



BRINGING PRIVATE SECTOR INVESTMENTS TO CHALLENGING MARKETS – PREDICAMENTS AND SOLUTIONS



Copenhagen, November 7, 2016

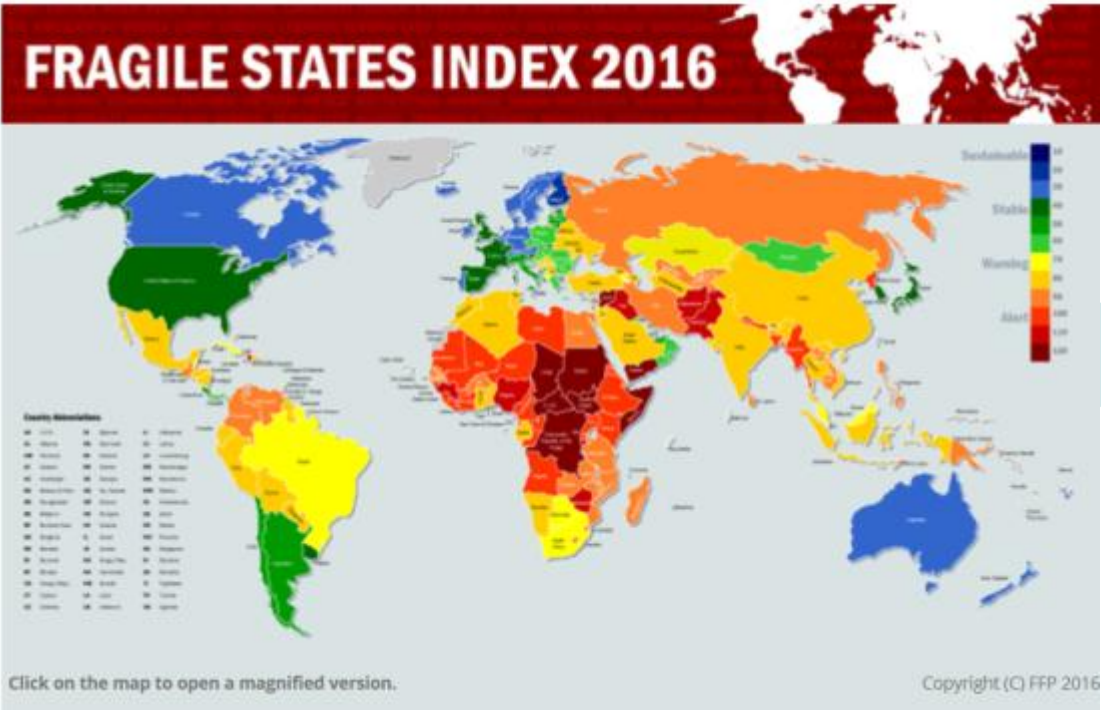
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IFC in FCS

A Global Perspective

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

Weak business environment & structural sector challenges

- Political and security risks; macroeconomic and currency risks
- Weak legal and regulatory frameworks; fragile institutions; land ownership challenges; weak institutions and governance
- Structural risks at the sector level (e.g., pricing issues, government counterparty risk)
- Difficulties in accessing market data

Weak sponsor capacity and small markets

- Undeveloped private sector, weak supply chains, and small markets
- Limited financial capacity of sponsors
- Sponsors may also need additional time and support to meet IFC standards

Limited availability of finance

- Poor access to domestic and international finance can make it difficult to finance projects
- Government capacity for complementary investments is usually limited

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:

