IMPACT DEAL OF THE YEAR
WINNER: ROOM2RUN

As the first-ever synthetic impact securitisation with a multilateral development bank (MDB), Room2Run helped to free up vital capital for the African Development Bank (AfDB) to fund infrastructure projects across multiple African countries. As well as setting the benchmark for how risk transfer technology can be deployed innovatively and to positive effect, the transaction overcame a number of structural and regulatory hurdles in the process and so is a worthy winner of SCI's Impact Deal of the Year award.

"THE ROOM2RUN TRANSACTION HAS ATTRACTED TREMENDOUS INTEREST FROM INSTITUTIONAL INVESTORS ACROSS THE WORLD"

Swazi Tshabalala, vp and cfo at the AfDB, comments: "The Room2Run transaction has attracted tremendous interest from institutional investors across the world, and this opens new pathways for the Bank and other MDBs to further explore the possibility of freeing up and recycling their scarce capital resources by unlocking a pool of financing from investors that have previously not considered African risk."

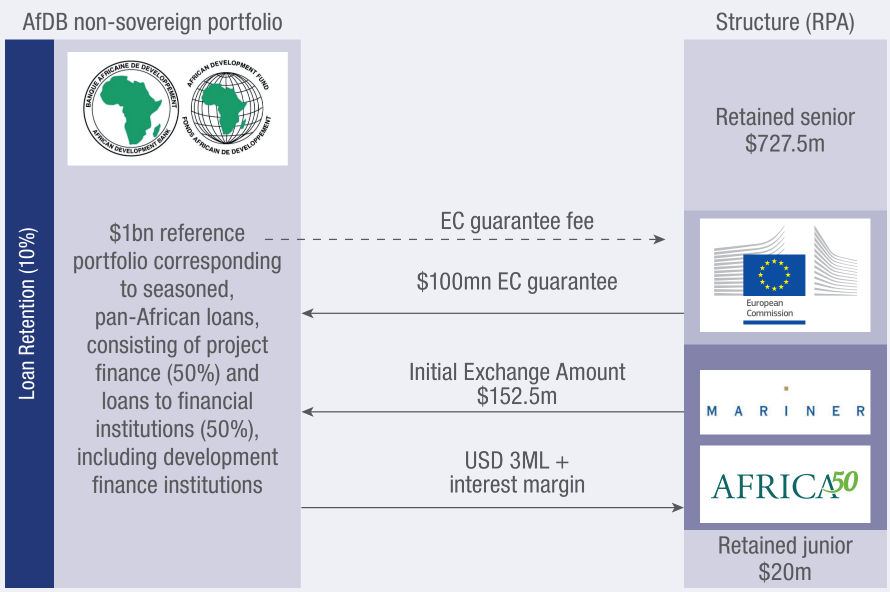
Mariner Investment Group acted as anchor investor on Room2Run and Molly Whitehouse, director at the firm, says that the transaction "surpassed our expectations". She adds: "It energised the impact investing arena and the development bank community, sparking a number of conversations with other MDBs. Even a year on, the deal is still top of mind within many MDBs."

The transaction, Whitehouse says, required perseverance on all sides, "but it takes time to lay such significant new pathways." The parties, she adds, sought to be mindful of the precedent that Room2Run would set for future MDB securitisations and the tremendous impact this would have for development finance as a whole.

Furthermore, adds Whitehouse, with the foundation now in place, Room-2Run has changed the landscape; other MDBs are evaluating similar strategies, looking to build on Room2Run as a proven and replicable model. The deal wasn't straightforward, of course, and Mariner learnt several lessons.

One was learning "how important it is to get buy-in from senior management and public shareholders within MDBs in order ▶

Structure overview



to ensure the success of such a transaction," says Whitehouse. "As a first-of-its-kind deal, we all came up the learning curve, from investors to bank management to advisors and rating agencies."

