PRIVATE INVESTMENT MOBILIZATION MODELS (PIMMS) FACT SHEET:

Public Sector Blended Finance Debt Fund (PIMM9)

EXECUTIVE SUMMARY

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

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

Based on the leverage assumptions below, $1 billion of catalytic and concessional (C&C) funding could mobilize $36 billion of private investment.

NOTE: Securitization is also a powerful mechanism to create investment-grade ratings. During consultations in March-June 2025, it will be determined whether to include securitization: (i) as a separate PIMM or (ii) as part of PIMM9 and PIMM10.

OBJECTIVES

Mobilize debt investors to invest in public sector debt in developing countries indirectly through funds. The use of the fund approach would reduce the expected loss for senior capital in the fund.

Rationale	The perceived risk of developing country governments (sovereigns) is driven primarily by the sovereign risk ratings of the Big 3 rating agencies. For example, the median sovereign rating for the 142 developing countries is currently B and 76% of countries are rated B or lower. As a result, many sovereigns either fail to attract debt financing from the market or can only raise debt financing at very high interest rates. **PIMM9 likely has the strongest ability to deliver the most benefits for developing country governments. Convergence's model forecasts $200+ billion of annual private investment mobilized and $20+ billion in annual interest rate savings for governments.**

Description	PIMM9 is a fund with three tiers of capital. The fund is designed to ensure senior capital is rated investment grade (BBB). Three primary drivers of risk improvement are: 1. Diversification of investment risk across many exposures (e.g., a fund may lend to 40+ borrowers in 10+ countries). Big 3 rating agencies' methodologies indicate diversification can result in a two-notch upgrade from the underlying average risk rating of individual borrowers (e.g., from B to B+). This upgrade in many cases is not sufficient to mobilize at scale. 2. Presence of capital subordinated to the senior capital (e.g., junior and mezzanine capital which can deliver a 1-2 notch upgrade depending on the size of subordination[1]. Senior capital rated investment grade (BBB) is likely the optimal rating to mobilize private investment at scale using C&C funding efficiently and effectively. 3. Diversification of currency risk, with the fund expected to typically invest in 10+ countries. The most common expected application of PIMM9 is for C&C funding to capitalize the junior tier of three-tiered blended finance funds. C&C funding in PIMM9 is expected to start with foreign exchange (FX) debt, but once PIMM9 is standardized, it is expected to cover local currency loans/bonds to developing country sovereigns. PIMM9 is expected to mobilize private investment using public sector C&C funding more efficiently than guarantees; PIMM9 is expected to provide more leverage of public sector C&C funding and mobilize a large universe of investors who can invest in public sector sovereigns. C&C funding would increase the supply of debt financing to developing country governments at much lower interest rates allowing the governments to implement more public sector capital investment for the Sustainable Development Goals and climate projects.
Development rationale	The largest sources of the $428 trillion of global financial assets held by the private sector seeking long-term investment (e.g., pension companies and insurance companies in developed countries) typically: (i) invest more debt than equity, (ii) require investment grade risk, and (iii) prefer public sector sovereign credit risk over private sector credit risk. Since only 11% of developing countries are rated investment grade, investors are not able to achieve their preferred investment in developing countries. World Bank International Debt Statistics estimate that all public sector sovereign debt in developing countries (excluding China) owed externally is only $3 trillion (less than 1% of global financial assets). Developing country governments are either: (i) unable to raise as much debt as they like, (ii) are required to pay prohibitive interest rates, and/or (iii) are required to borrow in FX debt, jeopardizing debt sustainability. C&C funding in PIMM9 would: • Mobilize private investors into their first-choice investment asset in developing countries (sovereign credit risk). • Significantly decrease the interest rates paid by governments compared to international capital markets interest rates. • Spawn an increase in local currency loans/bonds to developing country sovereigns. C&C funding as junior capital in three-tiered public sector debt funds supports the development community's view that the perceived risk of investing in developing countries is higher than the actual risk. For example, C&C funding as junior capital 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 junior capital will be depleted. If defaults and losses unfold closer to the development community's view, then the fund will likely collect interest payments at a level sufficient to cover actual losses, thereby preserving C&C funding

1 Accordingly, senior capital in the fund structure could have implied ratings ranging from speculative non-investment grade (e.g., BB), to low investment grade (BBB), to strong investment grade (AA). Likely targeting BBB is the most effective and efficient use of C&C funding to mobilize at scale.

