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IFC: Financing Infrastructure in Emerging Markets

Carlos A. Fernandez-Duque

Chief Counsel, Legal Department
International Finance Corporation

The TGN Financing

- ◆ Securitized project finance for US\$ 255 million, comprising
 - US\$235 million senior bonds
 - ◆ US\$20 million “A” bonds
 - ◆ US\$215 million “B” bonds
 - US\$20 million subordinated convertible bonds
- ◆ three “themes”
 - IFC
 - project finance
 - securitization

IFC

- ◆ Bretton Woods, 1944: IMF and World Bank
- ◆ “loans made... by the Bank shall ...be for the purpose of specific projects”
- ◆ private borrowers v. government guarantees
- ◆ proposals for the creation of IFC

IFC in 1956

- ◆ US\$100 million of subscribed capital
- ◆ “financing private productive enterprises in less developed member countries”
- ◆ equity investments prohibited
- ◆ government guarantees prohibited
- ◆ loans from World Bank prohibited

IFC in 1997

- ◆ US\$2.2 billion paid-in capital,
US\$2.5 billion retained earnings
- ◆ US\$29 billion total assets,
US\$24.3 billion total liabilities
- ◆ US\$432 million FY97 net
income
- ◆ US\$6.7 billion new investment
approvals (own account US\$3.3
billion, participations US\$3.4
billion)

IFC in 1997 (cont.)

- ◆ US\$1.35 billion (own account and participants) for infrastructure projects
- ◆ authorized to make investments “in such form...as [IFC] may deem appropriate in the circumstances”
- ◆ authorized to borrow from IBRD

IFC in 1997 (cont.)

- ◆ borrowing from international markets (US\$3.9 billion in 1997); AAA rating
- ◆ securitization US\$400 million
- ◆ participation program

Project Finance

- ◆ background
 - World Bank loans
 - non-recourse/limited recourse real estate loans
 - off balance sheet financing
- ◆ financing granted to a single purpose entity to carry out a specific project, and to be repaid out of the project's cash flow - lenders assume the commercial risk of the project

Project definition

- ◆ first approximation
- ◆ technological feasibility
- ◆ economic/financial feasibility
- ◆ risk analysis
- ◆ legal structure

Risk Analysis

- ◆ pre-completion risks
 - technical completion
 - overrun risk
 - funding risk
- ◆ post-completion risks
 - availability of inputs
 - qualified personnel
 - technological risk
 - environmental risk
 - market risk
 - political risk

