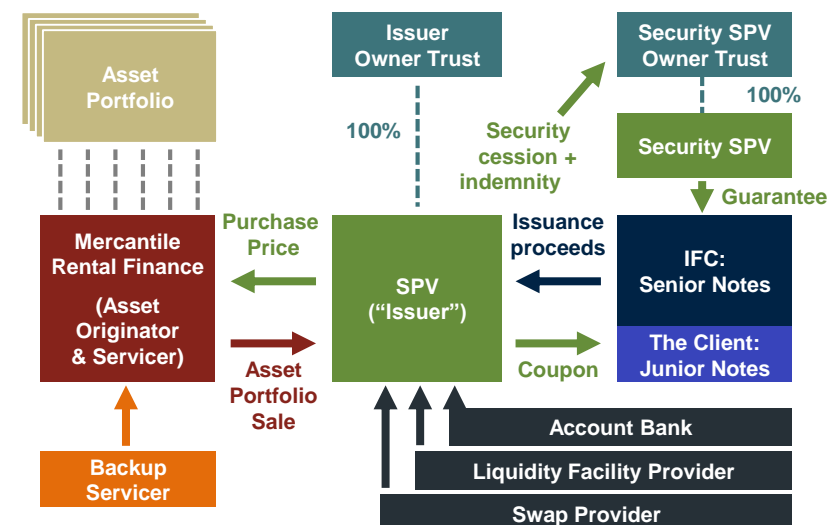
- In order to fund its rapid growth, Mercantile Rental Finance decided to access the capital market as a strategic long-term and cost-effective funding source.
- However, the company needed to build the portfolio track record necessary for a credit rating of a public securitization of its rental assets.

### IFC as an Anchor Investor

- IFC worked closely with the company and the arranger to establish a market-standard securitization program listed on the Johannesburg Stock Exchange (JSE) through a Special-Purpose Vehicle (SPV) dubbed “Compass Securitization (RF) Ltd”
- IFC committed to provide funding to the SPV for 3 years to help the program build a track record ahead of issuing publicly rated notes
- This was IFC’s first SME leasing securitization in Sub-Saharan Africa

### Program Summary

Issuer	Compass Securitisation (RF) Limited
Program Size	ZAR 1 billion
Senior Notes issued	ZAR 240 million
Issuance Date	February 5, 2014 and November 3, 2014
Scheduled Maturity	3 Years
Final Maturity	6 years
Listing	Johannesburg Stock Exchange
Governing Law	South Africa
Structural Features	Early Amortization Triggers, Cash Reserve , Liquidity Facility and other features typical for similar securitizations.
Arranger	Rand Merchant Bank



## Diversified Payment Rights (DPRs)

### Basics

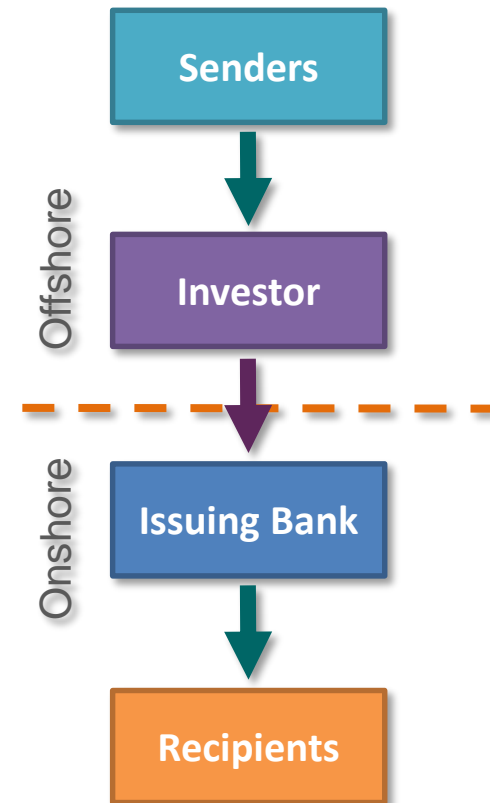
- DPRs transactions are cross-border bonds issued by a domestic bank, which are secured by cross-border payment flows
- Set-up cost – typically objective to issue repeatedly in a program approach.

