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Catalysing Liquidity

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Catalysing liquidity

*The International Finance Corporation (IFC) is turning to structured credit to help private companies in developing countries gain better access to international funding. **Jayne Jung** talks to Lee Meddin, deputy treasurer and head of structured credit at the private arm of the World Bank group, about the initiative*

Private companies in developing countries have always found it hard to get access to international financing. In an effort to help solve this problem, the Washington, DC-based International Finance Corporation (IFC) has embraced structured products as a means to generate liquidity for lesser-known corporates.

Traditionally, the IFC's financing activities had a 75% loans/25% equity mix, says Lee Meddin, deputy treasurer and head of structured credit, at the private arm of the World Bank group. But things are changing. Since June 2005, Meddin's team has executed more than $2 billion of structured transactions. The group also facilitated a $400 million collateralised debt obligation (CDO) called Santiago, which included a significant exposure to emerging market corporates. Meddin says this is just the start: "My expectation is the number of structured deals will continue to grow at a fairly rapid pace."

The IFC's structured credit deals are intended as a way of helping lesser-known, non-blue-chip emerging market companies access the international capital markets. "Usually blue chip corporations in emerging markets are able to access the domestic and cross-border markets without any support," says Meddin. "But often we see a very healthy sector, which may include companies that do not have the name recognition of the top few corporations in their sector, but still are good credits."

In the case of the Santiago CDO, the group committed itself to investing in the equity tranche, on the condition that the portfolio included a significant exposure to non-blue chip emerging market credits. "It shows that we're not there just at the end of the deal to buy paper that was sold to us. We are there at the beginning of the structuring process, which gives comfort to other investors," says Meddin.

In the end, 15% of the portfolio was invested in non-blue chip company primary issuance, meaning the emerging market companies were able to benefit directly from the proceeds of the investment. The IFC invested $15 million in the subordinated notes, and a further $13 million in the Class C notes, rated Baa3/BBB- by Moody's Investors Service and Standard & Poor's, respectively.

> "We are there at the beginning of the structuring process, which gives comfort to other investors" Lee Meddin, IFC

"We take the first-loss piece, so senior investors will never lose their first dollar until IFC has lost everything," explains Meddin, adding that to date the IFC has not lost a dollar on any structured credit trade.

Overall, the deal comprised $212 million in Class A notes, rated Aaa/AAA, $68 million in Class B notes rated A2/A, $32 million of the Class C notes, $88 million in subordinated notes and $20 million in combination notes, representing subordinated securities packaged with certain zero-coupon notes.

California-based Pacific Investment Management Company (Pimco), the manager of the transaction, has the ability to substitute up to 20% of the underlying assets each year, as long as the substitutions meet all required coverage and collateral quality tests.

The collateral management fee includes a performance component contingent upon reaching the 15% bucket of non-blue chip corporate new issuance.

"If we could do another such transaction with Pimco or another collateral manager and increase that 15% to 20%, or 30%, for us that would be a very big success developmentally," Meddin says.

The group is currently working on a new CDO, where five to 15 emerging market companies that require financing will issue debt specifically for the reference pool, says Oliver Stier, senior financial officer at IFC. He declined to give further details, because the deal has yet to close.

By tapping into the strong demand for structured credit from a wide variety of institutional investors, the IFC has been able to help grow liquidity in emerging markets. The use of CDOs means the group has another tool at its disposal in its mission is to promote sustainable private sector investment in developing countries.

Lee Meddin