GUARANTCO

LOCAL CURRENCY GUARANTEES

Guarantee Policy and Operational Guidelines

As amended 29 November 2013

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Introduction

1. Guarantee Vehicle

These Guarantee Policy & Operational Guidelines relate to the activities of a company incorporated under the laws of Mauritius with registered number 58185 (the "Company").

2. Objectives

The key objective of the Guarantee Policy & Operational Guidelines is to make sure that the aims of the Company's sponsors[1] are upheld. Sponsors of the Company are the Swedish Government, acting through the Swedish International Development Co-operation Agency, the Government of the Swiss Confederation acting through the State Secretariat for Economic Affairs, the Government of the United Kingdom, acting through the Secretary of State for International Development at the Department for International Development, the Private Infrastructure Development Group ("PIDG") and Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V. ("FMO").

The Company's vision is to become a centre of excellence for local currency guarantees in low income countries, with emphasis on the least developed countries, thereby assisting with the alleviation of poverty.

The Company's mission is to become a market-based recognised guarantee institution aimed at enhancing the availability and role of local currency finance for viable and sustainable infrastructure projects and at strengthening developing country capital markets for the purposes of assisting with the alleviation of poverty.

The Company's role is to (a) assist developing country clients to structure infrastructure transactions which contribute to poverty alleviation; (b) assist developing countries to overcome market failures demonstrated by the lack of competitively priced local currency debts with long term tenor; (c) assist local project lenders and investors including portfolio investors to assess credit risks in infrastructure projects by issuing local currency guarantees against a fee commensurate with risks involved in transactions made by guaranteed entities and thereby promoting the provision of capital to viable infrastructure projects; (d) build capacity through technical assistance for capital market development; and e) develop infrastructure finance solutions in fragile and conflict-affected states through locally based institutions, where possible in local currency but, where this is not feasible, hard currency solutions are permitted.

[1] The Sponsors are either indirect owners, through the Private Infrastructure Development Trust, or direct equity holders in the Company.

Part I: Guarantee Policy

3. Product Range

The Company will primarily support the placement of local currency debt instruments in domestic credit and capital markets by infrastructure companies (“Client Companies”). The support will be provided in the form of credit enhancements through financial guarantees for the benefit of local lenders and investors (sometimes via intermediaries (see section 5)).

Additionally, in countries defined by the OECD as “Fragile and Conflict-Affected States” (“FCA State”, as listed in Appendix IV), the Company may support the placement of dollar or euro debt instruments to Client Companies provided that the following conditions are met (“FCA Conditions”):

- the Company prioritises the inclusion of locally or regionally based financial institutions; and
- by taking such debt instruments, Client Companies should not be encouraged to take unnecessary or potentially materially damaging foreign exchange risk.

The Company will be able to offer a range of products tailored to individual project requirements for local currency funding, such as:

a. Contingent products. Guarantees, insurance policies and similar products. These will often be underwritten in partnership with other institutions.

b. Provision of technical assistance to develop and structure transactions that include a contingent product to be provided by the Company. Technical assistance funds will be channelled to projects in the first instance from the PIDG Technical Assistance Facility (“TAF”) to support local capacity building and capital market development. These funds may be supplemented by additional technical assistance resources from other donors.

c. Other. Any other form of support that is consistent with the Company’s overall aim of developing local currency markets. For example, the Company could potentially work with local and international intermediaries to facilitate the creation of derivatives markets. Other products such as refinancing risk products or direct short term local funding products to complement guarantees may be offered (such as bridge loans, underwriting capacity to support primary placement of bonds and support for secondary market liquidity) in each case subject to the approval of the Board and provided that such products are not otherwise available from commercial lenders.

4. Geographical Coverage

The Company may only support the financing of investments by Client Companies established or operating in low and lower middle income countries, as listed in columns I (Least Developed Countries), II (Other Low Income Countries) and III (Lower Middle Income Countries and Territories) of the OECD’s “DAC List of ODA Recipients” (as such list is updated from time to time, the list as at October 2013 is set out in APPENDIX III). No

particular country in this list is excluded, but the Company's transaction team will make extra efforts to source projects in the least developed countries ("LDCs").

However, the Company's operations are expected to be concentrated in those countries where either the necessary foundations for private sector participation in infrastructure are in place or where bond issues by municipal utilities are feasible if appropriately structured. Such pre-requisites would be a certain level of macroeconomic stability with inflation under control and free currency movements, as well as a sound domestic policy environment with legislation for property rights and bankruptcy proceedings. These conditions are necessary, since a country with high inflation and a highly underdeveloped financial sector would probably not offer a conducive environment for Client Companies to mobilise domestic long-term financing even with support from the Company.

Conversely, if the host country already enjoys low inflation and has well-developed credit and capital markets, there would probably be little need for support. However, municipal entities, as opposed to the private sector, could still find it difficult to access commercial, long-term debt flows even for sound infrastructure undertakings. The latter could merit support through the Company even in countries with a relatively well-developed financial sector.

If the host country concerned is heavily indebted, then it should preferably have started a formal process to receive substantial debt relief under the HIPC programme.

