DEVELOPMENT COMMITTEE
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Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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WORLD BANK GROUP INNOVATIONS IN LEVERAGING THE PRIVATE SECTOR FOR DEVELOPMENT: A DISCUSSION NOTE

Attached for the April 21, 2012, Development Committee Meeting is a document entitled "World Bank Group Innovations in Leveraging the Private Sector for Development: A Discussion Note," prepared by the staff of the World Bank Group.

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Acronyms and Abbreviations

AF	Adaptation Fund
AfCap Fund	Africa Capitalization Fund
ALAC Fund	African, Latin American and Caribbean Fund
AMC	Asset Management Company
AML	Anti Money Laundering
APRM	Agricultural Price Risk Management
CCF	Climate Catalyst Fund
CCFP	Critical Commodity Finance Program
CERS	Certified Emissions Reductions
CFP	Concessional Finance and Global Partnerships
CGAP	Consultative Group to Assist the Poor
CI	Competitive Industries
CIF	Climate Investment Fund
CSP	Concentrated Sola Power
CTF	Clean Technology Fund
DRFI	Disaster Risk Financing and Insurance
e4e	Education for Employment
FCS	Fragile and Conflict Situations
FDI	Foreign Direct Investment
FIP	Forest Investment Program
FPD	Finance and Private Sector Development Network
GAFSP	Global Agribusiness & Food Security Program
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIF	Global Infrastructure Fund
GPFI	Global Partnership for Finance Inclusion
GTFP	Global Trade Finance Program
GTSF	Global Trade Supplier Finance
GWFP	Global Warehouse Finance Program
HDN	Human Development Network
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IPP	Independent Power Producer
JISL	Jain Irrigation Systems Ltd
LIC	Low Income Country
LPI	Logistics Performance Index
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Size Enterprise

OBA	Output Based Aid
PCH	Germany's ProCredit Group
PPI	Private Participation in Infrastructure
PPP	Public-Private Partnership
PBG	Policy-Based Guarantee
PCG	Partial Credit Guarantee
PRG	Partial Risk Guarantee
PRI	Political Risk Insurance
PSD	Private Sector Development
RBOF	Russian Bank Opportunity Fund
SB	Standard Bank Plc
SCF	Strategic Climate Fund
SEZ	Special Economic Zone
SME	Small and Medium Size Enterprise
StAR	Stolen Asset Recovery
SWF	Sovereign Wealth Fund
TMRC	Tanzania Housing Mortgage Refinancing Corporation
TMD	Treasury Mobile Direct
TRE	Treasury
WBG	World Bank Group

World Bank Group Innovations
in Leveraging the Private Sector for Development:
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- *Executive Summary* -

The private sector is a critical driver of–and partner in–economic development, a provider of income, jobs, goods and services to improve peoples' lives and provide them with the opportunity to overcome poverty. It is an engine of economic development and is responsible for

> *"Government provides the environment for growth, but it is the private sector that invests and creates wealth for the people."*
>
> Goh Chok Tong,
> The Growth Commission Report

- About 90 percent of employment in the developing world, including both formal and informal jobs.
- 91 percent of the $1 trillion in annual capital flows into developing countries.

In turn, the employment generated by the private sector and the effective use of fiscal resources derived from the formal private sector provide the foundation for poverty alleviation.

The environment in which the World Bank Group functions has evolved in recent years, and the institution is changing as a result. The private sector, long recognized as a key contributor to development, has surged in importance to developing economies. Private capital flows dominate available resources, and trade represents an increasing share of economic activity. With economic growth accelerating in developing countries, the demand for infrastructure services is booming as well. Moreover, there is a growing consensus among development institutions and client countries that a healthy environment for investment and business activity is needed to assure growth, job creation, poverty alleviation and social inclusion. A healthy investment environment means opportunities for all members of society. As the 2012 World Development Report on Gender Equality and Development notes, providing an equal footing for women is not just a core development objective in its own right, but also smart economics: greater gender equality improves living standards, and enhances productivity.

Along with the rise of the private sector as a pillar of development comes an evolving role for the public sector. To unlock the kinetic energy of the private sector while improving social inclusion, addressing income inequity and correcting for market failures, governments must function as policy-makers and rule setters; protectors of competition, consumer rights and environmental public goods; arbiters and regulators of monopoly behavior. They will continue to be called upon to make investments where public goods are at stake and where the private sector is unable or unwilling to invest. That is, the rise of the private sector means more nuanced and sophisticated responsibilities for the public sector. Those responsibilities extend beyond national borders given the rising importance of addressing global public goods such as climate change.

Developing economies have become increasingly important in global private sector activity. When global leaders speak of the world's new multi-polarity, it is not simply a reflex to changing political alignments, international agreements and population trends. It is recognition that the developing world has driven global growth in recent years and is playing an increasingly important role in global trade, capital formation, and direct investment. The global economy will depend upon the competitiveness and productivity of the developing world's private sector—in manufacturing, extractive industries, services, and in particular—because of global food security—in agriculture. Facilitating and encouraging South-South learning grows in importance in this context.

The World Bank Group has demonstrated its recognition of the central role of the private sector in development by:

- **Providing growing levels of support for the enabling environment for investment and private sector activity, both through lending and through technical assistance and knowledge services.** IBRD/IDA yearly commitments of loans aimed specifically at enabling investment, strengthening capital markets, building out infrastructure for private sector services, facilitating trade and strengthening the foundation for private sector activity have increased from about $10 billion per year in FY06 to FY08 to over $13 billion per year in FY11. This represents between 30 and 47 percent of all World Bank lending, depending on the year. More than one-third of the approximately 1000 pieces of analytical and advisory work that are on-going at the World Bank support a critical aspect of private sector development, such as investment climate, competition policy, consumer protection, property rights, or market reforms. Meanwhile, IFC has doubled the value of its Advisory Services over the last five years, from $100 million to $200 million per year.

- **Committing greater volumes of direct support to the private sector**. In the last five years, IFC has increased its commitments from $8 billion to $12 billion per year, and increased its mobilization of additional resources to $6 billion. The beneficiaries of this financing, in turn, provided 2.2 million jobs, made $112 billion in loans to MSMEs, and treated 7.6 million patients in 2010 alone. In the last five years IFC has moved from 25 percent to almost 50 percent of its projects in IDA countries including many fragile states. The number of IDA countries with new IFC investments increased from 32 in FY06 to 56 in FY11. To a large extent this has been accomplished by decentralization with 55 percent of IFC staff now located in field offices. Between FY07 and FY11, MIGA grew its issuances by 50 percent in support of Foreign Direct Investment, from $1.4 billion to $2.1 billion, with 35 new projects receiving coverage in 2011 as compared with 26 in 2007.

- **Building joint initiatives to leverage the comparative advantages of the different branches of the World Bank Group**. From the technical assistance and lending activities of the joint World Bank-IFC Finance and Private Sector Development Department, to the co-financing of investments, to joint-Advisory Services for improving the business environment, the World Bank Group leverages its skills and resources through close collaboration.

The growing focus on the private sector across the World Bank Group, in tandem with the application of new and innovative financing and advisory instruments, is a result of this dual trend: more private sector in development, and more development in the private sector. The World Bank's Modernization Agenda allows for this responsiveness, enhancing its engagement with the private sector, mobilizing knowledge across the institution and with partners, and encouraging innovation in support of private sector development.

A stocktaking of the innovative approaches and instruments being used by the World Bank Group to meet the major challenges of development include:

- In **supporting growth**, the World Bank Group leverages and supports the private sector, both directly and indirectly, from upstream assistance in the creation of healthy investment climates, regulations and market structures, through innovative products and approaches in the areas of

Public-Private Partnerships; International Trade and Supply Chains; Capital Markets; Competitive Industries; and South-South Investments. The context of this growing role for the private sector is defined by the need for employment generation to promote sustained productivity growth and societal cohesion. Economic development is demonstrated through improvements in living standard, as well as social change associated with urbanization, the emergence of a larger middle class and the drive toward greater gender equality. As job creation is central to these transformations—and about 90 percent of jobs will continue to be created within the private sector—World Bank Group support to the private sector will be a central pillar in addressing employment creation in client countries.

- In **supporting the provision of basic needs for the poor** and most vulnerable, the World Bank Group engages the private sector in its support for food security along every step of the value chain, levels the playing field for small businesses—engendering women in business, and playing the role of the private sector's catalyst and financier so that it can reach the poor when providing basic health, education, infrastructure and financial services.

- The World Bank Group is now at the forefront of designing and managing initiatives to address **global development challenges**, such as combating the effects of climate change, and fighting communicable diseases. These initiatives have brought together diverse external actors, as well as units from across the World Bank Group, and they have demonstrated that cooperation among traditional and new development partners can catalyze more benefits along with a constructive sharing of responsibilities.

- The World Bank Group engages with companies to encourage sound corporate governance standards, as well as reputable, ethical and transparent operations. IFC also works with companies to help maximize their positive impact on societies in a number of ways, such as through environmental and social performance standards, as well as community engagement, sustainable practices, effective philanthropy, and inclusive business operations. This support is referred to as **Strategic Value Addition**.

- Addressing risk is at the core of all financial transactions. The World Bank Group has developed a number of **risk management instruments** to assist governments and private sector institutions to better manage their future risks. One of our priorities in this area is the deployment of risk management instruments that help fragile states and areas in conflict situations attract and grow private businesses. Included among these products that build on the Group's partial risk and credit guarantees are risk transfer products and catastrophe risk financing solutions; currency and interest rate hedges and swaps; and commodity hedges.

In identifying and describing these innovative responses, this paper provides a snapshot of how the World Bank Group promotes development through its support and leverage of the private sector. With this foundation, the paper serves to foster a discussion of how the relationship between the World Bank Group and the private sector can be further strengthened and expanded. The sum total of Bank Group resources on its own is not enough to finance development, be it applied directly through the private sector or indirectly through governments. It is the knowledge derived from the experience with these products as well as the leverage that can be brought to bear on their implementation that will make a difference at the level of countries, regions and markets. Achieving the greater goals of sustainable growth and widespread alleviation of poverty will require higher levels of leverage and a larger number of partners from private and public arenas.

Looking Forward

Economic progress demands a competitive and dynamic private sector. An environment that encourages learning, adopting and refining business processes and technologies—as well as the entry and exit of firms—lies at the heart of this dynamism. In response to global trends in financial flows, trade and investment, the World Bank Group has been growing its support to the environment that fosters innovation within the private sectors of developing economies. A number of the innovations that the World Bank Group is applying in its work with the private sector are likely to increase in importance over the next several years. As laid out in the Modernization Paper, the strategies for enabling the private sector will continue to evolve as World Bank Group synergies are explored and deepened, Looking forward, a sample of the approaches that the Bank Group will strengthen to grow support for the private sector include the following:

- During the last crisis there were almost no **Public-Private Partnerships (PPPs)** commitments into low income countries. Where there were commitments, they were concentrated by country and by sector—reflecting the risk aversion of investors at that time. The World Bank Group's Infrastructure Strategy is a call to encourage investment in infrastructure services through more private financing and support for infrastructure projects, particularly in low income countries. This will take the form of supporting improvements to regulatory frameworks, sector market structures, enabling environments for investment, as well as direct financing of public and private contributions to PPPs. The Strategy specifically calls for increasing joint World Bank-IFC-MIGA collaboration, and raising the volume of PPP financing. In parallel, the Bank Group is increasing its support to PPPs for the provision of health and other social services.

