

Private Credit in Emerging Markets

By Meera Narayanaswamy and Fedor Miryugin

Private credit broadly refers to nonbank lending to firms. Since the Global Financial Crisis of 2008–2009, private credit has grown considerably. Although the phenomenon of private credit is more predominant in the United States and the United Kingdom, it is also a growing asset class in emerging markets. Private credit appeals to borrowers because of bespoke, structured solutions, longer maturities, greater flexibility, and ease of doing business. Investors also like private credit, because of its attractive risk-adjusted returns. The global economic shock resulting from the COVID-19 pandemic has seen marked changes in production and consumption patterns in the real economy, with ripple effects in credit markets. Uncertainty and increased risk aversion spiked a rush to top up liquidity—the so-called ‘dash for cash’—primarily in the bank-intermediated credit and public capital markets. Private credit is an important segment of financial markets, that has played a strong role in providing access to financing for underserved segments. With significant amounts of ‘dry powder’ (capital raised but not yet invested), private credit has a potentially important role to play in the post-pandemic recovery as a long-term partner for growth.

Since the 2008 Global Financial Crisis, there has been a well-documented surge in private credit. Private credit assets under management (AUM) tripled from \$271 billion in 2009 to over \$800 billion in 2019, and so-called ‘dry powder’ for private debt funds (i.e., cash raised by funds but not yet invested) grew from about \$102 billion in 2009 to \$261 billion in 2019.¹ This has been driven primarily by the prolonged low-yield environment and low default rates, which has spurred demand and created additional supply of funds from investors, and by the disintermediation of banking and the dislocation of traditional sources of debt which has created additional demand from firms.

There has been a similar strong shift from public markets to private market transactions in equity markets. The availability of low-cost credit is also considered a primary reason for this. Strikingly, the decline in long-term interest rates has reached the point where government yields are now negative in many countries. In November 2020, Bloomberg reported a staggering \$17 trillion of negative interest rate debt.² In recent years, debt markets have also witnessed the steady rise of

covenant-light (or ‘cov-lite’), borrower-friendly loans driven by low default rates and market competition. Cov-lite loans have proven beneficial for borrowers during the COVID-19 crisis since the additional stress from managing covenants has been reduced. However, it remains to be seen where and how the market will correct during the recovery from the pandemic.

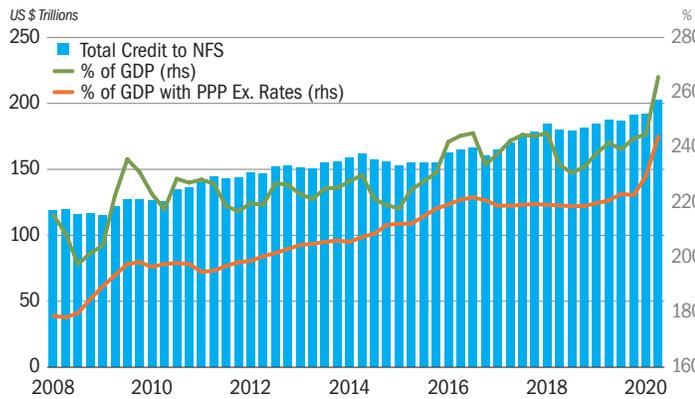
These trends have extended to emerging markets (EM), which have also seen the growth of private credit alongside a lesser but still perceptible retrenchment of banks from middle-market lending activities, as more banks in emerging markets become Basel III-compliant. Over the period 2009 to 2019, private credit fundraising in emerging markets tripled, from about \$2.4 billion to more than \$8 billion per year.³ Investors have found the premium offered by private credit to be appealing when compared to the more liquid areas of credit markets. As a result, private debt strategies in both developed markets and EM have found a place in the asset allocation of most major institutional investors. However, regulators who set regulatory limits on exposure to different asset classes have not reached a common view on how to classify private debt among

