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A U.S. TRADE AND INVESTMENT INITIATIVE



SCALING PRIVATE INVESTMENT TO CLOSE THE DEVELOPMENT FINANCING GAP

CASE STUDIES

NOVEMBER 2023

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ABOUT PROSPER AFRICA

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INTRODUCTION

At the recent International Monetary Fund (IMF)-World Bank annual meetings in Marrakech in early October 2023, World Bank President Ajay Banga articulated an ambitious vision and sobering reality for the development finance community at a time of accelerating poverty and climate change: “There are new frontiers to explore – like moving from small, bespoke loans to large, standardized investments that can be packaged. If done right, we could draw in institutional investors – pension funds, insurance companies, sovereign wealth funds – and put their \$70 trillion to work in developing countries. This has been the thing of fantasy for years, but hope isn’t a strategy.”

Since the COVID-19 pandemic, the financing gap for developing countries to reach the Sustainable Development Goals (SDGs) has only grown, reaching \$4.5 trillion in 2022.¹ Even though closing this gap would take just 1% of total global financial assets of \$400 trillion, the development finance system has struggled for decades to attract private capital to riskier developing markets, mobilizing only an estimated \$45 billion between 2018 and 2022.² The main constraints to more private capital flowing are the perceived and actual risks in developing markets that restrict private investors from deploying funds. Nearly 90% of all developing countries are classified as sub-investment grade risk, placing them outside the fiduciary obligations that investors have to their shareholders and retirees.

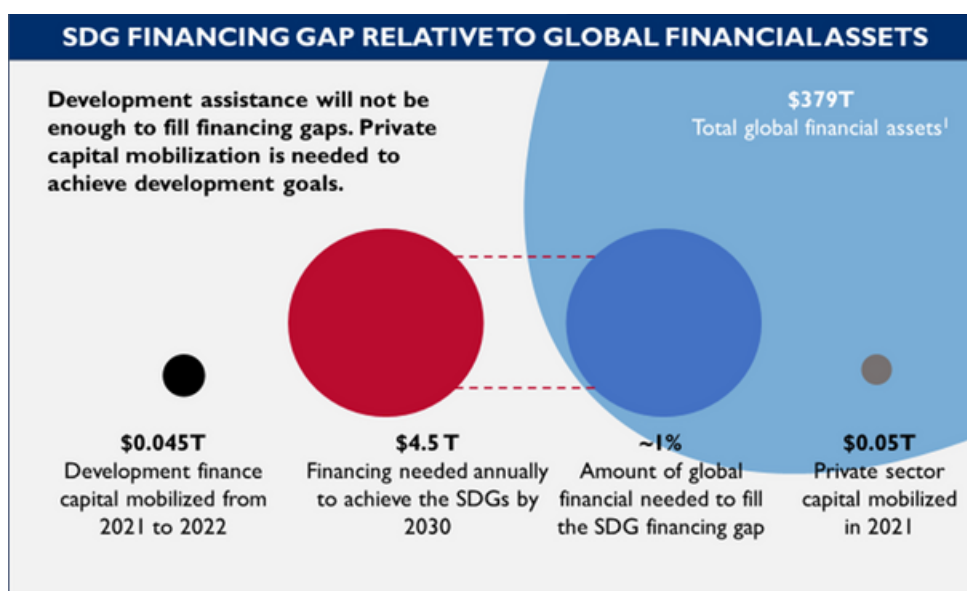


Figure 1. SDG financing gap relative to global financial assets. \$379 trillion represents financial assets held by all financial entities, including bank deposits, cash, bonds, etc. Source: [Institutional Investment for Development Impact at Scale: INVEST Learning Brief](#).

At the 2022 COP27 meetings in Egypt, five large institutional investor groups representing over \$130 trillion in assets, brought together by Prosper Africa, USAID, and Convergence, released a blueprint for a more intentional strategy to achieve scale-level private capital flows in developing markets.³ It called for greater use of blended finance (the strategic use of public capital to de-risk and crowd in private capital) in standardized structures that could package and distribute risk to a wider universe of mainstream investment actors.

¹ OECD (2022), [Global Outlook on Financing for Sustainable Development 2023: No Sustainability Without Equity](#), OECD Publishing, Paris.

² OECD (2023), [Private finance mobilised by official development finance interventions](#), Development Co-operation Directorate, OECD Publishing, Paris.

³ Convergence, USAID, and Prosper Africa (2022). [The Action Plan for Climate and SDG Investment Mobilization](#).

In these structures, donors, development banks and philanthropic organizations collaborate to provide risk-tolerant, “catalytic” capital that can leverage larger, more diverse pools of capital from commercial investors. Blended finance structures help manage and reallocate risks, reduce transaction costs, and address information gaps that prevent institutional investors from entering developing markets. One year after the release of this capital mobilization blueprint, despite their potential to capture a much wider universe of additional commercial investment and crowd in the expertise and innovation of the private sector, blended finance structures remain grossly underutilized.

Despite the slow progress of the overall system to drive change, this report analyzes a set of five innovative de-risking approaches that have achieved notable success in mobilizing private capital in new and replicable ways. The approaches described in this report primarily target the infrastructure, housing, and climate sectors and involve coordination among local actors, development finance institutions (DFIs), and multilateral development banks (MDBs). Taken together, the case studies demonstrate how concessional capital, technical assistance, and guarantees – supported by donor agencies and MDBs – will help over time to unlock more than \$2.6 billion in private capital with less than \$135 million provided in technical and financial assistance.⁴

These five case studies show how donors and MDBs effectively engaged private institutional investors, leading to billions in private sector investment for development goals. They also synthesize key insights and recommendations on ways in which donors, MDBs and other development actors can build on and replicate this nucleus of success and harness the scale and sophistication of global institutional investor assets.