- The World Development Report 2011, "Conflict, Security and Development" shows that more work is needed on removing the bottlenecks to vigorous private sector investment in **Fragile and Conflict Situations (FCS),** as well as supporting "best fit" approaches for job creation. The Bank Group is implementing a cross-institutional approach to employment in FCS, developing a continuum of interventions to support jobs and livelihoods that focuses on "quick-win" public and community-based employment, infrastructure investments to open up new markets, and concomitant Bank and IFC investments as well as MIGA facilities to nurture a private sector response. The Bank Group will also develop fragility-sensitive operations to facilitate private sector-led employment. The Bank Group will advance cross-institutional research on private sector development in FCS, and will support potential new Bank Group instruments to operationalize this body of knowledge.

- The Bank Group will continue to encourage **Financial Inclusion** through a range of investment, advisory, Treasury activities, and partnerships including support for the G-20 Global Partnership for Financial Inclusion. This is in response to the recognition that the private sector is increasingly offering goods, services, and livelihoods to the Base of the Pyramid—and buying back from them in return. Programs which link poor people in commercially sustainable ways to the private sector have shown considerable promise. The IFC and World Bank will expand their focus on this agenda as part of scalable and sustainable models for social inclusion.

- **Corporate Integrity and Strategic Value Addition** activities will be strengthened as work with the private sector expands. For example, IFC and the World Bank will continue to build on the corporate governance agenda with other IFIs. The Bank Group anticipates a significant increase in corporate governance activities to support investees, broaden impact, and strengthen leadership. Work is also underway to build on leadership in sustainability, particularly by strengthening the capacity of clients through investment and advisory collaboration.

- An increased focus on **results and measurement**, to demonstrate impact and to focus activities on the most successful approaches, will be central to the World Bank Group private sector efforts. For example, IFC aims to develop a robust development results framework incorporating outcome tracking, development goals, and evaluation results into one interlinked system. Similarly, the World Bank's results framework for finance and private sector activities is being strengthened to leverage existing best practices to determine what works and what does not.

While there is existing commitment to build on the above themes, the Bank Group's partnerships will be critical to expanding impact of these interventions over time. Innovative sources of funds for both investments and advisory services are expected to grow in importance for the Group (as described for instance in the recent IFC Road Map), including via the Asset Management Company (AMC), foundations, new syndication structures, and new donor programs. Partnerships within the World Bank Group and with other development institutions will increase, such as the G20 SME and food security initiatives and the Deauville Partnership process, as will partnerships with private banks, and local and regional entities.

Questions for the Development Committee

The challenges described above raise crucial questions for the consideration of the Development Committee:

- How can development assistance be used more effectively to mobilize private finance, and how can the different parts of the World Bank Group help clients—MICs, LICs and fragile states—overcome the barriers to private sector growth?

- What are the appropriate instruments and incentives that will effectively catalyze private sector activity, mobilize private finance, and strengthen inclusion in the private sector growth agenda?

- How can the World Bank Group use its various instruments in a complementary manner to strengthen productive value chains in client countries, further unleash SMEs for jobs and growth, and better support the South-South exchange of knowledge, technology and investment?

World Bank Group Innovations in Leveraging the Private Sector for Development:
A Discussion Note

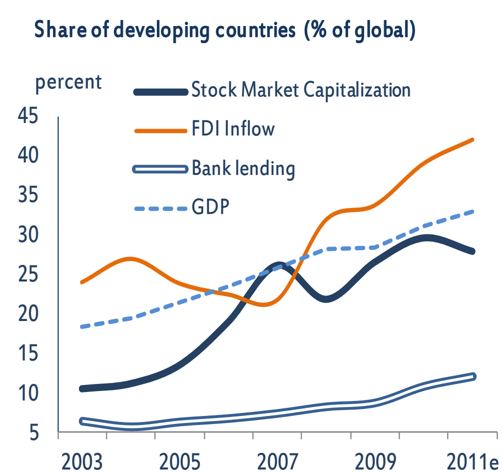
Context: The Private Sector as an Engine of Growth and Poverty Alleviation

The private sector is an engine of economic development. While the public sector remains critical for correcting market failures and addressing inequity, the private sector drives productivity, job creation and the accumulation of wealth. This paper provides a snapshot of how the World Bank Group promotes development through its support and leverage of the private sector. It highlights recent innovations in the institution's instruments and approaches, and places those innovations in the context of key development challenges such as growth, poverty alleviation, global public goods, corporate integrity, crisis response and risk management.[1] With this foundation, the paper serves to foster a discussion of how the World Bank Group's support and leverage of the private sector can be further strengthened and expanded.

It is widely recognized that the private sector contributes to economic growth through efficiency and innovation. In fact, the private sector is also the primary driver of the other factors of growth: finance and labor. Of the approximately $1 trillion in yearly international capital flows to developing countries, 91 percent are private flows.[2] In terms of jobs, the private sector—defined broadly so as to include farmers, informal employment, and individual businesses as well as formal enterprises—is responsible for about 90 percent of employment in the developing world.[3] In turn, those jobs and the fiscal resources derived from formalized private sector activity provide the foundation for poverty alleviation.

Although governments are often called upon to stimulate demand during periods of economic downturn, the global economic crisis of 2008 to 2009 brought to the fore the importance of the private sector in sustaining global growth. It was the sustained growth of developing economies—particularly in East Asia, South Asia, Africa and Latin America—that softened the downturn and helped stabilize the global economy in 2010. As a result, the growing share of developing countries in global asset allocation accelerated in the wake of the crisis:

Diagram 1: The Accelerating Role of Developing Markets in Private Financial Flows



Source: World Bank Prospects Group

[1] Use of terms in this paper: The "World Bank Group" refers to all four institutions: IBRD, IDA, IFC, and MIGA, while the term "World Bank," refers to IBRD and IDA only. "Leverage" is used to encapsulate both the financial meaning of the term as " the use of a resource to attract additional resources" as well as the common usage of the term as "supporting an agent or making use of a resource in order to achieve greater impact." The paper uses "Innovation" to refer to new instruments, new approaches and/or initiatives that respond to new market trends.

[2] World Bank (2011) *Global Economic Prospects: Navigating Strong Currents*, page 47.

[3] World Bank (2005) *World Development Report 2005: A Better Investment Climate for Everyone*, page 1.

- Developing markets' share of global FDI inflows increased to around 40 percent in 2010 and 2011 from an average of 30 percent in the previous three years.[4]
- Developing country equity markets now represent about 30 percent of global market capitalization, double their level in 2005.[5]

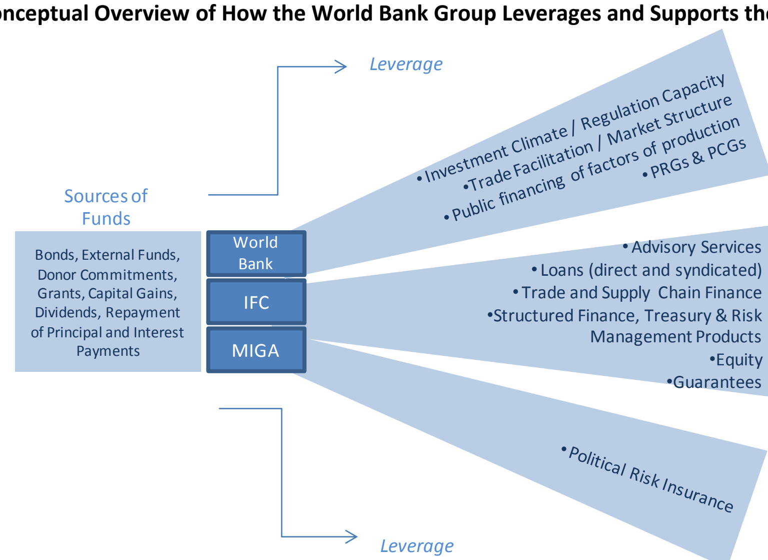
With even less fiscal space than in 2008, developing countries will once again depend on greater private flows to finance investment and stimulate economic activity, and the World Bank Group has positioned itself to help governments expand that flow of private resources.

The World Bank Group's Leverage of the Private Sector

The World Bank was built on the premise of leveraging the private sector for development. Since the signatories to Bretton Woods first realized that an international financial institution could raise funds on private capital markets and securely lend those funds at many times the value of its capital to sovereign governments, the World Bank Group has built an architecture of lending around its relationship with the private sector. As the institution's understanding of the private sector's role in development has deepened and grown more nuanced, so too has its relationship with the private sector.

The institution now facilitates private sector development through nearly all of its areas of engagement—directly through the investment and advisory services of IFC and the guarantees of MIGA, and, increasingly, through the enabling environment for the private sector supported by World Bank operations and technical assistance. The Modernization Agenda enhances the World Bank Group's engagement with the private sector, mobilizing knowledge across the institution and with partners, and encouraging innovation in support of private sector development.[6] When taken as a whole, the comparative advantages of the different parts of the World Bank allow for support to the private sector across the spectrum from upstream work on investment climate, regulation, competition policy, market structure, trade facilitation and sectoral reforms down to debt, equity and guarantees that add liquidity to local markets, finance trade and engender specific investments. The diagram below provides a conceptualization of how the institutions of the World Bank Group utilize the private sector to leverage their sources of capital.

Diagram 2: Conceptual Overview of How the World Bank Group Leverages and Supports the Private Sector



[4] World Bank (2011) *Global Economic Prospects: Navigating Strong Currents*, page 42.
[5] Ibid, page 42.
[6] "Update on the World Bank's Business Modernization: Results, Openness, and Accountability," Background Paper for the Development Committee Meeting, April 2012," (under preparation).

Beyond the spectrum of support are the myriad ways in which the different parts of the World Bank Group are working together to leverage each others' comparative advantage in facilitating private sector activity. Increasingly, the arms of the World Bank Group that finance, advise and insure the private sector directly—IFC and MIGA—are working on shared programs and projects with World Bank units that focus on support to governments through public policies, regulations, and underlying investments to catalyze private sector activity. This collaboration ranges from a joint World Bank and IFC division to joint-financing of investments, particularly in low income countries, to team collaboration in the provision of advisory services.

- **A Bridging Network between the Public and Private Sectors:** The World Bank and IFC share the Finance and Private Sector Development Network (FPD) which serves as a catalyst for private sector activities, particularly in the areas of investment climate and financial market reforms. The joint-network houses staff mapped to both the IFC and the World Bank and leverages the comparative advantages of the two institutions.

- **Collaborative Investments and Advisory Services:** The World Bank, IFC and MIGA also engage in a large number of joint activities—both investments and advisory—that address the strategic focus areas covered in the body of this paper. This collaboration ranges from knowledge and assistance in strengthening the Investment Climate; design and financing of Public-Private Partnerships (PPPs); Climate Change and Renewable Energy programs; and MSME Finance. In IDA countries alone, the institutions are co-financing \$600 to \$700 million in projects per year and leveraging an additional \$250 to \$300 million of outside financing annually, primarily from private sources.[7] In addition, approximately one-fourth of the 400 or so IFC advisory activities in low income countries are undertaken jointly with the World Bank.[8]

Beyond the internal leverage of its divisions, the World Bank Group is dedicating a growing share of its knowledge and advisory work to improving the enabling environment for business and investment; and is committing greater volumes of direct support to the private sector. This expansion has been in response to the global trends that define the new context of development, such as the increasing importance of trade, growing reliance on private financial flows, the expanding potential of domestic equity markets, and the booming demand for services that come with the economic growth of developing regions.

