New Strategic Direction: IFC 3.0 Creating Markets

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Creating Markets, Creating Opportunities

DEVELOPMENT CHALLENGES



INFRASTRUCTURE
1.2 billion people
lack access to electricity



FRAGILITY
46% of the global
poor will be in
fragile & conflict
situations by 2030



HEALTH &

EDUCATION
400 million people
do not have access
to essential health
services. 121 million
children are not
in school

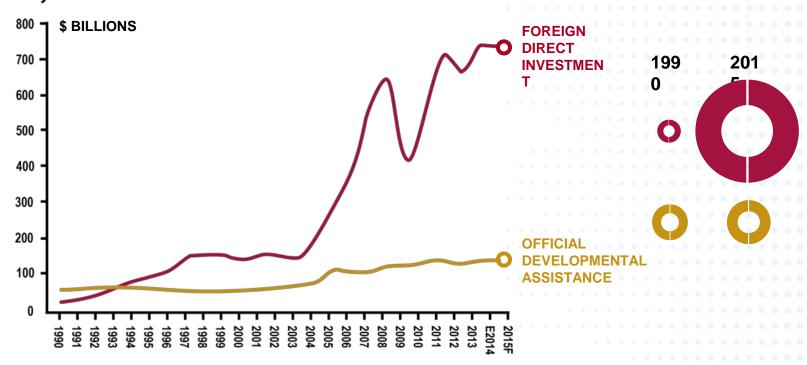


CLIMATE

CHANGE
26 million people
are pushed into
poverty each year
due to extreme
weather.



SOARING PRIVATE CAPITAL FLOWS, FLAT ODA





LEVERAGING PRIVATE FINANCE

HOW MUCH IS OUT THERE?

US \$2 TRILLION

ASSETS HELD BY THE WORLD'S TEN LARGEST PENSION FUNDS US \$4.5 TRILLION

ASSETS HELD BY THE WORLD'S LARGEST INSURANCE COMPANIES US \$5
TRILLION

ASSETS HELD BY THE WORLD'S LARGEST SOVEREIGN WEALTH FUNDS



GLOBAL BOND MARKET





SUSTAINABLE INFRASTRUCTURE FINANCE

THROUGH A CASCADE APPROACH

COMMERCIAL FINANCING

Can commercial financing be cost-effectively mobilized for sustainable investment? If not...

not...

2

UPSTREAM REFORMS & MARKET FAILURES

- Country and Sector Policies
- Regulations and Pricing
- Institutions and Capacity

6

Can upstream reforms be put in place to address market failures? If

Can risk instruments & credit enhancements cost-effectively cover remaining risks? If not...

3

PUBLIC AND CONCESSIONAL RESOURCES FOR RISK INSTRUMENTS & CREDIT ENHANCEMENTS

- Guarantees
- First Loss

4

PUBLIC & CONCESSIONAL FINANCING, INCLUDING SUB-SOVEREIGN

- Public finance (incl. national development banks and domestic SWF)
- MDBs and DFIs



Can development objectives be resolved with scarce public financing?







What will the PSW do?

Leverage IDA resources to expand private investment and create markets

4 Goals

- Support the scale-up of IFC and MIGA investments in IDA-only/fragile and conflict-affected countries
 - Offset risks and other impediments to investment
 - Encourage high-impact, pioneering investments, and create markets
 - Support IDA18 goals and thematic priorities

4 Facilities



- Blended Finance Facility
 - MIGA Guarantee Facility
 - 4 Local Currency Facility







THE PSW WILL take on CONSTRAINTS

to development and investment



INFRASTRUCTURE Gaps estimated at \$100B a year



JOBS Grow SMEs to spur job creation



LOCAL CURRENCY Lack of long-term local currency financing



RISKS
Early movers
take brunt of
risk,
impedes
pioneering
investments



REINSURANCE Opportunity to grow reinsurance in fragile markets, small transactions







transfer a portion of risk from private sector participants to IDA



POLITICAL & OFFTAKE

RISK
non-commercial risks
such as expropriation,
currency transfer
restriction and
inconvertibility, war and
civil disturbance, and
breach of contract
(MGF, RMF) and



