

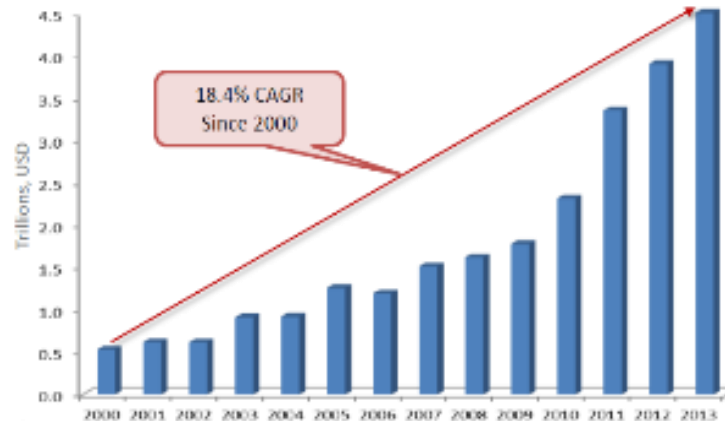
*A Financial Guarantor for Developing Nations*

***Proven 43 Billion Times:***

## **The Financial Technology Required to Address Emerging Markets Development at Scale Already Exists**

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**Financial insurers guaranteed \$43Bn of EM debt from 1994-2016 with only 0.07% of loss.**  
Funding comes from pension funds and other EM in-country institutional asset managers



**Virtuous Circle: EM nations save, invest, and reduce reliance on risky dollar financing.** Local regulated investors must invest in AAA (national-scale) debt. Guarantors can provide those AAAs if they are rated BBB or above (global scale). Guaranteed projects both diversify and add yield to local debt portfolios

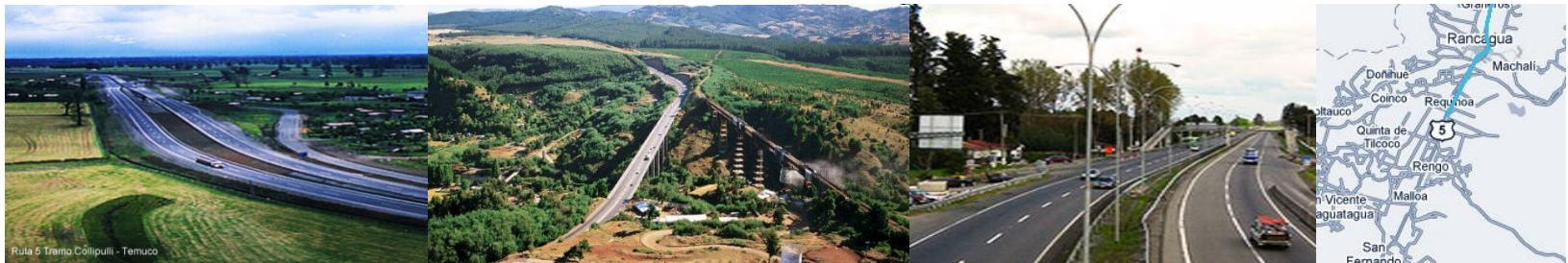
**This model works for middle- and some lower-income nations.** Development banks can collaborate with guarantors to address needs in poorer nations lacking local savings pools

# How Financial Guarantees Work – And Their “Stereo” Impact

In 1998 US insurer MBIA guaranteed \$156MM (equivalent in Chilean currency) in bonds financing the Collipulli-Temuco toll road in southern Chile

- Unconditional, irrevocable obligation to pay P&I if the toll road fails to do so, for **any** reason
- MBIA enjoys the rights and responsibilities of the road’s senior creditor
- No payment defaults have occurred
- Chilean pension funds and insurers bought the AAA (national scale) bonds
- Yields were significantly better than for government bonds

Over the next eight years, ~\$4Bn of guaranteed bonds were executed for Chilean projects. The Chilean bond market was broadened and deepened while national infrastructure was significantly improved



