SUPPORTING AFRICA
IFC’S APPROACH

IFC Tokyo Office, Autumn 2018

Creating Markets, Creating Opportunities

Discussion Purposes Only
What are the challenges?

More than 3 million new jobs are needed every month in Africa, MENA and South Asia...

<table>
<thead>
<tr>
<th>Region</th>
<th>Increase in Working Age Population per Month (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>1,770</td>
</tr>
<tr>
<td>South Asia</td>
<td>1,020</td>
</tr>
<tr>
<td>MENA</td>
<td>720</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>300</td>
</tr>
<tr>
<td>EAP (ex-China)</td>
<td>300</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>-15</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>-50</td>
</tr>
</tbody>
</table>

What are the challenges?

$3$ trillion per year are needed to reach SDG goals, including …

Investment Gaps in Reaching SDG$^1$

*In US$ Billion*

Resources to meet the challenges?
ODA flat, FDI soaring… But, only limited resources reaching to the needy…

Figure 1: Remittances and other resource flows to developing countries
($ billion)

FDI
(foreign direct investment)

Remittances

Private debt & portfolio equity

ODA

Sources: World Bank Staff calculations, World Development indicators, OECD.
Private debt includes portfolio investment bonds, and commercial banks and other lending
Besides…
Private capital is not flowing to lower income countries

"We note with concern that many LDCs continue to be largely side-lined by FDI that could help diversify their economies, despite improvements in their investment climates."
- The Addis Ababa Action Agenda of the Third Conference on Financing for Development

**Infrastructure Example:**
62% of annual infrastructure spending is in High Income, while MICs and LICs, with 80% of population, receive 37% of this investment.

```
<table>
<thead>
<tr>
<th>Income Level</th>
<th>% of total spending</th>
<th>% of global population</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Income</td>
<td>62</td>
<td>20</td>
</tr>
<tr>
<td>Upper Middle Income</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Lower Middle Income</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>Lower Income</td>
<td>&lt;1</td>
<td>8</td>
</tr>
</tbody>
</table>
```

*Source: McKinsey*
Yet, resources are out there…a rich man sitting on a pot of gold?

*Market reality - Capital just shies away from those projects that are not bankable*

<table>
<thead>
<tr>
<th>US$2 trillion</th>
<th>US$4.5 trillion</th>
<th>US$5 trillion</th>
<th>US$100 trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>assets held by the world’s ten largest pension funds</td>
<td>assets held by the world’s largest insurance companies</td>
<td>assets held by the world’s largest sovereign wealth funds</td>
<td>global bond market</td>
</tr>
</tbody>
</table>
IFC’s New Strategy - *Creating Markets*
Transform the unbankable to bankable, and mobilize private capital

**Building on WBG core competence**

**Develop more projects in challenging markets**
- Cascade approach
- Mainstreaming the upstream … Leveraging WB/IMF
  - Focus the use of ODA
  - Enhance advisory services
- De-risking unbankable projects … Leveraging IDA
  - Private sector window (PSW)

**Mobilize private capital from untapped sources**
- IDA 18 capital mobilization
- MCPP
- AMC

**Coordinate with other MDBs**
Apply the Cascade...
This will ensure that scarce public funds are used in the most strategic and catalytic way

1. **COMMERCIAL FINANCING**
   Can commercial financing be cost-effectively mobilized for sustainable investment? If not...

2. **UPSTREAM REFORMS & MARKET FAILURES**
   - Country and Sector Policies
   - Regulations and Pricing
   - Institutions and Capacity
   Can upstream reforms be put in place to address market failures? If not...

3. **PUBLIC AND CONCESSIONAL RESOURCES FOR RISK INSTRUMENTS & CREDIT ENHANCEMENTS**
   - Guarantees
   - First Loss
   Can risk instruments & credit enhancements cost-effectively cover remaining risks? If not...

4. **PUBLIC & CONCESSIONAL FINANCING, INCLUDING SUB-SOVEREIGN**
   - Public finance (incl. national development banks and domestic SWF)
   - MDBs and DFIs
   Can development objectives be resolved with scarce public financing?
Harness the group potential - THE WORLD BANK GROUP

WORLD BANK GROUP

IBRD
International Bank for Reconstruction and Development
Loans to middle-income and credit-worthy low-income country governments

IDA
International Development Association
Interest-free loans and grants to governments of poorest countries

IFC
International Finance Corporation
Solutions in private sector development

MIGA
Multilateral Investment Guarantee Agency
Guarantees of foreign direct investment’s non-commercial risks

ICSID
International Centre for Settlement of Investment Disputes
Conciliation and arbitration of investment disputes
## De-risk ...PSW facilities

<table>
<thead>
<tr>
<th>Instruments offered to end-use clients</th>
<th>Risk Mitigation Facility (RMF)</th>
<th>Blended Finance Facility (BFF)</th>
<th>MIGA Guarantee Facility (MGF)</th>
<th>Local Currency Facility (LCF)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project-based guarantees without sovereign indemnity</strong></td>
<td>Loans, subordinated debt, equity, guarantees and risk sharing</td>
<td>MIGA Political Risk Insurance (PRI)</td>
<td><strong>Local currency denominated loans to clients who operate in markets where there are limited currency hedging capabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure &amp; PPPs</strong></td>
<td>High-impact pioneering investments across sectors</td>
<td>Infrastructure, agribusiness, manufacturing and services, financial markets &amp; PPPs</td>
<td>Sectors will be linked to the underlying loans</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector(s)</th>
<th>Indicative Allocation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$1,000M</strong></td>
<td><strong>US$600m</strong></td>
<td><strong>US$500m</strong></td>
</tr>
</tbody>
</table>