- **Growing Support for an Enabling Environment—**The World Bank lending to governments for projects related to strengthening the role of the private sector has increased from about \$10 billion per year in FY06 to FY08 to over \$13 billion per year in FY11[9]--and during the last economic crisis, those figures doubled. This represents between 30 and 47 percent of all World Bank lending, varying from year to year. Similarly, more than one-third of the approximately 1000 pieces of analytical and advisory work on-going at the World Bank support a critical aspect of private sector development, such as investment climate, competition policy, consumer protection, property rights, or market reforms. Meanwhile, IFC has doubled the value of its Advisory Services over the last five years from \$100 million to \$200 million in project expenditure per year.

[7] "World Bank-IFC Collaboration in IDA Countries: Second Progress Report," IDA-IFC Secretariat, 2010.
[8] Ibid.
[9] Project themes captured under these codes include: Infrastructure Services for PSD, Regulation & Competition, MSME Support, SOE Restructuring & Privatization, Export Development & Competitiveness, Regional Integration, Technology Diffusion, Trade Facilitation/Market Access, Improving Labor Markets, Education for All, Education Knowledge Economics, Urban Economic Development, Cultural Heritage, Other PSD (Finance), Rural Markets, Access Law & Justice, Judicial & Dispute Resolution, Legal Instituions., Legal Services, Personal & Property Rights, Corporate Governance.

- **Increasing Direct Support to the Private Sector.** The World Bank Group's credibility as a partner to the private sector is derived from its dedication to providing debt, equity and risk management instruments directly to the private sector itself. In the last five years, IFC has grown its commitments from $8 billion to $12 billion per year, increased its mobilization of additional resources to $6 billion in FY11. In the last five years IFC has moved from 25 percent to almost 50 percent of its projects in IDA countries including many fragile states. The number of IDA countries with new IFC investments increased from 32 in FY06 to 56 in FY11. To a large extent this has been accomplished by decentralization with 55 percent of IFC staff now located in field offices. Over the same period, MIGA has seen its portfolio grow to record levels, along with the annual amount of new guarantee issuance, and has successfully amended its Convention in order to significantly expand its scope and modernize its product range. New issuance has grown from $1.4 billion to $2.1 billion from FY07 to FY11 as a result.

Finally, the World Bank Group responds to these global trends and to the challenges of development through innovating with new products and approaches. Through its research and analysis of market trends and the identification of financing bottlenecks and market failures from constant interaction with the private sector, the World Bank Group has been able to address the challenges of development across sectors and instruments. The application of the World Bank Group's main challenges, as defined in the *Post Crisis Directions Paper*[10], to private sector activities reveals a mandate for the institution to:

1. Leverage private investors, markets and operators to achieve robust and sustained levels of economic growth.
2. Help private sector resources, services and opportunities reach the poor and vulnerable.
3. Facilitate business models that value global public goods such as environmental sustainability.
4. Require corporate integrity and promote strategic value addition.
5. Mobilize private sector resources and tools to manage crises and risk.

The following sections highlight the World Bank Group's newest instruments and most innovative approaches to carrying out the five mandates highlighted above.[11]

1. Leveraging the Private Sector for Robust and Sustained Growth

While the economic growth levels of the developing world have outpaced those of the OECD countries in recent years, the variation within developing regions and among countries is tremendous. Most developing countries remain mired in growth rates too low for their income levels to converge with those of industrialized nations within a generation. Jobless growth, unemployed youth, excessive informality and slack labor markets continue to plague large parts of the developing world.

A variety of bottlenecks stand behind those variant growth rates and trends—bottlenecks that inhibit labor mobility, capital flows, technology transfer, firm productivity and the access of goods to market. Together, the institutions of the World Bank Group play a complementary role in mobilizing funds, developing capital markets and infrastructure, reducing transaction costs and improving the investment climate in the sectors that drive growth. The World Bank finances underlying factors of private sector productivity for both human and physical capital. The World Bank and IFC support client governments to improve the investment climate for private activity. IFC also provides direct financing to the financial sector, manufacturing, agriculture, service industries and infrastructure. It brings in equity as an investor, through mobilization of private equity funds and by developing capital markets, and it raises

[10] World Bank (20 April 2010) *New World, New World Bank Group: Post Crisis Directions.*
[11] Many of the approaches and instruments described in the paper address more than one challenge—i.e, a certain type of investment may contribute to both growth and poverty alleviation. The placement of each theme under a single category is meant to serve as a helpful organizing principle and is only suggestive of its primary area of contribution to development.

and invests additional third-party capital through the Asset Management Company (AMC). MIGA, the World Bank and IFC bring in guarantees and other risk-management instruments that facilitate investment and support growth. This section focuses on the role of the World Bank Group in leveraging the private sector for robust and sustained growth.

1.1. Supporting PPPs and Other Forms of Private Participation Infrastructure

Economic growth is both dependent on the provision of infrastructure and is a contributing factor to demand. An estimated $1.1 trillion in annual expenditure in developing countries--6.6 percent of the developing world GDP--is needed through 2015 to satisfy consumer and producer demand for infrastructure services. The greatest needs, estimated as 12.5 percent of GDP, are in low-income countries. [12] Public resources will not be able to close this gap alone.

Over the last 20 years, private participation in infrastructure (PPI) has emerged to address infrastructure finance and efficiency shortfalls. Private provision is now the norm in the sub-sectors of telecommunications, ports and power generation, and a growing share of land transport infrastructure. PPI in developing countries reached an all-time high of $160 billion in commitments in 2010 (compared to $100 billion in 2005).[13] Despite this growth, financial shocks have changed the distribution of PPI flows, prompting concentration and a flight to safety. Sectors that are more exposed to local currency and retail risks, such as water and power distribution, have seen contraction. Likewise, investments flowed disproportionately to larger economies with lower country risk. During the last crisis there were almost no PPI commitments into low income countries.[14]

The World Bank Group's Infrastructure Strategy is a call to redress this imbalance through more private financing and support for infrastructure projects, particularly in low income countries. This can take the form of improvements to the regulatory framework, sector structures, enabling environment for investments, as well as direct financing of public and private contributions to PPPs. The Strategy specifically calls for increasing joint World Bank-IFC-MIGA collaboration, and raising the volume of PPP financing. The institutions of the World Bank Group are dedicated to building the private infrastructure business through the following commitments:

IFC expects to increase the share of physical infrastructure as a percentage of its own-account investments over the period FY12-FY15, as well as mobilize a significant amount of financing from third parties. As part of the implementation of the Strategy, and the G20 development agenda, IFC investment and advisory operations are working closely across the World Bank Group to scale up PPP investment. Key priorities include (i) addressing climate change—renewable energy and energy efficiency investments accounted for more than two-thirds of IFC's power sector commitments in FY11, and are expected to remain a core activity going forward; and (ii) infrastructure in Sub-Saharan Africa, where the IFC Special Initiative on Infrastructure aims to increase investment in the region, recognizing increased government interest in PPP models. The Global Infrastructure Fund, a $1bn fund directed at infrastructure sub-sectors, is expected to reach first closing before the end of 2012.

MIGA will scale up its support to the private sector by providing political risk insurance in high risk environments. To help client countries to mobilize private capital, MIGA has introduced new forms of coverage and expanded the application of its guarantee instruments, and this has enabled the Agency to scale up its support for infrastructure. In FY11, guarantees in this sector accounted for 43 percent of the total guarantees issued, a significant increase from previous years. Another notable trend during FY11

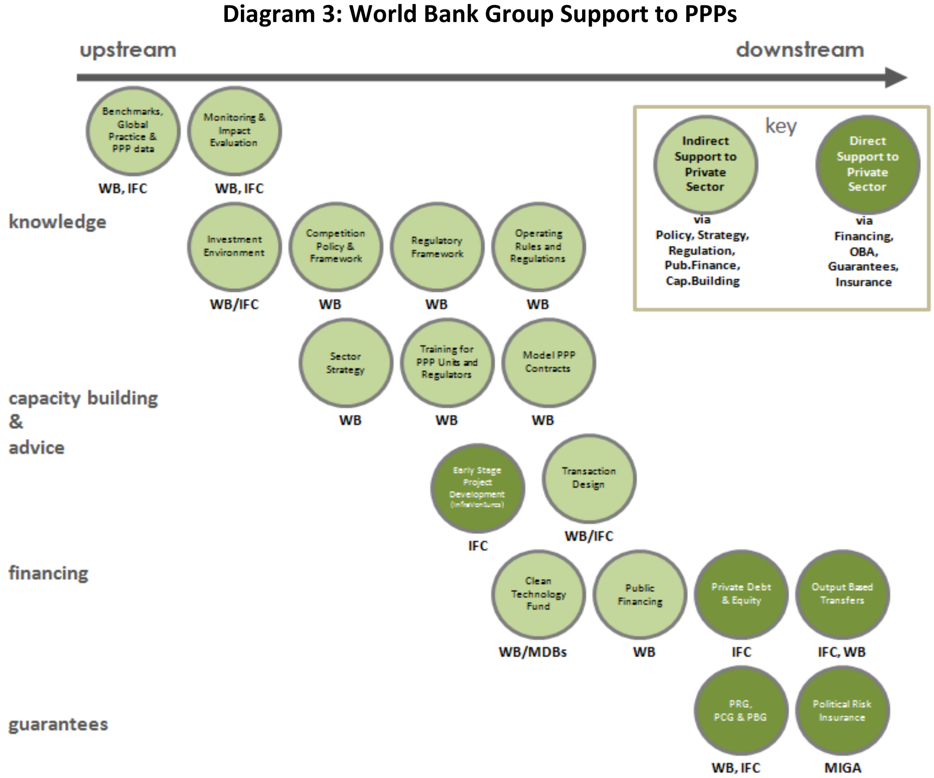
[12] Estache A. and Fay M, Current Debates on Infrastructure Policy, Commission on Growth and Development, 2009 from World Bank Infrastructure Strategy Update, 2011.
[13] World Bank, PPI Database
[14] World Bank, PPI Database

was the significant level of involvement of the public sector in these insured investments. This trend is expected to continue and should bring an increase in the number of opportunities where different entities of the Group can work together on transactions to support infrastructure development.