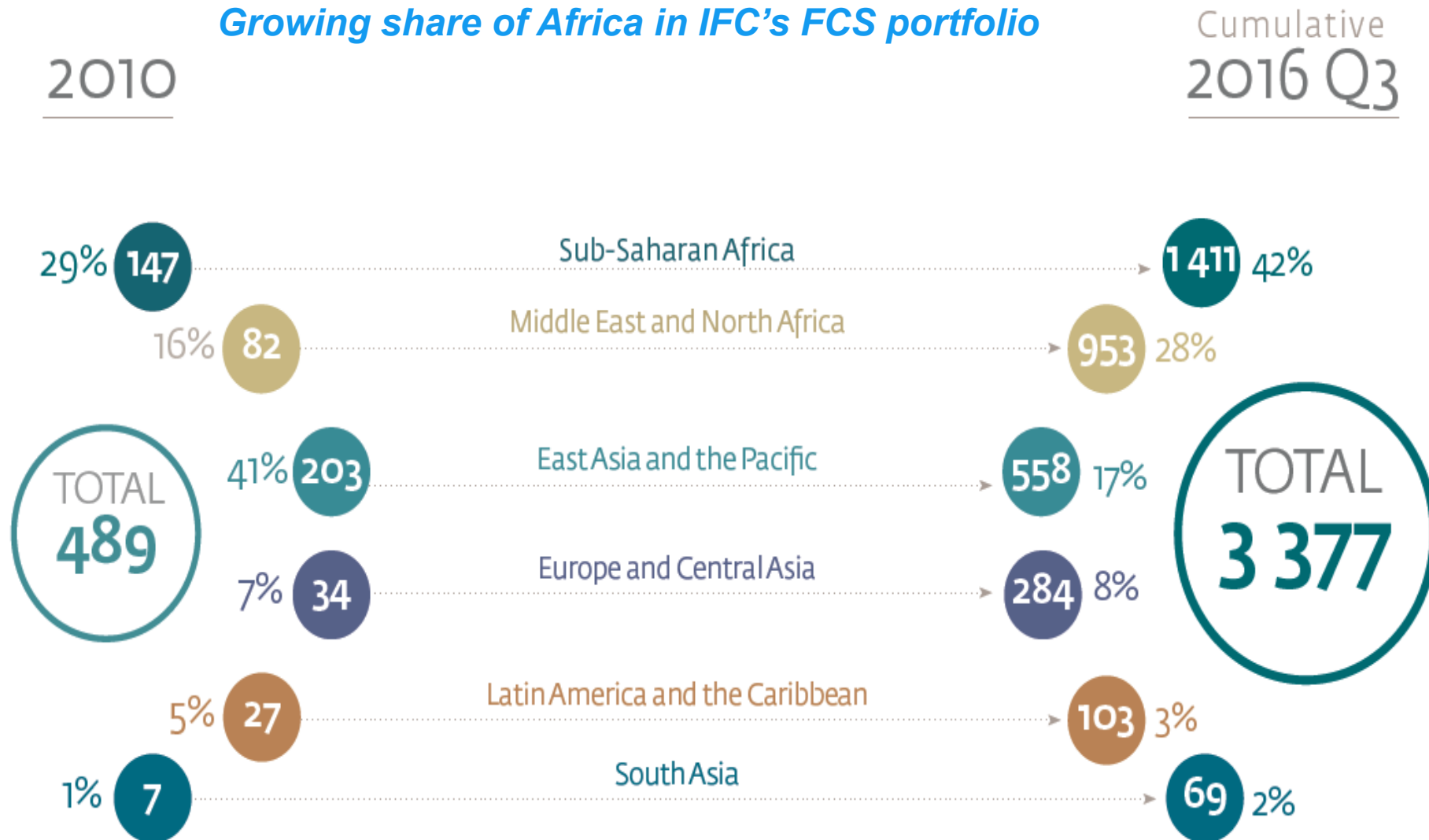
- Guinea's weak regulatory environment; low capacity in areas such as biodiversity, resettlement, local content policies, facilitation of licenses, and permits
- Externalities such as the Ebola outbreak and the recent commodity price downturn