**Note:**
- **MIGA** - Multilateral Investment Guarantee Agency
- **IDA** - The World Bank’s Fund for the Poorest
- **IFC** - International Finance Corporation
Employ IFC’s extensive footprints

★ IFC Hub Offices
● IFC Country Offices
Use fresh capital
... CAPITAL INCREASE

In April 2018, shareholders approved a landmark $13 billion capital increase package:

- $7.5 billion for the World Bank
- $5.5 billion for IFC

This more than triples the amount of paid-in capital IFC has received since inception in 1956.

IFC’s annual IDA transfers have also been suspended. Along with the paid-in capital, these provides a total of $9.2 billion in new capital to support IFC operations.
CAPITAL INCREASE

What it Means for IFC

By 2030, IFC is now targeting:

- Increasing annual investment commitments to **$48 billion** ($25 billion for IFC’s own account, $23 billion mobilized from others)
- Having 40% of these investments be in **IDA countries and fragile and conflict-affected areas**
- Making 35% of its own-account investments **climate-related**
- Scaling up on **gender**: investing $2.6 billion per year in financial institutions targeting women and increasing by 50% the number of women directors on companies where IFC has a board seat.
FY18 LONG-TERM INVESTMENT COMMITMENTS: $23.3 BILLION

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobilization</th>
<th>IFC's Own Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY14</td>
<td>$15.1 bn</td>
<td>$10.0</td>
</tr>
<tr>
<td>FY15</td>
<td>$17.7 bn</td>
<td>$10.6</td>
</tr>
<tr>
<td>FY16</td>
<td>$18.8 bn</td>
<td>$11.1</td>
</tr>
<tr>
<td>FY17</td>
<td>$19.3 bn</td>
<td>$11.9</td>
</tr>
<tr>
<td>FY18</td>
<td>$23.3 bn</td>
<td>$11.6</td>
</tr>
</tbody>
</table>
FY18 COMMITTED INVESTMENT PORTFOLIO BY REGION

TOTAL PORTFOLIO: $57.2 BILLION

- Latin America and the Caribbean: 22%
- East Asia and the Pacific: 16%
- Sub-Saharan Africa: 15%
- Europe and Central Asia: 18%
- South Asia: 9%
- Middle East and North Africa: 3%
- Global: 17%

15%
In June 1998, IFC committed US$120 million (quasi-equity investment of up to US$65 million and a loan of up to US$55 million) for the establishment of the Mozal aluminum smelter project in Maputo, Mozambique. IFC also committed, in June 2001, US$25 million of A-loan to help double the capacity of the smelter. Mozal was established in 1998 jointly by the Government of Mozambique, Mitsubishi Corporation, BHP Billiton, and Industrial Development Corporation of South Africa (IDC). The original project consisted of the construction and development of a 245,000-ton-a-year aluminum, of which total project cost estimated to be US$1.36 billion.

At the time of the investment, Mozambique was emerging from a 17-year civil war. The project boosted the country’s economy by providing employment opportunities, developing Mozambique's infrastructure, directly contributing to the country's industrialization and significantly enhancing regional trade.

This project is said to be IFC’s first large financing to support Japanese company’s African business.

In May 2017, IFC, Google Inc., Convergence Partners, and Mitsui & Co. have agreed to invest up to US$100 million in CSquared, a partnership focused on deploying wholesale, carrier-neutral, open-access fiber optic networks across Sub-Saharan Africa. The investment is expected to help improve broadband connectivity in a region where the lack of dependable internet access impairs economic growth, competitiveness, and the development of basic services. It will expand Google’s existing operations in Uganda and Ghana, with the goal of entering several new markets over the next five years.

By supporting this project, IFC expects to promote shared infrastructure, reducing entry barriers and deployment costs in the telecommunications sector, increasing affordability, and enabling the development of digital economies.
Zalar, establishment in 1974, is a leading vertically integrated operator handling grain imports, feed production, broiler, and meat processing in Morocco and West Africa.

- In 2013, IFC invested USD24MM equity for a 17.9% ownership.
- In 2014, Zalar issued a public bond of MAD350MM and a MAD125 million private placement from EBRD.
- In 2016, Seaboard Corporation, a US industrial conglomerate specialized in the agribusiness sector and maritime transport and trading, invested USD18MM equity for a 12% ownership.
- In 2018, Mitsui & Co. invested USD25MM.

IFC supported Zalar to:
- Invite global agribusiness partners as co-investors
- provide a stamp of approval to the capital markets, reinforcing Zalar’s image in the market
- lower the Company’s leverage and enhance its capital structure
- establish a solid base for continued growth from Morocco to Western Africa.

**Capital Structure**

![Capital Structure Diagram]

- **Equity**
  - Chaoumi Family
  - IFC
  - Seaboard Corporation
  - Mitsui & Co.

- **Bond**
  - Public Investors

- **Loan**
  - Local Banks