GuarantCo is part of the
Private Infrastructure
Development Group

GuarantCo – Local currency credit solutions

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Summary

PIDG's guarantee arm (GuarantCo) provides a variety of long term guarantee and contingent credit solutions in both hard and local currencies to unlock private sector funding from the capital markets into sustainable infrastructure projects throughout Africa and Asia. Guarantees help unlock significant lending capacity to critical infrastructure projects that usually require long term funding that is often unavailable, as well as build capacity in local markets. GuarantCo is rated AA- by Fitch and A1 by Moody's. GuarantCo is headquartered in London with branches in Nairobi and Singapore.

Track record

Since 2005, GuarantCo has closed guarantees totalling USD1.5 billion in 22 countries, which has mobilised USD 5 billion of private sector investment.

Instrument mechanics

GuarantCo provides credit solutions as required for a particular project including full and partial credit guarantees, tenor extension guarantees, liquidity extension guarantees, EPC contractor guarantees, and portfolio guarantees. Other solutions are provided depending on individual project requirements. The basic forms of guarantees provided by GuarantCo cover up to 100% of principal and interest over a loan or a bond issued by a private sector entity of between USD5m and up to USD50m equivalent in tenors of up to 20 years.

Most critically, GuarantCo's guarantees can be denominated in local currency (guarantees denominated in local currencies constitute the majority of GuarantCo's portfolio) and in some circumstances hard currency, thereby building capacity in local markets by unlocking long term sources of capital from local providers including domestic as well as international banks and institutional investors.

Liquidity Extension Guarantee ('LEG')

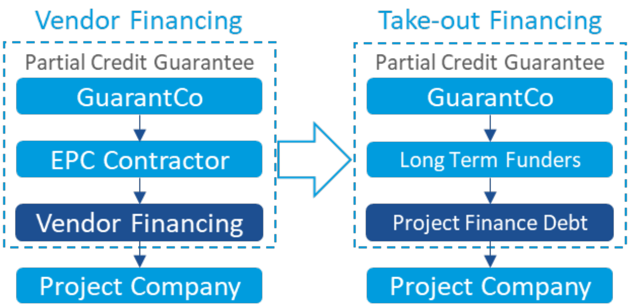
Commercial banks are often limited to a maximum tenor for the loans they provide, or impose high rates of interest, with the result that infrastructure projects may be rendered unviable and abandoned by sponsors. The LEG allows the debt to be structured as if it would amortise over a long tenor with a specified transfer date that meets bank requirements. If, at that date, the project is still performing the bank has the option to transfer the loan to GuarantCo or keep it on its books for the remaining tenor.

Portfolio Guarantee

Designed to mitigate concentration risk, the Portfolio Guarantee allows the lender to target larger transactions, as GuarantCo provides a guarantee against new and existing infrastructure exposures and allows the counterparty (lender or guarantor) to release capital for other loans. The guarantee is structured to cover exposures to corporates, projects or financial institutions involved in facilitating infrastructure and is usually provided on a second loss basis.

EPC Contactor Guarantee

These allow EPC contractors to provide vendor finance in geographies they would not normally consider. With this solution, GuarantCo issues a payment guarantee in favour of the EPC contractor that assures payment once work has been completed, thereby allowing construction to start as well enabling the project to procure long term debt. Reducing uncertainty in this way can help reduce project execution times. GuarantCo has previously combined this solution with a guarantee on the take-out financing to provide a holistic solution for the project in question.

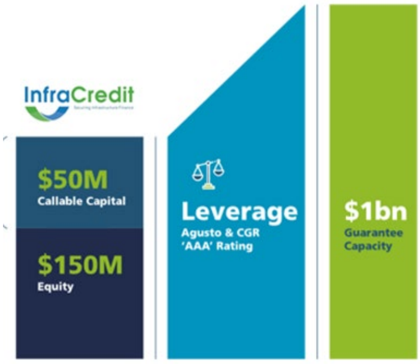


Framework Guarantee

Similar in many respects to the Portfolio Guarantee described above, the Framework Guarantee enables the lender (or guarantor) to originate more and larger transactions in a growing – but perhaps untested – sector. For example, GuarantCo has provided such a guarantee over 10 years to Axis Bank, enabling it to originate loans to the EV sector in India at a faster pace. Axis Bank will benefit from a partial guarantee.

In-country Credit Enhancement Facilities

Building local capacity and tapping into domestic institutional investors to fund infrastructure assets forms a key part of PIDG's strategy to achieve impact at scale. By establishing Credit Enhancement Facilities in certain countries (e.g. InfraCredit in Nigeria, InfraZamin in Pakistan, and Kenya to be launched shortly), local entities are set up onshore to provide a sustainable conduit for mobilizing long-term, local currency debt financing for infrastructure through the issuance of credit guarantees in-country. They also have the benefit of developing local capital markets, which in turn provides long term access for investors to finance infrastructure on the ground.



Credit Enhancement Facilities also provide leverage effect for investor capital – every dollar invested into PIDG can be then leveraged through PIDG's investment into a Credit Enhancement Facility (alongside equity from other co-investors), an entity that itself can typically leverage 3-10 times and deliver multiple transactions with sustainable developmental impact. This multiplier effect is an extremely efficient use of investor capital to achieve impact at scale.

Future development plans

The role that guarantees can provide in mobilizing domestic and international pools of capital as well as in building local capacity is evident, both from studies as well as the on-the-ground experience in GuarantCo and in-country in InfraCredit and InfraZamin. Continuing to build GuarantCo's portfolio and establishing more in-country credit enhancement facilities in target markets lie are key pillars of PIDG's strategic ambition. Realising this will involve working with key local partners as well as the associated requirement for both people and capital. We will be working closely with existing stakeholders and new counterparties to bring this about.