BLENDING FINANCE STRUCTURES

Donors, MDBs and other development finance actors can learn from blended finance transactions to achieve greater impact. This report specifically highlights three intervention options, as originally identified by Convergence:

Concessional capital	Public or philanthropic investors provide concessional funds within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors.
Technical assistance facility	Public or philanthropic investors provide technical assistance that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact.
Guarantee	Public or private entities provide credit enhancement through guarantees or insurance.

Figure 2. Blended finance interventions. Source: Convergence, Blended Finance, [Archetypes](#).

⁴ Capital mobilization calculation of \$2.6 billion includes \$400 million in infrastructure investment by the Asset Owners Forum South Africa members, \$650 million of additional lending headroom made available through Room2Run, \$300 million from the Trade and Development Bank’s climate funding deployment, an estimated \$1 billion of climate capital unlocked with the Green Guarantee Company, and \$274 million raised through the Caisse Regionale de Refinancement Hypothecaire global bond issuance.

LESSONS LEARNED FOR DONOR AGENCIES AND DEVELOPMENT FINANCE ACTORS

Donors and MDBs play a key role in mobilizing institutional investment and integrating private and public capital to achieve development impact. Integration between public and private actors will need to accelerate if the development finance community hopes to close a trillion-dollar annual investment gap for the SDGs.

Even relatively small amounts of funding from donors and MDBs, strategically provided in blended finance structures, have proven effective in driving large-scale investment. These organizations are exceptionally well-positioned to play a catalytic role in this market due to their credibility and their ability to coordinate actors within the development ecosystem. They can take on and transfer high levels of risk while providing expertise in developing markets and operating under a credible mandate for development impact.

Through the five transactions outlined in this report, donors and MDBs effectively shifted risk-return calculations for institutional investors, leading to billions of dollars in private sector investment for development. Acting as market champions, they drove the adoption and implementation of these innovative financial mechanisms. In some cases, as with the [Room2Run synthetic securitization](#) and the [Eastern and Southern African Trade and Development Bank \(TDB\)](#) share issuance transactions, MDBs pursued innovative structures that apportioned risk more effectively and enabled them to leverage new sources of private capital.

In other cases – such as the transactions involving the [Asset Owner's Forum South Africa \(AOFSA\)](#), [Green Guarantee Company \(GGC\)](#), and [Caisse Régionale de Refinancement Hypothécaire \(CRRH\)](#) – donors provided essential financial resources, technical assistance, risk capital, and expertise to help navigate structural complexities and risk perceptions. Donor involvement helped build trust, establish partnerships, and facilitate knowledge sharing among stakeholders. Donors have also been instrumental in advocating for blended finance within the development ecosystem, raising awareness about its benefits and potential and thus mobilizing private capital in markets that would otherwise not have received such investments.

**PRIVATE CAPITAL
MOBILIZATION CASE STUDY:
ASSET OWNERS FORUM
SOUTH AFRICA**



With support from USAID and Prosper Africa, African pension funds have formed consortiums to successfully scale up local investment in infrastructure, driving African savings into real economy investments. Through investment capacity building and collective risk sharing via the AOFSA Secretariat, AOFSA members have committed over \$400 million to infrastructure and other alternative asset classes that they have been reluctant to invest in previously.

The Assets Owner Forum South Africa (AOFSA) is a consortium of 15 South African pension funds with over \$160 billion in assets under management. The consortium's primary objective is to identify and seize opportunities to collectively co-invest in infrastructure projects, contributing to sustainable development in the Southern African region. With less than \$1 million in USAID and Prosper Africa support, AOFSA brought together robust governance, built a tailored pipeline of potential investments, and allowed the South African pension community to mitigate and share the higher potential risks associated with new asset classes like unlisted infrastructure and private equity. Since local African pensions invest in local currency, the added benefit of more local pension investment also addresses one of the key barriers inhibiting global investment in Africa— currency risk.

USAID and Prosper Africa played an important role in getting AOFSA off the ground in 2022, having identified an opportunity to establish a pioneering pension fund consortium focused on diverting more local African savings into real economy investments like sustainable infrastructure that would have higher, more predictable returns for retirees while creating more impact on the ground. USAID and Prosper Africa provided technical assistance to structure and build AOFSA, then strengthen its commercial viability and development impact.

This collaborative effort responded to the South African Government's call for private investors to support long-term projects in an environment of limited public sector budgets and donor funding constraints.

SUPPORT PROVIDED

- With funding from USAID and Prosper Africa, implementers MiDA Advisors and CrossBoundary provided capacity building to support the consortium secretariat – led by the Batseta Council of Retirement Funds for South Africa – in designing and implementing AOFSA, including its governance structures, decision-making processes, and initial membership building.
- MiDA Advisors also built a pipeline of pre-screened investment opportunities. Members individually assess these opportunities through their own due diligence and decision-making processes.
- As of late 2022, AOFSA members have committed over \$400 million to infrastructure and other alternative asset classes, including \$130 million to opportunities from their pre-screened pipeline.

Private capital mobilization intervention:

- Technical assistance facility

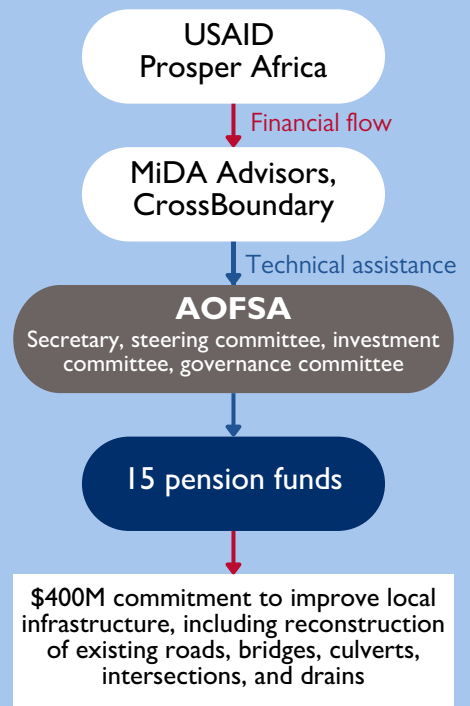
Investment sector:

- Infrastructure

Key stakeholders:

- AOFSA consortium members: 15 South African pension funds
- Consortium Secretary: Batseta Council of Retirement Funds for South Africa
- Technical assistance funders: USAID, Prosper Africa, and the World Bank
- Technical assistance providers: MiDA Advisors and CrossBoundary

Model:



RESULTS

Private capital mobilization	Sector change, policy, and regulatory outputs	Development objectives
<p>Close the financing gap in resilient infrastructure sector. A small amount of technical assistance can provide local African pensions with the means to invest collectively and help close an annual \$108 billion infrastructure investment gap in Africa with a local African solution.</p> <p>Grant bargaining power to pension funds to negotiate terms in large deals. The consortium approach can empower pension funds to negotiate favorable terms they could not achieve individually, encouraging greater investment.</p> <p>Bring new local investors into the infrastructure market. Small funds, which often lack the internal capacity to invest in infrastructure, can participate by allocating assets alongside other pensions.</p>	<p>Become a leading advocate for domestic infrastructure investment. Recognized as the premier advocacy group for pension funds in South Africa, AOFSa actively engages with local and foreign governments and development finance institutions (DFIs). Their expertise and involvement in discussions contribute to the development of local private sector solutions for infrastructure projects.</p> <p>Contribute to regulatory changes benefiting long-term infrastructure investment, driving more local savings into real economies. For instance, AOFSa supported changes in South African regulations to raise the pension fund allocation limits for infrastructure investment.</p>	<p>Invest in women-owned and black-owned first-time funds. AOFSa has invested \$50 million so far in these funds, and will continue to focus on new diverse fund managers with the knowledge and skills to deploy capital in infrastructure.</p> <p>Support the development of local infrastructure. Investments will include the rehabilitation and reconstruction of existing roads, bridges, culverts, road intersections, and drains.</p> <p>Contribute to enhanced economic development in South Africa while reducing foreign currency risk. Local institutional funding will enhance job creation, financial inclusion, and economic resiliency, while avoiding the pitfalls and investment barriers associated with foreign currency financing.</p>

LESSONS LEARNED FOR DONOR AGENCIES AND DEVELOPMENT FINANCE ACTORS

- 1. Partner with local private capital to leverage their resources and visibility.** Growing pools of institutional capital in developing countries can be harnessed to close the significant investment gap to realize the Sustainable Development Goals (SDGs). Local capital faces no currency risk and can crowd in global capital by providing increased visibility and ownership to global investors.
- 2. Provide technical assistance to accelerate the development of pension consortiums and empower local private sector solutions.** A consortium model can take up to 2-3 years to be established. Donors can provide critical technical assistance to develop these consortiums upfront and guide the development of robust governance models, which are key to facilitating investment decisions and ensuring success.
- 3. Work with governments to bolster replicability of institutional investor consortiums.** Donors can collaborate with governments to drive their own domestic savings into real economy investments in regions where public funding alone may not meet infrastructure needs. This can be done through endorsing policy changes that recognize sectors like infrastructure as investable asset classes and advocating for increased allocation limits.

Scale and replicability considerations

- Setting up a strong governance structure from the beginning is critical, including creating a constitution, establishing committees, forming partnerships, defining objectives, and setting business principles.
- Instituting membership fees at the right stage will help to ensure the sustainability of the consortium.
- A strong membership engagement and capacity-building plan will help to ensure members are equipped to invest in deals.
- Pension funds must be motivated and take ownership of the consortium to make this type of structure viable.

Technical assistance funding from Prosper Africa, in partnership with USAID and a guarantee from the U.S. Development Finance Corporation (DFC), enabled a West African regional mortgage refinancing company to access \$274 million in cheaper, longer-term financing from global capital markets. This private sector funding will be used to provide affordable housing access to an estimated 6,000 households in the region, impacting over 45,000 individuals.

Less than 40% of West Africans live in formal, permanent housing. Yet limited long-term credit access in Africa means banks cannot meet rising mortgage loan demand amid rapid population growth, exacerbating housing supply shortages. Conversely, international markets such as the United States and Europe possess abundant long-term capital, particularly from larger institutional investors with extended investment horizons.

Caisse Régionale de Refinancement Hypothécaire, or CRRH, is a West African regional mortgage refinancing company that supplies its member banks with access to fixed-rate loans to provide mortgages to low- and middle-income communities across West Africa. With capacity building support from USAID and Prosper Africa and a credit guarantee from the DFC, CRRH issued a global bond to access cheaper, long-term capital and thereby enhance home ownership access in West Africa.

STRUCTURE

- The CRRH corporate bond was issued in two capital markets. Twenty percent was issued in local currency bonds in West Africa and 80% was issued through a Euro-denominated bond issued by Bank of America, for a total capital raise of \$274 million. The DFC provided a credit guarantee to the global issuance that allowed investors to access an untapped market opportunity while meeting their risk profiles.
- Technical assistance was provided by MiDA Advisors and CrossBoundary, financed through a \$1 million technical assistance facility from USAID and Prosper Africa.
- The technical assistance facility helped support the due diligence process and financial modeling to secure the DFC guarantee, develop a rating agency package for Moody's, and facilitate deal structuring and arranging.