### Benefits to Investors

- Best of both worlds: Investor benefits from protection of a securitization and mitigation of political risk, but retains recourse to the originator.

### Benefits to Issuers

- Can provide attractive funding on the international capital market



## Covered Bonds

### Basics

- Similar to a securitization: Ring-fenced portfolio as security for bondholders, provides matching long-term funding for Issuer Bank
- Different from a securitization: Investors have double recourse to cover pool and Issuer Bank – no risk transfer

### Benefits to Investors

- Higher Rated: On average 4 notches higher than issuer (Fitch)
- No Losses to investors in over 100 years

### Benefits to Issuers

- Allows highly rated securities to be created from less credit worthy assets
- Access to wider investor base
- Facilitates rating increase
- Alternative form of funding, that can be lower and more longer term
- Can improve balance sheet management

## IFC Partial Credit Guarantee (PCG) for Bonds

### Basics

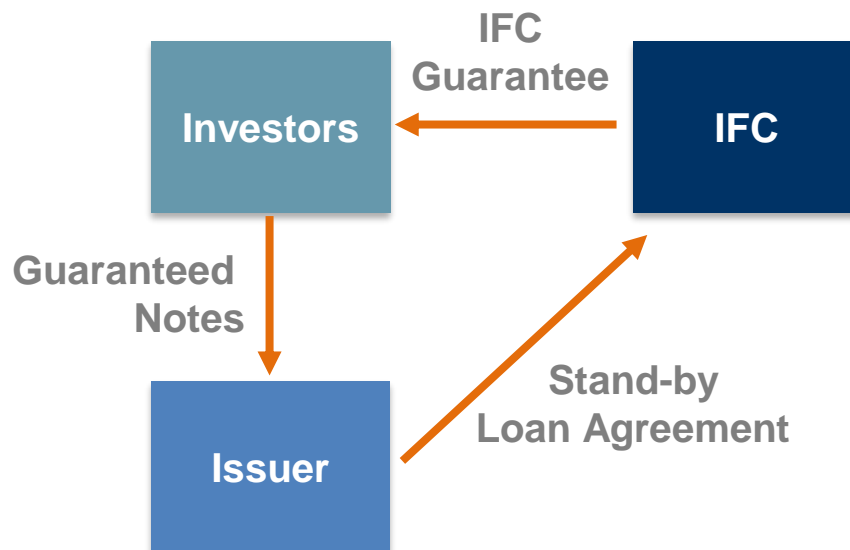
- IFC irrevocably guarantees due payment to bondholders, up to Guarantee Amount
- IFC PCG can reduce both probability of default and loss given default
- Objective is to offer minimum guarantee amount necessary to facilitate successful transaction

### Benefits to Issuers

- Access to wider investor base
- Paves the way for future issuances without enhancement
- Extend maturity
- Rating increase

### Benefits to Investors

- Reduced loss given default
- Reduced probability of default
- IFC due diligence and supervision
- “Stamp of Approval”



## Partial Credit Guarantee (PCG) Example 1

### Vinte MXN Bond Issuance, Mexico

#### Overview

- MXN 100mm 3Y bond issuance by Vinte, lead developer of sustainable housing for lower and middle-income families in Mexico.



#### IFC's Credit Enhancement

- IFC offered a partial credit guarantee to support VINTE's first-ever bond issuance.



#### Achievements

- IFC's guarantee helped VINTE bonds achieve ratings of 'Aa3.mx' by Moody's and 'HR AA-' by HR Rating, compared to VINTE's stand-alone corporate ratings of 'Baa3.mx' and 'HR A-' at the time of issuance .
- VINTE was able to diversify its funding options by issuing a bond and positioned itself as a successful corporate debt issuer in the domestic capital markets .
- Given the improvement in the ratings, Vinte was able to attract a new investor base, specifically pension funds which are only able to invest in assets rated Aa3.mx or above.





