BRINGING PRIVATE SECTOR INVESTMENTS TO CHALLENGING MARKETS – PREDICAMENTS AND SOLUTIONS

Copenhagen, November 7, 2016

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Joanna Kata-Blackman
Poverty is increasingly concentrated in FCS

Private sector investment will be critical to help finance the needs of FCS

- About 20% of the world’s poor live in FCS today
- Nearly half of the world’s poor will be living in FCS by 2030
- Achieving SDGs will require an increased focus on FCS
- ODA alone is not enough: Private investment is critical to help finance the needs of FCS
IFC’s strategy focuses on promoting investments in FCS

- **Focus on reducing key constraints for firms in FCS markets**
  - Access to power
  - Access to finance
  - Access to markets

- **Creating enabling environment for private sector investment**

- **Help bring investments to FCS:**
  - IFC’s own-account investments → IFC’s own account scorecard targets
  - Bringing co-investors into joint deals
  - **Demonstration effects:** IFC’s presence in difficult markets provides a signaling effect to other private sector players that the market can be viable
Persistent constraints to scaling up investments in FCS

<table>
<thead>
<tr>
<th>Weak business environment &amp; structural sector challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Political and security risks; macroeconomic and currency risks</td>
</tr>
<tr>
<td>• Weak legal and regulatory frameworks; fragile institutions; land ownership challenges; weak institutions and governance</td>
</tr>
<tr>
<td>• Structural risks at the sector level (e.g., pricing issues, government counterparty risk)</td>
</tr>
<tr>
<td>• Difficulties in accessing market data</td>
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<table>
<thead>
<tr>
<th>Weak sponsor capacity and small markets</th>
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</thead>
<tbody>
<tr>
<td>• Undeveloped private sector, weak supply chains, and small markets</td>
</tr>
<tr>
<td>• Limited financial capacity of sponsors</td>
</tr>
<tr>
<td>• Sponsors may also need additional time and support to meet IFC standards</td>
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<table>
<thead>
<tr>
<th>Limited availability of finance</th>
</tr>
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<tbody>
<tr>
<td>• Poor access to domestic and international finance can make it difficult to finance projects</td>
</tr>
<tr>
<td>• Government capacity for complementary investments is usually limited</td>
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Case study: Guinea mining sector

IFC working on developing Guinea mining sector for over 10 years and has faced a number of challenges:

**Challenging Operating Environment:**
- Guinea’s weak regulatory environment; low capacity in areas such as biodiversity, resettlement, local content policies, facilitation of licenses, and permits
- Externalities such as the Ebola outbreak and the recent commodity price downturn

**Addressing challenges through increased dedicated resources:**
- IFC has had three advisory staff members and a Principal Investment Officer based in Conakry for years to support these engagements and work with the government and help build private sector capacity
- Substantial amounts of staff time invested in participating in extensive multi-party negotiations between the sponsor and the Government
- Guinea engagements have required three times the number of technical specialists and investment officers than typically deployed on a project
IFC is growing its FCS footprint

Growing share of Africa in IFC’s FCS portfolio

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>Cumulative 2016 Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>147</td>
<td>1411</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>82</td>
<td>953</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>203</td>
<td>558</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>34</td>
<td>284</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>27</td>
<td>103</td>
</tr>
<tr>
<td>South Asia</td>
<td>7</td>
<td>69</td>
</tr>
</tbody>
</table>

TOTAL 489

TOTAL 3377
Lessons learned from IFC’s experience in FCS

- Early PSD interventions often can focus on MSME capacity building or access to finance, and provide immediate results where governments may not be ready to focus on investment climate agenda.

- MSME development programs tend to be most successful when addressing targeted sectors with high market potential, and linking SMEs with global value chains.

- The blended finance programs (in particular in SME finance and agribusiness) can be instrumental in growing investments in FCS.

- Staff presence on the ground helps grow business – 75% of Africa’s FCS commitments are in countries with significant staff presence.