5. Eligible Types of Infrastructure

The Company may provide support for the financing of investments by the following forms of Client Companies for the provision of infrastructure services:

a. *Companies with majority private ownership and/or effectively controlled by private sector entities*

   i. *Start-up Companies and "Greenfield" Developments:* infrastructure or infrastructure related investments in entities that have received (or will have received prior to effectiveness of the Company's support) the relevant permits, licences and concessions from governmental entities, and that are seeking medium to long term finance. The contractual project finance arrangements could be based on derivations of the standard BOT concept.

   ii. *Operating Infrastructure Companies:* going concerns that require finance for upgrades, expansions and other forms of growth.

   iii. *Privatised Companies:* privatised infrastructure businesses that have a proven track record and are expanding or rehabilitating their operations.

b. *Parastatals or Public Corporations:* ring-fenced public entities

   Where either part d below applies or:

   (i) the host central or local government is in a majority shareholding position but has a contractual undertaking to reduce its holding (including indirect holdings) to 49% or less within a defined period either through listing or trade sale; or

(ii) privatisation is not envisaged, but the public entity conducts operations along regular commercial principles and the investment concerned will not displace the private sector; and where the following conditions are normally also met:

   a) significant performance risks have been transferred to the private sector; and

   b) there is a proven track record without disruptive external political manipulation or interference.

c. *Municipal infrastructure*: The Company can support infrastructure investments undertaken by municipalities and municipal corporations either where part d below applies or subject to the following conditions:

   i. Municipal companies borrowing in their own name and operating on a commercial basis (funded largely through user fees) without disruptive external political manipulation or interference should meet the same financial criteria as private corporations.

   ii. Municipal companies that do not fulfil the above requirements regarding financial viability and autonomy can be supported only if the municipality undertakes to provide financial support to the company concerned, if and when needed, and this undertaking is collateralised through one of the vehicles discussed in point iii below.

   iii. Municipal investments in specified revenue earning or non-revenue earning infrastructure facilities. However, the Company will not guarantee municipal debt issued on a general obligation basis, unless the debt instrument concerned has obtained a satisfactory rating or the credit risk is otherwise deemed acceptable by the Company, for instance if there was a satisfactory security. The latter might be achieved in the following two instances:

      a) the investors/lenders have acquired a senior claim over specific municipal revenues that could be routed via an escrow account, such as hypothecated taxes and/or income streams from existing consumers of municipal services; or[2]

      b) the investors/lenders have acquired intercept rights on transfers from central (or state) government as collateral for the municipal borrowing.

d. Parastatals, Public Corporations, Municipalities or Municipal Corporations in FCA States: The Company can support infrastructure investments undertaken by public sector owned, managed and controlled entities, subject to the following conditions:

   i. The entity is located in a FCA State.

   ii. The entity is managed along commercial lines.

   iii. The entity, or a significant part of the entity's business, is considered capable of being privatised in the future.

[2] The use of municipal revenue sources as collateral would often depend on approval from regulators.

iv. Viable private sector alternatives are considered unlikely to materialise or be discriminated against by the investment.

v. The Company has taken into consideration the potential impact on increasing the contingent liabilities for the applicable Government when supporting such entity.

In addition to new financings, the Company may strengthen the financial robustness of existing infrastructure undertakings by also supporting refinancing transactions in which hard currency funding is replaced with local finance or, in the case of a transaction in a FCA State, in dollars or euros provided the FCA Conditions are satisfied. However, refinancing transactions, which do not result in an associated infrastructure expansion, should in the aggregate not account for more than 40 per cent of the committed portfolio.

6. Eligible Beneficiaries

The Beneficiaries are the bearers or holders of the debt instruments that are guaranteed by the Company, and shall be providing either direct or contingent support to the eligible entities listed in section 4 in the countries set out in section 3.

The following parties constitute eligible beneficiaries:

a) *Trustees* representing a collective of individuals that have invested in a debt instrument issued by an eligible entity.

b) *Financial Institutions*, such as banks, pension and insurance funds, or *trustees* representing a collective of such entities, having invested in a debt instrument issued by an eligible entity.

c) *Commercial banks* or other financial intermediaries providing either loans or contingent support to an investment product issued by an eligible entity.

d) *Insurers* providing cover to an investor in an eligible entity, and seeking to cede part of the exposure to another entity.

e) *Mortgage lenders or insurers and micro-finance institutions* extending funding or contingent support to households to finance housing or other infrastructure provision.

   The Company may consider issuing back-up guarantees for such institutions or (slices) of their portfolios.

f) *Official financial intermediaries:* providing support to eligible entities, including but not limited to:

   (i) local and sub-regional development banks ;

   (ii) multilateral or bilateral development finance institutions (DFIs) provided that they are “fronting” for a contingent product on behalf of the Company.

   The Company may consider issuing counter-guarantees or portfolio guarantees for such institutions.

7. Sector Focus

7.1 Sectors for Inclusion

The Company shall provide guarantee and other facilities to support the funding of Client Companies (such support may be extended via intermediaries). The Client Companies shall be engaged in one of the following activities (each a "Sector"), with the Company, subject to the availability of suitable opportunities, seeking to ensure that there is a well-balanced distribution across sectors in the guarantee portfolio:

a. *Energy supply:* the generation, transmission and/or distribution of electricity, including rural electrification.

b. *Water/waste services:* urban/rural fresh water production and treatment, supply and distribution, sanitation, solid waste disposal/collection and waste treatment, bulk water supply (water reservoirs, transfer schemes, dams and pipelines).

c. *Transportation:* fixed transportation infrastructure including toll roads, bridges, tunnels, light and heavy rail systems and railway equipment, airports (passengers and freight), ports and harbours, warehousing and bulk storage/handling facilities which may include certain moveable assets.

d. *Telecommunications:* the development and operation of: (i) long distance and local telephone services, cellular radio telephone services and other radio common carrier communications services, including paging and specialised mobile radio systems; (ii) telegraph, microwave and private communications networks, electronic mail and other emerging telecommunications technologies.

e. *Gas transportation, distribution and storage:* gas pipelines and bulk storage/logistical facilities and downstream gas development.

f. *Urban infrastructure*: the provision of economic and social infrastructure[3] within towns and cities.

g. *Mining:* only where the Company's involvement expands the provision of infrastructure and associated services and where the Client Company agrees to allow third party use of the assets (in so far as it does not prejudice their mining operations) and where the Company's participation is believed to be additional.

h. *Other:* other activities that impact positively on the development of the relevant country's basic infrastructure and promote the objectives of the Company. Such activities may include the infrastructure component of industrial or agro-industrial projects; productive investments where the investment if undertaken will involve significant new infrastructure investment (for example investments in the infrastructure for agribusiness); and the manufacture, construction or assembly of goods, equipment, plant and buildings or the provision of services (for example cement plants, producers of pipes, pumps, switching equipment, cables, bricks, tarmac and other basic materials used in infrastructure construction).