Political Risks

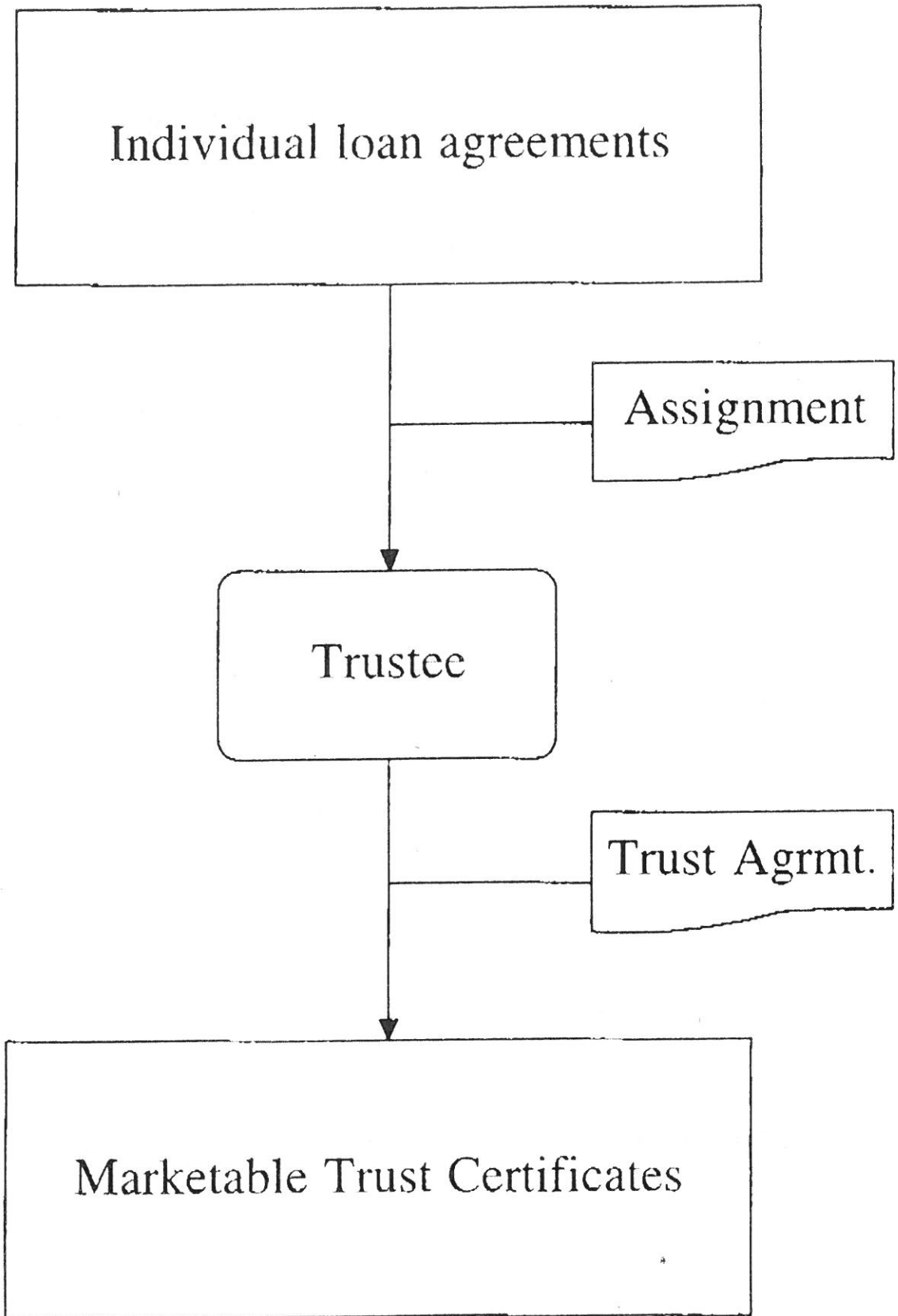
- ◆ expropriation
- ◆ inconvertibility
- ◆ war and civil disturbances
- ◆ adverse changes in tax/royalty regime
- ◆ “local content”, “buy national”
- ◆ local staffing
- ◆ import/export restrictions