- FCS require a specific staff profile – senior, experience investment officers who are willing to do the necessary “hand holding”
Unlocking opportunities in FCS with new instruments

Existing initiatives aimed to unlock more investment opportunities:

- **Advisory Services** in FCS represents 21% of program (US$43m) in FY16.
  - Dedicated program for Sub-Saharan Africa

- **Project development programs** in infrastructure (Infraventures) to increase the pipeline of bankable projects

- **SME Ventures program** providing SMEs with risk capital and technical assistance

- **Blended finance programs** in sectors such as SME Finance (SME Facility), agribusiness (Global Agriculture and Food Security Program) and climate change

- **IFC’s Public-Private Partnership** advisory services
  - **Risk Envelope** ($700m) that signals appetite for high impact FCS deals that may fall outside of IFC’s standard credit risk profile; simplified legal documentation
  - **Increased awards for staff** contributions to FCS projects
What would it take to further scale up in FCS?

Enhanced tools needed to de-risk investments, build capacity and mobilize capital

Risk Mitigation:
- Public resources for guarantees, first loss instruments, local currency, reinsurance deployed at scale can help de-risk markets and encourage pioneering investments in FCS
- Blending tools to crowd-in other investors in IFC projects, reduce risk, improve project-level bankability, and affordability of service

Capacity Building & Partnerships:
- Significant public resources required to improve investment climate, build government capacity, upgrade critical institutions, and address sector-specific challenges to encourage investment
- Build local private sector capacity in financial, ESG issues, IDD, skills development and management support; strengthen upstream initiatives to unlock investments
- Strengthening partnerships and collaboration within WBG, but also with IMF, donor partners and NGOs

Mobilization:
- Scaling up existing mobilization platforms (Syndications, MCPP, AMC, MIGA products) with potential IDA/Donor support to attract investors with varying risk/return requirements
Objective: unlocking significant opportunities to attract commercial capital, create jobs, and help move low-income member countries closer to their development goals

- **Set aside $2.5 billion** ($2bn for IFC and $500mn for MIGA), to be reviewed at Mid-Term Review
- In line with IDA18 strategic directions and **Special Themes**
- **Countries of focus:** FCS and IDA only counties
- **Areas of focus:** infrastructure, SMEs, agribusiness, social inclusion, and innovation & technology
- **Potential financial mechanisms:** guarantees, first-loss coverage, co-investment, local currency hedging instruments, reinsurance
- **Approved** at the 3rd IDA18 Replenishment meeting in October 2016
### Private Sector Window Facilities

<table>
<thead>
<tr>
<th>Number</th>
<th>Facility Name</th>
<th>Description</th>
<th>Development Impact</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Risk Mitigation Facility</td>
<td>• Project based guarantees without sovereign indemnity ($800m to $1bn)*</td>
<td>• Crowd in private investment in large infrastructure transactions</td>
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<tr>
<td>2</td>
<td>MIGA Guarantee Facility</td>
<td>• Project based guarantees with shared first-loss &amp; risk participation via MIGA reinsurance ($500m)</td>
<td>• Bridge gaps in the availability of coverage for MIGA-eligible non-commercial risks and crowd in private investment</td>
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<td>3</td>
<td>Local Currency Facility</td>
<td>• IFC loans denominated in local currency ($300m to $500m)*</td>
<td>• Provide long-term local currency investments for high impact projects in countries where capital markets are not developed</td>
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<tr>
<td>4</td>
<td>Blended Finance Facility</td>
<td>• Blending PSW funds with IFC investments to enable debt, equity investments and risk sharing ($400m to $800m)*</td>
<td>• Catalyze private investment in focus areas such as SMEs, agribusiness, manufacturing, health &amp; Education and energy access.</td>
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*indicative ranges to allow for flexibility in reallocation of US$2.5 billion based on actual demand*
What else will it take to make Private Sector Window a success?