7.2 Sectors Excluded

[3] In the case of social infrastructure such as residential housing, the Company needs to collaborate with institutions that have an in-depth understanding of the specific risks involved.

The following Sectors shall be excluded from Company support:

a. Oil and Gas Exploration and Production ("upstream" activities);
b. Oil transportation for exports (however, facilities for domestic use are eligible for support);
c. Mining or mineral exploration and extraction except for investments which fall under clause 6.1(g);
d. Nuclear power or nuclear waste treatment; and
e. Military infrastructure.

8. Community and Environmental Impact

All of the Company's guarantee decisions shall be taken having due regard to the impact of supported investments on the environment, compliance with local laws, adherence to Environmental, Health, Social and Safety standards as required by PIDG and other relevant standards. Start-up up Client Companies whose borrowing is supported by the Company must comply with such standards from the outset and going concerns must, where required, present remedial environmental programmes for approval. Where prudent or necessary, a satisfactory Environmental Impact Assessment ("EIA"), in accordance with the requirements of the relevant local environmental agency of the host country, would be required as a condition precedent to disbursement. [4]

The Company will include in its due diligence for each Client Company an analysis of the social and ecological impacts to its environment, including the methods and processes used by the Client Company to assess and mitigate any material negative impacts. In case certain areas fall short of the required standards, the Company's management team shall clearly identify these in its proposal to the Guarantee Committee and propose mitigating measures and inclusion of appropriate covenants into the guarantee/insurance documentation. Should the analysis show serious negative impacts that cannot be addressed within a reasonable time, the transaction involving the Client Company may be deemed inappropriate for support by the Company.

The Company shall in its due diligence use the developmental impact and poverty elimination criteria as set out in APPENDIX I.

Environmental, technical and social advisory support shall, as is required by each transaction, be utilised by the Company.

9. Exposure Limits

In making decisions on financial engagement, the Company is required to operate within the following guidelines and exposure limits[5] (these limits will by necessity be interpreted with flexibility in the short term):

[4] If The Company's support is extended via a financial intermediary, the latter should set similar standards for its clients.
[5] When monitoring its exposure, the Company should use an appropriate value-at-risk measure.

a. No single Client Company will be allowed to account for more than the greater of (i) 15% of the Company's portfolio or (ii) USD30m or (iii) otherwise as may be agreed by the Board of the Company.
b. The Company may not expose more than 25% of its portfolio to Client Companies in any one single country.
c. The Company may not expose more than 40% of its portfolio to Client Companies domiciled in any one single currency zone.
d. The Company may not expose more than 40% of its portfolio to projects in any one sector.
e. The Company shall avoid being exposed to default risk on more than 50% of the long-term debt position in the Client Company's balance sheet.
f. No single sector (as described in section 6.1) shall account for more than 40% of the committed portfolio.

In addition, the Company will have as a target that, subject to the availability of suitable opportunities, up to 20% of the portfolio be related to urban regeneration projects (these projects would in the first instance belong to sectors b and f in section 6.1, and would need to meet the same strict credit-worthiness criteria as is required of projects within the other eligible sectors).

10. General Restrictions

Any support by the Company shall be extended with the aim to promote the Sponsors' objectives of poverty elimination, additionality, capacity building, sustainability and value for money.

The Company may not support any eligible entity which does not at that time materially comply with the Environmental, Health, Social and Safety standards as set by PIDG and any relevant environmental standards of the country in which the eligible entity is based (unless there is a comprehensive environmental action plan in place to achieve compliance in the short term).

11. Product Terms

11.1 General Principles

The Company will offer a range of contingent products in the form of guarantees, insurance, liquidity instruments or other similar instruments, based around the mitigation of default risk.

The main product will be partial credit guarantees, covering default on debt service arising from specified events. The Company will charge generally risk-reflective and market-based guarantee fees.

Payment under the Company's guarantee will be contingent on an event-related default by the Borrower that is not remedied within a stipulated cure period, whereby the "triggering"

event has to represent a risk that is covered under the guarantee. (The procedures for handling claims are more closely described in section 14.) In any event, the Company should not displace private or official insurers of political risk by providing guarantees that only cover such political risks.

Precise contractual definitions of the events guaranteed and pricing will be handled on a case-by-case basis.

11.2 Partial Credit Guarantees

The Company's partial credit guarantees are risk sharing instruments that protect lenders and investors in debt instruments in the event of loan default by the borrower on scheduled debt service payments, up to a specified amount of their exposure. Risk sharing with lenders/investors may be achieved through exclusion of certain types of risks from cover, and/or by only guaranteeing the principal portion of the debt service (i.e. excluding interest payments), and/or only covering the later maturities in a repayment schedule. The partial credit guarantees may be issued in support of different categories of debt (both senior and subordinated), and may be provided either as primary or counter guarantees.

