

IFC's first synthetic securitization powers up EM trade finance

Deal liberates capital and tempts investors to take new frontier market risk

Jon Hay

The International Finance Corp has signed its second securitization in recent years, and first using a synthetic structure. The long-awaited \$500m deal transfers risk from its large portfolio of trade finance guarantees, which is vital to connecting many frontier economies with global markets.

The securitization is part of the drive by the World Bank Group — like other multilateral development banks — to bring in private sector investors as co-financiers, so that it can expand its development work using existing capital.

The deal frees up capital for the IFC, raising its return on capital and enabling it to underwrite more trade finance guarantees. This in turn will enable it to generate new credit spread income.

Mohamed Gouled, the IFC's vice-president of products and clients, told *GlobalCapital* the securitization had three goals.

The first was to “demonstrate that development finance trade finance assets bring a unique risk/return value proposition with real development impact,” he said. “A performance track record that is second to none, combined with more than half of the securitized reference portfolio [being] in low income, fragile and conflict countries.”

Secondly, Gouled said it was intended to crowd private capital into emerging markets by distributing risk to investors as a portfolio, beyond what they would take on a single name basis.

Third, it aimed to “deploy our capital more efficiently, so we can do more to close the significant trade financing gap in emerging markets and developing economies.”

The securitized assets come from the IFC's flagship Global Trade Finance Program, in which it has established links with 225 banks in 71 emerging markets.

The IFC offers full or partial guarantees on a variety of trade finance instruments issued by these banks, so that banks in other countries — including in other emerging markets — are more willing to engage with them for trade finance.



Mohamed Gouled, IFC: 'performance track record second to none'

Over the past 20 years the GTFP has supported \$137bn of trade transactions in 100 countries.

The programme is treasured by EM banks, as international banks are often reluctant to take their risk, or demand onerous cash collateral.

Whole stack

Unusually for an MDB securitization, this covers the whole capital stack of the portfolio.

Newmarket Capital, a US investment firm that specialises in synthetic securitization, is guaranteeing half the \$50m first loss tranche, with the IFC keeping the rest.

Insurance companies Axa XL, Axis and Liberty Mutual are between them insuring the \$110m mezzanine tranche (the 10% to 32% layer); and Deutsche Bank and Santander are taking the \$340m senior exposure. In each of those layers, there is a lead investor taking more than the others.

Deutsche Bank is also arranger for the mezzanine and senior tranches.

“We are grateful to our partner banks, Deutsche Bank and Santander, who took the time to understand the data underlying this MDB-originated asset class,” said Gouled, “as well as insurance companies Axa XL, Axis Capital and Liberty Specialty Markets, who have been our long term partners and have once

again renewed their confidence in the quality of our origination.”

He added: “I would also like to acknowledge the role played by Newmarket Capital, coming alongside us in the junior tranche, for its sophisticated understanding of this new structure and for helping us lay the foundation for a replicable approach to private capital mobilization.”

Molly Whitehouse, managing director at Newmarket Capital in Philadelphia, said: “With the volatility in the geopolitical environment today, the IFC has been really counter-cyclical [in supporting trade finance]. It's a really important time to be enabling the IFC to do more of this lending. We are not primarily an impact investor, but as a human it is amazing to see the impact this lending has and to be able to partner with the IFC around it is really exciting. I would love the opportunity to do more.”

Groundswell of action

Securitization activity among multilateral development banks is growing, after a long gestation.

It began in earnest with the African Development Bank's \$1bn synthetic deal, Room 2 Run, in 2018, in which Newmarket's predecessor firm Mariner Investment Group invested. It freed up capital for \$650m of new lending.

The AfDB did a second deal in 2022 but it was five years before Banque Ouest-Africaine de Développement became the second MDB to use synthetic securitization. In 2024 the technique spread to Latin America when IDB Invest, the private sector lending arm of the Inter-American Development Bank, issued a \$1bn transaction called Scaling 4 Impact, which it tapped last December.

Last week, the European Bank for Reconstruction and Development signed its first securitization, on a €1bn portfolio of diverse loans.