CURRENCY RISK Early movers take brunt of risk, impedes pioneering

risk, impedes pioneering investments (LCF)



DE-RISKING/ REWARDING PIONEERING INVESTMENTS through blending of concessional funds, including in debt, equity and guarantee instruments (BFF) and liquidity products (RMF)







PSW facilities at-a-glance

	Risk Mitigation Facility*	Blended Finance Facility*	MIGA Guarantee Facility	Local Currency Facility*
Instruments	Project-based guarantees without sovereign indemnity	Loans, subordinated debt, equity, guarantees and risk sharing	MIGA Political Risk Insurance (PRI) products to private sector	Local currency denominated loans to private sector clients who operate in markets where there are limited currency hedging capabilities
Types of interventions supported	Large infrastructure, public- private partnerships	High-impact, pioneering	Investments in markets currently underserved by PRI and reinsurers	High impact investments with currency risk
Sectors	Infrastructure & PPPs	Multiple sectors	Infrastructure, agribusiness, manufacturing and services, financial markets & PPPs	Sectors determined by underlying loans







PSW-eligible countries: Sub-Saharan Africa

Guinea

only)2

Benin

Burkina Faso Guinea-Bissau

Burundi Kenya (subnational areas

Cameroon

Central African Liberia

Republic Madagascar

Chad Malawi

Comoros Mali

Congo, Dem. Rep. Mauritania

Congo, Rep. Mozambique

Cote d'Ivoire Niger

Djibouti Nigeria (sub-national areas

Ethiopia only)²
Gambia Rwanda

Sao Tome and Principe

Senegal

Sierra Leone

South Sudan

Tanzania

Togo

Uganda









- Electricity expensive for consumers
- Viable projects too costly for investors
- Unable to find a financial solution

Case Study: Power Sector in Pacific Island Countries

The Solution

- Create a risk-sharing facility
- IFC would cover 50% of credit risk
- PSW's Blended Finance Facility would cover a first loss of 20% of IFC's maximum risk amount









- Small grids, low generation capacity
- Heavy reliance on imports and fuel oil-based generation
- Solar power presents opportunity to increase supply at competitive prices, bring energy security
- Financial fragility of off-taker and absence of payment track record discourage private investment

The Solution

- IFC seeking to finance the country's first solar Independent Power Product (IPP)
- Provide support via the Risk Mitigation Facility
 - → Liquidity Support Guarantee to help mitigate nonpayment risk by the off-taker
 - \rightarrow Political Risk Insurance (PRI) to help mitigate breach of contract and termination risk

Case Study: Solar Power in a West African Country









- Hospital wants to improve standards and access to quality healthcare
- Long-term local currency financing not available and client susceptible to high FX risks
- Difficult for IFC to manage currency risk until project disbursement occurs

The Solution

- Proceeds of IFC local currency-denominated bond would be invested in government/corporate paper until needed
- By bearing credit and market risks, local currency facility would facilitate:
 - → local currency financing to a health care client
 - → IFC local currency bond issuance

Case Study: Health Sector in an Asian Country









- Hydropower project with tremendous potential would offer 5,000 MW of new capacity
- MIGA in need of additional guarantee capacity

The Solution

- MIGA seeking to provide coverage for risk of Breach of Contract
- PSW would:
 - → offer additional guarantees and
 - → significantly enhance ability to support big transformational projects in low-income, fragile/conflict-affected IDA countries

Case Study: Large-Scale, Long-Term Energy Project in SSA Country









- An African country has potential to increase global coffee market share and profits by improving quality of coffee
- The nation's primary coffee exporter is struggling to maintain financing due to investor concerns about political instability

The Solution

 With the IDA PSW allocation, MIGA would provide guarantees to coffee operating companies against non-commercial risks of Transfer Restriction, Expropriation, War and Civil Disturbance and Temporary Business Interruption Case Study: Competitiveness in a Coffee Market in an African Country