11.3 General Guarantee Terms

a. Pari-passu rights: The legal framework of the lender structure (e.g. inter-creditor agreement) must provide pari-passu rights for the Company as guarantor with respect to the Client Company's lenders, and accord security rights post-subrogation that are equal to those of the initial lender (beneficiary).
b. Voting rights:[6] The Company's rights will include full sharing of the information submitted to lenders, and voting rights commensurate with the level of risk taken.
c. Exposure cap: The Company's contingent obligation will be stipulated in local currency which, in order to protect against currency appreciation, may be capped (i.e. the maximum exposure would be quantified).
d. Form of guarantee: The Company can choose to guarantee on a (i) co-guarantee; (ii) first loss; or (iii) excess of loss basis.
e. Option to pay out lenders: In the occurrence of a default event that is covered under the Company's guarantee, the Company will have the option to assume full responsibility for the loan by paying out the full outstanding debt amount to the lenders.
f. Currency conversion: In the event of a payout under its guarantee, the Company can choose to retain the claim in local currency (i.e. the subrogated debt financing would not convert automatically to US$-denominated debt upon default).
g. Maturities: The Company should not take on exposures for longer periods than 15 years, thus placing a corresponding limit on the "door-to-door" tenor of the underlying debt.

[6] This refers to voting rights in the lender structure rather than voting rights in the company shareholding.

h. Refinancing: The Company shall be able to participate in refinancing that is consistent with the principles set out in the Guarantee Policy.

i. Guarantee fees: The issuer/borrower (Client Company) would have to pay guarantee fees that are generally risk-reflective. The guarantee fees would normally be payable in advance of each interest payment period under the guaranteed debt structure, based on a percentage of the outstanding debt. (More detailed pricing guidelines are set out in section 13, based on the general principles laid down in APPENDIX II.)

j. Governing law: The Company's guarantees shall be governed by English law, with dispute resolution in accordance with the rules of the International Chamber of Commerce.

The Company will enter into agreements[7] with the issuer/borrower and the guaranteed party, which will set out the detailed terms of the guarantee. (In the case of a bond issue with numerous investors, it is assumed that the guaranteed parties would be represented by a Trustee.)

Where the Company acts as guarantor, it will perform due diligence on the suitability of the guaranteed parties/beneficiaries (eligible Client Companies). When the beneficiary is an intermediary, the due diligence will include the intermediary's procedures for sourcing, appraisal and monitoring of transactions, as well as handling of non-performing assets and recovery of claims.

11.4 Types of Supported Debt Instruments

Examples of debt instruments that can be supported by guarantees are "plain vanilla" bonds (often amortising, but bullet payments can be covered), floating rate notes, debenture facilities (secured) and senior and subordinated bank loans. The debt instruments to be guaranteed would be interest bearing (sometimes with indexation) and could be privately placed with institutional investors. If the debt instrument is convertible, the guarantee must fall away on conversion. (The Company will give preference to instruments placed on a securities market, but the instruments might initially be privately placed and subsequently traded on a securities exchange as capital markets develop.)

11.5 Other products

The Company may wish to develop "first loss" guarantee instruments for the assets pool of securitisations (e.g. collateralised bond obligations) that can be used to finance social infrastructure such as housing.

Another avenue that can be explored is for the Company to develop intermediary swap instruments in countries in which cross-currency swap markets do not exist.

The incorporation into the Guarantee Policy of any such new products, which are yet to be developed, will be subject to section 12.

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[7] This could be in the form of a Tripartite Agreement or through two separate agreements.

12. Competitive Tendering and Procurement

12.1 Non-Competitively Awarded Client Company

It is a requirement of the Company to support good public policy and transparency in all transaction processes. Therefore, subject to the exceptions set out in the Procurement section below, the Company will not support start-up of greenfield Client Companies for which the underlying rights (concessions or the like in “BOT” type of contractual project finance arrangements) have not been competitively awarded and where, in its view, the opportunity could reasonably have been competitively tendered. The form of competition may include sequential competitions in which bidders seek to better an initial, often unsolicited, bid (a so-called Swiss Challenge) as well as more usual ‘parallel’ bidding. This issue does not impact on other types of eligible infrastructure.

In exceptional cases, the Company may engage in arrangements where the underlying rights have been awarded through direct negotiation. In such cases the Company will need to assure itself that, if the opportunity involves a government-related process, any award resulting therefrom has been made on a defensible and transparent basis that does not harm the public interest.

12.2 Participation by the Company in competitive bidding

The Company may participate in competitive bidding situations on behalf of one or more parties. In such cases the Company shall provide preliminary support letters or other commitments to any bidding party approaching it for support, which is deemed to provide a bid of sufficient quality to be eligible.

12.3 Procurement where rights have not been awarded competitively

a. In instances where licences, concessions and privatisations could not be competitively tendered, the Board, subject to (b), will require that all procurements of a material nature are tendered competitively.

b. In exceptional cases under (a) above, the Company may support Client Companies where procurement has not been subject to competitive bidding. In such cases the Company will need to assure itself that all major procurement is expressly on an arms’ length and transparent basis, with specialist advice from technical consultants to confirm such if necessary.

13. Amendments

The Guarantee Policy may only be amended, modified or otherwise changed by the affirmative vote of a simple majority of the Board, subject to approval of the Shareholders holding a simple majority of the shares.

The Operational Guidelines shall be amended from time to time by the affirmative vote of a simple majority of the Board.

Part II: Operational Guidelines

14. Charging and Collection of Fees

The general principles for pricing of the Company's products are given in APPENDIX II.

The Company will charge front-end fees on each completed transaction, and periodic guarantee fees for the duration of the guarantee term. The guarantee fees would usually be charged and collected in advance of each interest payment period under the guaranteed debt structure, based on a percentage of the from time to time outstanding debt. In some cases the Company may require that the full guarantee fee be paid up-front.

The Company may also charge a standby fee on committed but undisbursed exposure, which would be payable in arrears.

All fees would be payable by the issuer/lender (i.e. Client Company).

The guarantee fees will be denominated in the local currency concerned. Initially, the Company may convert all received fees into cross-border currencies of its choice. However, the Company will have the ambition to build up a treasury function that will increasingly be able to manage assets and liabilities in the different local currencies of the countries of operation. This will be regulated in the Company's asset management policy.