Public sector capacity building and investment
- Investment climate reforms with a focus on sector-specific challenges
- Advisory/technical assistance for the public sector (e.g. PPP Advisory services, neutral advisors)
- Complementary investments which would directly support private investment (e.g., social/urban infrastructure)

Private sector capacity-building
- Support for potential investees in FCS/IDA countries on financial, accounting, technical, environmental, social, and corporate governance (ESG) issues.

Project preparation
- Support development of pioneering or other market-building projects; including technical and feasibility studies to accelerate project development or improve project bankability.
- Development of wholesale, standardized approaches to enable private sector participation in key sectors (e.g. Scaling Solar)
African Fragile and Conflict Situations
The Broad Picture
African Fragile and Conflict Situations
A (growing) reality

<table>
<thead>
<tr>
<th>Country</th>
<th>FY17</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
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<tbody>
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<td>Angola</td>
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<tr>
<td>Burundi</td>
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<td>Central African Republic</td>
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<td>Chad</td>
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<td>Cameroon</td>
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<td>Congo, Rep.</td>
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<td>Cote d’ivoire</td>
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<td>Djibouti</td>
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<td>Eritrea</td>
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<td>Ethiopia</td>
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<td>Erythrëa</td>
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<td>Guinea</td>
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<td>Guinea-Bissau</td>
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<td>Liberia</td>
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<td>Liechtenstein</td>
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<td>Malta</td>
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<td>Sierra Leone</td>
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<td>Somalia</td>
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<td>South Sudan</td>
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<tr>
<td>Sudan</td>
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<td>Togo</td>
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<tr>
<td>Zimbabwe</td>
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<tr>
<td>TOTAL</td>
<td>21</td>
<td>22</td>
<td>21</td>
<td>19</td>
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</tbody>
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- Africa hosts 21 out of 40 FCS
- Extreme Poverty is increasingly concentrated in FCS
- The African FCS list is growing
- FCS = UN Peacekeeping Mission &/or a CPIA rating below 3.2
- IFC’s definition of FCS extends beyond WB’s definition
- The regional dimension of conflict and fragility is not properly captured so far

SAHEL

Field Presence
FCS Country
Our African FCS engagement in perspective

Global FCS Commitments (FY11-FY16)

- Historically, Africa used to have the largest FCS volume across regions with an exception of FY16.
- The average smaller size of project affects volume in Africa.
IFC’s African FCS Portfolio
A closer look per country (total volume FY10-FY16)

<table>
<thead>
<tr>
<th>Country</th>
<th>Projects</th>
</tr>
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<tbody>
<tr>
<td>Madagascar</td>
<td>2</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>3</td>
</tr>
<tr>
<td>Malawi</td>
<td>5</td>
</tr>
<tr>
<td>South Sudan</td>
<td>5</td>
</tr>
<tr>
<td>Republic of Congo</td>
<td>9</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>13</td>
</tr>
<tr>
<td>Mali</td>
<td>17</td>
</tr>
<tr>
<td>Angola</td>
<td>20</td>
</tr>
<tr>
<td>Africa Region</td>
<td>35</td>
</tr>
<tr>
<td>Burundi</td>
<td>37</td>
</tr>
<tr>
<td>Cameroon</td>
<td>37</td>
</tr>
<tr>
<td>Liberia</td>
<td>53</td>
</tr>
<tr>
<td>Chad</td>
<td>113</td>
</tr>
<tr>
<td>Guinea</td>
<td>150</td>
</tr>
<tr>
<td>Togo</td>
<td>155</td>
</tr>
<tr>
<td>Democratic Republic of Congo</td>
<td>258</td>
</tr>
<tr>
<td>Cote D’Ivoire</td>
<td>499</td>
</tr>
</tbody>
</table>

USD 1,410 M
Supported by a large Advisory Portfolio (FY16)
The FCS Africa Platform
Roles & Functions
The FCS Africa Initiative
Enabling us to grow our FCS Business

Catalytic Funding for TA Projects & removing bottlenecks to IS

- In average $10M a year
- Donor funding and IFC’s own resources
- Upstream work and pipeline building
- Little red tape