The World Bank is strengthening its regulatory and sectoral support to PPPs and increasing the incentives for the use of its guarantees. Recognizing that effective PPP design and implementation requires a blend of economic, financial, sectoral, legal, social and environmental skills, the World Bank has built a Global Expert Team for PPPs to bring all hands to the table from across the institution. This has enabled a comprehensive response for the design of landmark PPPs from Russia to Morocco to Brazil for frontier and innovative PPPs, such as municipal airports, irrigation systems and concentrated solar power generation. The bulk of World Bank assistance on PPI focuses on the enabling environment (e.g., investment climate, and legal and regulatory frameworks to foster new entry and competition into infrastructure sectors). In line with the Private Sector and other sector Strategies, the World Bank will increase its support of reforms in the regulatory environment and the development of sector policies—such as pricing and market structure—that are necessary to attract the private sector. In addition, the World Bank is reforming its operational policy on guarantees in order to streamline the policy, and remove restrictions which constrain their use (now at the consultation stage). It extended partial credit guarantees to IDA-only countries subject to their prudent debt management, and built on recent actions taken by Management to enhance the use of World Bank Guarantees and Enclave Operations (e.g., reducing the IBRD guarantee exposure counting against country limits from 100 percent to 25 percent; and streamlining the processing of guarantees). Finally, the World Bank will seek more opportunities for crowding in Clean Technology Funds and other green sources of finance and directly financing itself the public contributions and viability gaps required to make PPPs market-ready.

The Diagram below summarizes the involvement of the World Bank Group in supporting PPPs, from the upstream knowledge agenda down to the financing of individual transactions.

Diagram 3: World Bank Group Support to PPPs



1.2. Improving Investment Climate

World Bank research strongly correlates Investment Climate improvements with economic growth. Along with access to finance and infrastructure services, the climate for investment defines the entry and exit of firms, allows for entrepreneurship and encourages job creation. In this context, the public sector sets rules, establishes regulations, enforces contracts, licenses, taxes, defines property rights, and sets up the agencies that interact with the private sector on a day-to-day basis.—

The World Bank Group, working through a joint World Bank-IFC-MIGA department focused on Investment Climate, helps governments improve the legal, regulatory and institutional environment for enterprise creation and growth. In FY11, this work has helped support the implementation of 128 investment climate reforms in 31 countries cementing the World Bank Group's presence as a leader in the investment climate arena, in terms of both research and results-based implementation. Areas of reform that are raised through investment climate assessments include infrastructure and logistics services, entry and licensing regulations, red tape and inspection regimes, tax payment processes and the cost of tax compliance, and the framework of debt resolution and business exit. Through its investment climate work, the World Bank Group also acts as an incubator for new and innovative programs to address emerging challenges in our client countries. Examples include:

- **Investment Climate Reform** work provides support to governments looking to improve the business environment for private sector firms. It reflects one of the many ways in which the World Bank Group measures business environments (through, inter alia, Women Business and the Law and Doing Business). Many countries in the developing world utilize the Investment Climate Assessment (ICA) and Doing Business indicators as tools to diagnose obstacles to private sector activity so that they are able to improve their enabling environment for investment and firm productivity.

- **Tax Transparency—**A key initiative has been the development and launch of a new technical assistance program. The program helps developing countries toI improve the transparency of their tax systems, develop procedures to combat illicit flows, improve enforcement of their tax laws, and more actively participate in international cooperation and exchange of information to combat tax evasion. This work is done in coordination with other relevant institutions, including the Global Forum for Transparency and Exchange of Information for Tax Purposes.

1.3. Strengthening Capital Markets

The World Bank Group offers a broad range of support to financial markets, financial institution building, trade finance, housing finance and capital markets development. The World Bank Group's work on developing domestic capital markets in client countries is supported by a joint World Bank-IFC unit, draws upon the capabilities of both institutions on policy advice and transaction expertise, respectively. A large number of technical assistance and advisory services projects are designed with a combination of policy work and transaction support. The transaction support is important to strengthen the policy focus on issues impeding interactions between issuers and investors, as well as to demonstrate the impact of the policy work itself. Further, the work on government and non-government bond markets can reinforce the positive effect of World Bank and IFC local currency bond issuances on domestic market development, and vice versa. Partnerships are established between advisory services team with relevant investment teams and treasuries, both at World Bank and IFC.

Improving access to financial services for underserved groups such as SMEs and microenterprises is an important part of the World Bank Group's financial market development efforts. Examples of IFC and World Bank collaboration in this area can be found in Indonesia where staff from both institutions are working to expand mobile/branchless banking services through an advisory engagement with Bank Indonesia. Likewise, the IFC and the World Bank are collaborating to assist the transformation and commercialization of microfinance operations of a micro-finance management company. In India, IFC and World Bank are working with the the Bill and Melinda Gates Foundation to support the State Health Society in Bihar to streamline government payments to salaried health staff, private providers and beneficiaries under the state's health schemes, facilitating access to formal financial services.

Strengthening Capital Markets with Local Currency Bonds. Sound financial markets are vital to development, as they help ensure efficient resource allocation, create jobs and spur economic growth. Below are some innovative approaches from across the World Bank Group in developing local bond markets:

- **Program-based bond issuances**—As of end FY11, IFC has offered over $9.1 billion in local currency financing in 54 currencies using a wide variety of local currency products. As part of IFC's continuing efforts to enhance its development impact in this area, IFC's Treasury has started "program based bond issuances," which is expected to bring greater efficiency in the longer term, as well as a much larger impact and deeper partnerships with regulators and markets. This innovative program has seen initial success in West Africa, where Ghana and the eight member countries of the West African Monetary Union gave approval to IFC in December 2011 to establish local currency bond programs to strengthen domestic capital markets. The approvals will enable IFC to issue over $1 billion equivalent in bonds in Ghanaian cedis and CFA francs over the next ten years.

- **Global Emerging Markets Local Currency Bond Program (GEMLOC),** is a joint World Bank Group initiative to establish an index created for regular reporting of the performance of emerging market bonds so as to inform pension investors. The GEMLOC program provides expert advice to support countries' own efforts to broaden and deepen local bond markets. It also engages a leading private investment firm that develops strategies to encourage investments in local bond markets.

- **Efficient Securities Markets Institutional Development (ESMID),** is a joint IFC and WB Program that works with central banks, securities regulators, and stock exchanges to simplify regulations and procedures for issuing, investing in, and trading bonds; establish and strengthen market infrastructure; build capacity of market participants; facilitate the regionalization of securities markets; and support transactions.

- **Treasury Mobile Direct**—The Treasury Mobile Direct (TMD) is an innovative project piloted by the World Bank in Kenya to broaden access to safe savings vehicles for retail investors. For the first time, mobile phones are being used to distribute short-term government debt securities to retail clients, both banked and unbanked, which significantly reduces distribution costs. TMD builds on the mobile phone technology widely used in Kenya today by 18 million individuals for money transfers and payments. Total deposits in mobile money between July and September 2011 were $670 million. TMD complements other World Bank Group initiatives to bring the unbanked population into the formal financial sector and improve financial stability by diversifying the government's investor base. The project is being developed by a joint team across the World Bank Group.

1.4. Improving Access to Trade

Global trade now accounts for nearly 50 percent of global economic output as of 2010.[15] Moreover, bilateral trade flows between low income countries (LICs) and the major emerging economies have tripled since 1990 and are now greater than LIC trade with industrialized countries. In fact, the ability of most of the developing world to weather the last global financial crisis and to rebound quickly was

[15] World Bank (2011) *Global Development Horizons*, page 42.

greatly aided by that trade. As a reflection of this importance to client countries, more than two-thirds of Country Assistance Strategies include trade or trade-related activities in their programs, and the World Bank is the largest multilateral provider of Aid for Trade. New trade-related lending commitments are $3.2 billion in FY12 up from $2.6 billion in FY11. The share of the World Bank's active portfolio stock commitments for trade and integration has grown steadily from 3 percent in FY01 to about 7.4 percent at the end of FY12Q1.

The World Bank Group Trade Strategy promotes a multilateral trading system that is more supportive of private sector development, making competitiveness a centerpiece of country trade strategies and implementing national and regional trade facilitation and logistics reforms through effective Aid for Trade programs. These priorities reflect the concerns of the private sector as they face an increasingly complex trade environment, focusing not only on dealing with policy barriers imposed on goods and services as they cross borders, but also on behind-the-border issues that prevent the private sector from turning market access into actual trade flows, and converting trade flows into sustainable, broad-based growth in developing countries.

Trade corridors, trade facilitation and logistics focuses on reducing inefficiencies and trade costs along the supply chain: not just at the border and customs, but throughout the trade corridor. The World Bank Group has developed a plethora of analytical tools for addressing bottlenecks along the supply chain. From establishing the African Trade Insurance Agency to provide export credit, political risk and investment insurance, to financing the development of trade corridors in Southeastern Europe, Northern Africa, and Central Asia, the World Bank has brought to bear financing, assets and technical expertise on the reduction of physical trade barriers. Analytically, the World Bank supports improvements in border and customs management, competitiveness of logistics and freight services as well as port and gateway reforms.

As a leader in the knowledge arena, the World Bank has developed **The Logistics Performance Index (LPI)** which is a global standard bearer in measuring logistics performance and identifying priorities for reforms and investments. It is based on a worldwide survey of operators – global freight forwarders and express carriers, who give feedback on the logistics friendliness of the countries in which they operate with informed qualitative assessments of trade.

Trade and Supply Chain Finance Programs help companies in emerging markets access much-needed financing. As global economic conditions constrain the availability of trade and commodity financing, particularly for smaller markets and clients, IFC's support can be critical to assuring growth and employment.

- **The Global Trade Finance Program (GTFP)** guarantees payment obligations of approved financial institutions, extending and complementing the capacity of banks to finance trade. In FY11 IFC issued over 3,100 guarantees totaling $4.6 billion, more than half of which went to banks in IDA countries, and more than three quarters of which were to support SMEs. Since its creation, the companion Global Trade Liquidity Program (GTLP) has supported approximately $20 billion in trade. It is expected that about $18 billion in trade will be financed over the next three years via GTLP.

- **Global Warehouse Finance Program (GWFP)**—IFC is now leveraging its trade finance business model to provide financing across supply chains. IFC's $200 million GWFP was launched in 2010 to increase working capital to agricultural players by leveraging their own production. It offers short term loans to banks which on-lend the funding to commodity depositors against warehouse receipts, as collateral. The program expects to reach up to 570,000 farmers and contribute to food availability for 15.3 million people by 2014.

- **Global Trade Supplier Finance ("GTSF")**—In FY11, IFC launched the $500 million GTSF program, to increase the availability of working capital for SMEs, by discounting their sales receivables. GTSF provides short term financing to producers in emerging markets that sell to large companies on open account terms by discounting invoices accepted for payment by buyers.

1.5. Supporting Competitive Industries and Growth Poles

Each developing country and sub-region brings its own comparative advantage to bear on private sector production, based upon such factors as labor costs, worker skills, natural resources, market access, openness and historical activities. Sector-specific approaches and location-specific interventions (in the form of growth poles) can often complement economy-wide policies to spur growth in particular sectors or regions. The World Bank's new **Competitive Industries Practice** supports operations that tackle several key areas of public policy at the sectoral and/or regional level, including the investment climate, enabling infrastructure, skills development, technology, and access to finance. The main objective is to maximize welfare gains that can be realized by leveraging private anchor and complementing investments with activities that reduce transaction costs; build local government capacity to plan, coordinate and manage development projects and deliver public services; encourage linkages to SMEs; and provide enabling hard and soft infrastructure for equitable growth.

