

PRIVATE INVESTMENT MOBILIZATION MODELS (PIMMS) FACT SHEET:

Guarantees (Project Level) – Private Sector (PIMM5)

EXECUTIVE SUMMARY

PIMM5, along with PIMM9 and PIMM10, is designed to deliver the most important driver of private investment mobilization at scale – investment grade (BBB) ratings:

- PIMM5 will produce BBB-rated guarantors that provide BBB guarantees for loans/bonds at a project level.
- PIMM9 will aggregate public sector sovereign credit risk in a portfolio/fund, capitalized with three tiers of capital, with senior capital rated at investment grade (BBB).
- PIMM10 will aggregate private sector credit risk in a portfolio/fund, capitalized with three tiers of capital, with senior capital rated at investment grade (BBB).

Based on the leverage assumptions below, \$1 billion of catalytic and concessional (C&C) funding could mobilize \$32 billion of private investment.

OBJECTIVES

Increase the credit quality of a borrower/project to an acceptable level, directly mobilizing debt investors (e.g., commercial banks providing loans) to lend to the borrower/project.

Indirectly mobilize project sponsors and other equity investors to undertake and invest in the project.

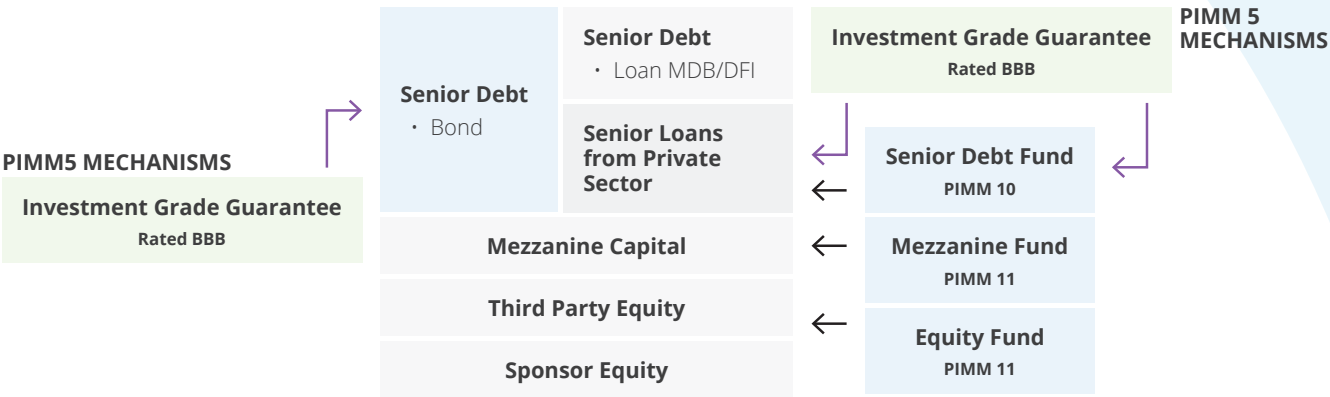
Rationale	The risk rating of projects/borrowers in developing countries is driven primarily by high-risk sovereign risk rating (e.g., median B- rating and 76% rated B or lower). Applying the sovereign ceiling convention, most projects/borrowers would have implied ratings of B, CCC, and CC, impeding many debt investors due to fiduciary and regulatory obligations.
Description	<p>PIMM5 concentrates C&C funding to increase the supply of guarantees, primarily from private sector organizations, which could credit enhance debt to investment grade (BBB).</p> <p>The most common expected applications of PIMM5 are: (i) to capitalize guarantee-issuing companies or (ii) to re-guarantee the guarantors.</p> <ul style="list-style-type: none"> • C&C funding to guarantors will allow them to credit enhance the underlying risk of the borrower up to the guarantor's rating. • The size of project(s) is generally expected to be more than \$5 million USD. PIMM5 is not expected to be deployed for small projects typically undertaken by small and medium-sized enterprises. <p>PIMM5 is a complement to PIMM6 (Political Risk Mitigation) and PIMM7 (Buyer Risk Mitigation); PIMM5 covers all risks while PIMM6 and PIMM7 cover sub-sets of specific risks.</p>