Private capital mobilization intervention:

- Technical assistance facility
- Guarantee

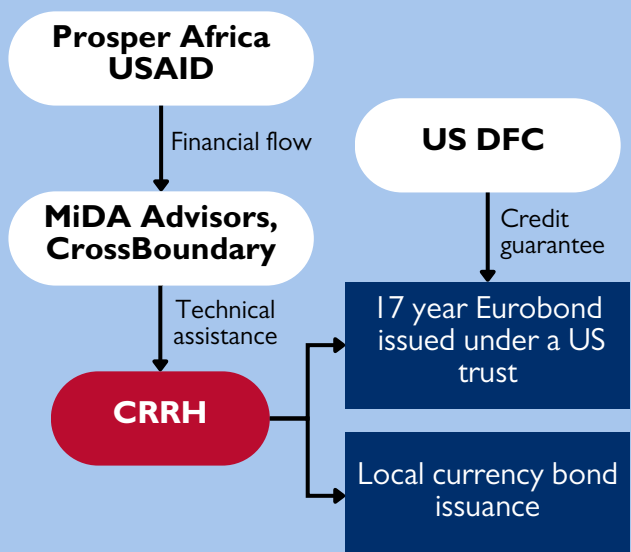
Investment sector:

- Affordable housing

Key stakeholders:

- Bond issuer: Caisse Régionale de Refinancement Hypothécaire (CRRH)
- Placement agents: Bank of America and Brean Capital
- Guarantee provider: U.S. Development Finance Corporation (DFC)
- Capacity building financial support from USAID and Prosper Africa
- Advisory support from MiDA Advisors and CrossBoundary

Model:



RESULTS

Private capital mobilization	Sector change, policy, and regulatory outputs	Development objectives
<p>Catalyzed international insurance companies into the African housing market. The Eurobond obtained the highest rating in the AA category from Moody's due partly to DFC's guarantee. This helped attract new, more mainstream investors, and specifically insurance funds, into the African housing market. Insurance funds tend to seek long-term assets that align with their liabilities and regulatory requirements, and the CRRH bond issuance fulfilled their criteria for high-quality, investment-grade assets.</p> <p>Helped secure attractive rates for the issuer. Due to the deal's innovative structure, CRRH secured long-term financing at a lower rate than was available in local markets. CRRH obtained a rate of 4.27% for a long tenor of 17 years, ensuring that it could provide affordable fixed-rate loans to member banks.</p>	<p>Created a template for replicability. An enhanced understanding of the legal and financial prerequisites for structuring the deal, along with increased familiarity of rating agencies with DFC and the reimbursement agreement process, will reduce the time needed to complete similar transactions in the future.</p> <p>Developed capacity building among peers. CRRH is sharing its experience and engaging with other secondary market institutions to exchange information and discuss lessons learned. The DFC believes there is potential for cross-fertilization and benefits among the small group of entities operating in similar ways.</p>	<p>Meet the demand for housing in the region. About 800,000 new housing units are needed every year to address the housing shortage in West Africa, yet West African banks only issue about 15,000 new mortgages yearly. This project will support home ownership for 6,000 households and is expected to impact 45,000 people.</p> <p>Enhance wealth accumulation and improve health outcomes. Home ownership positively impacts wealth accumulation and contributes to positive health gains through improved housing quality. As part of their lending procedures, the member banks ensure residences meet sanitary standards, helping to fight waterborne illness stemming from poor sanitation and water.</p> <p>Extend housing loan tenors to make mortgages more affordable. CRRH's longer-term funding via its bond program enables local banks to extend the tenor of their mortgage loans, making mortgages more affordable. The World Bank estimated that increasing loan tenors from 8 to 15 years reduces monthly mortgage payments by 46% and a 20-year loan tenor reduces payments by 72%.</p>

LESSONS LEARNED FOR DONOR AGENCIES AND DEVELOPMENT FINANCE ACTORS

1. **Provide partial or total guarantees to increase investment in critical development sectors.** The provision of guarantees by donors and DFIs helps to scale innovative, market-oriented transactions. The DFC guarantee is a powerful risk mitigation tool for a first-time issuer in global capital markets and is cost effective for the DFC, since it would only need to deploy funds in case of default. The added advantage of a guarantee versus public capital is it enables more risk averse mainstream private investors to take risks in Africa and learn to manage risks in developing countries.
2. **Provide technical assistance to prepare participants to execute international transactions.** Donors can offer crucial technical assistance to capital seekers that face resource constraints, lack of internal knowledge, or skewed risk perceptions. Donor support is crucial in enabling African institutions to develop their own capacities to access market capital and establish a track record, after which risk mitigation support will no longer be needed.
3. **Push to understand development outcomes through rigorous up-front impact assessment.** Donors can assess the impact of these transactions holistically by establishing strong monitoring and evaluation frameworks that measure multiple variables, including the depth and scale of the impact delivered.
4. **Share information with investors to expand market opportunities for African financial institutions.** When possible, donors should share performance data on transactions like CRRH to attract additional institutional investors and promote understanding of the real associated risks and rewards. The creation of an investor report where aggregated information is shared can enhance market awareness of these investments without compromising privacy.

Scale and replicability considerations

- Replicating this model in regions with high local interest rates would have the greatest impact on enabling borrowers to capture savings on mortgages and access housing.
- Local or regional entities seeking to raise financing through global capital markets must have capacity to absorb significant amounts of capital.
- The transaction must provide sufficient diversification; the CRRH transaction did so by including multiple countries in West Africa. Aside from housing, the telecommunications sector, for example, could provide appropriate diversification for such a transaction.



Guarantees can unlock significant pools of capital for climate adaptation and mitigation projects in developing countries by enhancing the credit ratings of borrowers and specific projects. The Green Guarantee Company (GGC) is the first privately run credit guarantor dedicated to climate solutions in developing markets. The GGC's initial balance sheet of \$100 million will be leveraged more than tenfold to mobilize \$1 billion in global institutional capital towards climate finance. Prosper Africa, in partnership with USAID and other donors, have provided the initial seed funding, but the expectation is that GGC will raise a multiple of this in private capital moving forward to support its objective of unlocking scale-level private investments in climate solutions.