The CI practice currently has operations worth almost $1 billion (mostly in projects that support the development of growth poles), with a further $1 billion of new projects under preparation in diverse industries, including manufacturing, mining, agribusiness, tourism, and ICT. The CI Practice is seeking to leverage multi-sector expertise right across the World Bank Group

The World Bank also advises governments on the structure and operating guidelines of **Special Economic Zones (SEZs)**. These have been a powerful tool for countries as diverse as China and Mauritius to attract foreign investment from the private sector, promote export-oriented growth and generate employment. Through its SEZ program, the World Bank is providing advice to countries—in Tanzania, Ethiopia, Botswana, FYR Macedonia, Cambodia—on the factors which contribute to SEZ performance, highlighting the critical important not just of SEZs themselves but the wider national investment climate in which they function.

1.6. Supporting the Rise of South-South Investments

Six emerging economies—Brazil, China, India, Indonesia, Republic of Korea and the Russian Federation—will collectively account for more than half of all global growth between now and 2025.[16] They will also demand more inputs from, sell more products to, and emerge as the primary investors in the other developing countries of the world. The trend has been expedited by the last global financial crisis and the current slowdown in credit flows and economic growth in the industrialized world. By 2010, South-South investments accounted for around 34 percent of FDI in developing countries, up from 25 percent in 2007 and, between 2003 and 2011, the value of South-based companies' Mergers & Acquisitions (M&A) increased eight-fold, and their share of global M&A nearly tripled.[17]

The World Bank Group has recognized the growing multi-polarity of the global economy and the surging importance of South-South investment and trade, and has begun to adjust accordingly. The World Bank Group's global presence and extensive experience in emerging markets make it well-positioned to support South-South investments through both industrial companies and financial intermediaries. In FY10, IFC supported a record number of 71 South-South industrial projects, up 37 percent from the

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[16] World Bank (2011) *Global Development Horizons 2011—Multipolarity: The New Global Economy*, page 3.
[17] World Bank (2011) *Global Economic Prospects: Navigating Strong Currents*, page 42.

previous year, for a total investment volume of $1.7 billion for its own account. The expanding commitment to South-South investments includes the following initiatives:

- The World Bank is leading the introduction of **South-South learning** and is consequently supporting a growing number of exchanges related to investment environment, regulation and sector skills and technology. Two examples of such initiatives include the facilitation of East African dairy producers to learn from Indian dairy cooperative models and Lebanese government officials to learn from the Government of Singapore about how to support innovation in the private sector.

- **Leveraging and Wholesaling South-South Investments and Advisory Services**—IFC's recent South-South innovations include working with successful non-bank financial institutions in their base countries to see if an integrated package of investment and advisory services can be provided at one time to multiple countries in another region. IFC is also approaching well-performing investment funds in one region to catalyze them into creating cross-border private equity funds for equity investments in another region or regions.

- **South-South Political Risk Guarantees—**Because successful South-South investments help strengthen bilateral and regional economic integration, supporting these flows is now one of MIGA's four formal strategic priorities. In FY11, South-South transactions represented 22 percent of the MIGA's volume of new issuance. MIGA's goal of filling market gaps means that MIGA has a natural role to play for developing country investors, most of whom will not have a national export credit agency that can provide political risk guarantees. In FY11, MIGA established an Asian Hub – its first such arrangement outside headquarters – specifically to put its staff closer to southern investors coming from that region.

2. Targeting the Poor & Vulnerable

The private sector is a critical partner to governments in providing for the basic needs of the most vulnerable and for offering opportunities for poverty alleviation. The World Bank Group supports food security along every step of the value chain, levels the playing field for small businesses—particularly for women in business—and plays the role of the private sector's catalyst and financier so that it can reach deeper into society when providing basic health, housing, infrastructure and financial services.

2.1. Supporting the Private Sector in Agriculture: Productivity for Food Security

In order to combat the effects of rising and volatile food prices, improve rural earnings, increase global agriculture productivity and address inefficiencies in the distribution of food along the supply chain, the World Bank Group has rapidly expanded its work in the agriculture sector over the last three years. IFC has doubled its lending in recent years and now provides about $2 billion per year in the agribusiness sectors support while the World Bank has grown its agriculture lending from $4 billion in 2008 to $6 to $8 billion per year. That lending supports the common factors of productivity such as irrigation and rural road access, the capacity of farming groups and cooperatives, the links between farmers and markets, and the spread of global knowledge to boost productivity in farming practices.

The World Bank Group is working to strengthen the role of private actors along every stage of food production and distribution—from the regulations and sector strategies right down to farmers' access to finance. In addition to this range of support along the food value chain, several new programs and facilities have been initiated to leverage foundations, investment banks, and donor resources dedicated to strengthening private activities in food security. These include:

- **The Global Agribusiness & Food Security Program (GAFSP**)—At the request of the G20, the World Bank established the GAFSP in April 2010. Seven countries and the Gates Foundation have pledged about $1.1 billion over 3 years, most of which has been received. The Private Sector Window funds projects in agribusiness, supports farmers and enhances food security. This division will be run by IFC and will complement the interventions of the Public Sector Window which was established at the same time and has been entrusted to the World Bank.

- **Agricultural Price Risk Management (APRM)**—This program helps clients manage agricultural price risk via a mechanism to take credit exposure together with a sponsor bank towards emerging market counterparties in the context of agricultural price risk management transactions. In the first facility with J.P. Morgan, IFC expects to commit up to $300 million in credit exposure to clients that use specific price hedging products, while J.P. Morgan will take on at least an equal amount of exposure to them. An equal amount of $300 million is being committed in a parallel transaction with SocGen.

- **Critical Commodity Finance Program (CCFP)**—This is a platform being developed to mobilize resources and quickly channel liquidity to support agriculture exports/imports in targeted regions. This IFC program is expected to reach $12 billion including mobilization, with $9 billion in agribusiness and $3 billion in refined fuels.

- **Raising Risk Capital**. MIGA has developed a Master Contract Structure to support private equity funds raise risk capital, pioneered for a fund seeking agribusiness investments in East Africa. Under this structure, MIGA has been able to reserve capacity and fix premiums on an *ex ante* basis which has assisted the fund managers in drawing in capital from financiers otherwise uncomfortable with the political risks perceived in the region.

2.2. Supporting Private Provision of Basic Services

The World Bank Group is working with governments and the private sector to support the provision of health, education, sanitation and housing by harnessing entrepreneurship and bringing higher levels of efficiency to basic service provision. This is done through the design of investment and service contracts between public and private partners, the direct financing of service providers, the mobilization of output-based transfers to encourage increased access, and the strengthening of regulatory frameworks that support private participation. The objective is to improve and extend basic services directly and through financial intermediaries so that poor can obtain access to infrastructure services, housing, health care, and education.

While PPPs and other forms of private participation have been a staple ingredient in infrastructure service provision since the early 1990s, bringing the private sector into the provision of basic services for the poor and vulnerable requires complex forms of partnership, and carefully managed expectations for private involvement. Often, the public's role as a financier remains crucial to address social needs and affordability concerns. This, in turn, requires the design of transfers and partnerships that do not undermine the incentives for efficiency that come with private sector participation.

In many of the World Bank Group's client countries, most people get their health and education services from private providers --for instance, 80 percent of medical visits in India are to private providers[18]. The World Bank Group works with clients to improve the overall regulatory and financing environment—enabling the private sector to provide services, while ensuring their affordability and quality. The World Bank is increasingly involved in reforms that enable the private sector to provide health and

[18] India's National Sample Survey

education services with a focus on quality and affordability. In Pakistan, for instance, the World Bank has financed and supported the foundation *Assisted Schools* that provides basic education services to 800,000 children through private schools. The schools operate in a competitive environment in which they must meet quality standards—measured by test results—to remain in the program. The World Bank is also using private insurance expertise to provide financial protection to over 80 percent of the population in Andhra Pradesh, India; and leveraging private health insurance providers and regulation in the Czech Republic and Slovakia.

IFC is now the largest multilateral investor in private health care and education. Also, in response to the growing demand from developing countries for support in PPP design for social services, IFC's Advisory Services has grown its social sector support—particularly in health—from 5 percent of its portfolio 5 years ago to 26 percent today. Some examples of innovative PPP, advisory, and investment approaches:

- **Lesotho PPP Hospital and Health Clinic**—with support from the Global Partnership for Output Based Aid (GPOBA), the Dutch and Swedish governments and the Development Bank of Southern Africa, the Advisory Services team has designed a groundbreaking Hospital Health and Clinic PPP in Lesotho to replace the country's main public hospital. The private consortium awarded this 18-year construction and service contract has completed the new 425-bed facility that is supported by a network of refurbished urban clinics. The new hospital opened in October of 2011 and is now the main clinical training facility for all health professionals in the country. The project costs approximately $100 million and has been financed through a combination of commercial financing by the Development Bank of Southern Africa, a government contribution, and private equity. It was awarded a grant of $6.25 million from the GPOBA that is being used for the initial delivery of services at the new facilities.

- **Education for Employment (e4e)**— IFC's program targeting youth employment, the "*e4e* initiative for Arab Youth", is a joint IFC and Islamic Development Bank initiative. The program seeks to address the mismatch between the needs of labor markets and education outcomes in the Arab World by engaging the private sector in education finance and provision. This initiative builds on and complements World Bank's work on education policy and public sector investments. The initiative focuses on vocational education and training, university training, work readiness training, improving the enabling environment for education businesses, information transparency and employment matchmaking, all with a specific engagement by the private sector.

2.3. Increasing Access to Finance for Micro, Small and Medium-sized Enterprises (MSMEs)

Small businesses are critical for the economic and social development of emerging markets. They play a major role in creating jobs and generating income for low income people; they foster economic growth, social stability, and contribute to the development of a dynamic economy. The smallest and most vulnerable of businesses have long suffered from lack of access to financing, low levels of technical support and high barriers to doing business. Approximately 70 percent of micro, small and medium enterprises (MSME) have insufficient or no formal credit, leaving a gap of about $2.1–2.5 trillion in MSME credit.[19] Access to payments, deposit, insurance and other financial services can be constrained, in particular for the majority of enterprises that are micro in scale.

While the World Bank Group has long served as the host to the global knowledge center for microfinance, the Consultative Group to Assist the Poor (CGAP), the World Bank Group itself also addresses market failures through supporting policy and legal reforms, the development of financial infrastructure that underpins a safe expansion in access to finance, providing guarantees and lines of

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[19] IFC and McKinsey & Company (2010) *Two Trillion and Counting: Assessing the credit gap for micro, small and medium-sized enterprises in the developing world*, page 1.

credit to progressive apex lending institutions, establishing global benchmarks and providing advisory services to streamline procedures for starting and running businesses—procedures which disproportionately affect small and micro-enterprises. It also provides credit enhancements such as the World Bank's Partial Credit Guarantees and MIGA's risk coverage to financial intermediaries to add liquidity, lower interest rates and lengthen the tenors of loans. The World Bank Group also supports the development of credit bureaus and collateral registries, strengthening micro-finance institutions, and supports mobile banking and SME lending. A variety of IFC and World Bank programs and credit enhancements provide debt, equity and financing to fund operations of financial intermediaries. IFC works through its network of over 800 Financial Markets clients, and their 30,000 direct outlets, as well as their mobile banking networks to reach the poor and under-served. Together, this support reduces costs and promotes efficiency so that businesses can access financial services and banks can reach the poor with smaller transactions that are still profitable.