<p>Development rationale</p>	<p>Private sector lenders often do not lend to viable projects due to a multitude of risks often present in low and middle-income countries – such as credit risk, country risk, political risks, currency risk, regulatory risk, buyer/off-taker risk, grid connection, and transmission and distribution risk (for electricity generation projects). A larger universe of guarantors that could credit enhance projects to the BBB level is critical to mobilize an increase in flows of both domestic and cross-border debt investment.</p> <p>Domestic lenders/debt providers benefiting from guarantees could include domestic commercial banks, pension companies, and insurance companies. For example, there is around \$1.5 trillion in public pensions located in developing countries (excluding China) – it is important to keep a good portion of those funds in local currency – the guarantees create a borrower risk profile that allows domestic pension companies and insurance companies to invest.</p> <p>Mobilizing project-level debt via guarantees 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 rates of return.</p> <p>C&C funding to support guarantee-issuing organizations will provide a deeper evidence base for the development community's view that the perceived risk of investing in developing countries is higher than actual risk.</p>
<p>Existing comparable precedents of C&C funding</p>	<p>GuarantCo issues guarantees to mobilize local currency debt investment (loans and bonds) to fund private sector infrastructure projects. GuarantCo's capital structure includes C&C funding from the UK, Swiss, Australian, and Swedish governments as junior capital mobilizing other shareholders to invest in senior capital. GuarantCo is rated Moody's A1 and Fitch AA-. GuarantCo expects to be able to hold outstanding guarantees (on a net basis after re-guarantees) of around 5-6 times its capital.</p> <p>Infrastructure Credit Guarantee Company (InfraCredit) issues guarantees to mobilize private sector loans to fund private sector projects in Nigeria. InfraCredit is capitalized by GuarantCo and other funders and has a AAA local (Nigeria) rating from Fitch, Agosto & Co, and Global Credit Ratings.</p> <p>InfraZamin Pakistan issues guarantees to mobilize private sector loans to fund private sector projects in Pakistan. InfraZamin Pakistan is capitalized by C&C funding from GuarantCo and has a AAA local (Pakistan) rating from the Pakistan Credit Rating Agency.</p> <p>The Credit Guarantee and Investment Facility (CGIF), a trust fund administered by the Asian Development Bank, provides guarantees to organizations issuing bonds. CGIF has accumulated large retained earnings since its founding in 2010.</p> <p>The Multilateral Investment Guarantee Agency (MIGA) Guarantee Facility, made possible by C&C funding from the International Development Association (IDA) Private Sector Window, expands MIGA's operations into IDA-eligible countries.</p> <p>The International Finance Corporation (IFC) Risk Mitigation Facility, made possible by C&C funding from the IDA Private Sector Window, allows IFC to offer guarantees without sovereign indemnity for large infrastructure projects in IDA-eligible countries.</p> <p>The Swedish International Development Cooperation Agency (Sida)'s guarantee program has been implemented sustainably over the past 20 years.</p> <p>The Green Guarantee Company (GGC), launched in 2024, will issue guarantees to mobilize private sector debt (loans and bonds) to fund private sector climate projects. GGC's capital structure includes C&C funding from the Green Climate Fund as junior capital mobilizing other shareholders to invest in senior capital. GGC is rated BBB by Fitch. GGC aims to leverage its capital 10 times.</p>

