New Strategic Direction: IFC 3.0 Creating Markets

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Creating Markets, Creating Opportunities

Discussion Purposes Only

DEVELOPMENT CHALLENGES



1.2 billion people lack access to electricity

FRAGILITY

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

HEALTH & EDUCATION

AL S

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.







LEVERAGING PRIVATE FINANCE HOW MUCH IS OUT THERE?



LARGEST **PENSION FUNDS** LARGEST **INSURANCE COMPANIES**

SOVEREIGN WEALTH FUNDS



A NEW APROACH: THE CASCADE

Private sector first, Public dollars last

SUSTAINABLE INFRASTRUCTURE FINANCE THROUGH A CASCADE APPROACH







What is the Private Sector Window?

The Private Sector Window introduces a new way of supporting private sector development towards the Sustainable Development Goals in the poorest countries, recognizing the fundamental role of the private sector in strengthening economies and creating jobs.

What will the PSW do?

Leverage IDA resources to expand private investment and create markets



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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







AT THE TRANSACTION LEVEL, THE PSW WILL 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 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

* IEC lod DSW Eaciliti







PSW-eligible countries: Sub-Saharan Africa

Benin Burkina Faso Burundi Cameroon Central African Republic Chad Comoros Congo, Dem. Rep. Congo, Rep. Cote d'Ivoire Djibouti Ethiopia Gambia

Guinea Guinea-Bissau Kenya (subnational areas only)² Liberia Madagascar Malawi Mali Mauritania Mozambique Niger Nigeria (sub-national areas $only)^2$ Rwanda San Tome and Principe

Senegal Sierra Leone South Sudan Tanzania Togo Uganda







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Case Study: Power Sector in Pacific Island Countries

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

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







Case Study: Power Sector in Pacific Island Countries

Case Study: Solar Power in a West African Country

- 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
 - ightarrow Liquidity Support Guarantee to help mitigate nonpayment risk by the off-taker
 - ightarrow Political Risk Insurance (PRI) to help mitigate breach of contract and termination risk







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Case Study: Solar Power in a West African Country

Case Study: Health Sector in an Asian 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:
 - ightarrow local currency financing to a health care client
 - \rightarrow IFC local currency bond issuance







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Case Study: Health Sector in an Asian Country

Case Study: Large-Scale, Long-Term Energy in an SSA 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:
 - ightarrow offer additional guarantees and
 - \rightarrow significantly enhance ability to support big transformational projects in low-income, fragile/conflict-affected IDA countries







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

Case Study: Competitiveness in a Coffee Market in an African 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







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Case Study: Competitiveness in a Coffee Market in an African Country