- **Investment Services for SMEs**—The World Bank Group uses both investments and technical assistance to support financial intermediaries' outreach to the MSME sector more effectively and efficiently. Investments made in financial intermediaries focusing on MSME lending have included equity investments, loans, revolving credit lines, and risk mitigation facilities. As of June 2011, IFC was working across 92 countries globally and had committed a total of $11.0 billion to SME finance. Innovating against this background of support, the **IFC SME Ventures Program** has launched private equity funds which target smaller SMEs in five IDA countries, four of which are Fragile. Similarly, the World Bank provides funding for SME lending across a wide range of countries, with an outstanding active loan portfolio of over $3.5 billion. This lending portfolio supports a wide range of instruments to increase outreach to SMEs and catalyzes important policy reforms around financial inclusion.

- **Advisory Services for SMEs**—On the advisory side, IFC provides a menu of advisory services for developing a value proposition for entering and operating profitably in the SME market, including advice on strategy, SME program design, segmentation, marketing and distribution channels, product development, risk management, information technology, and human resources. In 2011 IFC's Global SME Banking Advisory Services Program comprised 59 project spanning 38 countries with a total of $41.4 million in funds managed by IFC. Approximately 81 percent of these projects were in IDA countries, with 16 percent in conflict-affected or fragile states. The World Bank is also working with IFC in support of advisory programs – such as the recently established Arab World Initiative MSME Technical Assistance program in the Middle East.

  IFC and the World Bank have been designated as implementing partners and expert technical advisors to the G20 Global Partnership for Financial Inclusion (GPFI). Among other activities under this program, IFC supported the SME Finance Challenge, a competition to identify models that enable access to finance for SMEs, and established a fund for winners of the challenge.

  The development of Global Standards for Payments Systems, Government Payments, and Remittances by the World Bank, with accompanying technical assistance for governments and regulators, has led to payments systems reforms in over 100 countries worldwide. The World Bank is also developing guidance frameworks for impact assessments of SME Finance Policy and Programs, and for Financial Consumer Protection.

- **Political Risk Guarantee Micro-lending**—MIGA is providing guarantees to financial services companies that focus on small and very small businesses. One such recent example is the work that MIGA has been doing with Germany's ProCredit Group ("PCH"), which is a provider of finance to 750,000 small enterprises and lower income savers in Africa, Eastern Europe and Latin America who previously had limited access to formal financial services. MIGA has issued close to $300 million in guarantees to help ProCredit manage its risk in 17 different countries and thereby free up equity that had been tied up for capital adequacy purposes. This has allowed ProCredit to inject these funds into its subsidiary banks which then have increased their local lending activities. The recently established IFC/MIGA Business Development Unit, which was created to cross-market to prospective clients, brought ProCredit and MIGA together for the first time.

- **Credit Reporting Systems**—The World Bank Group is an international leader in the development of credit reporting systems, providing support in over 60 emerging countries worldwide. Interventions in credit reporting include legal and regulatory support to develop an environment conducive to sharing credit information; advisory support for the development of new credit-information sharing systems; and support for the development of value-added services in markets with more mature credit-information sharing systems. IFC and the World Bank work jointly through the their Investment Climate advisory services and Financial Inclusion Practice to foster the use of moveable assets—such as equipment, accounts receivable, inventory, and crops as collateral in exchange for loans.

- **Mobile Banking**—The rapid development of electronic money systems through mobile banking is creating unprecedented opportunities for the poor to have access to retail banking services, including payment services, savings, insurance and microloans for personal or entrepreneurial use. The World Bank Group is committed to achieving wider and more affordable financial inclusion by leveraging these services. The World Bank offers support to governments for developing enabling legal and regulatory environment for mobile banking, and builds the payments systems and financial infrastructure that enables the expansion of mobile banking. IFC has invested with seven dedicated payment service providers in 6 countries. Through its advisory services, IFC supports 17 bank and non-bank financial institutions in providing retail payments and other financial services leveraging electronic channels such as cards and mobile phones. This across-the-spectrum support is being pioneered in Nepal, Indonesia, Lao PDR, and the Pacific island nations. Similarly the World Bank has been supporting Mobile Banking operations (such as in the Maldives) in conjunction with CGAP.

2.4. Inclusive Business Models and Women in Business

Inclusive business models are enabling the private sector to play an active role in providing affordable goods and services as well as income generation opportunities to people at the base of the economic pyramid in commercially viable, scalable ways. Companies with inclusive business models integrate the poor into their value chains as customers, distributors or suppliers. IFC has a significant number of clients pioneering inclusive business models in all regions and in key strategic sectors: telecommunications and infrastructure, health and education, agribusiness and financial services. During FY11, IFC invested in 67 inclusive business projects amounting to more than $800 million in commitment volume.

- *Jain Irrigation Systems Ltd in India:* For its irrigation products, JISL's customers are lower income farmers who increase their productivity by adopting drip and sprinkler irrigation systems – a method that is more affordable and more efficient than traditional flood irrigation practices. With IFC's assistance, JISL provides access to extension services and quality agricultural inputs, to further increase farmer productivity and income. Finally, JISL facilitates access to credit to farmers through local financial institutions.

- *Grupo Martins in Brazil* had to build a large distribution infrastructure (warehouses, trucking fleet, on-line and phone sales systems) to meet the purchasing needs of more than 300,000 micro and small retail shops in their value chain, that in turn serve millions of low income customers throughout the country – in frontier regions, urban slums and remote rural outposts. Martins created a financial arm, Tribanco, to provide credit and management skills training to over 150,000 of their retail clients.

Women in Business – Engendering SME Activity—The financial power of women is expanding at a faster rate today than at any other time in history. Across developing countries, it is estimated that women own 30 to 37 percent of all small and medium enterprises—8 to 10 million businesses.[20] The Women in Business Initiative, established under the World Bank Group Gender Action Plan, aims to promote opportunities for women across IFC's investment and advisory services by increasing access to finance and markets for women entrepreneurs; reducing gender-based barriers in the business environment; and creating business opportunities to promote improved working conditions. Given the preponderance of women-owned SMEs, this investment is increasingly recognized as good business and good economics. By the end of FY11, IFC's Investment Services provided $113 million to commercial banks which disbursed $86 million to 2,200 women-owned SMEs and trained 3,000 women entrepreneurs. The World Bank and IFC jointly developed a methodology for gender mainstreaming in key regulatory reforms affecting women.

3. Promoting Global Collective Action and Providing Cooperative Models

Not all development challenges can be addressed at the level of a transaction, a local market or within national borders. Over the past decade, the World Bank Group has been at the forefront of designing and managing initiatives to address global development challenges, such as fighting communicable diseases, combating the effects of climate change, and building food security. These initiatives have brought together diverse external actors, as well as units from across the World Bank Group, and they have demonstrated that cooperation among traditional and new development partners can catalyze more benefits along with a constructive sharing of responsibilities. They have often employed innovative financing mechanisms.

IFC leverages the private sector in global collective action by helping set and implement global standards and programs for private enterprises that support broader societal goals—Equator Principles, responsible finance, environmental and social standards, climate change mitigation and adaptation and transparency (e.g. Extractive Industries Transparency Initiative).

3.1. Collective Action for Development

The World Bank Group has established the International Finance Facility for Immunization (IFFIm), the pilot Advance Market Commitment for pneumococcal vaccines, the Climate Investment Funds (CIFs) and the Adaptation Fund.

Some of the key benefits of these initiatives is that they have helped generate additional development funds by tapping new sources and engaging new partners, such as emerging donors and the private sector. They have also provided new ways for traditional donors to contribute, for example, in the form of legally binding grant commitments, or loans featuring varying levels of concessionality. In addition, by "packaging" available financial instruments in innovative ways, they have helped to provide customized solutions to address developing country challenges, increasing the likelihood of better results. Finally, by pooling funds, they have offered significant economies of scale and scope, with attendant benefits in terms of outreach, impact and sharing of knowledge and ideas among partners.

- The **International Finance Facility for Immunization (IFFIm)** "frontloads" financing needed for immunization programs in the poorest countries. IFFIm issues bonds backed by legally binding, long-term, donor commitments (from nine sovereign donors), thereby making more money available

[20] IFC Issue Brief (19 September 2011) *Women and Business*

now—$3.6 billion to date—for vaccine purchase and delivery. It is estimated that this funding will help prevent about 5 million children from dying between 2006 and 2015, and another 5 million adult lives thereafter. The World Bank helped design IFFIm and serves as its treasury manager.

- The **pilot Advance Market Commitment is a "pull" mechanism** designed to incentivize private sector pharmaceutical companies to produce and sell vaccines for markets in which they would otherwise not enter, by guaranteeing a minimum level of demand and a stable product price for a set period of time. Long-term donor commitments of $1.5 billion (from the Governments of Italy, the United Kingdom, Canada, the Russian Federation, Norway as well as the Bill and Melinda Gates Foundation) are used to finance incremental costs of vaccine production for developing countries. The World Bank helped design the Advance Market Commitment, took donor risk on its own balance sheet, and provides financial management services. IDA Resource Mobilization Department plays a coordinating role but many other Bank units, including from the Finance Complex and the Human Development Network, are closely involved. By 2020, Commitment funds are expected to have immunized nearly 700 million children and prevented about 2.8 million deaths.

3.2. Climate Change, Global Action and the Private Sector

Addressing climate change requires unprecedented global cooperation across borders. The World Bank Group has been a leader in this area since the inception of Carbon Finance mechanisms. The first Carbon Funds were established in the World Bank in 1999. The funds have grown from $145 million in 2000 to over $2.3 billion today. In 2005, the Group of Eight asked the World Bank to develop a plan for more investments in clean energy in the developing world, in cooperation with other international financial institutions. The resulting **Clean Energy Investment Framework** identified the scale of investment needed for countries to access energy, especially in Africa; to help their transition to a lower carbon development path; and to adapt to climate variability and change.

At the request of the Development Committee in 2007, the World Bank Group embarked on a comprehensive strategy to help address climate challenges and launched extensive global consultations. The consultations resulted in a strategic framework on development and climate change that takes a demand-based approach to identifying and tapping new business opportunities for developing countries and helping them cope with new risks. Joint initiatives include: i) the Global Index Insurance Facility to help develop effective and sustainable markets for index-based weather and catastrophic risk insurance to foster sustainable agricultural development; ii) Climate Technology Funds, where the WB acts as trustee and IFC as the implementing agency, to scale up investments in low carbon technology; and iii) efforts to establish a framework for sustainable development of the palm oil industry.

- In the climate finance space, the **Climate Investment Funds** (CIFs), designed to help developing countries pilot low-emissions and climate-resilient development, have successfully pooled different sources of funding to share risk among investors, lowering the overall cost of borrowing for recipients. The World Bank played a key role in putting together the CIFs and serves as trustee, implementing agency, and Secretariat. The CIFs are comprised of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). Beyond the CTF, IFC expects its climate change-related investments will reach at least 20 percent of its annual long-term finance and at least 10 percent of its annual Trade and Supply Chain commitments by FY15.

- The **Adaptation Fund** (AF) was established under the Kyoto Protocol and is financed predominantly by an international revenue source: two percent of Certified Emission Reductions (CERS) issued under the Clean Development Mechanism. The World Bank manages the sale of CERs and also the

Fund itself, and is the trustee. The AF has a governance structure with an overall majority of developing countries, including special seats for country groups that are recognized as particularly vulnerable to climate change. The size of the fund, which will depend on the value and volume of CERs, is expected to be in the range of $300 to 400 million, including CER proceeds as well as funding from other sources.

