

De-Risking Private Sector Operations in Frontier Markets

IDA18 IFC-MIGA Private Sector Window Seminar

April 21, 2017

What is **IDA**?

The **WORLD'S LARGEST SOURCE** of unearmarked concessional finance in the poorest countries



173 shareholder countries,
77 borrowers



Results-driven



Global challenges,
local solutions



Manages shocks,
builds resilient,
inclusive economies



Major presence in
fragile and conflict-
affected countries



Convener and source
of global knowledge

HISTORIC REPLENISHMENT FIRSTS

IDA18

\$75 BILLION
for next 3
years

Innovative
financing
approach

*Ground-
breaking*
policy
package

\$2.5 BILLION
IFC-MIGA
Private Sector
Window

A woman wearing a white headwrap and a white patterned top is seated at a white industrial sewing machine. She is focused on her work, with her hands positioned near the needle. The machine is on a table, and there is a large pile of bright red fabric next to her. The background is a large, dimly lit factory floor filled with many other workers at their stations, creating a sense of a busy industrial environment.

What is the **Private Sector Window?**

The PSW introduces a new way of supporting **private sector development** towards the SDGs in the poorest countries

Because we recognize the private sector's fundamental role in strengthening **economies** and **creating jobs**

What will the **PSW** do?

Leverage \$2.5 billion of IDA resources to expand private investment and create markets

4 Goals

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

4 Facilities

- 1 Risk Mitigation Facility
- 2 Blended Finance Facility
- 3 MIGA Guarantee Facility
- 4 Local Currency Facility

How will the PSW work?

THE PSW WILL *support* ONGOING WORK

IDA

supports sector reforms through knowledge and resources that enable the private sector to grow in improved business environments

IFC

blends investment with advice and resource mobilization to help private sector advance development

MIGA

promotes foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives

THE PSW WILL *take on* CONSTRAINTS

to development and
investment



INFRASTRUCTURE
Gaps estimated at
\$100B a year



JOB
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



The PSW will **reduce risks** for private sector investments

AT THE TRANSACTION LEVEL, THE PSW WILL

transfer a portion of risk from private sector participants to IDA



POLITICAL RISK

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



CURRENCY RISK

Early movers take brunt of risk, impedes pioneering investments (LCF)