15. Procedures for Handling Claims

A failure by the Borrower/Issuer to effect a payment of interest or principal on time, or payment of other liabilities in accordance with the loan documentation, would constitute a payment default. The Lender, or, where appropriate, the Security Trustee would in such case notify the Company in writing of the payment default. There will then be a specified cure period during which the Borrower/ Issuer will have the opportunity to remedy the default; the Lender/Security Trustee (i.e. the Beneficiary) may take initial steps to enforce the security; and The Company will ascertain whether the Triggering Event was caused by a risk event that is covered under the Guarantee. A Triggering Event shall be considered to occur when a failure by the Borrower/Issuer to pay any liability covered by the Guarantee has occurred, and such failure has continued to subsist after the due date for payment until expiry of the cure period, following which the Beneficiary may submit a claim to the Company. (There will be a procedure set out in the guarantee documentation on how to handle any disagreement as to whether a Triggering Event has occurred or not.)

If the Triggering Event is a covered risk under the Guarantee (as more specifically defined in each individual guarantee agreement), and if the payment default does not get cured within the stipulated period, the Company will then make the payment to the Lender in lieu of the Borrower. The Company would upon such payment be subrogated in all the rights of the Lender/Investors under the loan documentation. As such, the Company should rank pari passu with other creditors of the same seniority ranking as the beneficiary under the guarantee (i.e. the original lender), and be in a position to enforce its pro rata share of the security in order to recover the amount(s) paid out under the guarantee, inc. interest and enforcement expenses.

Upon effecting a payment under its guarantee, the Company would have the option to either accelerate the guaranteed debt facility (the beneficiary would then be entitled to receive the total outstanding debt amount) or make guarantee payments to the beneficiary in instalments, in step with the original repayment schedule of the debt facility.[8] It should be noted, though, that such decisions might have to be taken in consort with other lenders, in accordance with applicable inter-creditor arrangements.

16. Partnership Approach

16.1 Rationale

The Company will progressively develop several partnerships for different reasons. First and foremost it is essential to the Company's viability that it can operate in symbiosis with other institutions that deal with local currency financings and draw on their networks, competence, deal flow and guarantee issuing capabilities.

In particular, the Company needs to work through partners during an initial stage when it has not yet earned market recognition. As a start-up operation, the Company would, if it sought from the very beginning to offer guarantees in its own right, encounter serious problems with market acceptability, since a guarantee beneficiary would typically look at the guarantor's track record, reputation and credit standing for comfort. In particular, in terms of capital market transactions, bonds and paper guaranteed by "triple A" rated entities will be treated more favourably by regulatory regimes in terms of the regulatory capital required, which will make such support far more attractive to local market participants.

If necessary, 100% USD or EUR cash collateral may be given for fronting partners during the early stages of the pilot phase, subject to the approval of the Board.

16.2 Initial "fronting" arrangements by partner institutions

The preferred route to start building the Company's business is to select one or more partner institutions with a first class credit standing that would agree to "front" for "Pilot Guarantees" on behalf of the Company. This would offer the opportunity to establish a market presence of guarantee instruments that have been designed according to "GuarantCo principles", on the back of an established institution that would fulfil the role of guarantor-of-record. The knowledge and experience gained can then be used by the Company to fine-tune its products to be as responsive to market needs as possible. Such "fronting" arrangements are expected to be used for at least two years.

The Company would enter into a Partnership Agreement with the fronting institution. In accordance with the terms under the Partnership Agreement, the Partner would propose a Pilot Guarantee for which it would front as guarantor-of-record. The Company would concurrently issue a counter guarantee in favour of the guarantor-of-record (i.e. the Partner) that will back up the Pilot Guarantee in question. The Company would process the

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[8] The latter alternative may allow the subsequent reinstatement of the guarantee – in case the default is cured – and thus "save" the project.

proposal according to its normal procedures. This would be a two-stage process comprising of, first, Clearance in Principle and then due diligence/appraisal, leading up to a decision on whether to provide a counter guarantee to the Partner to indemnify it in case the Pilot Guarantee would be called.

Generally, the Partner would carry out most of the due diligence for a Pilot Guarantee. The Company would be prepared to participate in certain due diligence tasks, e.g. those related to capital market issues or the legal aspects of the guarantee. To the extent that the expenses for due diligence cannot be charged to the Borrower, these would be charged to the Company. As agreed in each individual case, a portion or part of the risk under the Pilot Guarantee may remain with the guarantor-of-record (i.e. not covered by the counter guarantee). Furthermore, the Partner may invest in or lend to the same project, which is also taking on a local currency debt portion that would benefit from a Pilot Guarantee. In these instances, the due diligence costs should be shared between the parties; as agreed in advance.

The Partner would charge market-determined and risk-reflective guarantee fees that are in broad agreement with the Company's pricing policy, and forward the fees received to the Company on a back-to-back basis. If the Partner is sharing a piece of the risk in the transaction, the guarantee fees would have to be shared in a manner reflecting the distribution of risk between the parties.

17. Reinsurance Arrangements

The Company's initial capital base will not allow for writing any large guarantees (> 12M USD) for its own account. This is where co- or reinsurance can play a vital role by adding capacity. The availability of risk sharing arrangements is important to the Company for primarily three reasons: (i) it will facilitate the Company to underwrite large contracts without over-exposing the balance sheet;(ii) introduction of reinsurance mechanisms is necessary to manage the portfolio balance; and (iii) reinsurance can bring experience, know-how and credit quality to the Company.

The Company may therefore actively seek refinancing arrangements, in the first instance with development finance institutions. The refinancing could be structured either on pro-rata or asymmetrical ("excess-of-loss") basis. In the latter, non-proportional case, one of the Parties would cover the second layer of a loss with the other Party taking the primary layer ("first loss") risk. For instance, in the case of a 50%-50% split between first and second layers on a guarantee of a bond issue, the second layer guarantor (the reinsurer) would not have to pay out anything until more than 50% of the bond's debt service (in present value terms) is unpaid.