As an example of how the World Bank Group leverages the private sector to address other global environmental goods, the World Bank is supporting a **Global Partnerships on Oceans** that aims to facilitate business models that value the health of this global public good, and thus can help make ocean conservation a bankable investment for the private sector. An example is the **Alliance for Responsible Fisheries (AllFish)**. AllFish was established in 2009 with a $1.1 million grant from the Development Grant Facility as a PPP between the seafood industry (represented by the International Coalition of Fisheries Associations), the World Bank, GEF and FAO. The partnership is assisting the fishing industry and civil society to strengthen sector governance, particularly by introducing traceability into value chains to help reduce illegal fishing.

3.3. Third Party Investors and Philanthropists - Leveraging Non-traditional Investors

IFC offers a broad range of products and services for bringing in finance from other investors, from the traditional loan syndications to newer structures such as the AMC, special crisis initiatives, and innovative syndications with participation of emerging market banks, official finance institutions, and insurance companies. The examples below feature programs to leverage non-traditional investors such as third party investors and Philanthropists.

Asset Management Company (AMC)—A wholly owned subsidiary of IFC created in 2009, mobilizes and manages third-party commitments in the form of private funds for investment in developing and frontier markets. AMC raises funds from institutional investors who are looking to increase their exposure to emerging markets, and invests alongside IFC, helping IFC achieve one of its core development mandates – mobilizing additional capital resources for investment in productive private enterprise in developing countries – and also enhancing IFC's own development impact by increasing both the size and number of investments IFC can transact. As of end FY11, AMC had approximately $4.1 billion in assets under management, in three funds:

- **IFC Capitalization Fund** (comprised of an Equity Fund and a Subordinated Debt Fund, collectively called the "**Cap Fund**") is a $3 billion investment fund established by IFC and the Japan Bank for International Cooperation in February 2009, focused on making equity investments in, and subordinated loans to, private commercial banks. The Cap Fund aims to support banks considered vital to the financial system of an emerging market country. Since inception, the Cap Fund has committed $1.2 billion in 15 projects.

- The **Africa Capitalization Fund ("AfCap Fund")** invests in equity investments in banking institutions in Africa. The AfCap Fund invests alongside the IFC Cap Fund or, in cases where the investments do not qualify for the IFC Cap Fund, alongside IFC. The target size for the AfCap Fund is up to $200 million and it has currently raised $145.5 million from multilateral and development finance institutions.

- **IFC African, Latin American and Caribbean Fund ("ALAC Fund")** is a $1 billion fund that has commitments from six sovereign and pension investors and IFC. The ALAC Fund was launched in April 2010 and is focused on making equity and equity-related investments in Sub-Saharan Africa, Latin America and the Caribbean. Since inception, the ALAC Fund has committed $339 million in 11 projects of which $141 million, about 42 percent in IDA countries.

Philanthropists—The World Bank Group recognizes that one of the central characteristics of today's global scenario is the growing role of philanthropists as important actors pursuing social, economic, and political change around the world. While foundations give significantly less than traditional donors, their prominence has grown in recent years in step with their rising resources. In response to this trend, IFC has established a central coordination function to convene philanthropists to work on issues of common interest, drive strategic partnerships, and increase investments in private sector development among these actors. Since 2006, IFC has forged more than a dozen strategic knowledge and funding partnerships across the globe, totaling more than $60 million in contributions to Advisory Services.

An example of this sort of cooperation is the partnership between the Bill & Melinda Gates Foundation and IFC to develop an innovative payments system in Bihar, India. This effort, launched in 2010, allows automated government to person (G2P) payments and improves the transparency and accountability of payments made to health workers and beneficiaries. More recently, IFC launched the *Partnership for Financial Inclusion in Africa*, a $40 million partnership with The MasterCard Foundation that leverages CGAP and the World Bank to deliver financial services to 5.3 million unbanked people in Sub-Saharan Africa. A similar relationship between the Gates Foundation and CGAP seeks to support the expansion of micro finance services throughout the developing world.

4. Corporate Integrity and Strategic Value Addition

The World Bank Group engages with client governments and firms to encourage sound governance standards, as well as reputable, ethical and transparent operations. While World Bank is now supporting the development of industry-wide standards, IFC and MIGA work with companies to help maximize their positive impact on societies. This is done through such mechanisms as environmental and social performance standards, and via community engagement, sustainable practices, effective philanthropy, and inclusive business operations. These initiatives are referred to as Corporate Integrity and Strategic Value Addition.

4.1. Corporate Integrity & Governance

The World Bank Group strives to be at the forefront of promoting business integrity and preventing fraud and corruption in their work in order to achieve their goal of promoting a sustainable private sector in developing countries. To this end, the World Bank Group has developed specific risk management procedures for investment and guarantee operations. In addition, IFC also provides guidance to clients and businesses through its advisory product designed to enhance corporate governance performance of companies, and through its focus on instilling integrity in small and medium sized enterprises.

The World Bank Group supports transparency and promotes good governance through a variety of instruments, including the **Extractive Industries Transparency Initiative** (EITI) and the **Construction Sector Transparency Initiative** (CoST). EITI is a global standard that promotes revenue transparency by monitoring and reconciling company payments and government revenues in the extractive industries at the country level. CoST's aim is to enhance the accountability of procuring bodies and construction companies—by disclosing material project information on a selection of construction projects—for the cost and quality of public-sector construction projects.

As part of their risk management, IFC and MIGA each apply their own integrity due diligence frameworks to identify and assess potential risks associated with unethical behaviors or illegal activities, such as corruption, fraud, and money laundering. MIGA and IFC conduct due diligence by examining a project's structure, assessing their client or partner's reputation, and looking into any concessions and government licensing related to the project. IFC also applies a corporate governance assessment or review, depending on the risk profile of a project. The methodology used by IFC in such due diligence is now a common corporate governance framework among development finance institutions around the world. Both agencies conduct heightened due diligence for all investment transactions involving an intermediate jurisdiction, to satisfy themselves that the structure of the transaction is not designed to be used for tax evasion, tax abuse, or other illegitimate purposes.

4.2. Strategic Value Addition

Across the globe, companies are increasingly aware that community engagement (often referred to as corporate social responsibility) and sustainable use of resources are essential for long-term profitability and shareholder value. Consumers and investors see value in companies that adopt and implement environmental, social and governance practices, and use these to create a competitive edge. Over the long run, these companies are well poised to maintain a competitive advantage, generate cost savings, and keep a good brand reputation. IFC's interventions in this area include advisory services relating to strategic community investments; farmer and SME training; environmental, social and trade standards, and resource efficiency and clean energy.

- The **Strategic Community Investment** program advises companies on strategy, capacity building of stakeholders and dissemination of knowledge on good practices on community engagement. This advice is delivered alongside IFC's investments in the extractive, infrastructure, agribusiness and forestry sectors, primarily in Africa, Latin America and Asia. IFC Advisory Services in strategic community investment complements World Bank work in community-driven development and social accountability, demonstrating private sector leadership and innovation in achieving development outcomes for the poor.

- Through **Environmental, Social, and Trade Standards** advisory services, IFC aims to reduce supply chain risks and increase market access of firms in selected sectors and agricultural commodities by helping them set, adopt and deploy internationally recognized environmental, social and trade standards. This work focuses on biodiversity-rich areas such as Indonesia, Equatorial Africa and the Amazon region.

- IFC Advisory Services on **Resource Efficiency and Clean Energy** demonstrates how measurable reductions in GHG emissions complement reduction in company operating costs related to energy and water consumption as well as promote better management of non-financial risks (e.g., blackouts). Both resource efficiency and clean energy operations are linked to the World Bank's engagements with governments on regulation for renewables and green growth policies.

4.3. Performance Standards and the Framework for Sustainability

One of the ways in which the World Bank Group adds value when the private sector is engaging in developing countries is by helping to establish high-level standards, and ensuring that these are met whenever the World Bank Group is involved. A key value added by the World Bank's Partial Risk Guarantees is that the private sector projects supported by these credit enhancements observe the World Bank's social and environmental safeguard policies. Likewise, IFC and MIGA share "Performance Standards" that help clients manage and improve social and environmental performance through an outcomes-based approach appropriate to the nature and scale of the project and commensurate with the level of social and environmental risks (likelihood of harm) and impacts. Central to these requirements is a consistent approach to avoid adverse impacts on workers, communities. IFC and MIGA have deliberately harmonized their standards in these areas so that there is no "gap" between the two institutions, which has the additional advantage of simplifying procedures for clients when IFC and MIGA are both involved in a project.

Updates to the Performance Standards (Standards) effective in 2012 include new measures to enhance energy and water efficiency and target greenhouse-gas reduction, and also address human trafficking, forced evictions, and communities' access to cultural heritage, among other issues.
In the five years since the Framework was adopted, the Standards have become a global benchmark for environmental and social performance used by a wide range of financial institutions and, increasingly, as a reference point for governments in their policy guidance. They are now considered to be a leading benchmark for environmental and social risk management for private sector investors, and are often essential pre-requisites for companies to raise funds, particularly from international markets.

Equator Principles (IFC)— The Equator Principles are a voluntary credit risk management framework for determining, assessing and managing environmental and social risk in project finance. The principles are adopted voluntarily by financial institutions and are applied where total project capital costs exceed $10 million. Developed by private sector banks and based on IFC's Performance Standards, they are now used by 71 financial institutions worldwide.

4.4. Anti Money Laundering (AML) and the Stolen Asset Recovery (StAR) Initiative.

Although corruption has long been seen as a public sector responsibility, the private sector is both a source and a victim of corruption. Corruption undermines fair competition in terms of access to markets, regulation, and procurement opportunities. Moreover, financial crime is a major legal risk for financial institutions. The World Bank's financial market integrity service line aims to add a financial sector component to the fight against corruption. It is focused on ensuring transparency on the financial flows moving through a country's financial system. On a policy level, StAR has been pushing the international agenda on corporate transparency—highlighting the problem posed by opaque legal structures that are the hallmark of large scale corruption and promoting availability of information on those who own and control corporate bodies. These arrangements benefit other private sector development challenges such as company formation rules and institutions, prudential requirements, and the tax agenda.

Through its work with supervisory authorities, the World Bank is helping countries put in place systems to ensure its financial sector conducts proper customer due diligence. This ensures the availability of information on the background of a customer, on the source of his or her funds, on the identity of the person(s) who are actually controlling the customer. Through its various tools (assessments, policy work, technical assistance), the World Bank is building capacity in the public and private sectors to allow them to contribute to the prevention, detection and prosecution of corruption and other serious crimes. Given the range of criminal activities that have a serious negative impact on development, the World Bank is endeavoring to bring together different facets of this agenda – such as tax crime and AML, use of "follow the money" tools to tackle illegal logging and other environmental crimes.