## Partial Credit Guarantee (PCG) Example 2

### PT Ciputra Residence Bond Issuance, Indonesia

#### Overview

- IDR 500bn total of 3Y (IDR 200bn), 5Y (IDR 220bn) and 7Y (IDR 80bn) bond issuance by Ciputra, a leading Indonesian property company focused on residential property development.

#### IFC's Credit Enhancement

- 20% guarantee of the total principal amount outstanding under the bonds, with a maximum guarantee amount of IDR 100 billion (USD 8.7 million equivalent).

#### Achievements

- Bond rating enhanced to A (idn) from the corporate ratings of A- (idn) by Fitch on the Indonesian national rating scale.
- Bond was the first with a partial credit guarantee to be issued in Indonesia and helped Ciputra establish a strong profile in the capital markets.
- Issuance was more than 2x oversubscribed and was sold to a variety of investors including pension funds, banks, asset managers, insurers and foundations.
- Proceeds used to support the construction of low-rise houses and relevant ancillary facilities in developments across Indonesia.
- Ciputra agreed to use the IFC Green Building Standards in developing some of its buildings, a first in Indonesia.



## Partial Credit Guarantee (PCG) Example 3

### CAMESA Microfinance Bond Issuance, Mexico

#### Overview

- MXN 200mn 2y bond by Consorcio de Asistencia al Microemprendedor S.A. de C.V., S.F.P (“CAMESA”), a microfinance institution in Mexico serving the bottom of the pyramid and focused on lending to women.



#### IFC's Credit Enhancement

- IFC offered 50% guarantee and liquidity feature to support CAMESA's first-ever bond issuance.



#### Achievements

- IFC's guarantee helped CAMESA achieve a local credit rating of AA- by Fitch Ratings and HR Ratings.
- CAMESA's first successful bond will help diversify its funding base and hopefully pave the way for future issuances.



## Client Risk Management Products (CRMs)

- IFC provides hedging instruments directly to clients who do not have full access to hedging products
- **Interest rate swaps/Interest rate caps and collars, cross-currency swaps/FX forwards, commodity hedges and other instruments available in the market**
- These hedges can be used to hedge Assets (loans, bonds, revenues, portfolio etc.,) and/or Liabilities (new or outstanding IFC and third party loans, deposits, etc.)

*Example: CRM on Euro Loan from a Consortium of Lenders to a Client whose assets are in ZAR*

### Initial Flows



### Flows over Time



Technical  
Assistance  
& Advisory







# Advisory Services in Capital Markets Development

## 1. Country Operations

Comprehensive, programmatic approach to advise countries on all aspects of building a market, including:

- Regulatory Environment, Market Infrastructure, Capacity Building, Corporate Governance
- Transaction Support, Regionalization

## 2. Knowledge Management

- Documenting and sharing lessons learned
- Products: policy notes, toolkits, case studies, roundtable discussions, Global Conferences on topics relevant to development of equity markets in the target client countries

## 3. South-South Dialogue

- Expand reach beyond country operations; dialogues conducted through web/audio/VC
- Facilitates South-South peer-group learning