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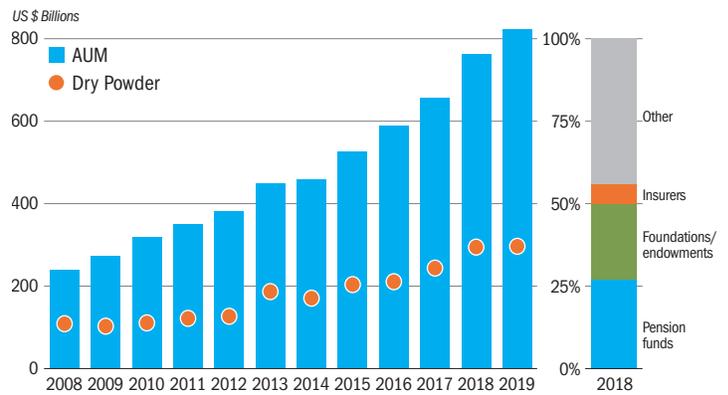
A. TOTAL CREDIT TO THE NON-FINANCIAL SECTOR (NFS) TREND—BY QUARTER, 2008–2020



Source: Bank for International Settlements (BIS).

Note: Total credit to the non-financial sector from all sectors at market value adjusted for breaks.

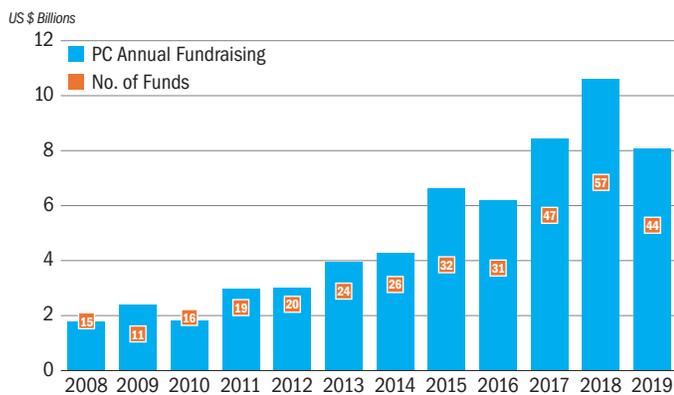
B. GLOBAL PRIVATE CREDIT AUM



Source: Preqin; BIS.

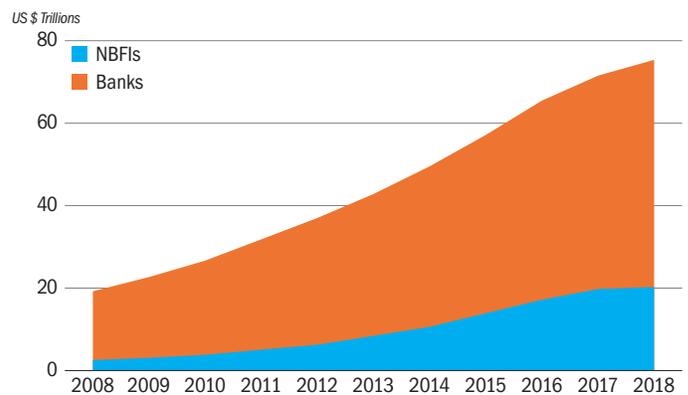
Note: Dry Powder refers to cash raised but not yet invested.

C. EM PRIVATE CREDIT ANNUAL FUNDRAISING



Source: EMPEA (Emerging Markets Private Equity Association).

D. TOTAL FINANCIAL ASSETS OF BANKS VS. NBFIs IN EMs



Source: FSB.

Note: NBFIs correspond to MUNFIs as defined in the FSB report, and 'Banks'—to the difference between MUNFIs and total financial assets in EM.

FIGURE 1 Debt Landscape

Note: NBFIs = Nonbank Financial Institutions; MUNFIs = Monitoring Universe of Non-Bank Financial Intermediations; EM = emerging markets.

the different asset classes that they regulate, and to which 'bucket' private debt gets allocated remains a debated point. Traditionally, mezzanine and distressed debt are allocated from an alternatives bucket, whereas senior lending can vary.

In some emerging markets, yield-seeking has driven debt-to-GDP ratios to perilous levels, a situation that has become the subject of hot debate. Total EM external debt was estimated to exceed \$71 trillion in 2019,⁴ of which around \$3.2 trillion was owed by 'frontier' markets.⁵ However, a rising proportion of external debt is in private hands rather than in the official sector due to the growing participation of private investors in a multitude of bond funds.

