PRIVATE INVESTMENT MOBILIZATION MODELS (PIMMS) FACT SHEET:

Private Sector Project Development Funding (PIMM2)

EXECUTIVE SUMMARY

PIMM2 is designed to increase the supply of Catalytic & Concessional (C&C) funding to support private sector entities to develop private sector projects to full viability. PIMM2 will increase the universe of viable projects.

OBJECTIVES

Increase the universe of viable projects to be financed and implemented on a private sector basis, such as infrastructure projects and renewable energy projects.

Rationale	Private investors can only invest in viable projects, and there is broad consensus that there is a lack of viable projects. Note: PIMM2 is a complement to PIMM1; the former is dedicated to public sector projects.
Description	**C&C funding used at the development stage to increase the viability of one or more projects to be undertaken on a private sector basis.** • PIMM2 supports private sector entities to develop mid-sized and large projects, such as a 50 MW renewable power project. • The size of the project(s) is generally expected to be more than USD 5 million. PIMM2 is not expected to be deployed for small projects (less than USD 5 million) typically undertaken by SMEs.
Development rationale	**Private investors require projects to be viable, as well as investable. PIMM2 creates viable projects, and other PIMMs (e.g., 5-7) create project-level investability (if required).** • Viability refers to the project's intrinsics, including compatibility with legal and regulatory frameworks, engineering soundness, cashflow generation potential, access to inputs and markets, and other factors. • Investability involves external factors such as country risk, political risk, credit risk, currency risk, regulatory risk, etc. Viable projects with these external risk factors considered "high risk" likely require additional mitigation steps (e.g., PIMMs 5-7) to be assessed as investable by private investors. • Project development is the riskiest portion of a project's lifespan due to the level of uncertainty. Making C&C funding available for project development is expected to (i) spawn a huge increase in project development companies and private sector investment in project development and (ii) subsequently attract real-economy and financial investors to invest in the post-development, construction and operational phases. Indeed, cross-border investment for infrastructure in particular requires a much larger universe of viable projects.

Existing comparable precedents of C&C Funding	• Infraco Africa, part of the Private Infrastructure Development Group (PIDG), invests in African private sector infrastructure projects starting as early as the conceptual stage, working either with a lead developer or bringing its development expertise. It makes early-stage equity investments and has developed 32 projects through to financial close. It was established in 2004 and has been funded through PIDG by three development funders (UK Foreign, Commonwealth & Development Office, Netherlands Directorate General for International Cooperation, Switzerland State Secretariat for Economic Affairs) to date for USD 350 million. • The Development Fund within Climate Investor One (CI1): CI1 is a USD 1 billion facility delivering renewable energy infrastructure projects in emerging markets. It invests in the entire lifecycle of a project, from design to construction and into operations through post-construction refinancing. The Development Fund, which covers the earliest stage, is capitalized with C&C funding from public sector donors.
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 development-stage private sector projects. The Network could organize two types of calls for proposals to award their funds to the best proposals/cases aligned to PIMM2: 1. A multi-country call (e.g., all developing countries, Sub-Saharan Africa, or ASEAN). Indicative development themes could include projects that (i) meet countries' Nationally Determined Contributions (NDCs), (ii) address Just Energy Transition Partnerships (JETPs), (iii) develop health care facilities, (iv) develop internet infrastructure, and (v) address climate adaptation. 2. A country-specific call. Indicative development themes could be (i) the host country's NDCs or JETPs; or (ii) education infrastructure public-private partnerships. In competitive global calls for proposals, it is expected the Network could receive hundreds of proposals annually, facilitating the award of C&C funding on a quasi-auction basis. In addition, individual country governments (e.g., the Government of Nigeria) could issue a call for proposals where it would catalyze other C&C funders to collaborate to award C&C funding to best cases/proposals for project development in the country. Over time, Network members would develop a higher level of experience and expertise awarding C&C funding to mobilize private investment to private sector project development.
Expected C&C funding instrument	**The majority of C&C funding is expected to be in the form of equity.** For C&C funders only prepared to award grants, funding could flow to intermediary organizations like Infraco Africa, who in turn make equity investments (and loans) for private sector project development.
Expected financial profile of C&C funding (including risk profile)	C&C funding deployed in PIMM2 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 probable financial expectations of C&C funding in PIMM2: • Partial loss expectations: It is likely the majority of C&C funding would result in a partial loss. As an example, Infraco Africa and Infraco Asia have incurred partial losses mobilizing private investors to project development. • Break-even expectations: It is possible a subset of the C&C funding could be managed toward a break-even financial objective.

Expected sources of private investment mobilized	1. Direct: project development companies like Infinity Power. 2. Indirect: financial investors and fund managers that invest debt and equity in project development companies like Infinity Power. 3. Subsequent: Some of the initial uses of C&C funding in PIMM2 could be demonstrated to be commercial and/or within the mandate of MDBs and bilateral DFIs in the medium term. Projects at the construction phase (post-development) will be financed by private sector real-economy companies, general contractors, lenders, equity investors, and through funds (with developed country institutional investors), with the use of the construction process to repay development funds in PIMM2.
Expected leverage	Convergence forecasts reasonable leverage expectations in PIMM2 could range from 5-20 times. For example, Infraco Africa has demonstrated around 18-20 times leverage.
Single-country or multi-country application	PIMM2 is expected to be deployed mostly for multiple countries but also possible for a single country: • Multi-country applications are expected to mobilize primarily project development companies operating in multiple countries regionally or globally, with C&C funding provided primarily by OECD DAC members and philanthropic foundations • Single-country applications are expected to mobilize primarily project development companies operating in one country, with C&C funding provided primarily by domestic government, OECD DAC members, and philanthropic foundations
Recommended standardization for this PIMM	Convergence does not recommend standardizing C&C funding for PIMM2 at the outset. Over time, the Network might identify the benefits of standardization.