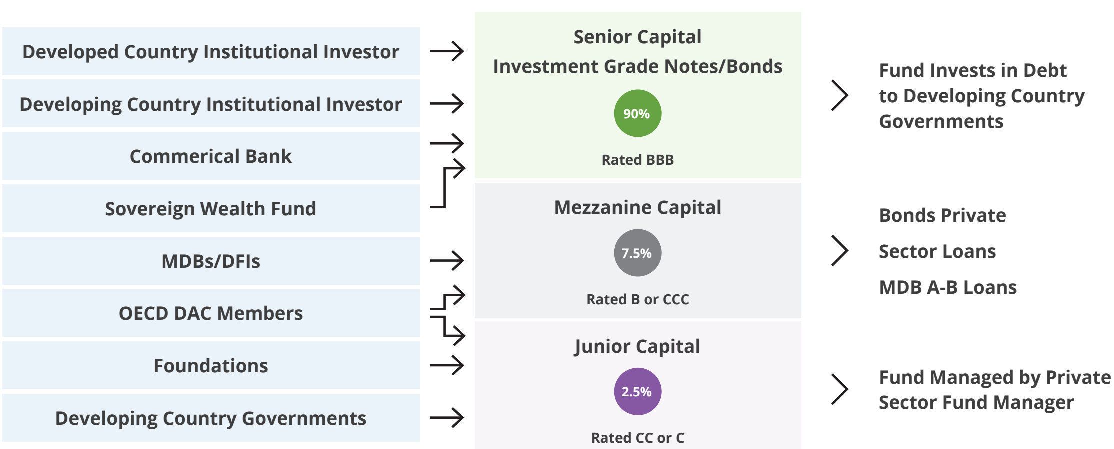
Existing comparable precedents of C&C funding	One good example of the power of a diversified portfolio of sovereign debt is the income statement and balance sheet of the International Bank for Reconstruction and Development (IBRD). IBRD provides subsidized loans to medium-risk developing countries, it had an average \$1.6 billion net profit in 2023 and 2024, and it has accumulated net profits (retained earnings) of \$38 billion (1.7 times paid-in capital). Convergence is not aware of a good example of a three-tiered blended finance fund investing in public sector debt, especially where the debt is loans arranged by multilateral development banks (MDBs). There are over 100 cases of tiered blended finance debt funds that invest in debt to private sector borrowers/projects. PIMM9 replicates the PIMM10 Private Sector Debt Blended Finance Fund, deploying the lessons learned from those 100+ private sector debt funds over the past decade. Good benchmarks have been the JP Morgan USD Emerging Markets Bond Fund and the JP Morgan Emerging Markets Debt Fund which provide a large amount of evidence of investing mostly in public sector debt in emerging markets.
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 mobilizing private debt investment into public sector (sovereign) debt. Indicatively, the Network could consider two approaches: (i) collaborating with MDBs to establish fund(s) that would invest in A-B loans (see note below) to the public sector (sovereign loans) and (ii) organizing a call for proposals to award their funds to the best proposals/cases aligned to PIMM9: 1. Collaborating with MDBs: (Illustrative) The Network members and MDBs could collaborate to establish three-tiered blended financed debt fund(s) that would invest in A-B loans arranged by MDBs (e.g., A-loan priced at traditional MDB terms and B-loan priced at a rate to attract commercial investors in senior capital of the fund). An objective of PIMM9 could be to provide debt investment in the B-loans below the international capital market rates for sovereign borrowers. If the senior capital is raised at BBB interest rates, and the public sector investors in mezzanine capital (i.e., MDBs) and junior capital (e.g., official development assistance (ODA) donors) are prepared to earn BBB returns, the loan interest rates on the B-loans could average BBB rates thereby saving sovereign borrowers likely 250-400 basis points on interest rates annually. MDBs currently arrange around \$100 billion of sovereign loans annually. MDBs could increase arranging volumes to \$300 billion, retain \$100 billion, and distribute \$200 billion to the fund(s). Assuming a 3% interest savings, the first year alone would save governments around \$6 billion in lower interest rates. 2. A. Call for proposals: where private sector fund managers are invited to submit a proposal describing how they could deploy C&C funding as junior capital in a three-tiered fund that mobilizes private investment in senior capital (and possibly mezzanine capital). The Network members would assess the proposals and award their funding to the best proposals. Illustrative proposals could be: (i) a fund that invests debt in loans and bonds for nationally determined contributions and Just Energy Transition Partnerships projects and issues green bonds as senior capital, (ii) a fund that invests in climate adaptation loans and bonds and issues green bonds as senior capital, and (iii) a fund that invests in education loans and bonds and issues impact bonds as senior capital. B. Call for proposals: Similar to 2A above, but where a fund manager partners with one or more MDBs to propose a fund. 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.

