Redefining Development Finance
Photo: In the least-developed countries, IFC helps reduce investment risks to attract private finance that will benefit the poor.
Each year, more than $1.5 trillion moves across international borders — as foreign direct investment that helps businesses and economies innovate and grow. Most of it goes to just 10 countries. Barely 1 percent trickles into areas with the greatest need for investment: countries affected by conflict and instability.

A key reason is risk — or investors’ perceptions of it. In choosing where to put their money, investors make complex judgments about an array of risks and uncertainties — financial, regulatory, legal, and political, among others. These tend to be greatest in the smallest, poorest, and most fragile economies. Reducing these risks — or enabling investors to share them more widely — can unlock significant private capital.

IFC and the World Bank Group have introduced several innovations to do exactly that. In FY18, we teamed up with the World Bank’s International Development Association to create the $2.5 billion IDA18 IFC-MIGA Private Sector Window, a facility to accelerate private sector investment in IDA countries — with a special emphasis on fragile and conflict-affected areas. The facility enables IFC and other investors in these countries to share investment risks with development institutions.

We used the window for the first time to unlock $500 million for housing finance in West Africa, where fewer than 7 percent of households can afford to buy their own home. Using the window, IFC bought $9 million in long-term local-currency bonds issued by Caisse Régionale de Refinancement Hypothécaire de l’UEMOA, a leading mortgage-refinancing company. Our investment will enable the company to expand its portfolio of housing loans by $500 million while deepening the local bond market.

In the riskiest markets, IFC also works with a variety of development partners (see page 98) to help private investors transfer some of their risks. We do so, in part, through blended finance (see page 79) — which involves using concessional donor funds to mitigate specific investment risks. In FY18, IFC used $218 million of donor funds to catalyze $1.5 billion in private investment.

IFC also plays a prominent role in facilitating public-private partnerships (PPPs). Since 2004, IFC-structured PPPs have facilitated at least $27.5 billion in private investment.

FY18 marked a milestone for an IFC-led PPP project in Brazil that is modernizing infrastructure in the state of São Paulo: concessions for three of four roads in a 1,500-kilometer project were auctioned, setting records for concession fees to the government and establishing the foundation for about $4 billion in new investment to complete the project. Our innovative work prompted the national government to ask IFC to structure similar PPPs at the national level.

**$500M UNLOCKED FOR HOUSING FINANCE IN WEST AFRICA**
Across the world, at least $100 trillion in financing is available from institutional investors — such as insurance companies, sovereign funds, and pension funds.

That’s more than enough to cover the $4.5 trillion in financing that developing countries need each year to achieve the Sustainable Development Goals by 2030. But tapping the world’s vast pool of private capital requires a new mind-set. Private investors can be mobilized to help address the most urgent development challenges — provided investment risks and returns are balanced appropriately.

IFC is a global leader in mobilizing private capital. We do it through two major channels. The first is our loan-syndications program, which since 1959 has mobilized $69 billion from over 500 financing partners for around 1,000 projects in 115 countries. The second, IFC Asset Management Company, has raised $10.1 billion in assets from institutional investors — including $2.3 billion from IFC.

The Managed Co-Lending Portfolio Program is our main loan-syndication platform. IFC created MCPP in 2013, when the People’s Bank of China pledged $3 billion for investment in IFC projects. Since then, the platform has more than doubled in size by including a variety of global institutional investors. In 2017, the Hong Kong Monetary Authority committed $1 billion to MCPP. This will support financing of projects in over 100 countries.

We continue to introduce fresh innovations, including credit-mobilization transactions. These transactions enable us to provide more financing to our clients by leveraging the risk-bearing capacity of insurance companies. Two recent examples are our MCPP Financial Institutions and MCPP Unfunded Risk Participation initiatives, which will tap $500 million apiece in unfunded credit insurance from Munich Re, Liberty Specialty Markets, and Swiss Re Corporate Solutions.

Credit mobilization helped IFC provide $185 million to Vietnam International Commercial Joint Stock Bank, enabling the bank to expand its portfolio of affordable mortgages and loans to small and medium enterprises. Two global insurers, Liberty Mutual and Munich Re, provided credit insurance to benefit the project. Overall, in FY18, credit-mobilization transactions supported $325 million of investments made for IFC’s own account.

In 2018, the IFC Emerging Asia Fund — managed by IFC Asset Management Company — reached final close, having raised $693 million to make growth-capital investments in 26 Asian countries. In Mozambique, we helped mobilize nearly $2.7 billion from a variety of lenders to support the Nacala Corridor railway project. The newly built 912-kilometer line will connect two land-locked countries — Zambia and Malawi — to the deepest port in southern Africa. It is expected to result in significant job creation in the region — up to 1 million jobs by 2040.
Photo: IFC financing is helping Vietnam International Commercial Joint Stock Bank widen its portfolio of affordable SME loans.
Deep and efficient local capital markets are essential for lasting prosperity. They drive growth, helping companies to expand and create more jobs. They help people buy homes, pay for college, and save for retirement. They help governments secure financing for roads, schools, and hospitals. They shield local economies against an array of financial hazards that can emerge from abroad.

Such markets, however, remain small in developing countries. Although they account for more than a third of the world’s economic output, developing countries represent just 10 percent of the capitalization of stock markets worldwide. These countries also constitute a disproportionately small share of the global market for corporate bonds.

Photo (above): In Uzbekistan, IFC’s sum-denominated bond raised $10 million to expand lending to micro, small, and medium enterprises.
IFC plays a vital role in strengthening local capital markets in developing countries. We do so by issuing local-currency bonds, which can protect companies from the dangers of foreign-currency fluctuations. We encourage a variety of global investors to participate in the bond offerings. We help developing countries draft policies and regulations for stronger capital markets. Often, we are the first international issuer of bonds in these countries.

Since 2013, our local-currency bond issuances have more than quadrupled, climbing from $183 million to close to $806 million issued in FY18. During this period, we provided more than $13 billion in local-currency financing in 74 different currencies — through loans, swaps, guarantees, risk-sharing facilities, and securitized products.

In Ukraine, we issued our first hryvnia-denominated loan, providing the equivalent of $15 million to Auchan Retail — one of the largest food retailers in the world — to finance its long-term investments in the country. Our investment will help create jobs while enabling low- and middle-income households to obtain better-quality foods and goods at affordable prices. In Uzbekistan, we launched the first sum-denominated bond to be issued in international markets, raising $10 million to expand lending for micro, small, and medium enterprises in the country.

We take a systematic and coordinated approach to developing capital markets. The Joint Capital Markets Program, launched in 2017 by IFC and the World Bank, leverages the collective expertise of World Bank Group institutions to accelerate capital markets development wherever it is needed most — beginning with Bangladesh, Kenya, Morocco, Peru, Vietnam, and the countries of the West African Economic and Monetary Union. The first joint capital markets diagnostic mission to Bangladesh took place in December 2017.

IFC’s Social Bond Program, launched in March 2017, continues to expand. IFC has issued 18 social bonds in public and private markets across six currencies, raising $980 million for more than 30 IFC projects that benefit women-owned enterprises and businesses that create opportunities for smallholder farmers and low-income people.