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





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:

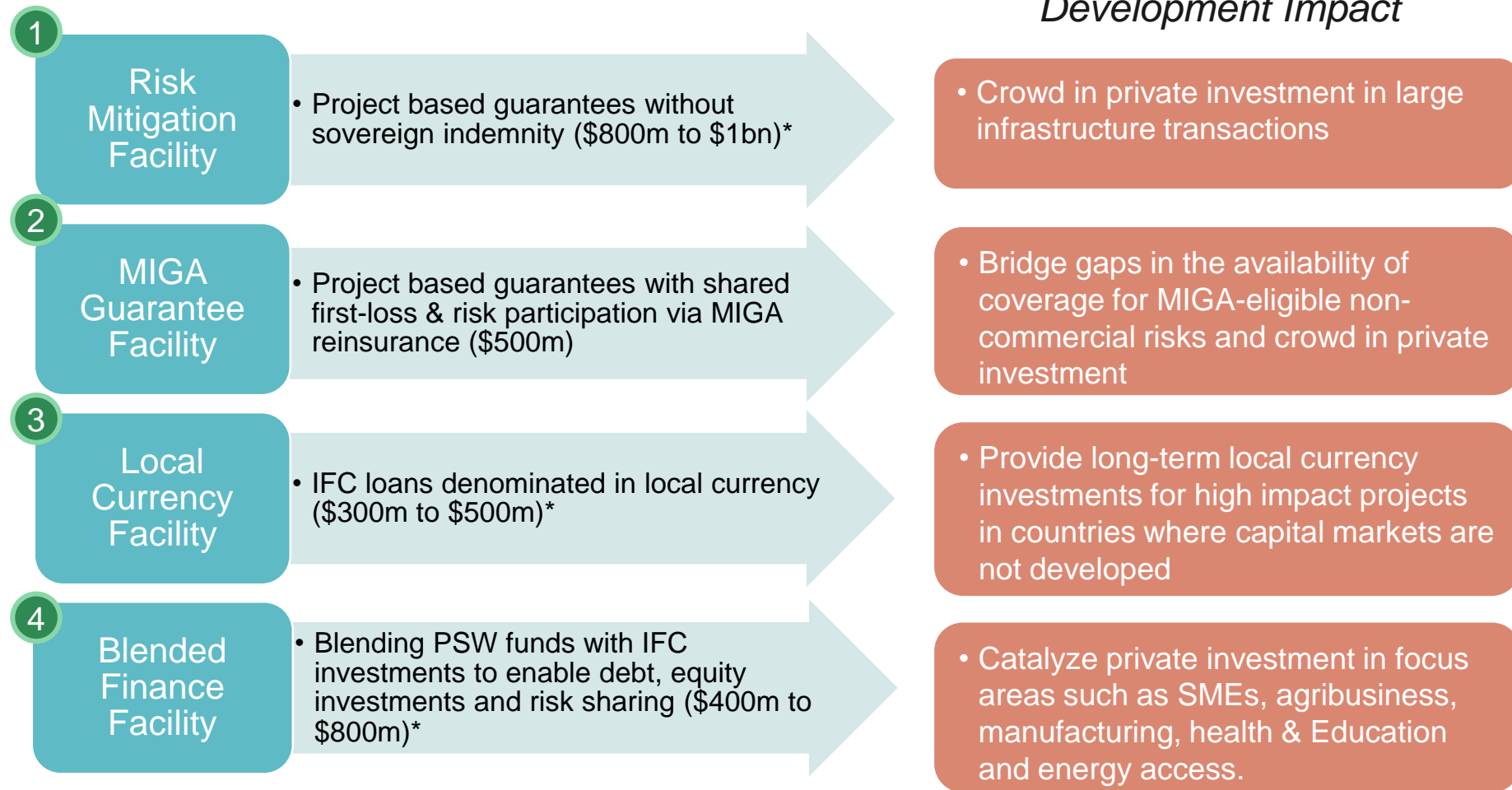
- Scaling up existing mobilization platforms (Syndications, MCPP, AMC, MIGA products) with potential IDA/Donor support to attract investors with varying risk/return requirements