Climate projects in developing countries often fail to secure the funding they need, in part because international credit rating agencies and lenders perceive borrowers and projects in these markets as inherently riskier. To increase climate financing in developing countries, Prosper Africa, USAID, the Foreign, Commonwealth and Development Office (FCDO), the Green Climate Fund (GCF), Norfund, and the Nigerian Sovereign Investment Authority (NSIA) have joined together to support the design and implementation of the Green Guarantee Company (GGC).

The GGC assumes the financial risk associated with green bonds and loans by providing investors with investment-grade guarantees, which offer protection against potential losses or non-payment. As of October 2023, GGC is in the final stages of closing its \$100 million first round of financing, and aims to begin full operations by early 2024. GGC will also establish a working group composed of national and local recipient country representatives to identify priority climate transactions, facilitate knowledge sharing and capacity building, and support the development of robust capital market regulatory frameworks that draw on international best practices.

STRUCTURE

- GGC emerged from the Development Guarantee Group (DGG), a specialist advisory and asset management firm that has Cardano Development as an institutional shareholder.
- GCF provided an equity investment of \$40.5 million, with the potential to increase up to an aggregate of \$82.5 million as GGC scales efforts. FCDO's Mobilist has committed up to \$40 million in equity to support the initial \$100 million fundraise, and its final commitment will be based on the overall amount raised. USAID is expected to commit \$5 million of grant capital to mobilize another \$10-\$15 million from Norfund and other investors.
- GCF also provided a returnable grant of approximately \$1.5 million, complementing FCDO's technical assistance. GGC will provide guarantees of up to \$200 million per transaction, working with a network of global banks to identify and mobilize private capital for green projects at scale while maintaining lean, agile operations.

Private capital mobilization intervention:

- Guarantee
- Technical assistance facility

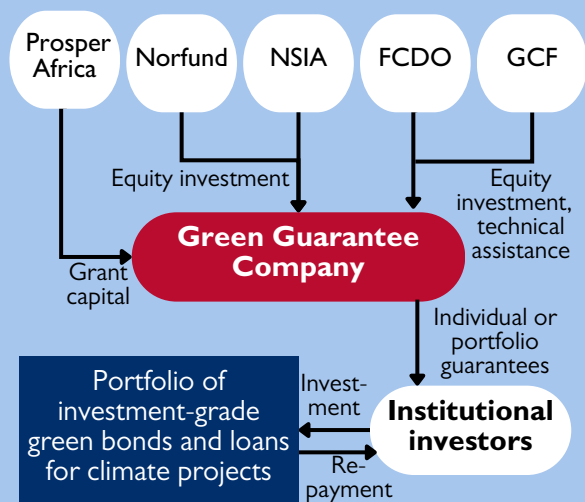
Investment sector:

- Energy, water, transportation, building, waste and pollution control

Key stakeholders:

- Founding equity shareholders: GCF, FCDO, NSIA, Norfund
- Grant capital providers: Prosper Africa and USAID
- Technical assistance providers: GCF, FCDO
- Parent entity: DGG
- Executing entity: Cardano Development

Model:



EXPECTED RESULTS

Private capital mobilization	Sector change, policy, and regulatory outputs	Development objectives
<p>Attract institutional investment into pre-vetted, investment-grade climate projects. Institutional investors often cannot invest in the vast majority of developing countries because they are rated sub-investment grade. GGC creates a pathway for mainstream investors to access high-quality climate-oriented deals in these markets by elevating the credit quality of those projects to investment grade and mitigating the risks of financial losses. GGC has received inquiries for developing world climate projects totaling almost \$4 billion to date.</p> <p>Leverage 10x private sector financing for climate projects. GGC has already secured an investment grade rating of BBB from Fitch, allowing it to leverage its \$100 million initial balance sheet tenfold to provide over \$1 billion in guarantees, enhancing the impact of capital invested and attracting more institutional investors to the climate action market.</p>	<p>Encourage standardization of transparent climate reporting practices in developing markets. By establishing detailed frameworks for measuring and monitoring climate impact in collaboration with the African Development Bank (AfDB), GGC seeks to foster a culture of accountability among its local partners and to facilitate the adoption of robust reporting standards by other stakeholders in developing markets.</p> <p>Create an ongoing pipeline of climate projects by partnering with local actors. GGC will develop a sourcing structure to facilitate a continuous flow of green investments from various originators in recipient countries, and serve as a replicable template for other institutions.</p> <p>Drive ecosystem development. As the first privately run guarantee provider focused entirely on climate finance in developing countries, GGC will undoubtedly encourage other private entities to enter the ecosystem, accelerating both the pace and scale of guarantee provision with a broader set of financial actors and mainstream investors.</p>	<p>Drive progress towards global emissions reduction. In the pilot phase, starting in Q1 of 2024 and lasting for three years, GGC aims to avoid around 75 metric tons of carbon dioxide equivalent emissions through supported projects and allocate a minimum of 20% of investments to adaptation initiatives.</p> <p>Direct private sector investment towards projects with the greatest climate impact. De-risking investments through guarantees ensures investors can allocate their capital towards the most impactful initiatives with greater confidence. Additionally, working with local actors to identify project opportunities encourages a targeted identification of needs and an effective deployment of resources.</p>