The onset of the COVID-19 crisis has aggravated this already difficult situation. While the World Bank and the International Monetary Fund (IMF) led a G20 moratorium on official bilateral payments that started in April 2020 and will last at least until June 2021 (the Debt Service Suspension Initiative or 'DSSI'), private creditors are taking a case-by-case approach in situations where formal requests by DSSI-eligible countries

have been made. To date agreements on relief have been reached in all cases where debt is considered sustainable.

With the heightened awareness about the urgency of climate change, ESG (environmental, social, and governance) and responsible investing are becoming more popular and even required in capital markets transactions. This has resulted in rapid growth of thematic bonds, especially climate-related bonds (green bonds, blue bonds, forest bonds, social and sustainability bonds—see EM Compass Note 89 for more on this topic⁶). In emerging markets, a number of banks and corporates have issued climate- and sustainability-related bonds, which bodes well for the post-COVID-19 recovery.

Dimensions in Private Credit

Private credit refers to the extension of loans directly to firms by nonbank actors. Typically, these are institutional investors, including insurance companies, pension funds, hedge funds, foundations and endowments, sovereign wealth funds, and other fund managers. In the asset management world, private credit is a catchall label for a smorgasbord of investment

strategies aimed at the debt component of the capital structure of corporate borrowers. Thus, it includes all debt obligations in various formats issued by firms in private markets (as opposed to public markets). Private credit is an information-intensive area, and investors can gain access either directly if they have the in-house skills, or more commonly, through asset managers.

Private credit investment strategies usually encompass a number of specialized strategies, with products ranging from collateralized senior lending at one end of the scale to special situations and distressed debt at the other end, and with a gamut of products such as mezzanine loan funds, opportunistic credit funds, and collateralized loan obligations (CLOs) in between (Box 1). Some private credit strategies may also have an allocation for public markets instruments such

BOX 1 Fund Managers Specialize in Specific Market Segments

Capital preservation strategies:

Senior lending (levered/unlevered) specializes in senior debt—i.e., first-ranking and often secured loans—and is used to finance buyout transactions and growth funding. Returns are generated almost exclusively by interest payments.

Subordinated capital (mezzanine debt, capital appreciation) is an intermediate form of financing between debt and equity, and is used mainly for buyouts and growth finance, and is subordinate to bank debt. Returns are made up of several components, including current and final interest payments, as well as warrants for shares in the company being acquired, which are known as equity kickers.

Return-enhancing strategies:

Structured equity/subordinated capital is invested in par debt or equity-like instruments and often functions as a replacement for private equity.

Distressed credit primarily involves buying deeply discounted debt securities in the secondary market, focusing on acquiring sound assets in situations where companies are in financial difficulties.

Opportunistic and niche strategies:

Credit opportunities invest across a wide variety of financing structures and situations. Alongside complex refinancing of companies that are cut off from capital markets for various reasons, the funds also specialize in secondary transactions.

Specialty finance pursues niche strategies such as nonperforming loans in one small industry, e.g., aviation finance, pharmaceuticals, music and healthcare royalties, trade finance, rediscount lenders, and catastrophe bonds.

Source: Cambridge Associates. 2017. "Private Credit Strategies: An Introduction."

as bonds and debt securities and secondaries. An instrument that has become popular in the middle-market segment in the United States and Europe is the unitranche loan, which combines senior and subordinated financings into a single debt instrument with a blended rate for the borrower. At their core, these strategies aim to supplant or supplement bank financing to private firms at every level of the capital debt structure. Each of these strategies has a very different risk-return profile, and it is critical that investors pay close attention to the investment strategy and the market opportunity. The Global Impact Investing Network (GIIN) reports that private debt or fixed income instruments (rather than equity) comprise one of the largest asset classes in impact investing.⁷

The EM private credit landscape typically includes senior and mezzanine lending, structured equity, distressed debt, and special situations, although there may be some overlap in these investment strategies.

Attractiveness of private credit: Private credit can offer an attractive 'Goldilocks' risk-return profile—not too risky but also not too bland. Broadly speaking, returns can range from 200 to 300 basis points (bps)⁸ over traditional fixed income instruments (bonds) at the senior lending end of the spectrum, to over 400–800 bps at the riskier end.⁹ Also, private credit's low correlation with traditional asset classes such as public market fixed income, and equity can provide positive diversification for investor portfolios. In senior lending strategies, investments are often collateralized and backed by the real assets of borrowers. Since the industry has matured, private credit now has knowledgeable fund managers, as well as observable and verifiable track records and performance, making it easier for investors to select managers in this asset class.