Private Sector Window for IDA18

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 countries
- **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



**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

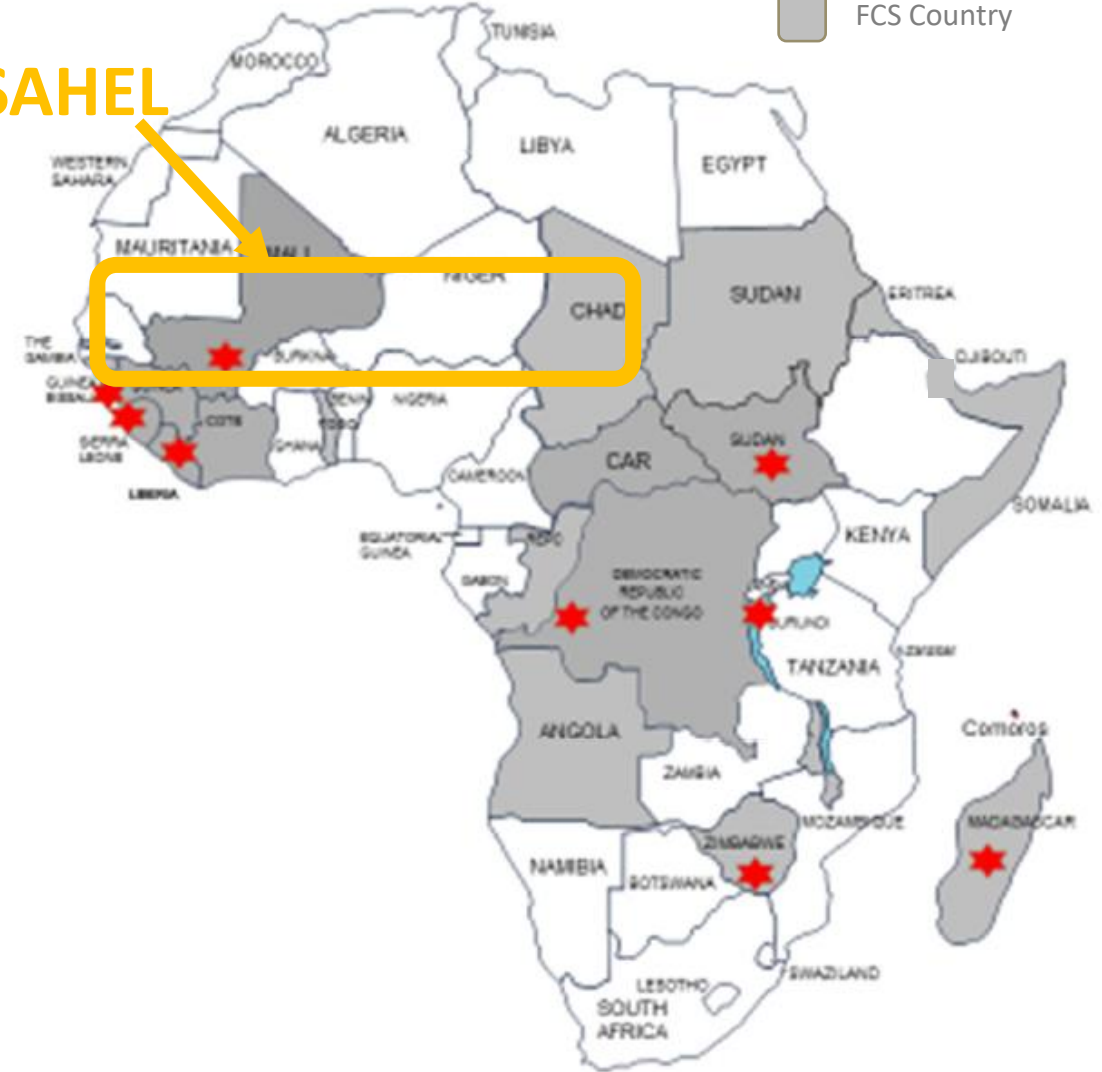
A (growing) reality

Country	FY17	FY16	FY15	FY14
Angola				
Burundi				
Central African Republic				
Chad				
Comoros				
Congo, Dem. Rep.				
Congo, Rep.				
Cote d'Ivoire				