Suzana Sava-Montanari, counsel at Latham and Watkins, the leading law firm on Room2Run, adds that her firm, too, was "especially pleased to have engaged successfully with a visionary MDB and investors who were inspired and ready to be the first to do such a transaction. It was also certainly a success in that the deal freed up a significant amount in lending capacity to fund African infrastructure and other projects."

Structurally, the deal can also be seen as an achievement, says Sava-Montanari, because completing the deal with an MDB was similar to creating a hybrid transaction. Due to the adjustments that had to be made, it was not like a typical commercial bank SRT trade.

She explains: "For one thing, there was no regulator involved, which meant we had to incorporate a more flexible structure and to adopt other features in order for the bank to be able to achieve the required capital release benefits."

Mizuho International acted as financial advisor to AfDB on the transaction. Juan-Carlos Martorell, md, co-head of securitised products and structured finance at Mizuho, comments that his firm was also "very happy" with the transaction. Particularly, he adds, because it pioneered the use of synthetic securitisation for capital relief for the MDB community and also achieved the reduction of RWA under S&P's rating agency methodology, because MDBs are unregulated banks.

> "FUTURE TRANSACTIONS SHOULD HAVE FEWER HURDLES, NOW THAT THE MODEL OF ROOM2RUN HAS BEEN ESTABLISHED"

Martorell adds that a number of hurdles also had to be cleared and that "for a first-time issuer there is always the challenge to engage all the stakeholders of the bank" across origination, risk, IT, special situations, legal and accounting. Furthermore, he says that working with S&P to accommodate the transaction to its criteria was also challenging but that, "overall, everybody did a great job and rowed in the same direction."

In terms of the lasting impact of the transaction, it freed up US$650m in extra lending capacity, which the bank has committed to deploy in renewable energy developments in African countries. Whitehouse says: "Based on the significant due diligence our team conducted on the bank, we perceived their processes to be quite robust, both for extending credit and for measuring the social and environmental impact of a project. The core mandate of AfDB is to help improve infrastructure and boost economies across Africa, so the positive impact of capital liberation is quite direct."

> "FOR A FIRST-TIME ISSUER THERE IS ALWAYS THE CHALLENGE TO ENGAGE ALL THE STAKEHOLDERS OF THE BANK"

Whitehouse adds that collaboration was also key for the deal to succeed and that Mizuho International did "a terrific job as AfDB's financial advisor, especially in its work interfacing with the credit rating agencies." She notes that this work was an "integral component of the deal, with Room2Run establishing a framework that future deals could also follow. S&P also put in significant intellectual resources and time on the transaction to develop a methodology for incorporating SRT into its MDB capitalisation analysis."

Looking ahead, all the parties share optimism about the future use of risk transfer methods for impact investment. Whitehouse comments: "Future transactions should have fewer hurdles, now that the model of Room2Run has been established. Although there is certainly room for additional efficiencies, as within any new market, we are proud to have served as the anchor investor in opening the door."

On a similar note, Martorell says that MDBs are constantly looking to enhance their balance sheet and Room2Run has opened a new market and several MDBs are working on potential transactions, although nothing is imminent. Whitehouse concludes: "The SRT market has expanded significantly over the past few years across new geographies, sectors and issuers. Among these opportunities, we believe that some are more interesting for our Limited Partners, especially in more esoteric investments, such as Room2Run." ■

HONOURABLE MENTION: **FCT JUPITER 2019**

Societe Generale's US$3.4bn FCT Jupiter 2019 transaction also stands out for introducing a number of groundbreaking structural innovations in connection with the redeployment of released RWA. The deal not only frees up a dedicated capital envelope, whereby capital can be reallocated in favour of positive impact finance assets, but also debuts a pricing reduction feature incentivising the Bank to participate in new Positive Finance lending. The credit protection is structured as a funded financial guarantee and covers a low mezzanine tranche, which was privately placed with Mariner Investment Group's International Infrastructure Finance Company Strategy.