LESSONS LEARNED FOR DONOR AGENCIES AND DEVELOPMENT FINANCE ACTORS

1. **Emphasize the commercial viability of guarantee-backed transactions to effectively crowd in private investment.** Private investors may be wary of investing in transactions backed by a guarantor because they view them as “subsidized” and potentially unsuitable for long-term investment. However, guarantees can play a critical role in mitigating perceived or real emerging market investment risks, enabling investors to better benchmark real risks, and access higher returns. Guarantors and donors alike can highlight the viability of these transactions by framing them in corporate finance terms and emphasizing their investment-grade nature. By developing a market-based solution for de-risking developing country investments, GGC is creating a blueprint for the private sector to replicate guarantee arrangements that are widespread in US and European markets.
2. **Provide critical start-up investment to new market actors that can achieve scale at the portfolio level.** The exigencies of the climate emergency demand scale level investment flows in a dwindling amount of time. Those resources only exist in the private sector as development budgets remain modest. Donors must seed market actors that can scale a portfolio of projects quickly and crowd in reluctant mainstream actors. Donors can fund critical seed investment and explicitly back these entities in the start up phase. Once established, entities like GGC can operate without intensive donor or development finance institution (DFI) support and represent an efficient, sustainable, and transparent private sector vehicle for deploying guarantees.
3. **Set up rigorous monitoring, reporting, and governance frameworks to facilitate robust investment and impact monitoring processes.** Donors can provide support in establishing a monitoring system to ensure the realization of specific development objectives across the portfolio. Establishing a framework for accurate reporting enhances investor confidence and encourages their participation in transactions. Donors can also support the establishment of accountability mechanisms, such as a Board of Investors, to ensure a well-diversified allocation of investments across different sectors.

Scale and replicability considerations

- Supporting market actors that can rapidly scale a portfolio of green projects is a more efficient way to achieve large-scale development impact than attempting to de-risk individual projects.
- Establishing standardized, transparent guarantee structures while retaining flexibility in transaction sizing are critical factors in enabling guarantors to rapidly mobilize funding for varying types of transactions.
- Partnering with on-the-ground origination partners maintains lean and agile operations, fostering rapid growth across geographies with varying regulatory and economic environments.
- Aligning the guarantees with internationally recognized standards of impact, such as the Climate Bond Initiative’s Climate Bonds Standard and Certification Scheme, bolsters donor and investor confidence in monitoring and reporting.
- Incorporating private sector language and mimicking features of standard corporate finance structures facilitates more effective private investor outreach and engagement.

PRIVATE CAPITAL MOBILIZATION CASE STUDY: ROOM2RUN SYNTHETIC SECURITIZATION



Multilateral development banks (MDBs) can adopt the widespread commercial banking practice of balance sheet optimization to increase their capacity to lend towards the Sustainable Development Goals (SDGs) while reducing their reliance on already strained donor budgets. One such approach is synthetic securitization, which enables MDBs to transfer risks in their portfolio to the private sector - specifically, institutional investors. This approach simultaneously opens up more space on MDB balance sheets for lending and provides a credible avenue for private investors to take more risk in developing markets. In the 2018 Room2Run transaction, the African Development Bank (AfDB) pioneered this approach, synthetically securitizing \$1 billion in private sector loans to expand its lending capacity by \$650 million, with zero losses to date. While MDBs can adopt these proven financing strategies independently, DFIs and donor agencies can support increased adoption by offering guarantees and/or funding for technical assistance.

Synthetic securitization refers to the financial technique of transferring risks in a portfolio of bank loans to private sector investors without changing the underlying lender of record. This innovative approach allowed the AfDB to respond to the G20's call for balance sheet optimization, a strategy employed by MDBs to increase their lending capacity by shifting a portion of their assets - in this case seasoned loans to the African private sector - over to private investors, without raising risks or damaging credit ratings.

In the case of Room2Run, the AfDB further enhanced its securitized loans by incorporating a guarantee from public investors, providing additional protection to private investors in the transaction. Institutional investors were afforded the opportunity to gain exposure to investment-grade assets in Africa while earning attractive annual yields in excess of 10%. In the short term and until private investors learn to understand and manage developing market risks better, synthetic securitization enables MDBs to attract private sector funding and allocate capital more effectively towards development goals, reducing reliance on donor contributions.

STRUCTURE

Room2Run was structured as a risk participation agreement, in which investors pledge collateral to AfDB to insure against future losses on an investment portfolio, in return for a premium. The contractual structure permitted the loans to remain on AfDB's balance sheet. The transaction enabled private investors to provide credit risk protection for 45 non-sovereign loans in the African power, transportation, financial, and manufacturing sectors. The transaction was structured as follows:

- **Mezzanine tranche:** Africa50 and Newmarket capital funded credit protection for over \$155.5 million of the reference portfolio.
- **Senior mezzanine tranche:** The European Commission's (EC's) External Fund for Sustainable Development provided unfunded credit protection with a \$100 million guarantee with collateral requirements, given the EC's AA rating. This tranche provided a significant buffer over the S&P's portfolio loss rate of 18%, which enabled the AfDB to retain a senior tranche with an A-grade rating.
- **Junior and senior tranches:** AfDB retained the junior and senior tranches. The junior tranche represented less than the expected loss on the portfolio (2.73%).

Private capital mobilization intervention:

- Guarantee
- Public-private balance sheet optimization through synthetic securitization

Investment sectors:

- Power, transportation, financial, manufacturing

Key stakeholders:

- Transaction originator: AfDB
- Guarantor for senior mezzanine tranche: European Commission (EC)
- Investors for the mezzanine tranche: Newmarket Capital (formerly part of Mariner) and Africa 50
- Intermediary: Mizuho International
- Rating agency: Standard and Poor's (S&P)

Model:

Senior tranche	Retained by AfDB: \$727.5 million 27.25-100%
Senior mezzanine tranche	EC: \$100 million 17.25-27.25%
Mezzanine tranche	Africa50 & Newmarket: \$155.5M, 2%-17.5%
Junior tranche	Retained by AfDB: \$20 million 0-2%