Djibouti				
Eritrea				
Gambia				
Guinea				
Guinea-Bissau				
Liberia				
Madagascar				
Malawi				
Mali				
Sierra Leone				
Somalia				
South Sudan				
Sudan				
Togo				
Zimbabwe				
TOTAL	21	22	21	19
	Harmonized FCS list by WB		Included as FCS by IFC only	

- 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

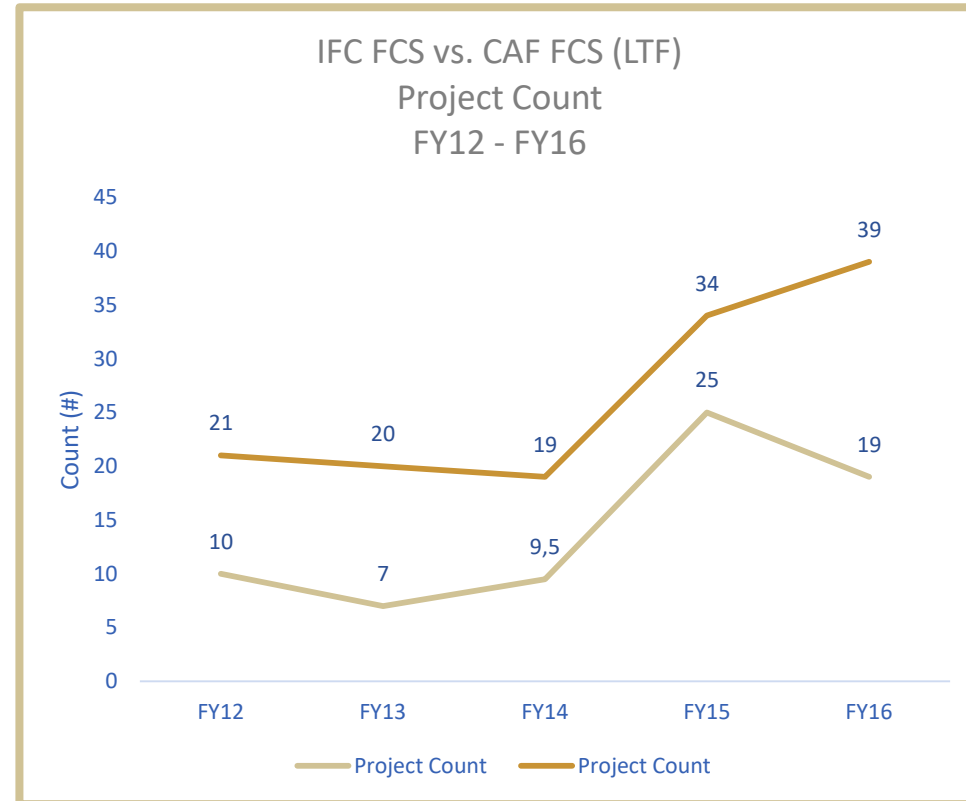
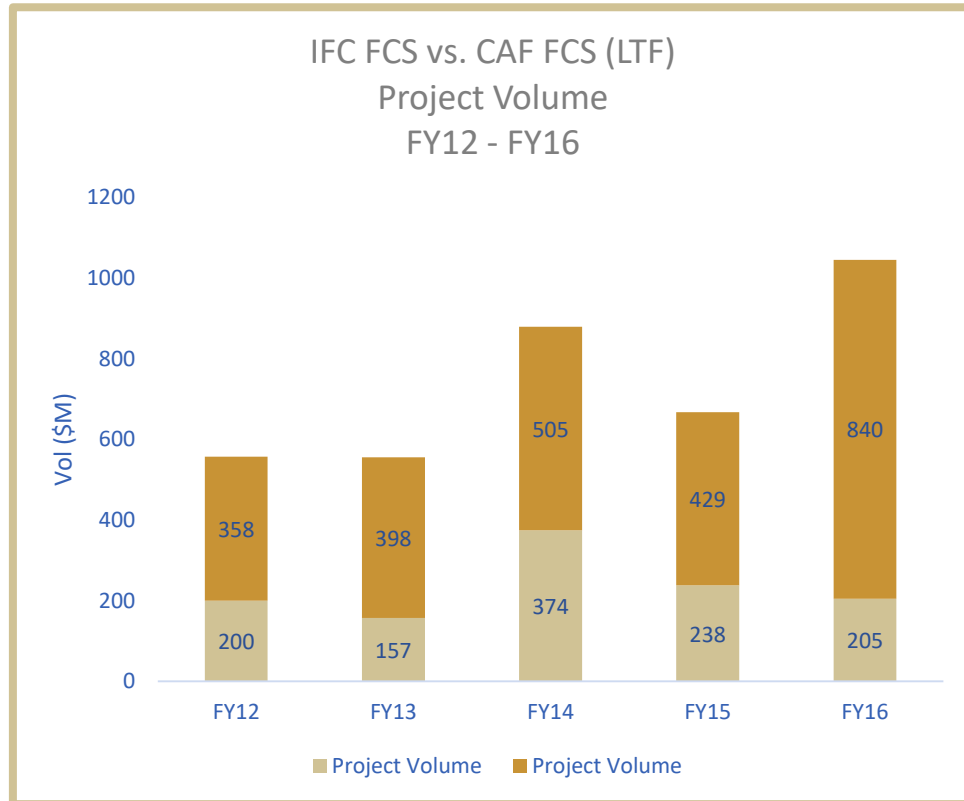
★ Field Presence
 ◻ FCS Country