The Company will also sound out market-based reinsurers on their appetite to acquire exposure from the Company, for example on a sub-regional basis. This could possibly be for "third layer" risks such as natural force majeure.

Refinancing with a Partner could be structured as a contract along the lines of "treaty reinsurance", where the Partner would provide guarantee capacity on a general basis, constantly covering a pre-defined portion of the risk for all eligible transactions. Such a

facility would thus be <u>obligatory</u>, within the restrictions of agreed guidelines. Alternatively, a refinancing facility could be put in place on <u>facultative</u> (per risk) basis.

In each case, the <u>main underwriting parameters</u> would need to be pre-negotiated, such as geographical reach, type of project, eligible guarantee beneficiaries, pricing covenants, deductibles arrangement, risk assessment, due diligence requirements and contract wording. A <u>maximum annual amount</u> could be agreed. The guarantee fees would be shared in a manner reflecting the distribution of risk on the different layers of exposure.

18. Co-guarantees

As an alternative to having a Partner "fronting" for a guarantee on behalf of the Company, co-guarantees may be used. In the case of a co-guarantee arrangement both Parties agree to underwrite the guarantee contract on a several but not joint basis. In such a co-guarantee, each underwriter will be responsible for its own proportion of the guarantee, but will have no liability towards the performance of the other Party. Similar to the "fronting" arrangements, the Parties may for each transaction agree on division of due diligence tasks and sharing of related costs.

APPENDIX I - Poverty Elimination Criteria

1. POVERTY ELIMINATION BENEFITS

The Company's support, either directly or indirectly, should facilitate the financing of investments by commercially sound Client Companies that contribute to the elimination of poverty. Before providing such support, the Board must be satisfied that such Client Company will provide at least one of the Benefits A-C below.

Benefit A. Underpinning economic growth that assists either directly or indirectly in the elimination of poverty and the broader policies and context for poverty elimination and leading to social, environmental and or economic benefits for poor people; or

Benefit B. Benefiting broad-based population groups including poor people and pro-actively addressing issues of equity and Barriers to participation or access to poor people; or

Benefit C. Specifically promoting and enhancing the social, cultural and economic rights, interests and needs of poor people.

2. SUBMISSION ON POVERTY ELIMINATION

In putting candidate transactions to the Board, the Management Team must include a brief submission that:

a. highlights the contribution that the investment by the Client Company, proposed to be supported by the Company, would make to the elimination of poverty in terms of Benefit A, B or C above;

b. where Benefit B or C applies, identifies the elements of the investment that contribute to poor people benefiting or having their rights[9] addressed directly; and

c. comments where appropriate on any Barriers to poor people benefiting or having their rights addressed.

3. ASSESSING BENEFITS A, B AND C

Given the nature of the Proposed Sector Focus set out in the Guarantee Policy, it is expected that, in many cases, these contributions to poverty elimination will predominantly take the form of indirect effects, such as improved sustainable infrastructure provided to broad population groups leading to positive economic effects and indirect employment creation.

Examples of Benefit A

[9] As described in the Covenant on Social, Cultural and Economic Rights and the agreements on Basic Social Services reached at the Social Summit in Copenhagen in 1995 (www.unhchr.ch/html/menu3/b/a_cescr.htm).

Examples of the possible effects an investment could have that would provide Benefit A are set out in Annex 1. The Board may (in consultation with the Company's shareholders, if the Board sees fit) consider that other effects will provide Benefit A.

Assessing Benefits B and C

Some investments may also provide Benefit B or C. These positive effects will be identified and outlined in the proposal. It will be for the Board (in consultation with the Company's shareholders, if the Board sees fit) to satisfy itself on a case-by-case basis that the investment in question will provide Benefit B or C.

Balancing Benefits and Barriers

In all cases, the submission must include a reasoned analysis of whether the Benefits an investment provides outweigh any negative effects on poor people. An illustrative, non-exhaustive list of possible Barriers to poor people benefiting from an investment is set out in Annex 2.

Additional Assessments

Private sector participation in infrastructure services may take place in a context of elimination of direct or indirect subsidies. Such projects may therefore have a role in creating barriers to poor people accessing those services.

In these cases, a more thorough assessment of the project by an appropriately qualified third party or any other party with an interest in the Client Company, where the Board is satisfied that that party will provide an independent assessment, is required to provide an overview of all positive and negative effects on poor people and of any barriers that exist. (In some cases, specific provisions might be introduced to mitigate the negative effect on poor people).

It is possible that another reputable lender or other interested party will have already prepared a report that provides such an overview. In this case, the Management of the Company can provide this report instead of an original additional assessment.

Where the Company's Management does not provide such an assessment with its submission and the Board finds that such an assessment is required, that governance body should call as soon as possible for an assessment.

Decision by Governing Bodies

The Company's governing bodies must then determine (in consultation with the Sponsors, if the Board so sees fit) whether the Benefit provided by an investment, proposed to be supported by the Company, will be reduced to an unacceptable level by the Barriers contained in the project to which the investment relates. If so, the financing of the investment in question should not be supported.

In deciding whether the Barriers reduce the Benefit to an unacceptable level, the Board will take into account that investments providing Benefit A may contribute to the elimination of poverty without providing significant direct benefits to poor people. Investments providing Benefits B or C are expected to actively promote poverty elimination strategies. The Board

will accept more Barriers to poor people receiving direct benefits from the project to which the investment relates.

