

PRIVATE INVESTMENT MOBILIZATION MODELS (PIMMS) FACT SHEET:

Political Risk Insurance (Project Level) – Private Sector (PIMM6)

EXECUTIVE SUMMARY

PIMM6 is designed to increase the universe of political risk insurance (PRI) providers to reduce investment risk within investors' fiduciary and regulatory investment mandates, mobilizing them to invest in developing countries.

OBJECTIVES

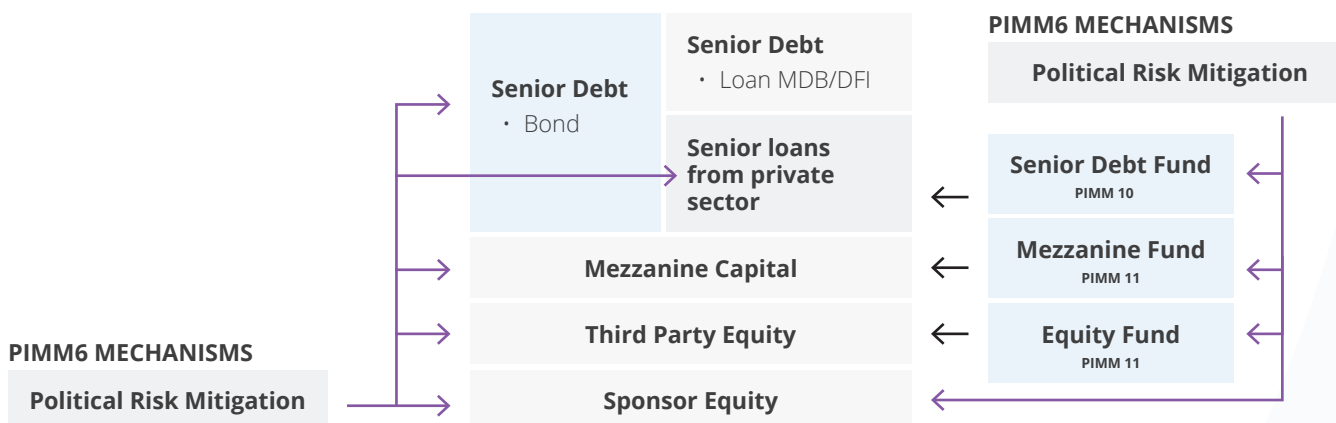
PRI protects businesses and investors from financial losses caused by political events such as expropriation, government interference, currency inconvertibility, or political violence. It helps mitigate risks in unstable regions where government actions or civil unrest could impact operations. This type of insurance is commonly used by multinational corporations, lenders, and infrastructure projects operating in developing countries. [Transparency International's Corruption Perceptions Index](#) is a reasonable proxy for political risk perception.

Rationale	Investors' perception of political risk in developing countries can impede their investment in good-quality commercial projects. PRI can mobilize investors to invest in projects if all or a subset of political risks are covered.
Description	<p>PIMM6 channels catalytic and concessional (C&C) funding to increase the supply of PRI for low and middle-income countries; mobilizing project sponsors, debt investors, and equity investors.</p> <ul style="list-style-type: none"> • PIMM6 is intended to increase the supply of PRI capacity in developing countries, which in turn will increase private investment for the Sustainable Development Goals and climate projects, such as larger infrastructure/public-private partnership projects. • PIMM6 is expected to primarily support private sector organizations to enter the market or issue more PRI in developing countries to mobilize investment. • The most common expected applications of PIMM6 are: (i) to capitalize PRI issuing companies; or (ii) counter insure (re-insure) PRI companies. • Size of project(s) is generally expected to be more than \$5 million USD. PIMM6 is not expected to be deployed for small projects typically undertaken by small and medium-sized enterprises. • The Multilateral Investment Guarantee Agency (MIGA) provides a good description of PRI. <p>PIMM6 typically covers a subset of risks covered by PIMM5 (Guarantees).</p>