Indicative activities for Network of C&C Funders (cont.)	Note on MDB A-B loans: An MDB A-B loan would technically benefit from the MDB's Preferred Creditor Treatment (PCT). It is likely the MDB management teams will not be willing to share their PCT via A-B loans. In the 1970s and 1980s, IBRD arranged sovereign loans as either A-B loans or parallel loans, where the B-lender or parallel lender was a commercial bank (e.g., Citibank). If PCT cannot be shared with B-lenders, then the loan co-investment would need to be in the form of parallel loans that would not benefit from PCT.
Expected C&C funding instrument	**The majority of C&C funding is expected to be debt (or equity) as junior capital in three-tier funds.** Historically, most C&C funding from Organisation for Economic Co-operation and Development Development Assistance Committee members as junior capital has been grants. But given the 2023 change in ODA rules for private sector instruments (PSIs) and the Fourth International Conference on Financing for Development Zero Draft about public and private sectors "sharing risks fairly," it is fairer with better value for money to deploy C&C funding as debt or equity (e.g., a PSI).
Expected financial profile of C&C funding (including risk profile)	C&C funding deployed in PIMM9 is expected to take on a risk profile beyond the willingness or ability of MDBs and development finance institutions (DFIs). For example, the implied rating of the junior capital would likely be CC or C. The financial expectations of C&C funding in PIMM9 are likely most driven by the interest rates of the assets held by the fund. For example: • Target to deliver a material subsidy on interest rates for public sector sovereign borrowers: It is likely most uses of C&C funding would be deployed at full or partial loss financial outcomes. • Target to deliver a small subsidy or market interest rates for public sector sovereign borrowers: It is likely most uses of C&C funding would be deployed at break-even or small gains.
Expected sources of private investment mobilized	1. Debt fund managers (e.g., PIMCO and Amundi). 2. Developed country banks, institutional investors (e.g., pension companies and life insurance companies), money market funds, and investment funds in senior capital of fund(s). 3. Developing country institutional investors (e.g., pension companies and insurance companies). 4. Sovereign wealth funds.
Expected leverage	Based on precedent from private sector debt funds, and the Global Emerging Markets (GEMs)Risk Database, defaults and losses for sovereign loans, a reasonable expectation of a typical three-tiered capital structure could be 90% senior capital from private investors, 7.5% mezzanine capital from MDBs, and 2.5% junior capital for C&C funders. Actual amounts in each tier will be driven by the objectives: (i) to achieve an investment grade BBB rating for senior capital from a major rating agency and (ii) to achieve a rating for mezzanine capital that will meet MDBs' investment mandates as governed by shareholders (e.g., CCC). Convergence estimates a reasonable leverage expectation of C&C funding for PIMM9 could be 36 times. This will require MDBs to be governed to invest in mezzanine capital. If $200 billion of investment by PIMM9 funds is targeted annually, this would require around $5 billion of C&C funding annually. Assuming a 3% interest rate saving for sovereign borrowers (compared to capital markets interest rates), this would yield $6 billion of interest rate savings in the first year.
A single-country or multi-country application	Multiple-country only.

Recommended standardization for this PIMM	Based on extensive benchmarks for PIMM9, Convergence recommends five types of standardization for C&C funding for PIMM9: 1. Restrict to three-tiered blended finance funds – three tiers will produce maximum leverage/efficiency of C&C funding in the third tier while generating investment grade (BBB) assets for private investors. 2. Require external ratings at investment grade (BBB) for senior capital (as PIMM9 is standardized, investors might become prepared to invest in senior capital with BB ratings). 3. Require mezzanine capital to have explicit or implicit ratings of B or CCC – within the mandate of MDBs to invest (e.g., IBRD has 21% of debt investments rated CCC or lower). 4. Senior-tier capital is reserved for private investors. 5. Minimum fund size of $2 billion. 6. In addition, preference for senior capital: (i) that can attract liquidity in the secondary market and (ii) in the form of notes/bonds that can be listed and traded (e.g., Eurobonds). Over time, PIMM9 is expected to lead to several derivatives: A. Funds that invest in local currency debt. B. Funds that invest debt in sub-sovereign borrowers. C. Funds that invest debt in national development banks. Over time, PIMM9 is expected to require less and less C&C funding – indeed one day it could be implemented with only MDB capital in a junior position.

DEBT FUND ADHERING TO PIMM9

Assume the fund is capitalized with three tiers of capital: (i) senior capital for 90% in the form of notes/bonds rated at investment grade (BBB), (ii) 7.5% mezzanine capital in form of bonds/notes with a rating aligned with MDB and DFI investment mandates, and (iii) 2.5% junior capital.



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.