4. DEFINITIONS

Barrier:	A barrier to poor people benefiting from an investment project. An illustrative list of barriers is given in Annex 2.
Local:	The country or countries in which an investment project will be implemented and/or the relevant project is established.
Poor Person:	A person known or reasonably thought to be living on "a $ a day" as described in Box 2.1 of Chapter 1 of the World Development Report 2000/2001: Attacking Poverty or being assessed as poor applying some other measure of poverty described in that Report.
Support:	The guarantee or other financial assistance provided by the Company to facilitate the financing of the relevant investment.

Annex 1 – Examples of Benefit A

Examples of the possible effects an investment project could have that would provide Benefit A could include:

(i)	enhanced public services:	the Client Company will provide new or substantially improved access to basic infrastructural services to broad population;
(ii)	employment creation:	the Client Company will generate short and long-term employment, directly and indirectly, for local people;
(iii)	linkages to the local economy:	a high percentage of a Client Company's budget is spent in the local economy;
(iv)	effect on government revenue:	the Client Company pays taxes/royalties to the local government and does not seek/receive any government subsidies;
(v)	effect on foreign currency generation:	the Client Company generates hard currency either by exports or removing the need for certain imports; or a refinancing reduces foreign currency obligations;
(vi)	social and economic impact:	a positive impact on different groups affected by the Client Company[10] in terms of increased incomes, enhanced skills, better health, social organisation or access to natural resources and other positive effects;
(vii)	effect on local markets/competition:	the Client Company will prompt competition between relevant providers and lead to improved quality, lower pricing or changes in government policy;
(viii)	innovation/technology transfer:	the Client Company introduces new technology or training, innovation, investment and training of local staff relating to technology to an area/country;
(ix)	contribution to capital markets development:	the Client Company has equity or a debt instrument publicly traded.

[10] For example, providers of rival services, local people affected by construction, users of services relevant to the Project and potentially marginalised people including poor people, minority ethnic & tribal groups, women, children and the elderly.

Annex 2 – Examples of Possible Barriers

Examples of possible Barriers to poor people benefiting from a Client Company would include:

a. inappropriate charging: whilst it is recognised that charging needs to ensure it is commercially viable on a sustainable basis, excessive fees for connection costs or an overly high fixed cost element in tariff structures will be deemed inappropriate;

b. exclusivity arrangements that prevent alternative solutions even where utility provision is not available;

c. poorly designed investment projects/service delivery which:

    i. reduce affordability for the poor; for instance through overly elaborate or inappropriate technology;

    ii. further marginalise poor people already disadvantaged for lack of relevant knowledge or skills;

    iii. do not include appropriate consultation and/or participation in project design;

    iv. where relevant, create or fail to address Barriers relating to gender, age or disability;

    v. unreasonably exclude access for poor people willing to pay (at an economically justified rate in the context of the Client Company) for infrastructure services through proposed geographical area or service area cover; and

d. any other Barrier which, in the view of the Board, unnecessarily excludes poor people with a willingness to pay for an infrastructure service at an economically justified rate in the context of the Client Company.

e.

APPENDIX II - PRICING POLICY

Operating Framework

The Company will provide guarantees and/or insurance policies as credit enhancement of local currency debt. These contingent instruments may be issued in support of different categories of debt, and may be provided either as primary or counter guarantees.

The Company will operate on commercial lines. However, the Company, in its role as a donor-supported developmental vehicle, will enjoy an advantage over pure commercial actors in that it will be able to have preferential access to technical co-operation funds that can absorb the additional transaction costs that accompany some of the more difficult and path-breaking local currency transactions in lower income countries.

The relatively large amounts of equity funding made available to the Company will contribute significantly to its income. As such, the Company's financial performance will be driven by both the returns from its asset management and the income from the core underwriting business. It is assumed that the investment returns from asset management will more or less cover the Company's operational costs and tax payments. The key determinants of return to equity will otherwise be the business volume in relation to write-offs, gearing of capital and realised guarantee fee levels. A long-term target return on equity in the range of 3-6% is considered achievable, whereby the Sponsors' minimum requirement is to preserve the value of their paid-in capital in real terms.

Exposure limits

In each guarantee transaction, the Company will be exposed to default risk on total or partial service of the underlying debt, arising from (in the main) commercial events. The Company's exposure may be capped. Risk sharing with lenders/investors may be achieved through exclusion of certain types of risks from cover, and/or by only guaranteeing a portion of the debt service and/or only covering the latter maturities in a repayment schedule.

The Company's policies shall explicitly exclude war, civil strife and expropriation risks from cover, as well as risks related to lawful government actions. Furthermore, the Company should, to the extent possible, avoid assuming risk for breach of contract by government or regulatory body.

The Company will not take on exposures for longer periods than 15 years.

Prudent exposure limits will also be maintained with regard to any single Client Company, sector and host country.

Pricing

The pricing of a guarantee should in principle be commensurate with the exposure.[11] The pricing policy rests on two pillars. On the one hand, the Company will operate in

[11] According to recognised pricing theory, a charge should also be added for maximum probable loss.

accordance with underwriting principles that are designed to reduce the risk for adverse selection of transactions, maintain transparent underwriting results and preserve an adequate and sustainable capital base. On the other hand, the Company's products should attract and facilitate local investors' participation in infrastructure funding. The offered products and their pricing have to match existing local market conditions without undercutting any freely available commercial alternative. As such, the guarantee fees should be generally risk-reflective and more closely determined by the conditions in the market place.

The theoretical basis for the fee calculation on a transaction should be the expected loss on the risk, calculated as the estimated probability of an event occurring (the default probability) times the cost of the event.[12] The macro-economic and political conditions in the host country, the risks directly related to the Client Company and the financed project, including solvency and market risks and such political risks that may be covered, as well as the length of the guarantee term, are important factors when determining the fee level.

However, it should be recognised that in some cases it may not be possible to charge fees that are fully risk reflective. As such, the more precise pricing will be determined on a case-by-case basis in accordance with the general risk characteristics and specific market conditions.[13] In any event, the Company should not displace private or official insurers that operate along commercial lines.