SAHEL



Our African FCS engagement in perspective

Global FCS Commitments (FY11-FY16)

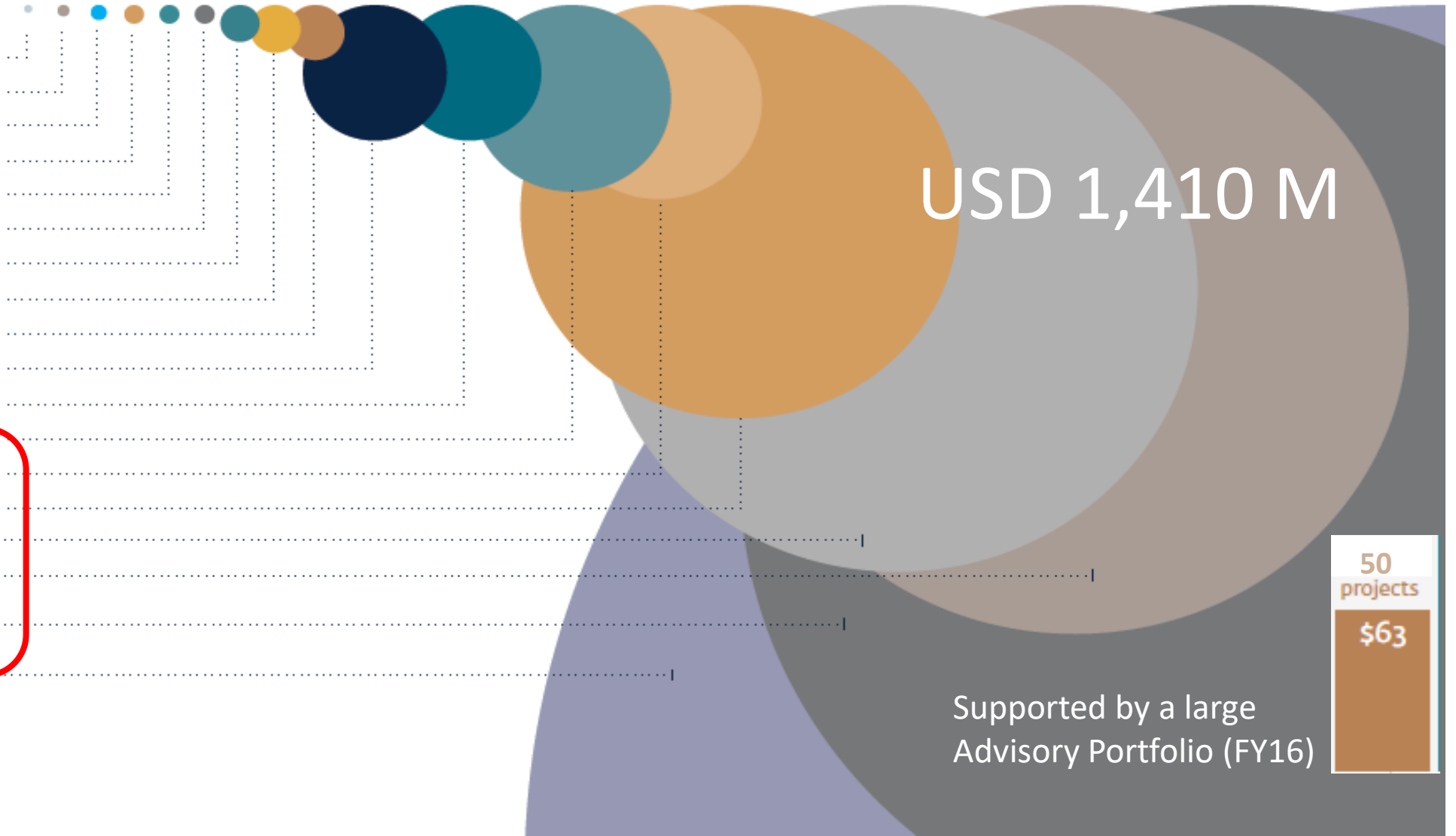


- ✓ Historically, Africa used to have the largest FCS volume across regions with an exception of FY16.
- ✓ The average smaller size of project affects volume in Africa.

IFC's African FCS Portfolio

A closer look per country (total volume FY10-FY16)

Madagascar	2
Central African Republic	3
Malawi	5
South Sudan	5
Republic of Congo	9
Sierra Leone	13
Mali	17
Angola	20
Africa Region	35
Burundi	37
Cameroon	37
Liberia	53
Chad	113
Guinea	150
Togo	155
Democratic Republic of Congo	258
Cote D'Ivoire	499