“It feels like a time of exceptional momentum for MDBs being able to engage the private sector,” said Whitehouse. “We had this thesis a decade ago that MDBs, despite not having a regulator, would also benefit from the same types

of balance sheet management tools that commercial banks were using – especially securitization.

“The AfDB’s transaction was the first of its kind – it almost felt a bit like an experiment,” she said. “Then Covid happened, and all these institutions very naturally focused on counter-cyclical lending, not new structuring ideas. Now to have the IDB, EBRD and now this – it feels like it’s more of a market.”

Different approach

Nearly all the MDB securitizations so far have been synthetic structures, in which two layers of mezzanine risk on a portfolio of private sector loans are placed with external investors. The MDB retains the first loss layer, usually 2% to 3%, and the senior, around 70% to 85% of the insured principal.

The IFC has explored other options. Last September it priced an unusual \$510m deal, IFC Emerging Markets Securitization 2025-1 Ltd, backed by 57 dollar loans made in 28 countries.

Among MDB securitizations in recent years, this was the first to use a true sale rather than synthetic structure, and the first in which the senior risk was placed with investors. An external investor joined the IFC in holding the equity tranche.

The IFC was aiming to tap into the large US collateralised loan obligation market, reaching mainstream commercial investors.

Its new trade finance deal, dubbed Project Chrysalis, is closer to the pattern of the AfDB, IDB Invest and EBRD’s issues, being synthetic and placed privately with the specialist investors who buy commercial banks’ ‘significant risk transfer’ (SRT) securitizations.

But unlike those MDBs the IFC has transferred first loss and senior risk.

There is no special purpose vehicle. The external investors are providing guarantees or insurance contracts direct to the IFC.

The senior and mezzanine guarantees are unfunded, but Newmarket’s credit protection agreement is collateralised with cash, placed in an account at a third party bank.

In the AfDB’s and EBRD’s transactions the cash was held at the MDB itself.

The IFC’s mezzanine and senior tranches pay fixed returns; the first loss receives the residual yield on the portfolio. The IFC and Newmarket share equally in its risk and return.

“What’s significant about this transaction is that it’s full stack,” said Whitehouse. “One of the things I have always liked about SRT for the MDBs is that it engages different sets of investors. In the IFC trade you can see them all in one place – across the capital stack

there are different types of investor that want different risk-return profiles and can engage in different places. It creates a wider menu of ways that the private sector can engage with multilaterals.”

The IFC did speak to a few other investors about the first loss tranche, but Xavier Jordan, a chief investment officer in the structured products group at the IFC in Washington, said “for a variety of reasons it ended up being most expeditious and efficient to do it with Newmarket.”

Because the IFC is transferring all but \$25m of the exposure to a \$500m portfolio, it is able to report that the private sector mobilisation ratio of the deal is \$19 of private money for every \$1 of its own.

It moves the IFC closer to a model in which it originates assets with an eye on how it can distribute them to private investors, increasing the throughput of development finance it can support with its capital.

“Originate to distribute is one of the goals of the institution,” said Virginie Couchet, a principal investment officer in the same IFC team. “We are able to do synthetic and cashflow securitization. These techniques can be adapted to different types of asset class within our portfolio.”

Terms of trade

Trade finance loans are short term and losses are exceptionally rare. The assets in this deal have an average tenor of six months, though the IFC will offer guarantees for up to three years. The securitization will be replenished for two years, and then amortise, with a legal final maturity of three years.

Whitehouse said that to securitize trade finance assets, “you need to have a sophisticated internal system for turning over the portfolio, because the underlying [exposures] are so short dated – you have to put in a new one as soon as one matures.”



Molly Whitehouse, Newmarket: ‘What’s significant about this transaction is that it’s full stack’

The IFC guarantees are extended to the banks which receive the trade finance commitments, known as confirming banks, which pay a fee to the IFC.

They are expected to reduce the rates they charge issuing banks to what they would require for exposure to the triple-A rated IFC. About half the time, the issuing bank pays the guarantee fee, with confirming banks bearing the cost in the other cases.