Reference portfolio: \$1B - 10% loan retention

**PRIVATE CAPITAL
MOBILIZATION CASE STUDY:
ROOM2RUN SYNTHETIC
SECURITIZATION**



RESULTS

Private capital mobilization	Sector change, policy, and regulatory outputs	Development objectives
<p>Bring new, more mainstream sources of institutional investment to the African market. Most global institutional investors are reluctant to take Africa risk and their absence from this large and growing region only perpetuates their inability to understand and manage risks associated with Africa. To break this logjam, credible investment grade institutions like AfDB can offer portions of their seasoned assets to private investors, reducing their liabilities and creating more lending room on their balance sheets at the same time. Transactions like Room2Run play a critical role in demonstrating the commercial viability of African investments to a broader universe of deep capital pools desperately needed to achieve the SDGs.</p>	<p>Expand avenues for MDBs to increase their lending capacity. Since the transaction, commercial banks and insurers have shown increased interest in providing advisory services and supporting similar transactions, indicating growing comfort in pricing MDB risk and opening up a new avenue for MDBs to organically expand their operations while at the same time crowding new investors into developing markets. This continual balance sheet optimization strategy is the way most global commercial banks operate today and has the advantage of creating new private sector funding streams for MDB/DFI lending expansion.</p> <p>Create a replicable template for MDBs to optimize their balance sheets. This transaction has a large potential for replication across markets, both for non-sovereign and sovereign portfolios, and helps MDBs better leverage their balance sheets to put more capital towards development projects. AfDB is currently structuring a second, larger Room2Run transaction to further expand its development lending capacity, building on the initial transaction’s excellent commercial performance to date.</p> <p>Change rating agencies’ methodology for evaluating MDB-led emerging market transactions. S&P initially evaluated the risk of losses in AfDB’s portfolio as very high. AfDB was only able to execute the transaction after S&P underwent a two-year process to revise its risk assessment methodology for MDBs. Given Room2Run’s portfolio has generated zero losses to date, it has led to discussions around rating agency methodologies in developing markets and ensuring they accurately reflect actual risks.</p>	<p>Increase investment in renewable energy projects. AfDB allocated \$650 million for renewable energy projects on a best effort basis over the three years following the transaction, aligned with EC priorities as a guarantor for Room2Run. The increased investment in private sector projects is expected to generate additional job opportunities in the renewable energy sector. AfDB is implementing a virtual ring-fencing system to facilitate the future redeployment of funds into specific sectors or projects.</p> <p>Expand lending capacity for emergency relief. In response to the COVID-19 pandemic, AfDB temporarily halted its private sector lending activities to support emergency relief and health initiatives throughout the continent.</p>

LESSONS LEARNED FOR DONOR AGENCIES AND DEVELOPMENT FINANCE ACTORS

1. **Balance sheet optimization is a proven, replicable method for MDBs to use private capital to increase their lending towards the SDGs.** The AfDB's income from Room2Run in 2018 meaningfully outweighed the associated transaction costs, illustrating that balance sheet optimization is financially sustainable for MDBs. With proof of concept firmly established, transaction costs are expected to further diminish for the AfDB's follow-on transaction. Meanwhile, institutional investors gain access to a highly diversified, investment-grade Africa portfolio with relatively low risk, as evidenced by Room2Run's investors experiencing zero losses to date. This transaction will have a ripple effect across the global institutional investor landscape, reducing the perception of Africa risk for a host of investors.
2. **Through balance sheet optimization, MDBs can attract long-term institutional investment and reduce their reliance on already strained donor support.** MDBs can tap new and far deeper pools of private capital that will be needed to achieve the SDGs through balance sheet optimization, reducing their reliance on donor replenishment.
3. **MDBs can pool resources to execute balance sheet optimization at scale.** Synthetic securitizations are large, complex transactions that require a high number of portfolio assets (40-100). Smaller MDBs can therefore collaborate to create pooled asset vehicles, diversifying the underlying loan portfolios available for securitization, making the transaction more appealing to investors, reducing transaction costs, and achieving greater scale.
4. **Increasing the transparency of MDBs' portfolio performance data is critical to attracting private investment for development at scale.** MDBs and donors alike should advocate for uniform, anonymized reporting on MDBs' portfolio performance, to help private investors price risk more accurately and lower the cost of future transactions for MDBs.

Scale and replicability: Room2Run Sovereign

- The success of Room2Run 2018 led to the launch of the Room2Run Sovereign risk-sharing securitization, focused on a \$2 billion portfolio of sovereign loans from 11 countries. This creates headroom for AfDB to make up to \$2 billion in new loans.
- This sovereign transaction crowded in \$400 million from three insurance companies (AXA XL, Axis Specialty, and HDI Global Specialty) on a first-loss basis, and \$1.6 billion from the Foreign Common Development Office (FDCO) on a second-loss basis, to increase AfDB's lending commitments.
- These investments reduced AfDB's dependence on donor contributions and increased its ability to achieve its development objectives.

PRIVATE CAPITAL MOBILIZATION CASE STUDY: TDB CLASS C GREEN SHARE ISSUANCE



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Multilateral development banks (MDBs) are exploring new ways of attracting institutional capital for climate investments, reducing their reliance on donor funding by providing private investors with investment-grade exposure to emerging markets. In 2022, the Eastern and Southern African Trade and Development Bank (TDB) began offering “Green + Shares” to both public and private sector investors. Each dollar financed by these green shares will mobilize \$3 of green funding from TDB. DFIs and donors can play a catalytic role in equipping MDBs with the right technical expertise and credibility to crowd in private sector climate finance through these innovative structures.

The Eastern and Southern African Trade and Development Bank (TDB) was the first development finance institution (DFI) to develop a hybrid private-public shareholder structure, with the goal to attract more institutional capital into impactful transactions. Through a Class B share issuance in 2013, it has attracted 20 institutional investors to date.

Building on this success, in 2022 TDB launched its Class C Green + Shares, the first equity instrument of its kind within the MDB/DFI community to enable institutional investors to support climate action through risk capital. For each dollar raised through the Class C shares, TDB has committed to invest an additional \$3 into a portfolio of qualifying green projects across 25 African countries. With a target raise of \$100 million for its Class C shares, TDB expects to deploy a total of \$400 million towards climate projects.