FCS Africa

Presence on the ground in FCS markets

- Market intel
- Monitoring
- Lobbying
- Trouble shooting

Knowledge Management

- Operational Knowledge
- Engaging with other stakeholders
- Thought Leadership

Donor funding and IFC’s own resources
Upstream work and pipeline building
Little red tape

In average $10M a year
Donor funding and IFC’s own resources
Upstream work and pipeline building
Little red tape

IFC’s FCS Africa evolving

FCS Africa’s Geographical Footprint
Putting more resources on the ground

Presence on the ground

Coordinators on the ground are at your service for BD, IDDs, portfolio monitoring, etc.

New FCS Africa coordinators have an IS background & CASA coordinators are going through systematic IS training

75% of all commitments in African FCS are in countries with coordinators on the ground
Leveraging Advisory Services
To build the pipeline, de-risk projects and broaden the impact

Enabling the Bus. Environment
(Biz registrations, Public-Private Dialogs, etc.)

Direct Support to Firms
(Governance, Compliance, Operations)

Improving Financial Markets
(Leasing, Capital Markets, Credit Bureau, Collateral Registry, etc.)

Broadening the Impact
(Value Chain Engagement, Community Dvpt., Operations)

FCS Africa

Supporting Clients

✓ AS is jointly IFC & Donor Funded (incl. Denmark)
✓ Approx. 10M are available on an annual basis for AS engagements
✓ AS to be used strategically
  1. To engage with future clients and make them IS ready
  2. To help portfolio clients overcoming FCS challenges
  3. To improve clients’ operations, governance and compliance
FCS Africa
Removing Upstream Bottlenecks to Investments and Building the Pipeline

Objective(s):
• Increase #/$ of feasible investment concepts for review
• Enable pro-active business & project development in FCS

FCS Africa
Pre-pipeline
• ‘Ears on the ground’
• Sector studies / Market Assessments / Mappings
• Early DD & ESS support
• Support to Industry

FCS Africa
Pipeline
• Reducing the cost of doing business with IFC for smaller local clients (legal Fees, auditing, etc.)

FCS Africa
Portfolio
Monitoring
Design and funding of tailored Advice Projects

Our Mission is to increase IFC’s footprint in FCS by removing upstream bottlenecks to investments and support our clients to broaden their impact

Direct IS Support is entirely funded by IFC’s own resources
Producing Operational Knowledge Matters
Addressing current gaps in Private Sector Development in FCS

Questions

• **WDR 2011 & 2013**: Is Value Chain Development (VCD) an effective intervention of Private Sector to contribute to employment and peacebuilding? If so, what is the evidence?

• **Management in Complex Environment**: How to equip leaders to manage various risks while developing successful business despite the challenges of the operating environment in FCS?

Conflict sensitive approach: How to play a catalytic role in PS interventions in FCS by mainstreaming conflict analysis and management?

• **Blended finance instruments**: Are they effective to bring about the development impact? What are lessons learned?

Current Status and Issues

• **Lack of evidence** on the effects of value chain development and job creation/peacebuilding.

• **No PSD focused training and resources** on addressing the unique challenges of operating in FCS to improve organizational capacity.

• **Lack of proactive approach on** conflict management and operational knowledge and business intelligence on investment projects in FCS.

• **Lack of understanding** on the impact of the blended finance solutions. While increasingly used by development partners and institutions, little is currently known about the impact.
What we want to do
Knowledge/ research action plan

1. **Value chain development and jobs study in FCS**: to ramp up the research on VCD in FCS to better understand the impact of effective VCD in FCS and its contribution to jobs and peacebuilding.

2. **Training course development and delivery to DFI staff who work in FCS**: to help staff navigate the social, political, economic and conflict dynamics of FCS. This could complement the current WB’s FCV training and could potentially be rolled out to other DFIs/ private sector firms as appropriate.

3. **Business in FCS Africa Monitor Initiative**: to build a systematic approach in monitoring of conflict and other socio-political risk for large scale and high-risk projects in African FCS countries.