The guarantees can cover a wide range of trade finance instruments – letters of credit, promissory notes, bills of exchange, bid and performance bonds, advance payment guarantees and supplier credits for import of capital goods.

The IFC also offers technical training in trade finance to EM banks.

Insurance companies are a prominent source of risk capacity in trade finance, and the IFC works with 19 of them on its transactions, where they take credit risk on individual transactions, relieving the IFC.

It has used portfolio credit insurance since 2017 through its Managed Co-Lending Portfolio Program, but not in trade finance. In February, under the MCP, the IFC signed a new \$6bn credit insurance policy with the 19 insurers to support \$10bn of new lending to small and medium-sized companies.

The three insurance companies in the securitization are among that panel and are the same three which shared the €45m mezzanine tranche of the EBRD’s securitization last week.

Deepening interest

There will be keen interest in why, in both its securitizations, the IFC has shed the full risk on a portfolio, except part of the first loss.

Other MDBs have not found ways to do this that they judged efficient. The cost of obtaining cover for those last parts of the risk would have eaten too much into the yield on the portfolio.

The IFC, like the EBRD, has clearly been eager to emphasise how much it is motivated by wanting to attract private sector investors into development finance – as well as by the pure financial benefit of capital relief, or any other advantage such as reducing concentrations in the portfolio.

“Compared to other securitizations MDBs have been doing where the purpose was really capital relief, here we get some capital relief because we’ve been able to place risk across three tranches, but the purpose is really to go for mobilisation and get the market more familiar with GTFP assets,” said Couchet. “We’ve done it in a way that is simple, using synthetic securitization, so the assets stay with us and we continue to service them.”

IFC Global Trade Finance Program

	Volume in year to June 2025 (\$ bn)	% change on 2024
Total trade supported	11.9	23
Low income countries	8.1	29
Fragile and conflict-affected countries	2.4	-29
Sub-Saharan Africa	4.1	7.5
South-South trade	7	39

Figures show value of goods traded under finance in which the IFC guarantees emerging market banks
 Source: World Bank Group Annual Report 2025: IFC Appendixes

From the investor mobilisation point of view, the securitization can be seen as a companion vehicle to the GTFP — a sort of advanced level in which some GTFP participants can stretch to take risks they have not before.

“Santander and Deutsche Bank are senior investors who we work with a lot in trade finance business, but this portfolio transaction allows them to take more exposure to names they might not be able to take as much exposure to on a single name basis,” said Jordan. “And they can take some exposure in fragile and conflict-affected states that they might not otherwise take exposure to at all.”

The same goes for the three insurance companies.

Newmarket, too, “has some pretty interesting institutional investors behind it which are taking exposure to a portfolio that is more than half some pretty complicated countries,” said Jordan.

Newmarket manages money on behalf of multiple institutional investors.

Going all the way

Clearly, though, the deal is not just about training investors to take new risks. It is also financially accretive for the IFC, and generates capital relief.

The capital freed up by the deal could enable the IFC to do about another 30% of its size — \$150m — of trade finance business.

Jordan said the IFC intended to use that capacity within its GTFP programme, creating a visible increase. “We are not just freeing up capital but headroom limits,” he said, “for us to do more business with names where we face single name limit issues. We are facing a huge demand for this GTFP product, and we now have more capital to [meet it].”

The IFC has shed as much of the risk on the portfolio as it possibly could, since regulations to which the senior and mezzanine investors are subject required the originator to retain 5% of the risk. Newmarket would have been willing to take more than half the equity tranche, the IFC said.

As it is, by selling half the first loss as well as all the higher layers of risk, the IFC

has reduced the capital it holds against the portfolio to such an extent that the return on the 10% bottom layer is high enough to attract a commercial investor.

Emerging market bankers have told *GlobalCapital* that while the IFC’s guarantees are vital to them, because they enable them to connect with global trade finance networks, they are not cheap. Spreads can be in the range of 200bp.

Jordan and Couchet would not confirm that figure, but Couchet said: “We are a price taker [on trade finance guarantees]. Spreads can move on a very quick basis up or down [depending on market conditions]. It’s difficult to say one number.”