Although private credit is a more nascent asset class in emerging markets, it may also offer some downside protections that have become less available in developed markets. Creditor rights' regimes, collateral systems, enforcement, and insolvency law frameworks have been improving in EM, thereby also providing an impetus for the growth and appeal of private credit.¹⁰

Finally, in emerging markets, the governance of these funds and resulting investor protections follows very different regimes. In many emerging markets, and especially in Latin America, private credit is offered by means of specialized vehicles—such as the FIDCs¹¹ in Brazil, CKDs¹² in Mexico, and FCPs¹³ in Colombia and Peru—which are onshore regulated structures with built-in investor protections. FinTechs are also emerging that use private credit fund structures to finance their lending business—for example, the FIDCs in Brazil.

Risks: In addition to sharing the common ailment of all private markets—that of illiquidity—private credit assets have a special risk profile worth noting. In its more

standard forms, by definition, private lending has a cap on the potential upside that can be earned from investments (although it also has more downside mitigation than is the case with equity). Riskier strategies at the hybrid end of the spectrum—such as mezzanine lending, distressed debt, and special opportunities—however, can compete favorably with the return expectations of alternatives. Next, private credit strategies are quite susceptible to defaults. Analogous to O-ring effects, even one default can severely hamper a private credit fund's overall returns. Default rates can be generally gleaned from indexes publishing data on corporate defaults for debt markets segments such as the S&P/LSTA and others in the United States. It should be noted though, that in comparison to public debt, private debt has a much higher chance of recoveries in the event of default, depending on the type of strategy.

In addition, private credit may run a higher risk of adverse selection. Distinct from equity, debt is already offered by many providers in the banking world, as well as in public capital markets. Accordingly, companies that opt for private lending instead of these alternatives could be considered a riskier proposition. However, it should be noted that private credit usually targets a different segment from bank lending, given its ability to take more risk.

Further mitigating this potential risk is the fact that even though there are more debt providers, the universe of potential borrowers—companies ready to take on debt—is also higher, relative to equity. Debt, being non-dilutive and relatively hands-off in comparison to equity, may thus find more takers in the market for financing.

IFC's Experience in Private Credit

IFC is a leading financier in emerging markets, both in private credit and private equity (PE) on its own account. IFC is also a leading investor in specialized funds that pool capital to finance EM companies, projects, and financial institutions. This approach of providing financing through intermediaries has dual benefits: helping to grow the EM asset management industry while making finance available for growth. But while IFC is a leading investor in EM private equity funds, it has invested in few private credit strategies/structures, primarily since IFC is a significant EM lender in its own right and private credit is a nascent asset class in EM.

It is important to note that the penetration of private credit in emerging markets varies significantly by region. Asia has had the largest share of fundraising and investment opportunities, followed by Latin America. However, in Africa, the Middle East and North Africa region (MENA), as well as emerging Europe, the opportunities have been more limited.¹⁴ With the exception of one investment in the Middle East in mezzanine lending, most of IFC's

investments in private credit have been in Latin America. IFC is also a leading investor in small and medium enterprise (SME) funds that, for the most part, invest in self-liquidating instruments. SME funds with this sort of investment strategy are also a type of private credit strategy.

In 2013, IFC created the Managed Co-lending Portfolio Program (MCP), which creates diversified portfolios of EM private sector loans, offering investors the opportunity to get access or increase exposure to EM private debt opportunities. The MCP platform allows investors to co-invest with IFC on commercial terms and leverage IFC's origination capacity and market knowledge. As a result, IFC can provide larger financing packages and increase the pool of financing available to achieve development goals.

