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
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
- 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
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 IMPACT
the PSW will take more risks

Transactions too risky or prohibitive for regular market pricing/participation
# PSW facilities at-a-glance

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Risk Mitigation Facility*</th>
<th>Blended Finance Facility*</th>
<th>MIGA Guarantee Facility</th>
<th>Local Currency Facility*</th>
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<tr>
<td>Project-based guarantees without sovereign indemnity</td>
<td>Loans, subordinated debt, equity, guarantees and risk sharing</td>
<td>MIGA Political Risk Insurance (PRI) products to private sector</td>
<td>Local currency denominated loans to private sector clients who operate in markets where there are limited currency hedging capabilities</td>
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| 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

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:
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

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
The Challenge

- 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:
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
PSW-eligible countries
Learn more about IDA and the private sector