If confirming banks seek guarantees from the IFC, it receives the same spread as they are paid. However, its intervention means much more credit capacity is available to issuing banks than they could get otherwise.

Ukrainian banks, for example, after Russia invaded in 2022, were only able to continue participating in trade finance — and hence keep goods flowing in and out of the country — thanks to guarantees from the IFC and EBRD.

The healthy spread on the guarantees should mean there is plenty of risk premium left after paying Deutsche Bank and Santander to take what should be a very safe risk: insuring a well diversified portfolio of short term credit exposure to emerging market banks — around 60 institutions at the deal’s outset — with 32% credit enhancement beneath them.

That remaining premium pays for the mezzanine guarantee, leaving a residual return on the 10% equity slice which is attractive to Newmarket.

It might seem surprising that it is efficient for the IFC to lay off senior risk to commercial banks. But Jordan said: “Banks like Santander and Deutsche Bank are prolific issuers of SRT deals — we invest in them. They are prolific sellers of higher risk [portfolio exposures] to free up capital. But banks are very well positioned to book increased amounts of lower risk exposure, particularly in riskier [countries]. They are very good repositories for this kind of exposure.”

Banks, after all, frequently retain the

senior layers of risk when they engage in their own SRT deals.

In essence, the IFC’s capitalisation is more conservative than banks’. Commercial banks will hold so much less capital against senior risk than the IFC that even though they demand a higher return on their capital, the IFC can afford to pay this and still end up ahead.

It is not known how much capital the IFC holds against trade finance exposure, but across its whole portfolio, at June 2025 it had \$39bn of capital available, supporting total loan, equity and debt investments of \$67.5bn, \$6.6bn of guarantees and \$44.8bn of liquid assets. That is a ratio of assets and guarantees to capital of 3.0.

The IFC does not report that figure, but gives its ratio of debt plus committed guarantees to equity as 2.0, which is consistent.

In 2025 it made \$1.71bn of allocable income, a return of 4.4% on its \$39bn of available capital.

Growing business

In its financial year to June 2025, the IFC supported \$11.9bn of trade, up from \$9.7bn the year before. However, that does not correspond directly to the IFC’s exposure. Some of its guarantees are partial, and individual transactions can last just a matter of months. The volume of trade finance guarantees it wrote in the year was \$6.9bn.

Its annual report records \$6.6bn of guarantees outstanding, for all purposes. It held \$3.5bn of trade finance assets and guarantees, up 25% from the year before.

Last year the IFC committed \$1.85bn of long term guarantees for all purposes and recorded its long term core mobilisation — meaning the private sector co-investment it enabled — as \$3.82bn for trade finance.

Under short term finance, which is not differentiated by product type, it committed \$10.1bn from its own account and \$5.3bn of core mobilisation.

Little-known territory

Securitization is not commonly applied to trade finance, even by commercial banks. A handful of banks including Deutsche Bank and Standard Chartered have done transactions.

One active source of deals is the IFC, but as an investor.

Between 2014 and 2025 the IFC has engaged in four SRT deals with Crédit Agricole CIB, covering Crédit Agricole’s emerging market trade finance portfolio. Each deal has replaced the one before.

In the most recent transaction in November, Marco Polo IV, the IFC took a \$95m second loss slice, 4.75% of a \$2bn portfolio.

The IFC's purpose is to encourage commercial banks to increase their provision of trade finance to emerging markets – and Crédit Agricole has given specific commitments to do that.

The MDB has done similar deals with other banks, including local institutions in emerging markets.

At the end of 2025 Newmarket invested with the IFC in a \$400m trade finance securitization for Santander Chile, dubbed Atacama.

The bank wanted to transfer risk but Chilean rules do not give it the same capital benefit as an SRT transaction would gain in Europe. Instead, it asked the IFC to wrap the whole portfolio, changing its risk weighting to zero.

Newmarket then protected the IFC from the first loss layer of risk on the portfolio.

"It was the first thing we had executed with IFC," said Whitehouse. "They were using their hat as a triple-A institution to make something work that wouldn't otherwise. It was smart and interesting."

Getting comfortable

Crucial to the potential for securitization to grow in trade finance, including in emerging markets, is the ability of investors to understand the risks.