4. **Impact study of the blended finance instruments in FCS**: to assess the results and impact of the blended finance program and draw lessons from the experience.

5. **Joint fragility assessments**: to expand and develop a Private Sector-Focused Fragility and Conflict Assessment Framework to increase our understanding of the socio-political and conflict dynamics in fragile contexts.

6. **Workshop on “conflict sensitive approach”**: to raise awareness of the issue and help mainstream the conflict sensitive approach in FCS among DFIs.

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**Existing & Potential Partners:**

- Africa Centre for Dispute Settlement, University of Cape Town’s Graduate School
- Clingendael
- Columbia Center on Sustainable Investment (CCSI)
- International Dialogue on Peace and State-Building (IDPS)
- SPARK
- UN Global Compact/ Business for Peace team
- Other Development Finance Institutions
IFC’s response to forced displacement
Leveraging Private Capital and Expertise

- The private sector has mainly been engaged as a contractor, by delivering goods and services as part of agreements with UN agencies and donors.
- In human development and job-creating private investments while widely discussed, has yet to materialize at scale.
- Forced displacement has not been a focus of IFC over the last few years but some IFC interventions have positively impacted refugee communities.
- IFC undertaking/considering scale up and replicating interventions in Turkey & Jordan.
- In Kenya IFC undertaking analytical work to understand demand/supply in Kakuma Refugee camp.

**Turkey**
- $7 million initiative to support for Syrian and Turkish communities which are most affected by the Syrian refugee crisis covering a 2-pillar action plan:
  - Pillar I: Entrepreneurship
  - Pillar II: Employment

**Jordan**
- IFC is proposing a $30 million initiative, covering a 4-Pillar Action Plan:
  - Pillar I: Microfinance
  - Pillar II: Skills Training & Education
  - Pillar III: Service Delivery
  - Pillar IV: Enabling Environment

**Kenya**
- Relatively new area for the WBG, and discussions have often been hampered by the lack of solid data and evidence.
- Kakuma Refugee Camp Market Assessment – demand/supply in select services.
- Starting point for internal discussion and with private sector.
FCS Africa
What have we learned?
Doing Business in African FCS
How do we enter these challenging markets?

ENTRY 1: A dedicated FCS Africa Platform
✓ Presence on the ground & Market Intel
✓ Funding to AS projects and bottlenecks to IS projects (10M$ in 18 months)
✓ Knowledge Management

ENTRY 2: We support/follow our Clients expanding into FCS
✓ Extractives Majors, Agribusiness Firms
✓ South-South Investors & Regional champions (e.g. Cement DRC, Retail Madagascar, Ecobank & Kenyan Banks, etc.)

ENTRY 3: We enable the environment and leverage the WBG
✓ Doing Business & Investment Climate Reforms (PPD, Registration, Investors’ Protection, OHADA in Central Africa)
✓ Financial Market Regulations (Leasing, Credit Bureau, Collateral Registry, etc.)

ENTRY 4: We innovate
✓ Scaling Solar Platform
✓ SME Ventures Capital Risk for local SMEs
✓ FCS Africa Platform
✓ Looking for Local Sponsors
✓ Conflict Sensitive Approaches
Growing the FCS Portfolio

What does it take?

**ACTION 1: Adopt a Long-term Perspective**
- Incubate projects and clients
- Increase presence on the ground
- Leverage WB and Partnerships

**ACTION 2: Acknowledge Specificities**
- Invest in market intelligence
- Update the Do No Harm principle
- Broaden the Impact of Investments
- There is no straight forward way out of Fragility & Conflict

**ACTION 3: Reduce Risk(s)**
- De-risk the Capital (IDA18 PSW, Blended Finance, first loss, etc.)
- De-risk projects through Technical Assistance

**ACTION 4: Build Capacity**
- Public Sector capacity, resident advisors, (Ministries, Central Bank, etc.)
- Support existing and future clients (operations, governance, compliance)