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



FCS
Africa

**Presence on
the ground
in FCS
markets**

- Market intel
- Monitoring
- Lobbying
- Trouble shooting

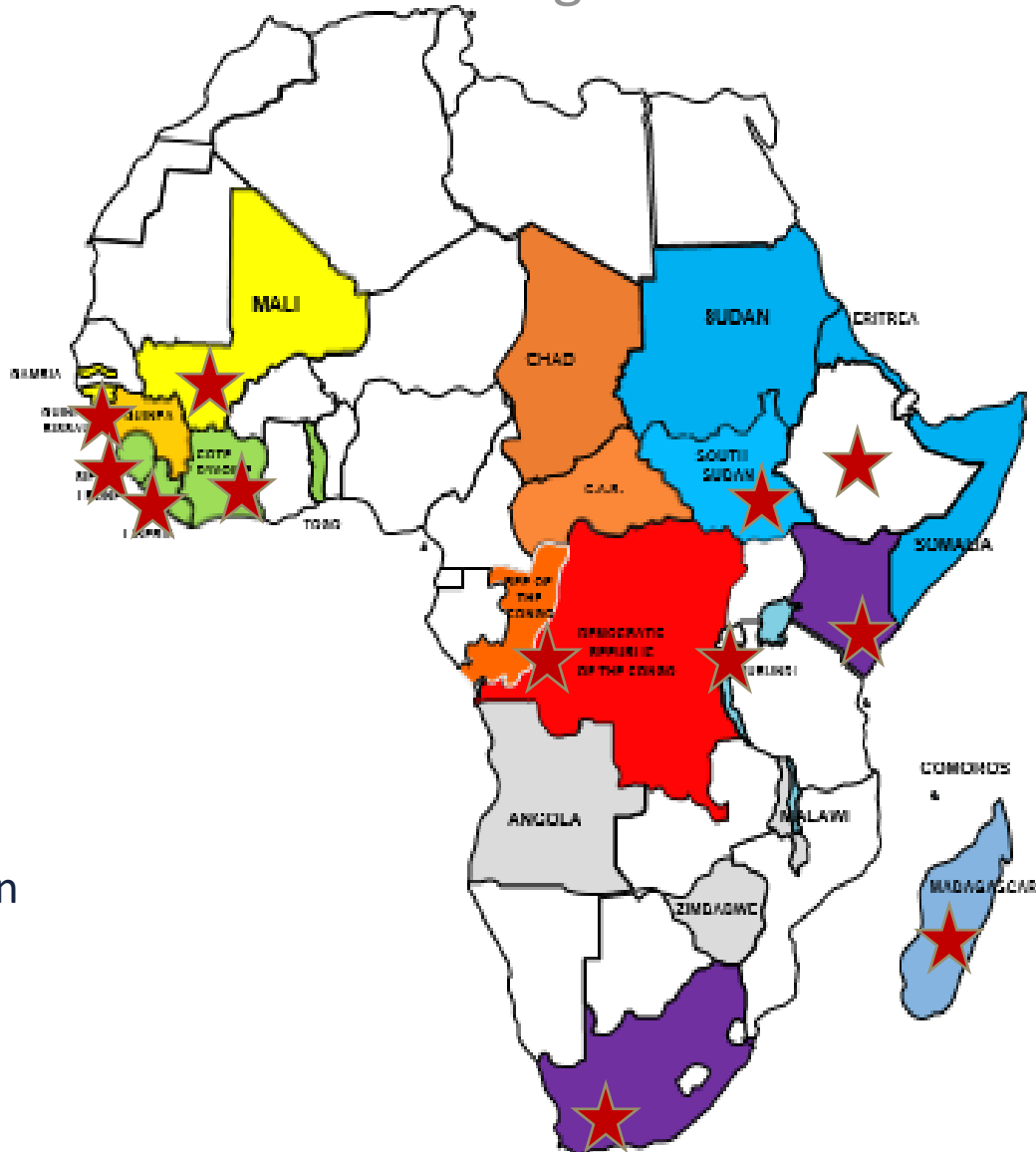
**Knowledge
Management**

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

- Operational Knowledge
- Engaging with other stakeholders
- Thought Leadership

FCS Africa's Geographical Footprint

Putting more resources on the ground



★ Presence on the ground

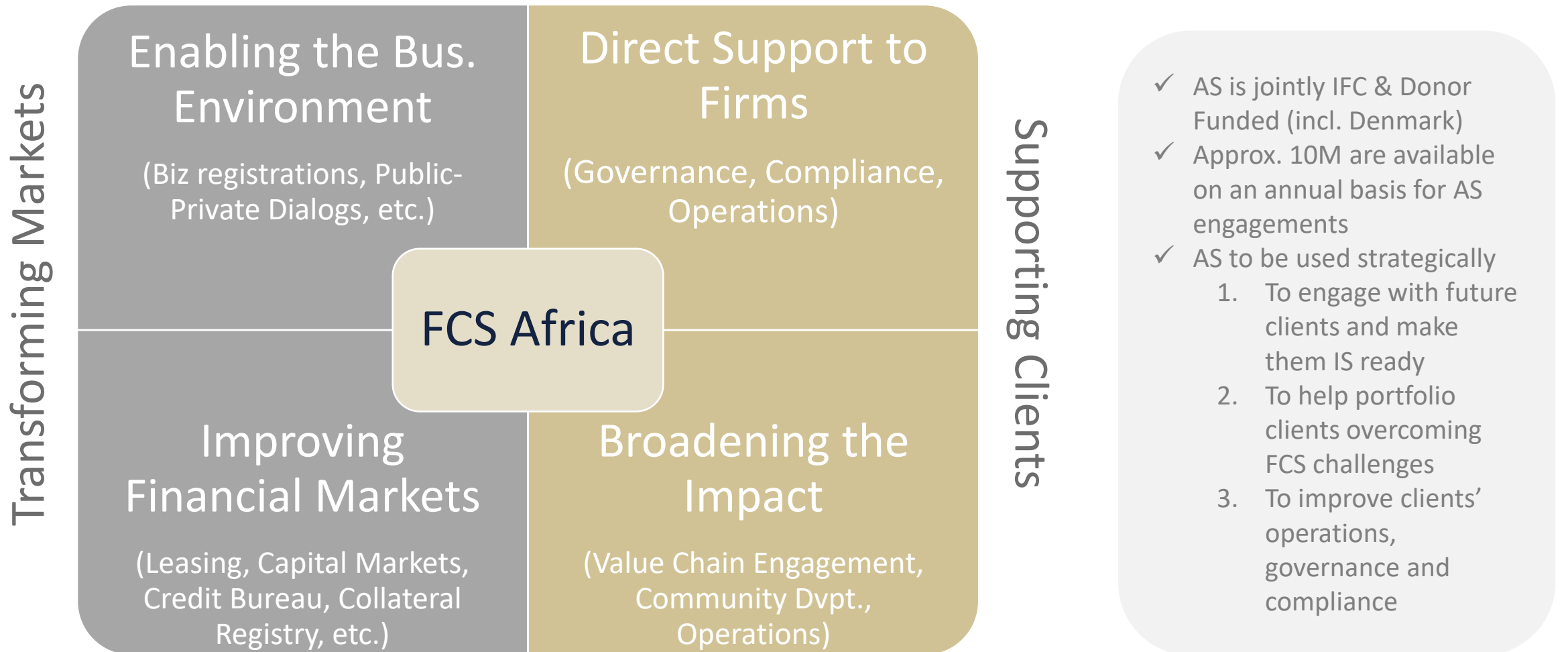
Coordinators on the ground are at your service for BD, IDD, portfolio monitoring, etc.