The investors in IFC's deal were allowed to know the names of all the banks in the portfolio.

However, given that the portfolio turns over rapidly, the heart of their underwriting was to get comfortable with the IFC's policies, procedures and performance.

"The IFC certainly has a very strong track record in trade finance, but you are taking exposure to emerging economies you might not otherwise take exposure to," said Whitehouse. "Partnering with IFC is a nice opportunity for us and other investors, to gain the diversification of some emerging market exposure, but with a partner which is a core, major MDB and to be able to stand on their shoulders and leverage their expertise and relationships. Partnership with IFC makes a big difference in bringing those private sector investors into more emerging market jurisdictions."

Losses on the IFC's trade finance portfolio have been virtually non-existent.

The selection of assets for the securitization is complex, and follows

a set of eligibility criteria and portfolio guidelines agreed with the investors.

The assets are not cherry-picked, nor is selection driven primarily by choosing which assets would yield the most capital relief.

The main purpose is to ensure the portfolio continues to generate enough spread to pay the fixed returns required by the senior and mezzanine protection providers, and leaves enough to satisfy Newmarket in the equity.

The IFC employed a Finnish company called Iconicchain which specialises in portfolio selection algorithms for significant risk transfer securitizations to design a system to continually replenish the pool with the optimal assets. The algo also takes into account the credit ratings of the banks and their governments.

"We replenish more often than monthly, but report monthly to investors, and there is quarterly payment," said Couchet.

Although there are 60 banks in the portfolio at the outset, any of the 225 could come into it during the deal's life.

Iconicchain also helps the senior investors with the reporting they need to do to the European Securities and Markets Authority as investors in a securitization.

Choosing higher spread assets for the securitization also increases its development impact, because more of the assets than in the IFC's general portfolio are in low income and fragile countries.

As the techniques and familiarity become more established, trade finance securitization is likely to become more common. "We have appetite to do more with the IFC or other multilaterals or commercial banks, around similar portfolios," said Whitehouse.

More to come

Securitization among development banks has taken a long time to get going, but is now definitely under way.

The African Development Bank has been working since late 2024 on a multi-originator securitization taking in other development finance institutions including the Development Bank of South Africa.

"Looking ahead, you can see there is a pipeline and other banks are preparing to use these tools in new ways," said Whitehouse. "It's exciting to see that other innovations are also in the science lab."

New and repeat issuers from the MDB sector are working on securitizing private sector development finance assets, including trade finance, and some of the deals are likely to come this year.

The IFC's first synthetic securitization was deliberately modest in size, as a pilot. It will definitely return to the market, though it did not give timing.

"This transaction is a blueprint for future transactions," said Couchet. "It's easier to do a synthetic securitization than a cash one. We wouldn't have done this if we didn't think it could be replicated and scaled to other parts of the IFC's portfolio."

Jordan said several working groups at IFC were already working on other transactions, both funded and synthetic.

The IFC now had both those techniques in its toolbox, "and a lot of tools in between," Jordan said. "We will pick and choose the right tool for the many other kinds of asset class we have exposure to. We have demonstrated that there is investor demand without any concessionality – this [risk sharing] stands on its own feet."

Multi-originator deals are a distinct possibility the IFC is considering, partly because the G20 has encouraged MDBs to explore them. The IFC entertained this idea early in the gestation of its true sale securitization, though the first deal just parcelled IFC assets, because that was simpler.

"We have already gotten reverse enquiry in the last couple of hours [since the deal was announced] from other MDBs who want to do this together with us," said Jordan. "We have got reverse enquiry as well from some investors who would like to do [future securitizations]."

Trade finance could be a promising asset class. The IFC's thought process, said Jordan, had been "Let's do it by ourselves, and demonstrate the proof of concept. Once we have shown we can work with assets from one balance sheet we can do a multi-originator platform." Trade finance assets, he said, might "have the added advantage that this is a more standardised asset class than other MDB loans."

Looking forward, he said, "All the MDBs are looking at this. We don't want to do one deal – we are all in this journey together. We are all looking at solutions." ©