### Some Examples:

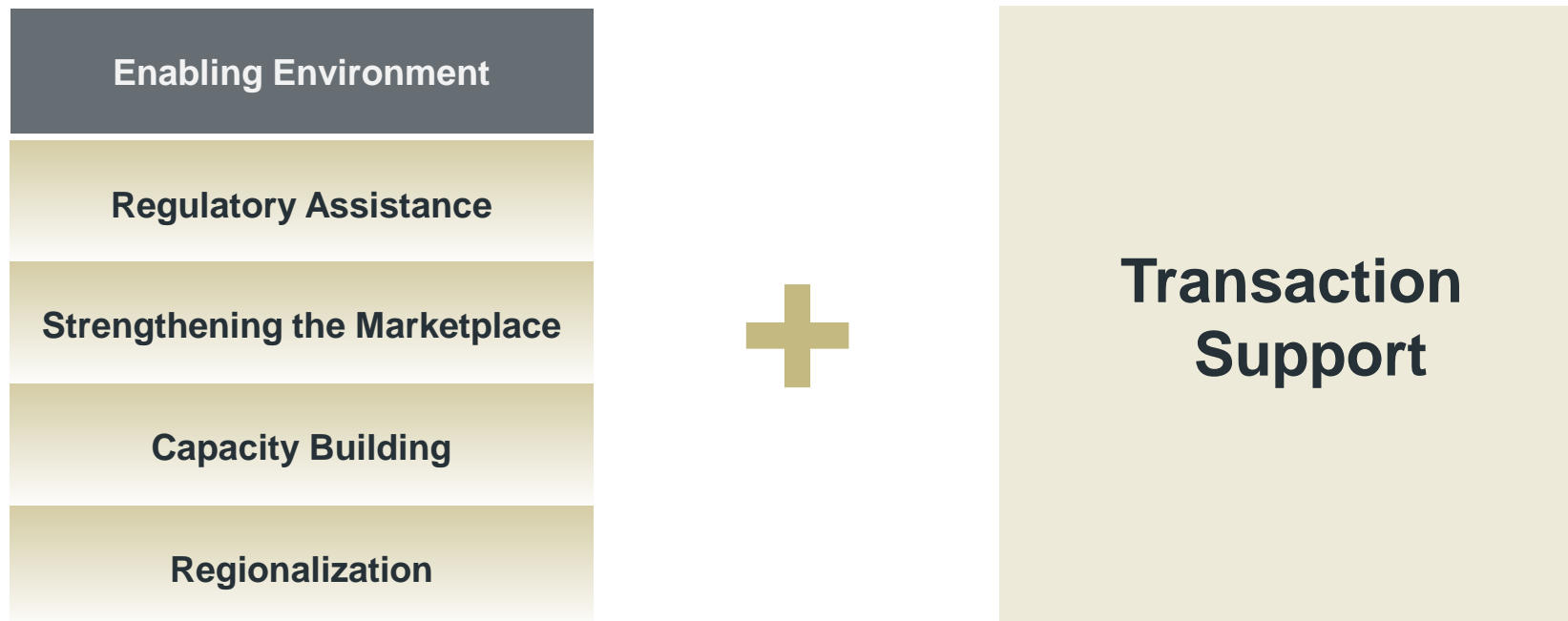
East Africa: *New ABS regulations developed in Kenya & Uganda; and New Prospectus Law in Uganda*

Nigeria: *New investment guidelines implemented to allow pension funds' diversification.*

## Advisory Services in Capital Markets Development *continued*

### Programs draw on full range of World Bank/IFC tools:

- Global product expertise + in-country knowledge/presence
- Public and private engagements
- Targeted and implementation-oriented interventions



## Efficient Securities Markets Institutional Development

### ESMID fosters development of well-functioning securities markets to:

- Broaden availability of local-currency instruments
- Enable private sector development
- Improve financing for housing & infrastructure
- Create jobs and improve livelihoods

### ESMID's advisory support:

- Helps simplify regulations and procedures for issuing, investing in, and trading bonds
- Helps establish and strengthen market infrastructure
- Builds capacity of market participants
- Facilitates the regionalization of securities markets
- Supports demonstration and replicable transactions

### ESMID supports all layers of a securities market:

- **Regulators** – MOF, Securities Commissions, Central Banks, Pension Regulators
- **Market Infrastructure** – Exchanges, OTC Trading System, Clearing & Settlement System, Rating Agencies
- **Market Participants** – Issuers, Intermediaries, Investors

#### Partnership between:

*Swedish International Development Cooperation Agency (Sida); International Finance Corporation*

**World Bank** | *Funding: \$6.3 million from Sida*

## ESMID Coverage



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