In Latin America, favorable regulatory frameworks and high interest rates have spurred the growth of private credit. In the last few years, IFC has made some notable anchor investments in the region. These include: in 2015, in *Fondo de Inversion HMC Capital High Yield Peru*—the first high-yield structure in Peru that invests in bonds issued by SMEs on the Peruvian Mercado Alternativo de Valores (MAV), an alternatives exchange; in 2016, in *Fondo de Inversion FCP 4G Credicorp Sura*—the first infrastructure debt fund in Colombia that provides debt financing to 4G¹⁵ road projects; in 2016, in *Vector Mezzanine* in Mexico; and, in 2018, in *Patria Credito Estructurado Fondo de Investimentos em Direitos Creditorios*—a private lending FIDC in Brazil that lends to mid-sized Brazilian companies.

Earlier investments include *Credit Suisse Mexico Credit Opportunities Trust* in 2014 in Mexico that was issued in an innovative special type of security (CKDs) to finance Mexican SMEs; *Gulf Capital Credit Opportunities* in MENA in 2013; *Central American Mezzanine Investment Fund (CAMIF) I and II* in 2008 and 2014, respectively; and *Darby Latin America Mezzanine* fund in 1999. While this is not IFC's comprehensive EM portfolio in private credit, it is a representative sample.¹⁶

On the public debt side, IFC has invested in a few bond funds, the most recent examples being the *HSBC Real Economy Green Investment Opportunity GEM Bond Fund (REGIO)*, and the *Green Bond Cornerstone Fund (GBCF)*, which invests in EM green bonds issued by financial institutions.

Terms and Structuring in Private Credit Funds

A fund structure that is often used for private credit mirrors the standard private equity model, or a close derivative of it. While the most salient driver of the terms and structure of credit funds is the profile of their returns and fund economics, in general, the basic principles of a PE fund structure can be applied to the more illiquid end of debt funds.

It is worth mentioning some broadly similar aspects of the two *private* investment strategies (private lending and private equity). Both rely on financing private companies, though at different levels of the capital structure. Both also rely on the investment judgment and selection expertise of specialized teams of asset managers or servicers, though credit expertise and equity selection are vast areas of knowledge unto themselves. Both need an exit, though in debt structures, refinancing or using self-liquidating instruments can provide greater assurance of achieving an exit, which in private equity is usually more complex and highly dependent on readying investee companies for a potential listing, a secondary buy-out, or some type of merger or acquisition event.

However, the similarities end there. The commercial characteristics of private lending and private equity are quite different. But terms can also be adjusted to accommodate for these differences. Debt strategies generate interest payments and coupon income and, therefore, tend to have more (and earlier) distributions than PE funds. Using the same reasoning, they also typically have shorter investment periods and lives. The fee structure in most debt funds tends to be primarily based on invested capital, and often on net asset value, rather than on committed capital.

The most critical difference in private credit, primarily in senior lending strategies, is the (often) capped upside, and the concomitant vulnerability to defaults on the downside. Whereas in PE, one bad investment has the potential to be recouped via greater returns on other investments—since both the timing and method of exits are discretionary—in private debt, this potential is severely limited.

Good origination and underwriting vastly mitigate the risk of a potential default and very often in private credit strategies, the excess spread (and the degree of collateralization in senior lending) should be adequate to cover expected losses. In addition to these mitigants, recycling provisions (which deal with how/whether to recycle distributions from a fund) can also be adjusted to match the characteristics of private credit. Typically, these provisions (similar to re-investment in the PE context) tend to be quite generous and allow the recycling of all proceeds or return of principal, effectively extending the period during which investments can be made.

In addition, since distributions in debt funds tend to be more frequent, and investments have shorter holding horizons, this also aids capital call logistics and fund accounting.

The benefit afforded by pooling capital in a fund structure is not as great in a credit fund as in a private equity fund. The recycling provision can mitigate this by putting more capital to work. For all the reasons discussed previously—including the capped upside and the vulnerability to defaults—the investment return per dollar is likely to be lower in the average debt fund compared to a private equity fund.

Another way to structure a fund to put more capital to work to improve returns is tranching. Tranching a vehicle to include different risk/return slices works well to accommodate different investor risk appetites. Typically, private credit funds tend to be commingled funds, mostly following the PE structure, where all investors are *pari passu* (or, on equal footing, with equal access to assets of the fund). However, tranching can benefit investors and managers by increasing assets under management at the cost of slightly more complexity in fund terms, and a slightly greater challenge in fundraising. Given the fixed returns generated by the portfolio, tranching can also enhance the returns of the equity tranche.