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

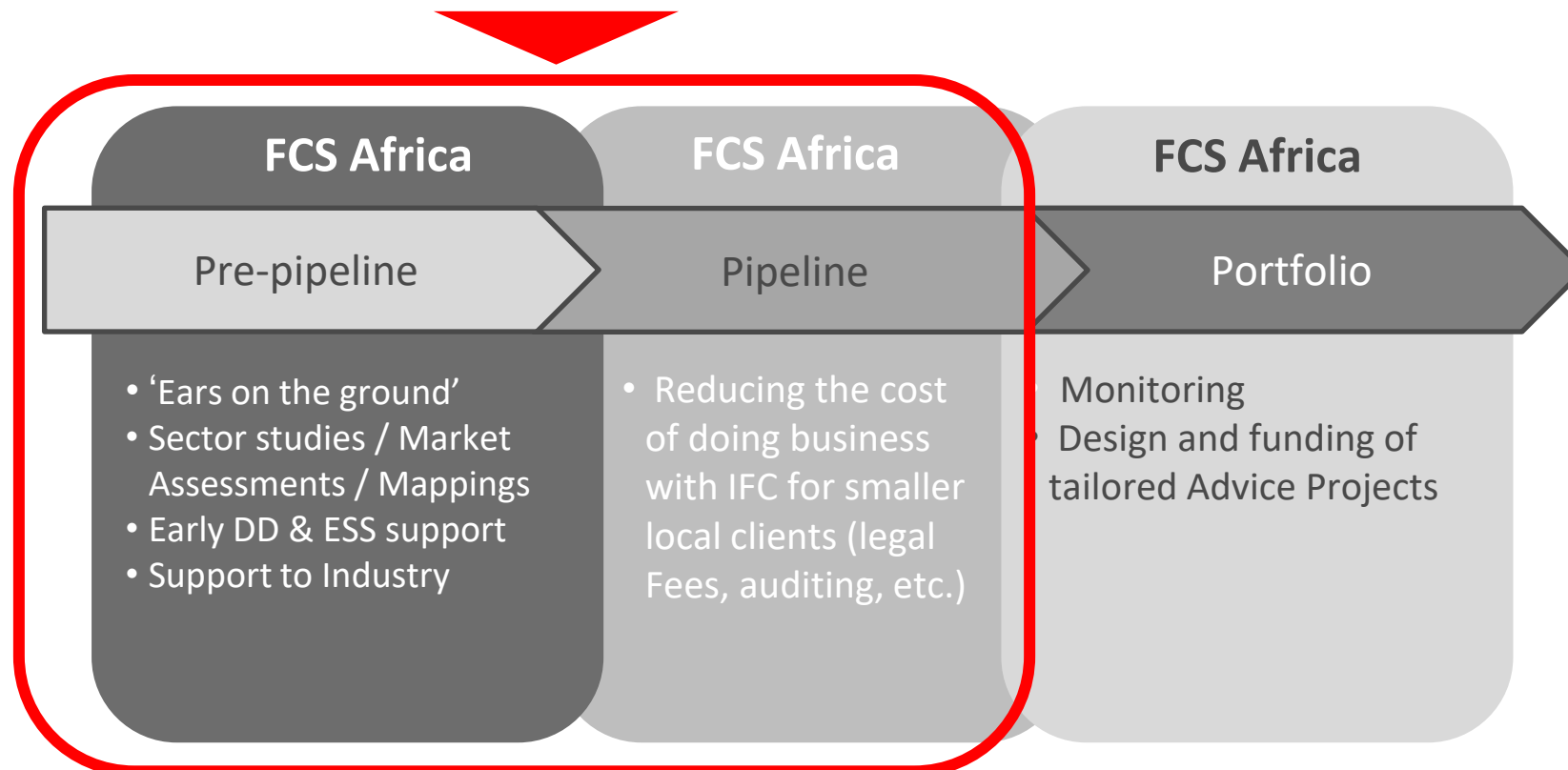


FCS Africa

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



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

Current Status and Issues



- **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?

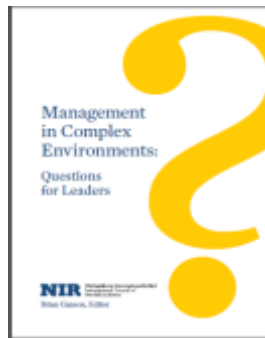
- **Management in Complex Environment:** How to equip leaders to manage various risks while developing successful business despite the challenges of the operating environment in FCS?

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?



- **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.



BUSINESS
FOR PEACE



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.

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?

VISION

ACTION 1: Adopt a Long-term Perspective

- ✓ Incubate projects and clients
- ✓ Increase presence on the ground
- ✓ Leverage WB and Partnerships

COMMITMENT

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



What It Would Take to Scale-Up IFC Activities in Fragile and Conflict Situations and Low Income IDA Countries

April 25, 2016

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ADDRESS

ACTION 3: Reduce Risk(s)

- ✓ De-risk the Capital (IDA18 PSW, Blended Finance, first loss, etc.)
- ✓ De-risk projects through Technical Assistance

BROADEN

ACTION 4: Build Capacity

- ✓ Public Sector capacity, resident advisors, (Ministries, Central Bank, etc.)
- ✓ Support existing and future clients (operations, governance, compliance)