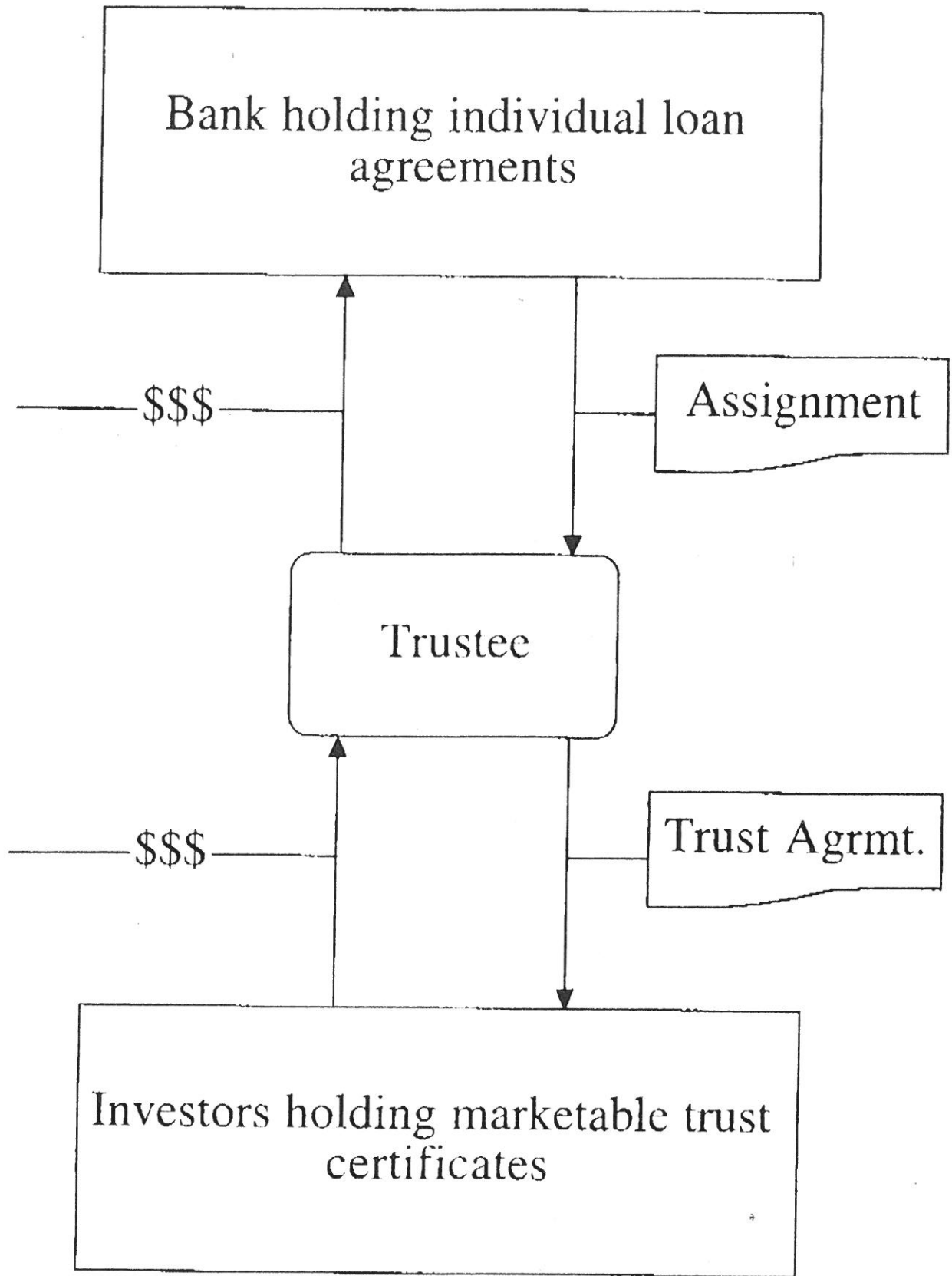
Risk Allocation and Legal Structure

- ◆ “Single purpose vehicle”
- ◆ Debt-equity ratio
- ◆ Construction contracts
- ◆ Credit and Intercreditor agreements
- ◆ Insurance
- ◆ Support agreements
- ◆ Supply and “offtake” agreements

Pool Securitization

- ◆ Converting a pool of individual loan agreements into marketable securities
 - mortgage loans
 - car loans
 - personal loans
 - credit card receivables
- ◆ Sale of assets





Objectives of Selling Bank

- ◆ Sell risk assets and reduce capital needs
- ◆ Generate servicing income
- ◆ Take advantage of fluctuations in interest rates

Objectives of Institutional Investors

- ◆ Risk diversification
 - types of investment
 - decreasing default risk
- ◆ Access retail markets without incurring operating costs

Critical Issues for Seller

- ◆ “Sale” treatment

- accounting

- tax

- banking regulation

- ◆ Rating of certificates

Critical Issues for Investors

- ◆ “Sale” treatment for bankruptcy purposes
- ◆ “Pass-through” tax treatment
- ◆ “Credit enhancement”
- ◆ Prepayment risk
- ◆ Liquidity of certificates

IFC's Single-asset Securitization

- ◆ Structure and documentation familiar to institutional investors
- ◆ Favorable rating
- ◆ Liquidity

The TGN Financing

- ◆ TGN and its improvement/
expansion plan
- ◆ The bond issue
 - “A” Bonds for US\$20 million for IFC
 - “B” Bonds for US\$215 million to be participated to trustee
 - “C” Subordinated Convertible Bonds for US\$20 million for IFC
 - project finance structure

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The TGN Financing (cont.)

- ◆ Trust acquired a participation in 100% of the "B" Bonds, for US\$215 million
- ◆ To finance such acquisition, the trust issued trust certificates for US\$215 million to a group of insurance companies
- ◆ Trust certificates were rated BBB by S&P and BBB- by Duff & Phelps