IFC's recent investment in *Patria Credito Estruturado*, a BRL-denominated private credit fund managed by *Patria Investimentos* (a leading alternatives fund manager in Brazil), is a good example of a structured private credit vehicle. This fund vehicle is a closed-ended, structured credit fund that is locally incorporated as an FIDC, with the primary objective of providing senior secured lending to medium-sized private companies in Brazil.

The fund raised a total of BRL1.2 billion with an innovative structure of three tranches of senior, mezzanine, and junior quotas—each with a different risk/return profile to attract investors with varying risk appetites. Senior quotas for up to BRL840 million had a minimum local rating of brAA- by Fitch Ratings, and primarily target pension funds. Junior quotas for up to BRL240 million were not rated and target local family offices as well as international institutional investors. Credit enhancement for the senior quotas is provided by the junior and mezzanine quota tranches so that senior quotas can achieve a credit rating that would qualify them for purchase by domestic institutional investors.

IFC was an anchor investor in this vehicle, and the first foreign investor in the junior quotas of up to \$10 million (in BRL equivalent). Since the amount of the junior quota tranche provides a subordinated, loss-absorption feature for the senior quota, IFC's proposed anchor investment in the junior quota helped launch the fund. Such vehicles are not the norm in other jurisdictions where more traditional commingled structures are used.

Depending on the market opportunity and investor appetite, open-ended/evergreen structures and segregated mandates could also be alternative solutions. Open-ended funds can give managers more investment latitude, with the ability to recycle capital indefinitely, if investors do not redeem.

Fund Ratings

A relatively common practice in some EM jurisdictions is the use of fund ratings. The portfolio allocation of all major private lenders such as pension funds, insurance companies, and investment funds is dependent on external credit ratings.

These can be self-imposed, ratings-based investment strategies. However, in many emerging markets they are more often in regulatory frameworks that use rating grades as a reference for establishing quantitative limits and capital requirements.

In several countries in Latin America, before fundraising,¹⁷ funds are able, and often required, to get a shadow rating that is based on structured finance ratings criteria. This allows the fund to be marketed to insurance companies and pension funds that have capital requirements and therefore can only invest in rated products.

A rating provides a way of addressing this concern. Shadow ratings are ‘indicative’ and potentially widen the investor pool available to the fund. In addition, they also provide the discipline of stress testing the fund model for potential defaults. Since a higher credit rating would require adequate subordination, or credit enhancement, the structure of these vehicles can be more complex than a commingled structure.

IFC typically plays both roles—both anchor investor and/or credit enhancer—where providing a partial credit guarantee can significantly move up the senior tranche rating so it becomes eligible for investors with ratings requirements. In the case of *Patria Credito Estructurado*, for example, the senior tranche received its rating of brAA- from Fitch Ratings, which was based in part on the level of the junior tranche, and the later introduction of a mezzanine tranche.

Local Currency

Currency risk continues to be a substantial concern for foreign investors in all EM investing, and especially in private credit, given its return profile. Typically, the use of natural hedges, good structuring, and a good macro strategy can help to protect net returns from currency fluctuations, in addition to using hedging solutions, where available, and depending on the cost of the hedge.

Often, IFC’s investments in these vehicles (especially in Latin America) have been in local currency, as the funds have been denominated in local currency. For an international investor, this means an additional dimension of structuring. IFC uses a variety of methods to access local currency, from swap markets to issuing local currency bonds. In some structures such as *Patria Credito Estructurado*, IFC has invested in the senior tranche in BRL, which is fully hedged, while it is exposed in the equity tranche. IFC policy requires market risk to be mandatorily hedged on all senior instruments and, with discretion, on subordinated instruments and equity. In Colombia, in *Fondo de Inversion FCP 4G Credicorp Sura*, IFC was able to provide 20-year peso financing for an infrastructure debt vehicle through dynamic hedging, or rolling over peso-dollar hedges. In *HMC High Yield Peru*, which had a 60:40, nuevos soles-to-U.S. dollar denomination, IFC invested in dollars, and the dollar equivalent of the nuevos soles.

A further question is the mobilization of other international investors in local currency tranches. Although not in common use, credit-linked notes and participation agreements are potentially innovative ways of attracting dollar investors into local currency-denominated funds.