In the case of projects with very pronounced developmental impact but modest financial viability, the Client Company may benefit from support from donor institutions to meet part of the guarantee fee (if this can be done in a transparent and non-distortional manner). Alternatively, another institution might provide first loss support that may reduce the guarantee fee to be charged by the Company. In either case the Company's pricing policy would not be affected.

[12] Available credit rating-based statistics such as default and recovery probabilities and expected loss distributions should, where feasible, be used as benchmarks in the pricing process. The challenges of identifying such probability characteristics with any degree of reliability and obtaining credit rating data should not be underestimated, though.

[13] Any identified rate inadequacy on a single guarantee/policy should be identified and calculated by present value discounting and charged to capital and reserves.

APPENDIX III - The DAC List of ODA Recipients
Effective for reporting on 2012 and 2013 flows

Least Developed Countries	**Other Low Income Countries** (per capita GNI <= $1 005 in 2010)	Lower Middle Income Countries and Territories (per capita GNI $1 006-$3 975 in 2010)	**Upper Middle Income Countries and Territories** (per capita GNI $3 976-$12 275 in 2010)	
Afghanistan	Kenya	Armenia	Albania	Suriname
Angola	Korea, Dem. Rep.	Belize	Algeria	Thailand
Bangladesh	Kyrgyz Rep.	Bolivia	*Anguilla	Tunisia
Benin	Tajikistan	Cameroon	Antigua and Barbuda	Turkey
Bhutan	Zimbabwe	Cape Verde	Argentina	Uruguay
Burkina Faso		Congo, Rep.	Azerbaijan	Venezuela
Burundi		Côte d'Ivoire	Belarus	*Wallis and Futuna
Cambodia		Egypt	Bosnia and Herzegovina	
Central African Rep.		El Salvador	Botswana	
Chad		Fiji	Brazil	
Comoros		Georgia	Chile	
Congo, Dem. Rep.		Ghana	China	
Djibouti		Guatemala	Colombia	
Equatorial Guinea		Guyana	Cook Islands	
Eritrea		Honduras	Costa Rica	
Ethiopia		India	Cuba	
Gambia		Indonesia	Dominica	
Guinea		Iraq	Dominican Republic	
Guinea-Bissau		Kosovo[1]	Ecuador	
Haiti		Marshall Islands	Former Yugoslav Republic of Macedonia	
Kiribati		Micronesia, Federated States	Gabon	
Laos		Moldova	Grenada	
Lesotho		Mongolia	Iran	
Liberia		Morocco	Jamaica	
Madagascar		Nicaragua	Jordan	
Malawi		Nigeria	Kazakhstan	
Mali		Pakistan	Lebanon	
Mauritania		Papua New Guinea	Libya	
Mozambique		Paraguay	Malaysia	
Myanmar		Philippines	Maldives	
Nepal		Sri Lanka	Mauritius	
Niger		Swaziland	Mexico	
Rwanda		Syria	Montenegro	
Samoa		*Tokelau	*Montserrat	
São Tomé and Príncipe		Tonga	Namibia	
Senegal		Turkmenistan	Nauru	
Sierra Leone		Ukraine	Niue	
Solomon Islands		Uzbekistan	Palau	
Somalia		Vietnam	Panama	
South Sudan		West Bank and Gaza Strip	Peru	
Sudan			Serbia	
Tanzania			Seychelles	
Timor-Leste			South Africa	
Togo			*St. Helena	
Tuvalu			St. Kitts-Nevis	
Uganda			St. Lucia	
Vanuatu			St. Vincent and Grenadines	
Yemen				
Zambia				

*Territory.

(1) This is without prejudice to the status of Kosovo under international law

APPENDIX IV - Fragile and Conflict-Affected States 2012 and 2013

The list below is reproduced from: *Fragile states 2013: Resource flows and trends in a shifting world,*[14] the latest in a series of annual publications on resource flows to fragile states produced by the OECD Development Assistance Committee (DAC) through the International Network on Conflict and Fragility (INCAF) since 2006.

The list used in the OECD DAC's Fragile States Report results from the compilation of two lists: the WB-AfDB-ADB Harmonised List of Fragile Situations, and the list of countries with a Failed States Index (Fund for Peace) above 90 in the list developed by the Fund for Peace. The countries on the list are on either or both lists found at:

http://ffp.statesindex.org/for the Failed States Index, and http://go.worldbank.org/BNFOS8V3S0 for the harmonised list.

The OECD DAC plan to issue their Fragile States Report in October/November each year[15]. One year they will publish an actual "Report", and every other year (including 2013) there will be an "update." The PMU will circulate the updated list to the PIDG facilities by November each year.

Africa

Angola	Congo, Republic of	Liberia	South Sudan
Burundi	Côte d'Ivoire	Malawi	Sudan
Cameroon	Eritrea	Niger	Togo
Central African Republic	Ethiopia	Nigeria	Uganda
Chad	Guinea	Rwanda	Zimbabwe
Comoros	Guinea-Bissau	Sierra Leone	
Congo, Democratic Republic of	Kenya	Somalia	

Europe, Asia, Middle East and Australasia

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[14] http://www.oecd.org/dac/incaf/FragileStates2013.pdf (see list on page 17 of the report or page 19 of the PDF version)

[15] No list was published by OECD in 2012; hence the above list applies to both 2012 and 2013

Afghanistan	Iraq	Myanmar	Solomon Islands
Bangladesh	Kiribati	Nepal	Sri Lanka
Bosnia and Herzegovina	Kosovo	North Korea	Timor-Leste
Georgia	Krgyz Republic	Federated States of Micronesia	West Bank & Gaza Strip
Iran	Marshall Islands	Pakistan	Yemen, Republic of

Latin America and the Caribbean

Haiti