

PROJECT ABSTRACT

Project number	RG-0050
Project name	Latin American Darby Mezzanine Financing
Country	Regional
Sponsors	Darby Overseas Investments, Ltd (Darby), Banco Bilbao Vizcaya (BBV) and Dresdner Kleinwort Benson (Dresdner)
Total project cost	US\$500 million
IDB participation	IDB A-Loan: US\$75 million
Department	Private Sector Department
Status:	Approved by the Board of Executive Directors
Date:	September 29, 1999

The Bank has been requested to provide a direct loan of approximately US\$75 million to the Darby Latin American Mezzanine Fund (the "Fund").

The Fund is intended to address the shortfalls in the availability of long term subordinated or mezzanine debt financing in the Region. The IDB and the Fund sponsors have identified the availability of this type of long term debt financing, which supplements sponsors' equity as a form of risk capital, as having significant potential for mobilizing private sector led infrastructure projects in Latin America.

The Fund will provide a new type of financing to private sector projects in Latin America and the Caribbean (the "Region"). Mezzanine finance consists of financial instruments that combine debt and equity features. Mezzanine loans are generally structured as long term subordinated loans with equity participation features such as conversion rights, warrants or other profit participating features. The Fund is expected to play a pioneering role in introducing mezzanine financing in the Region, thereby offering both investors and borrowers a financing instrument with a risk/return profile that better meets their needs.

The Fund will seek to achieve current returns and long-term capital appreciation through a diversified portfolio of mezzanine investments. The Fund will provide corporate finance to ongoing concerns, as well as limited recourse project finance, primarily in infrastructure sectors. The Fund will help achieve the Bank's objective of developing infrastructure throughout Latin America and the Caribbean. The Fund will make 65% of its investments in the four basic categories of infrastructure: Power, Water and Sanitation, Transportation and Telecommunications. The remaining 35% will be invested in other productive sectors.

The Fund management will be the responsibility of Darby Overseas Investments, Ltd (Darby) and the two sponsor investors, Banco Bilbao Vizcaya (BBV) and Dresdner Kleinwort Benson (Dresdner). Darby is an emerging markets fund management company chaired by former U.S. Secretary of Treasury Nicholas F. Brady.

The size of the Fund is expected to be US\$500 million comprised of US\$250 million in equity and US\$250 million in senior debt, including US\$75 million from the Bank. Insurance companies, pension funds and other institutions are expected to have an interest in high yield emerging markets investment opportunities, as proposed by Darby. The Fund expects to be fully invested within a five year period after launch (although the investment period may be extended up to 2 years). Individual loans made by the Fund would have tenors of up to 12 years with relatively long grace periods consistent with the definition of mezzanine capital. By the end of the IDB disbursement period, and thereafter, the IDB loan will not be more than 25% of the total Fund assets.