Domicile

The prevailing legal and regulatory framework for creditor rights and investor protections is a critical factor in the assessment of opportunities. In emerging markets, private credit has spawned a number of very experienced and capable local managers. In Latin America, where there is a strong pool of domestic pension investors, funds tend to be primarily denominated in local currencies, and locally managed and domiciled. In other parts of the world that have a growing domestic investor base, this phenomenon is becoming increasingly common. In India and China, a dual onshore/offshore co-investing structure to accommodate dollar and local currency investors is quite common.

An interesting dimension of IFC’s investments in Latin American private credit vehicles is that they are locally domiciled and regulated, and quite distinct from the offshore, domiciled PE model. Offshore funds domiciled in tax neutral jurisdictions that are selected based on favorable tax, legal, and regulatory environments typically have strong contractual agreements that aim to align the interests of investors and managers. Typically, with onshore funds, the local Banking Superintendent and the local Securities and Exchange Commission (or equivalent regulator) provide oversight for these asset management vehicles, with strong investor protections. Brazilian FIDCs, Mexican CKDs, Peruvian funds, and Colombian FCPs are all regulated onshore, with fund formation and fund management and compliance adhering to these rules.

Conclusion

While private credit has not been the first port of call for corporate treasurers during the peak of the COVID-19 crisis, it has enormous potential to play a meaningful role in supporting the post-crisis recovery. Private credit is a distinct asset class that can play the role of a long-term growth partner for portfolio companies, as it is adaptable in providing add-on financing and working capital, as well as handling distressed situations. In emerging markets, where access to finance is a particular challenge to economic development and growth, private credit with its non-dilutive characteristic and its more flexible and bespoke solutions can play a very important role.

During the initial stages of COVID-19 recovery, banks will likely focus more on restructuring their portfolios rather than extending new credit as they deal with workouts in tourism, retail, commercial real estate, airlines, and infrastructure—

the sectors most impacted by the pandemic. Thus, nonbank finance institutions and private credit will likely be able to provide more dynamic and sophisticated products to borrowers, as well as offer investors much better returns than bank deposit rates. The post-COVID world will also likely see fixed income transformed with FinTech, private credit, and corporate bond markets.

The COVID-19 crisis has seen a massive rush to the bond markets and banks to top up liquidity. As the pandemic's recovery phase gets fully under way, important distinctions will have to be made between the solvency and liquidity of borrowers, in addition to the better targeting of fiscal stimulus toward affected industry segments.

As traditional banks become more regulated, and with technology-enabled financial services on the rise, markets will continue to find other avenues for capital intermediation. On the positive side, companies and institutions that require capital to grow, including SMEs, can diversify their sources of borrowing with an expanding universe of credit providers.

Even as private credit may be deemed 'shadow banking' by regulators, as the IMF notes, its activities are well within the reach of regulatory control and are often less of a problem than feared.¹⁸ Adequate buy-side protections are critical, whether they take the form of onshore regulated environments, such as those in many Latin American countries, or as strong covenants in investor-manager legal agreements. The World Bank Group has long promoted capital markets alternatives for SME financing, and private credit, with its many sub-segments, can be one important solution.

ACKNOWLEDGEMENTS

The authors would like to thank Alexandre Coutinho, Patria Investimentos, Sao Paulo, Brazil; Hubertus van der Vaart, SEAF, Washington, DC, United States; Dan Dancourt, HMC

Capital, Lima, Peru; Mario Dib, Sumatoria, Bogota, Columbia; Jeremy Pickles, Partner, Hogan Lovells, London, UK; and the following IFC colleagues: Xavier Jordan, Chief Investment Officer, Financial Institutions Group, IFC; Matthew Saal, Principal Industry Specialist, Financial Institutions Group, IFC; Jacqueline Irving, Senior Sector Economist, Sector Economics and Development Impact – Financial Institutions Group, Economics and Private Sector Economics, IFC; Juliette D'Hollander, Senior Counsel, Legal – Treasury, Legal, IFC; Gordon Myers, Chief Counsel, Technology and Private Equity, Legal and Compliance Risk, IFC; JR Rao, Senior Advisor to the Vice President, Risk and Finance, IFC; Sebastiano Bottio, Principal Financial Officer, and Jose Carlos Martin Wong Davila, Senior Financial Officer, both Client Solutions – Latin America and the Caribbean, Treasury, IFC; Charles Blitzer, Consultant, Digital Finance – Advisory Services, Financial Institutions Group, IFC; Yasmin Saadat, Consultant; and Thomas Rehermann, Senior Economist, Thought Leadership, Economics and Private Sector Development, IFC for their review and suggestions.