# The Not-So-Secret Formula

## 1. Select Good Countries



## 2. Essential Projects Only



## 3. Underwrite Carefully



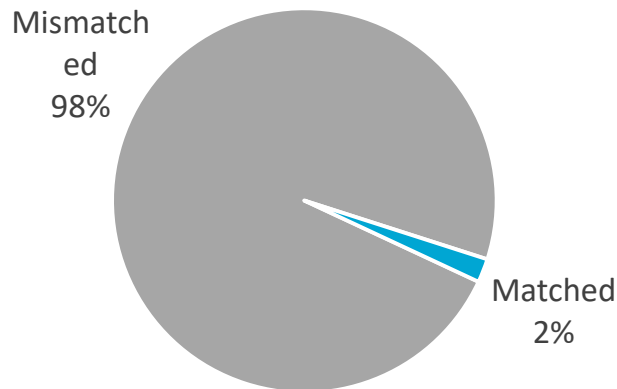
## 4. Match Currencies



All four elements are important; currency-matching is critical

# Eliminating the “Original Sin” of EM Finance: Currency Mismatches

### EM Defaults by Currency Match



Most EM defaults occur due to currency mismatches

AMF eliminates that risk

### AMF BASKET<sup>1</sup> INDEX vs USD 1997 - 2015



**Right-Way Risk:** EM currencies tend to depreciate against the dollar (more so during crises)

This “auto-corrects” a guarantor’s risk when EM economies deteriorate

# Good News and Bad

## The Good News....

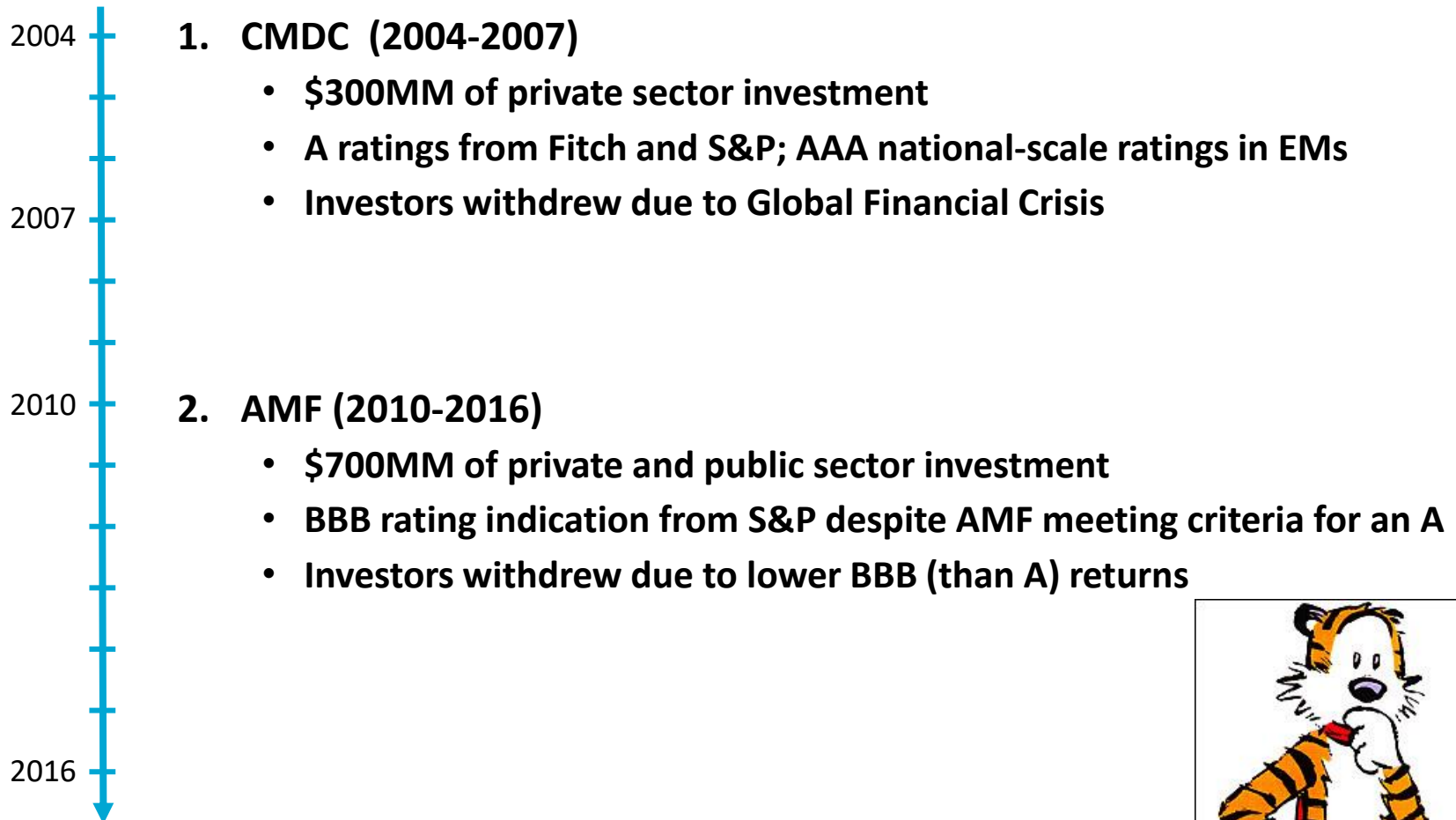
- **1<sup>st</sup> Prize** 2010 Marketplace for Innovative Finance, sponsored by World Bank, Gates Foundation, AFD (France)
- **1<sup>st</sup> Prize** 2011 Ashoka SME finance competition
- **1<sup>st</sup> Prize** 2014 Bloomberg Finance for Resilience competition
- **Grants** from Gates, CAF and AFD
- **Capital.** Raised over \$1Bn for CMDC and AMF
- **Broad support** from private and public sector institutions
- **Huge demand.** \$14Bn deal pipeline; massive infrastructure programs across EM nations
- **Enormous resources.** Over \$9Tn in EM pension funds, SWFs and other institutions
- **Massive impact.** Both infrastructure and, perhaps even more important, EM self-financing capacity increased due to local capital markets development. Estimated \$100MM in projects in first ten years