Existing comparable precedents of C&C funding (cont.)	<p>Dhamana Guarantee Company, launched in 2024, will issue guarantees for infrastructure projects in Kenya, Tanzania, Uganda, and Rwanda.</p> <p>At the project level, GuarantCo's guarantee to credit-enhance a bond issued by the Xuan Mai Water Supply System project in Vietnam, a 20-year, local currency, verified green bond in the amount of \$35 million to fund the greenfield water supply project, mobilized four Vietnam institutional investors to invest long-term local currency debt for a local utility.</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 guarantee issuance. The Network could consider organizing four types of calls for proposals to award their funds in a coordinated process to the best proposals/cases aligned to PIMM5:</p> <ol style="list-style-type: none"> 1. Global or multi-country: A call inviting private sector organizations to propose how they could deploy C&C funding to provide guarantees that mobilize private sector investment. Illustrative uses could be: (i) to establish new organizations like GGC; (ii) to increase capitalization of guarantors like GuarantCo, GGC, and CGIF; or (iii) to support innovative proposals from banks and insurance companies seeking to increase their guarantee issuance. 2. Global or multi-country: A similar call as above, but for public sector organizations. Illustrative uses could be innovative proposals from multilateral development banks (MDBs) and development finance institutions (DFIs). 3. Single country: A call inviting private sector organizations to propose how they could deploy C&C funding to provide guarantees that mobilize private sector investment in one country. Illustrative uses could be: (i) to establish new organizations like InfraCredit; or (ii) innovative proposals from domestic banks and insurance companies for them to increase their guarantee issuance. 4. Single country: A similar call as above, but for governments and/or national development banks. <p>In competitive global calls for proposals, the Network could anticipate receiving hundreds 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, possibly loans.</p>
Expected financial profile of C&C funding (including risk profile)	<p>C&C funding deployed in PIMM5 is expected to take on a risk profile beyond the willingness or ability of MDBs and DFIs. There are likely two financial expectations of C&C funding in PIMM5:</p> <ul style="list-style-type: none"> • <u>Partial loss expectations</u>: For example, GuarantCo's annual financial statements for 2023 show accumulated losses of \$115 billion since their inception in 2005. GuarantCo carries an A rating, indicative of its high-risk appetite. • <u>Break-even or better expectations</u>: For example, CGIF's annual financial statements for 2023 show accumulated retained earnings of \$44 million and a reserve of \$153 million – essentially \$197 million of cumulative profits. CGIF has an AA rating, implying a lower-risk business model compared to GuarantCo. The Sida Guarantee Program was implemented over the past 20 years with Sida collecting more premiums than losses. The CGIF has achieved large cumulative profits.
Expected sources of private investment mobilized	<ol style="list-style-type: none"> 1. Direct: Private debt and equity investment in guarantee-issuing companies. 2. Indirect: Private debt investors lend to borrowers/projects benefiting from a guarantee. 3. Indirect: Equity investors, including project sponsors and passive investors such as funds, invest in borrowers/projects that benefit from the debt guarantee.

Expected leverage	Based on precedent from existing guarantees for developing countries (e.g., CGIF, GuarantCo and GGC), it is reasonable to expect a BBB-rated guarantor could achieve eight times the leverage of capital. Using African Guarantee Fund's three-tier capital construction as a precedent, it is reasonable to assume the capital of guarantors could indicatively be: (i) 50% senior from private investors, (ii) 25% from MDBs and DFIs, and (iii) 25% junior from C&C funders. With those assumptions, C&C funding could achieve 32 times leverage.
A single country or multi-country application	Both. PIMM5 is expected to be deployed mostly for multiple countries but also for a single country: <ul style="list-style-type: none"> • Guarantors issuing guarantees in multiple countries are expected to mobilize primarily institutional investors located in developed countries, with C&C funding provided primarily by Organisation for Economic Co-operation and Development Development Assistance Committee (OECD DAC) members, OECD DAC participants, and philanthropic foundations. • Guarantors issuing guarantees in a single country are expected to mobilize primarily institutional investors located in that developing country, with C&C funding provided by the domestic government, OECD DAC members, OECD DAC participants, and philanthropic foundations.
Recommended standardization for this PIMM	Convergence recommends four standardization approaches for PIMM5: <ol style="list-style-type: none"> 1. Organizations that issue guarantees in multiple countries should be rated by one of the Big 3 rating agencies as investment grade (BBB). 2. Organizations that issue guarantees in a single country should be rated by a leading rating agency in that country, at the equivalent of local A+ or better. 3. C&C funding should be limited to supporting guarantors that will issue guarantees fully complying with the Bank for International Settlements (BIS) Capital Accord guidelines on guarantees qualifying for capital relief, such as irrevocable and unconditional payment obligations. 4. Guarantees issued by OECD DAC members and MDBs, and DFIs to re-guarantee private sector guarantors should comply with the BIS Capital Accord guidelines on guarantees qualifying for capital relief, such as irrevocable and unconditional payment obligations. Over time, the Network might identify the benefits of additional standardization of PIMM5.

INVESTMENT GRADE GUARANTEE MECHANISM ADHERING TO PIMM5



© CONVERGENCE 2025

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.