Development rationale	<p>Foreign direct investors, project sponsors, debt investors (e.g., commercial banks), and equity investors often do not invest in viable projects where they assess the political risk to be too high.</p> <ul style="list-style-type: none"> • C&C funding in PIMM6 will reduce the risk or loss resulting from political risks. • C&C funding for PIMM6 is critical to mobilize investment to viable, priority projects in countries with high perceived political risk and corruption risk. • Mobilizing debt investors through PRI also increases the attractiveness of the project for project sponsors and equity investors – a project that can attract a significant amount of debt at affordable interest rates allows more projects to meet project sponsors’ and equity investors’ required rate of return. A survey by Willis Towers Watson found that 68% of major corporations purchased PRI in 2022, a significant increase from 25% in 2019. <p>C&C funding to support PRI organizations also supports the development community’s view that the perceived risk of investing in developing countries is higher than actual risk. C&C funding as junior capital in the capitalization of PRI companies, or re-insuring these companies, underwrites the difference between perceived and actual risk – if the risk (e.g., losses resulting from expropriation or capital controls) unfolds at higher levels consistent with private investors’ perceptions, then the C&C funding as junior capital will be depleted. If defaults and losses unfold closer to the development community’s view, then the PRI company will likely collect premiums at a rate sufficient to cover actual losses, thereby preserving C&C funding.</p>
Existing comparable precedents of C&C funding	<p>The MIGA Guarantee Facility made possible by the International Development Association Private Sector Window.</p>
Indicative activities for Network of C&C Funders	<p>The Network of C&C funders could establish a sub-group of organizations interested in awarding funding to support the growth of PRI coverage in developing countries.</p> <p>The Network could consider organizing a call for proposals to award their funds to the best proposals/cases aligned to PIMM6.</p> <p>In competitive global calls for proposals, it is expected the Network could receive a limited (but critical mass) number of proposals annually facilitating the awarding of C&C funding on a quasi-auction basis.</p>
Expected C&C funding instrument	<p>The majority of C&C funding is expected in the form of equity and re-guarantees for fair/equitable outcomes.</p>
Expected financial profile of C&C funding (including risk profile)	<p>C&C funding deployed in PIMM6 is expected to take on a risk profile beyond the willingness or ability of multilateral development banks and development finance institutions. There are likely two possible financial expectations of C&C funding in PIMM6:</p> <ul style="list-style-type: none"> • <u>Partial loss expectations</u>: It is likely a portion (potentially a majority) of C&C funding would result in a partial loss. • <u>Break-even or better expectations</u>: It is possible a portion (potentially a majority) of C&C funding could be deployed at break-even (or better) financial outcomes. For example, MIGA had average profits of \$160 million in 2023 and 2024 and aggregate retained earnings of \$1.6 billion.

Expected sources of private investment mobilized	<ol style="list-style-type: none"> 1. Direct: Private investors that would invest capital in PRI companies. 2. Indirect: Private investors that would provide re-insurance to PRI companies. 3. Indirect: Foreign direct investors, real-economy companies, and project sponsors undertaking more projects. 4. Indirect: Debt and equity investors benefiting from PRI and investing in companies/projects. 5. Indirect: Fund managers and developed country investors investing in funds that will invest debt and equity in companies/projects.
Expected leverage	<p>Convergence forecasts leverage expectations for PIMM6 in the range of 10-20 times.</p> <p>For example, the Green Guarantee Company covering all risks has an expected leverage of eight times.</p>
Single-country or multi-country application	Multiple-country only.
Recommended standardization for this PIMM	<p>Convergence does not recommend standardizing C&C funding for PIMM6 at the outset.</p> <p>Over time, the Network might identify the benefits of additional standardization of PIMM6.</p>

POLITICAL RISK INSURANCE/MITIGATION MECHANISM ADHERING TO PIMM6



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