STRUCTURE

The Class C Green + shares added a new layer to the TDB’s funding structure to avoid diluting existing shareholders. These shares target select investment-grade investors that can diversify TDB’s shareholding structure and provide a credible foundation for private sector investment. Two investors have cumulatively committed \$30 million to date.

Class C shares are preferred shares, like TDB Class B shares; however, they have several unique characteristics:

- Class C shareholders do not have direct voting rights, unlike Classes A and B, which are represented on the board of directors.
- Class C shareholders receive senior priority over Classes A and B in the event of a liquidation.
- Class C shareholders are eligible for dividends in the form of cash, and can exercise exit options.
- Assets on the Class C balance sheet are, by design, allocated exclusively to climate investments.

Private capital mobilization intervention:

- Hybrid public-private ownership structure to crowd in new pools of capital

Investment sector:

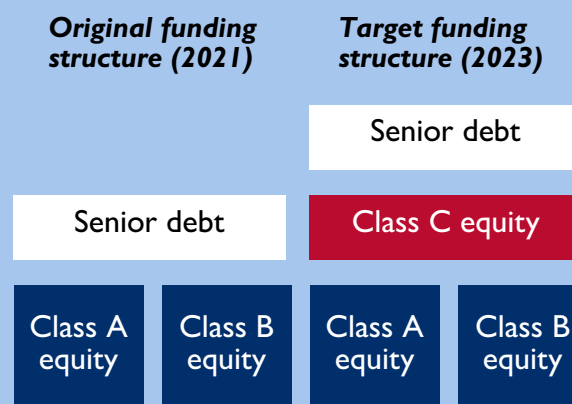
- Climate

Key stakeholders:

TDB shareholders:

- Class A: 25 sovereign investors
- Class B: 20 investors, including African pension funds, insurance companies, sovereign wealth funds, and DFIs
- Class C Green+: 2 investors; also targeting other catalytic investors

Model:



RESULTS

Private capital mobilization	Sector change, policy, and regulatory outputs	Development objectives
<p>Provide credible pathways for global private investors to deploy capital in developing countries. Global institutional assets worldwide have reached over \$400 trillion, the vast majority of which is invested outside developing markets due to concerns around risk. MDBs and DFIs should use their credibility in these markets to create structures that crowd in this massively under-utilized asset base that is increasingly interested in financial, social and environmental returns in fast growing developing markets.</p> <p>Diversify MDBs' and DFIs' sources of capital. Structures like TDB's green share issuance can tap new and vast sources of funding for the MDB/DFI community, reducing its reliance on public funding and building on proven track records in developing countries.</p> <p>Reinforce accountability on financial performance. The mechanisms put in place to accommodate institutional investors as shareholders since the 2013 share issuance have positively changed the way the bank operates, including by increasing TDB's accountability for its financial performance.</p>	<p>Strengthen the pipeline of investable green projects. An initial investor is mobilizing part of its returns from Class C Green + shares and contributing towards a Project Preparation Facility (PPF) within TDB to help build a pipeline of green projects to support climate outcomes.</p> <p>Develop a climate-aligned financing taxonomy that can be adopted by other institutions. TDB is developing its own taxonomy covering projects tackling both climate change mitigation and adaptation. This will serve as a systematic framework to deploy Class C Green + earnings and can be adopted by other institutions with similar strategies.</p>	<p>Mobilize private capital to reduce carbon emissions. TDB has committed to leveraging the Class C Green + proceeds into a portfolio of climate-aligned loans across 25 countries. Following a deployment ramp-up period of five years, these investments will further strengthen the Bank's climate strategy, which aims to minimize TDB's carbon emissions and promote carbon credits. It is also aligned with the Sustainable Development Goals (SDGs) and the African Union's Agenda 2063.</p>

LESSONS LEARNED FOR DONOR AGENCIES AND DEVELOPMENT FINANCE ACTORS

- MDBs are uniquely positioned to leverage private sector financing for climate action due to their status as credible and transparent emerging market investors.** MDBs are highly creditworthy institutions with long track records in developing markets, extensive local networks, and robust monitoring and reporting capabilities. Through public-private share issuances, they can provide institutional investors with investment-grade opportunities and exposure to developing markets, to directly fund impactful climate and development projects. Over time, private investors will then learn how to better price and manage risk in unfamiliar developing markets.
- Donors, DFIs and/or MDBs can enhance the credibility of a new share issuance.** Initial DFI/MDB investments are helping establish proof of concept for the green shares model and mobilizing commitments from global institutional investors. The AfDB played a critical market champion role during TDB's share issuance roadshows.
- Technical assistance from donors and DFIs can help MDBs to attract long-term private investment.** Private share issuances by MDBs are complex, lengthy transactions involving multiple stakeholders. Donors and DFIs can provide technical assistance funding to support various aspects of the transaction, including governance structures, impact monitoring, alignment with global market standards, transparent currency systems, pipeline development, and policy frameworks.
- MDBs should establish upfront monitoring and reporting on development impacts associated with private financing.** TDB established a Climate Finance Framework in collaboration with an MDB prior to the Class C issuance, enabling it to present a robust impact case to institutional investors, efficiently direct financing towards viable green projects, and report transparently on climate-related development impacts.

Scale and replicability considerations

- Establishing robust corporate governance structures upfront is critical to attracting long-term private sector interest in MDB shares. TDB leveraged existing governance infrastructure created for the issuance of Class B shares to strategically implement its Class C share issuance.
- MDB share issuances allow private investors unfamiliar with developing markets to invest through a credible, investment grade institution and gain exposure to Africa and other emerging markets.
- Developing a strong pipeline of green projects before going to the market is critical to successfully launching green shares.