PRIVATE INVESTMENT MOBILIZATION MODELS (PIMMS) FACT SHEET:

Buyer/Off-taker Risk Mitigation (Project Level) – Private Sector (PIMM7)

EXECUTIVE SUMMARY

PIMM7 is designed to increase the supply of buyer/off-taker guarantees/insurance to reduce investment risk within investors' fiduciary and regulatory investment mandates, mobilizing them to invest in developing countries.

OBJECTIVES

Increase the credit quality of the buyer/off-taker of goods or services, typically in an infrastructure finance, project finance, or public-private partnership transaction in developing countries.

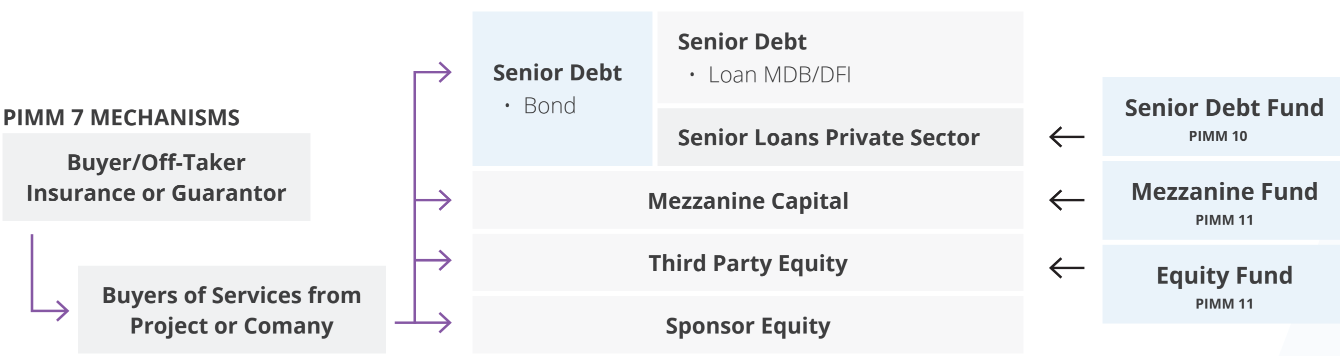
See more information on offtake agreements here.

Rationale	The risk ratings of domestic buyers/off-takers in developing countries is often well below the sovereign risk rating, which itself is too low for many investors, causing systemic under-investment, mainly in infrastructure projects. The risk rating of domestic buyers/off-takers in developing countries is driven primarily by high-risk sovereign risk ratings (e.g., a median B rating and 76% rated B or lower). Applying sovereign ceiling convention – most buyers/off-takers would likely have implied ratings of B and CCC (possibly CC) impeding many project sponsors, equity investors, and debt investors from investing, thereby causing systemic underinvestment mainly in infrastructure projects.
Description	**PIMM7 channels catalytic and concessional (C&C) funding to increase the supply of guarantees and insurance to cover the risk of buyer and off-taker default of purchase/payment obligations for borrowers and projects in low and middle-income countries, with the guarantee/insurance mobilizing private investment.** • PIMM7 is expected to primarily support private sector organizations to issue more guarantees and insurance for buyer/off-taker risk to mobilize project sponsors, debt investors, and equity investors for the Sustainable Development Goals and climate projects, such as a 200 MW renewable power project. • The most common expected applications of PIMM7 are: (i) to capitalize guarantee/insurance companies; or (ii) counter guarantee/re-insure guarantors/insurers. • The size of project(s) is generally expected to be more than $5 million USD. PIMM7 is not expected to be deployed for small projects typically undertaken by small and medium-sized enterprises. • PIMM7 typically covers a subset of risks covered by PIMM5 (Guarantees).

Development rationale	**Project sponsors often do not undertake viable projects, and debt and equity investors often do not invest in viable projects, since they assess the risk of the buyer and/or off-taker of the project's goods or services to be too high.** • C&C funding in PIMM7 will credit enhance the underlying risk of the buyer/off-taker; uplifting the risk to the guarantor/insurer's risk rating. • C&C funding for PIMM7 is critical to mobilize project sponsors, debt investors, and equity investors to viable, priority projects where the buyer/off-taker is assessed to be too risky (which is often the case in countries where the median sovereign risk rating is B-). • Mobilizing debt through this form of credit enhancement 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. • Making C&C funding available for buyer/off-taker risk is expected to spawn an increase in investment in water and renewable energy projects where the buyers/off-takers are assessed as too high risk (often the case for state-owned transmission or distribution companies). C&C funding to support guarantee-issuing organizations also supports the development community's view that the perceived risk of investing in developing countries is higher than actual risk. For example, C&C funding as junior capital in the capitalization of guarantors underwrites the difference between perceived and actual risk – if the risk (i.e., defaults and losses) unfolds at higher levels consistent with private investors' perceptions, then the C&C funding as guarantor capital will be depleted. If defaults and losses unfold closer to the development community's view, then the guarantor will likely collect premiums at a rate sufficient to cover actual losses, thereby preserving C&C funding.
Existing comparable precedents of C&C funding	Africa GreenCo is an innovative blended finance structure to overcome buyer/off-taker risk for renewable energy projects in Africa. The Multilateral Investment Guarantee Agency (MIGA) Guarantee Facility made possible by the International Development Association (IDA) Private Sector Window. The International Finance Corporation Risk Mitigation Facility made possible by the IDA Private Sector Window.
Indicative activities for Network of C&C Funders	The Network of C&C funders could establish a sub-group of organizations interested in awarding funding to support the growth of buyer/off-taker guarantees/insurance in developing countries. The Network could consider organizing a call for proposals to award their funds to the best proposals/cases aligned to PIMM7. In competitive global calls for proposals, it is expected the Network could receive many proposals annually, facilitating the awarding of C&C funding on a quasi-auction basis.
Expected C&C funding instrument	**The majority of C&C funding is expected in the form of equity and re-guarantees for fair/equitable outcomes.**
Expected financial profile of C&C funding (including risk profile)	C&C funding deployed in PIMM7 is expected to take on a risk profile beyond the willingness or ability of multilateral development banks (MDBs) and development finance institutions (DFIs). There are likely two possible financial expectations of C&C funding in PIMM7: • Full or partial loss expectations: It is likely a majority of C&C funding would result in a full or partial loss. • Break-even or better expectations: It is possible a portion of C&C funding could be deployed at break-even (or better) financial outcomes. In 2024, MIGA provided $8.2 billion in guarantees and political risk insurance supporting 40 projects (average size $500 million). MIGA's premiums are sufficient to be able to typically sell 65% of new exposure into the re-insurance market and earn a profit ($180 million in 2024).

Expected sources of private investment mobilized	1. Direct: Private investors that would invest capital in companies providing buyer/off-taker risk guarantees and insurance. 2. Indirect: Private investors that would provide re-insurance to primary companies. 3. Indirect: Foreign direct investors, real-economy companies, and project sponsors undertaking more projects. 4. Indirect: Debt and equity investors benefiting from buyer/off-taker risk 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	Reasonable leverage expectations for PIMM7 range from 10-20 times. For example, the Green Guarantee Company has an expected leverage of eight times.
Single-country or multi-country application	Multiple countries only.
Recommended standardization for this PIMM	Convergence does not recommend standardizing C&C Funding for PIMM7 at the outset. Over time, the Network might identify the benefits of standardization of PIMM7.

MECHANISM ADHERING TO PIMM7



CONVERGENCE is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.