## The Not-so-Good News

- We haven't launched yet

# The Two Lives of an EM Guarantor: Per Hobbes: Nasty, Brutish and Short

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# Lessons Learned

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## Ratings Agencies

- **The Big 3** are a huge road-block. Maybe focus on local agencies overseas

## Private Sector Investors

- Challenges:
  - For **hedge funds**, very high return requirements for an EM start-up
  - For **Private equity**, time horizon issues
  - **Pension funds** generally avoid start-ups
  - **Impact Investors**. Many are retail-oriented, ticket sizes too small
- **Family offices and other patient investors are ideal**

## Public Sector Investors

- **DFIs** – Regionally rather than globally focused. Many have low equity limits. Some clearly don't want private sector involvement despite their stated mission. TA support would be especially welcome

**THIS IS A POWERFUL, TESTED, SUCCESSFUL DEVELOPMENT FINANCE MODEL. THE AMF TEAM IS SEEKING CHAMPIONS TO WORK WITH US GOING FORWARD**



# Life After Death?

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**AMF is down but not out.** What has survived:

1. An indicative BBB to generate the required national-scale AAA in most EM nations
2. An experienced, expert veteran team
3. A \$14Bn deal pipeline, indicating enormous demand
4. A successful EM financing model

**Is there life after death?** The AMF team is considering three alternatives:

1. Launch AMF as a **BBB EM guarantor**
  - Needed: \$400-500MM in new investment, investors who view 20% IRR as acceptable
2. Launch CreditGarantía – a **BBB rated LatAm guarantor**
  - *Ditto*
  - LatAm is the friendliest region for financial guarantees
3. Launch GEM (Green Energy Multiplier), **global guarantor focused on EM green projects**
  - *Ditto*
  - \$3Tn green investment needed in EMs over next 30 years; “monoline” is the best leveraging vehicle to approach that requirement