Please see the following additional reports and EM Compass Notes about responses to COVID-19 and about reaching unserved and underserved populations in emerging markets: *Artificial Intelligence in Emerging Markets—Opportunities, Trends, and Emerging Business Models* (report, September 2020); *Reinventing Business Through Disruptive Technologies—Sector Trends and Investment Opportunities for Firms in Emerging Markets* (report, March 2019); *Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis* (Note 89, August 2020); *Artificial Intelligence Innovation in Financial Services* (Note 85, June 2020); *Leveraging Inclusive Businesses Models to Support the Base of the Pyramid during COVID-19* (Note 84, May 2020); *What COVID-19 Means for Digital Infrastructure in Emerging Markets* (Note 83, May 2020); *Digital Financial Services: Challenges and Opportunities for Emerging Market Banks* (Note 42, August 2017).

¹ Preqin Ltd. 2019.

² Mullen, Cormac, and John Ainger. 2020. "World's Negative-Yield Debt Pile Has Just Hit a New Record." Bloomberg News.

³ EMPEA. 2019. "Year-End 2019 Global Private Capital Industry Data & Statistics."

⁴ Institute of International Finance. 2020. Global Debt Monitor: "COVID-19 Lights a Fuse."

⁵ Institute of International Finance. 2020. Frontier markets Debt Monitor: "Rising debt and climate risk."

⁶ See Peeters, Sophie, Maud Schmitt, and Ariane Volk. 2020. "Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis." EM Compass Note 89, IFC, August 2020.

⁷ The GIIN & Symbiotics. 2018. "The Financial Performance of Impact Investing through Private Debt." See also: IFC. 2020. "Growing Impact – New Insights into the Practice of Impact Investing," Chapter 1: The Size of the Impact Investment Market, 2019, pp. 1-13.

⁸ One basis point is equal to 1/100 of 1%.

⁹ Industry sources.

¹⁰ World Bank. 2015. "Principles for Effective Insolvency and Creditor/Debt or Regimes."

¹¹ Fundo de Investimentos em Direitos Creditórios – a type of fixed-income instrument.

¹² Los Certificados de Capital de Desarrollo – Certificates of Capital Development.

¹³ Fondos de Capital Privado = private capital funds.

¹⁴ EMPEA. 2019. "Year-End 2019 Global Private Capital Industry Data & Statistics."

¹⁵ The '4G' or 'fourth generation' program refers to the Colombian government's ambitious infrastructure initiative which includes 32 projects to build some 8,000 kilometers of roads.

¹⁶ See for more details about some of the mentioned examples: IFC. 2015. "IFC Invests in New HMC Fund to Boost Peru's Capital Markets," March 2, 2015. <https://ifcext.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/A7D73533BB4FCFE885257DFC005A2F63>; see also BNDES. 2018. "BNDES, IFC and IDB Invest Form an Investment Fund Worth R\$ 1.2 billion," Oct 15, 2018. https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Noticias/2018/20181005_bndes_ifc_bid.html; IFC. 2013. "IFC and Gulf Capital Sign Investment Agreement to Boost Access to Finance," April 1, 2013. <https://ifcext.ifc.org/ifcext/pressroom/IFCPressRoom.nsf/0/3E55C78C02C5B58F85257B4000356675>

¹⁷ S & P Global Ratings. 2017. "Fund Credit Quality Ratings Methodology," June 2017; see also S & P Global Ratings. 2017. "Webcast on the Updated Methodologies for Fund Credit Quality and Volatility Ratings (FCQR & FVR)," June 26, 2017. https://www.spratings.com/documents/20184/908539/US_FI_Webcast_17JUN_FCQRslides/6af76588-c7a2-48cc-bb76-74e6c6a54f4d

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