DE-RISKING/ REWARDING

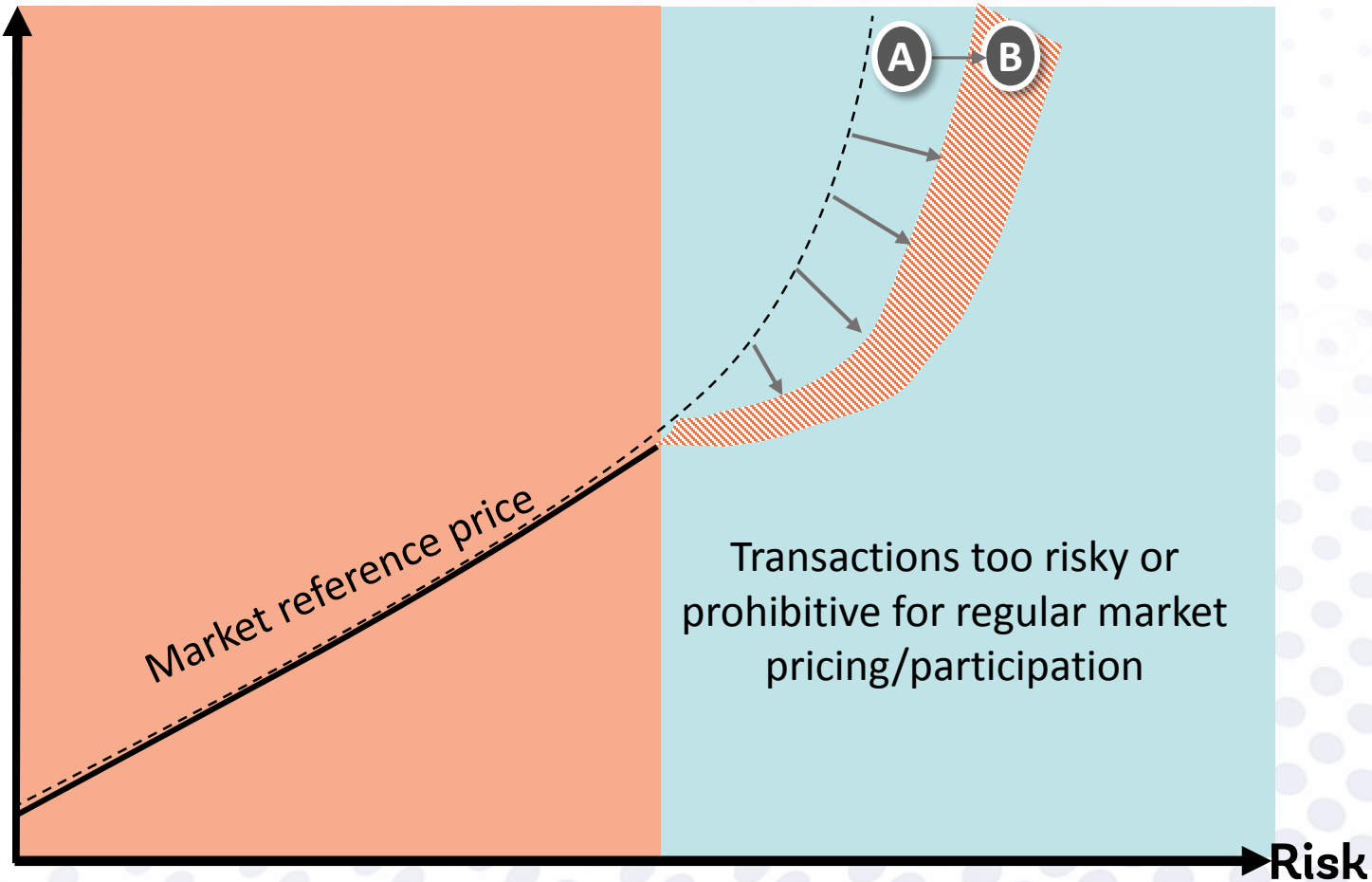
PIONEERING INVESTMENTS through blending, including in debt, equity and guarantee instruments (BFF) and liquidity products (RMF)

TO MAKE A BIGGER DEVELOPMENT IMPACT

the PSW will enable risk/price-prohibitive transactions

Price/Return

- IDA's risk appetite & desire for development impact push PSW further beyond current viable markets (right panel). The pricing framework will determine a model price that considers the market risks, uncertainties and costs of the underlying transaction (A).
- Given the uncertainties in this market, the final PSW pricing (B) may require some level of subsidy from the model price, to enable difficult, yet impactful transactions.
- In order to minimize subsidies, these will be determined on a case by case basis through rigorous review to ensure minimal market distortion



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
Indicative allocation	US\$1,000M	US\$600m	US\$500m	US\$400m

* IFC-led PSW Facilities

Case Study:

Power Sector
in Pacific
Island
Countries



The Challenge

- 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



Case Study:

Solar Power in
a West African
Country

The Challenge

- 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
 - Political Risk Insurance (PRI) to help mitigate breach of contract and termination risk

Case Study:
Solar Power in
a West
African
Country



**Case
Study:**

Health Sector
in an Asian
Country

The Challenge

- 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 until project disbursement occurs

Case Study:
Health Sector
in an Asian
Country

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:

Large-Scale,
Long-Term
Energy in an
SSA Country

The Challenge

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

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

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:

Competitiveness
in a Coffee
Market in an
African
Country

The Challenge

- 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

PSW-eligible countries





Learn more about IDA and the private sector

<http://bit.ly/IDAprivatesector>