5. Managing Risk & Preparing for Crises

Addressing risk is at the core of all financial transactions. The World Bank Group has developed a number of risk management instruments to assist governments and private sector institutions to better manage their future risks. Included among these are: (i) risk transfer products and catastrophe risk financing solutions, (ii) modernization of meteorological services, and (iii) commodity hedging. In addition, IFC is currently developing a Global Agriculture Price Risk Management Facility. Increasingly, the World Bank Group institutions are working together and employing complementary products in order to better manage risks and leverage private participation.

Recent examples of World Bank Group joint Operations include an IDA-IFC Kribi Gas to Power project in Cameroon approved by the Board in November 11 which bundled an IDA local-currency PRG for $82 million with an IFC A loan for $86 million; and the IDA-IFC-MIGA package of support for power generation projects in Kenya recently approved by the Board that would include four IDA PRGs, 2 MIGA Guarantees and 2 A Loans from IFC. Table 1 summarizes the complementarity among the World Bank Group institution's guarantee instruments.

Table 1: Complementarity Among World Bank Group Guarantee Instruments

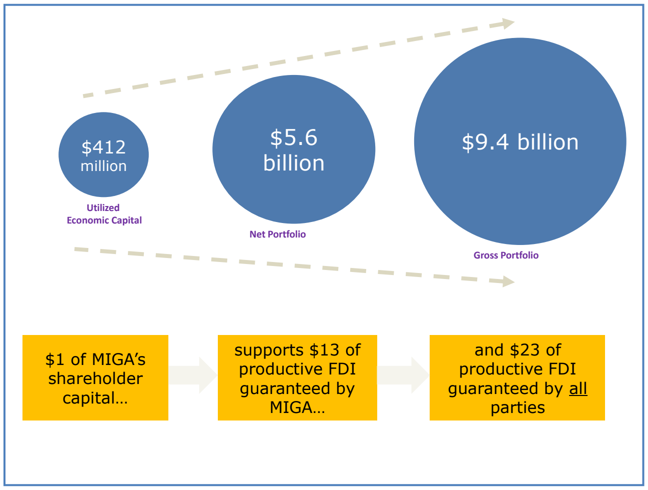
	World Bank	MIGA	IFC
Risk Coverage	Govt./Parastatal Obligations (PRG) & Govt./Parastatal Credit Risk (PBG/PCG)	Political (or Non-commercial) Risk	Credit Risk
Type of Eligible Investment for cover	Debt (International or Domestic) & Letters of Credit	Equity & Debt (Foreign only)	Debt (International or Domestic)
Pricing	Uniformly priced, risk managed through size of Lending Programs	Market-based	Market-based
Sovereign Guarantee	Yes	No	No
Eligibility Criteria	Priority projects for the Government	Any Foreign Direct Investment	Private enterprises and creditworthy sub-nationals
Clients	Host Government	Private Sector	Private Sector

5.1. Political Risk and Leverage from World Bank Guarantees and Insurance

The World Bank Group helps address political risk for investors through the political risk insurance of MIGA and the Partial Risk Guarantees (PRGs) of the World Bank. PRGs support private sector projects by covering debt service default caused by government non-performance of its contractual obligations to a specific investment project while MIGA's political risk insurance covers currency inconvertibility and transfer restriction, war and civil disturbance, expropriation, Breach of Contract, and non-honoring of sovereign financial obligations. Across the history of PRGs, $3 billion have leveraged $27 billion in project finance. This fiscal year, the World Bank expects to issue 7 Partial Risk Guarantees.

MIGA's book of guarantees is underwritten by approximately $1 billion of the Agency's operating capital. This capital is very effectively leveraged: currently, approximately $412 million of the available operating capital is being used to support MIGA's net outstanding portfolio of approximately $5.6 billion. This means that every $1 of shareholders' capital is being leveraged to support close to $14 of guaranteed FDI into developing countries on MIGA's books. When this figure is adjusted to account for the full amount of coverage that MIGA provides, including that which the Agency reinsures with other PRI providers, the total amount of FDI supported by every $1 of MIGA's capital increases to $23.

Diagram 4: Leveraging Capital – MIGA



Below are two innovative approaches that MIGA is using to further leverage the private sector and manage risk:

- **Short-Term Guarantee for Investment Feasibility**—MIGA has helped a prospective investor address project uncertainty by providing short-term coverage for a project feasibility study. In FY11, MIGA issued a three-year guarantee of $207 million to a mining company's initial equity investment in the Indonesian Weda Bay Nickel Project. This covers the engineering and feasibility studies necessary to conclude a bankable proposal for the operation of a nickel-cobalt mine and processing plant on Halmahera Island. The deposit would allow Indonesia to become one of the world's major nickel producers.

- **Guarantee for Capital Market Transactions—**A recent and innovative use of a risk management instrument is a $99 million guarantee that MIGA issued in 2011 supporting a US dollar cross-currency swap arrangement between Standard Bank Plc (SB) and the government of Senegal. The guarantee provides coverage against a failure by the government to honor its obligation to make requisite payments under the swap. The proceeds of the Eurobond will be used to finance new infrastructure projects as well as to redeem a $200 million bond.

5.2. Disaster Risk Financing and Insurance

The World Bank's newly established Disaster Risk Financing and Insurance (DRFI) program builds on several global trends, including increased severity and/or frequency of weather-related natural disasters in the context of climate change; and growing concentration of assets and population at risk, particularly in developing countries. The DRFI program aims to help developing countries increase their financial resilience against natural disasters through innovative financial solutions that leverage the private reinsurance and capital markets. Disaster risk financing and insurance solutions require expertise in disaster risk management, financial and private sectors, and public finance. To address those multi-disciplinary challenges, the DRFI program is a joint effort between various departments within the World Bank. The DRFI program has four major product lines:

- **Sovereign disaster risk financing.** National disaster risk financing and insurance strategies are designed, to provide the governments with immediate access to liquidity post-disaster. For example, the Caribbean Catastrophe Risk Insurance Facility (CCRIF), established with the help of the World Bank, leverages the private reinsurance market to offer the 15 Caribbean islands catastrophe (parametric) risk insurance.

- **Property catastrophe risk insurance.** The World Bank recently contributed to the establishment of the Southeast Europe and Caucasus Regional Catastrophe Risk Insurance Facility, which offers affordable private insurance products to households and small and medium enterprises.

- **Agricultural insurance.** Agricultural insurance can contribute to increasing access to rural finance and is required to ensure a more viable agriculture credit business. The Work Bank is assisting the Government of India in moving the National Agricultural Insurance Scheme, the world's largest crop insurance program, towards an actuarially sound insurance program, making it attractive for domestic insurers to underwrite and international reinsurers to offer reinsurance.

- **Natural and weather-related disaster microinsurance**. Microinsurance instruments improve access for low-income populations to coverage that protects their livelihoods against natural and weather-related disasters. Following successful rollout in countries as diverse as India and Malawi, the World Bank is further developing this Disaster Risk Financing and Insurance product line under its Microinsurance Development Program.

6. Conclusions and Questions for Development Committee's Consideration:

The environment in which the World Bank Group functions has evolved in recent years, and the institution is changing as a result. The private sector is now accepted as a critical driver of–and partner with governments in–economic development. Private capital flows dominate available resources, and trade represents an increasing share of economic activity. Moreover, there is a growing consensus among development institutions and client countries that one of many critical functions of government is to provide a healthy environment for investment and business activity. This environment is needed to assure growth, job creation, service delivery and poverty alleviation. In this context, the World Bank Group has strengthened its efforts to extend the reach of the private sector into frontier regions—to fragile states and conflict-affected situations, to isolated communities, to women entrepreneurs, to the most vulnerable populations.

Along with the rise of the private sector as an engine of development comes an evolving role for the public sector. To unlock the kinetic energy of the private sector while addressing inequity and correcting for market failures, governments must function as policy-makers and rule setters; protectors of competition, consumer rights and environmental public goods; arbiters and regulators of monopoly behavior. That is, the rise of the private sector means more nuanced and sophisticated responsibilities for the public sector.

Mirroring the rise of the private sector in development is the rise of developing economies in global private sector activity. When global leaders speak of the world's new multi-polarity, it is not simply a reflex to changing political alignments, international agreements and population trends. It is recognition that the developing world has driven global growth in recent years and is playing an increasingly important role in global trade, capital formation, and direct investment. Facilitating and encouraging South-South learning grows in importance in this context.

The growing focus on the private sector across the World Bank Group, in tandem with the application of new and innovative financing and advisory instruments, is a result of this dual trend: more private sector in development, and more development in the private sector. The response of the World Bank Group includes:

- Growing commitments in World Bank lending and World Bank Group technical assistance to Governments specifically aimed at improving the enabling environment for private sector activity.

- Growing commitments of direct investment in the private sector through higher volumes of IFC financing and MIGA issuances.

- A plethora of new products and innovative approaches aimed at
  - Leveraging the private sector for robust and sustained levels of economic growth.
  - Helping private sector resources, services and opportunities reach the poor and vulnerable.
  - Facilitating business models that value global public goods such as environmental sustainability.
  - Requiring corporate integrity and promote strategic value addition.
  - Mobilizing private sector resources and tools to manage crises and risk.

The sum total of World Bank Group resources on its own is not enough to finance development, be it applied directly through the private sector or indirectly through governments. It is the knowledge derived from the experience with these products as well as the leverage that can be brought to bear on their implementation that will make a difference at the level of countries, regions and markets. Achieving the greater goals of sustainable growth and widespread alleviation of poverty will require greater collaboration, leverage and a rededication to the role of the private sector in supporting the underlying pillars of development, such as growth, poverty alleviation, sustainability and social inclusion.

Looking Forward

Economic progress demands a competitive and dynamic private sector. An environment that encourages learning, adopting and refining business processes and technologies—as well as the entry and exit of firms—lies at the heart of this dynamism. In response to global trends in financial flows, trade and investment, the World Bank Group has been growing its support to the environment that fosters innovation within the private sectors of developing economies. A number of the innovations that the World Bank Group is applying in its work with the private sector are likely to increase in importance over the next several years. As laid out in the Modernization Paper, the strategies for enabling the private sector will continue to evolve as World Bank Group synergies are explored and deepened, Looking forward, a sample of the approaches that the Bank Group will strengthen to grow support for the private sector include the following:

- During the last crisis there were almost no **Public-Private Partnerships (PPPs)** commitments into low income countries. Where there were commitments, they were concentrated by country and by sector—reflecting the risk aversion of investors at that time. The World Bank Group's Infrastructure Strategy is a call to encourage investment in infrastructure services through more private financing and support for infrastructure projects, particularly in low income countries. This will take the form of supporting improvements to regulatory frameworks, sector market structures, enabling environments for investment, as well as direct financing of public and private contributions to PPPs. The Strategy specifically calls for increasing joint World Bank-IFC-MIGA collaboration, and raising the volume of PPP financing. In parallel, the Bank Group is increasing its support to PPPs for the provision of health and other social services.

- The World Development Report 2011, "Conflict, Security and Development" shows that more work is needed on removing the bottlenecks to vigorous private sector investment in **Fragile and Conflict Situations (FCS),** as well as supporting "best fit" approaches for job creation. The Bank Group is implementing a cross-institutional approach to employment in FCS, developing a continuum of interventions to support jobs and livelihoods that focuses on "quick-win" public and community-based employment, infrastructure investments to open up new markets, and concomitant Bank and IFC investments as well as MIGA facilities to nurture a private sector response. The Bank Group will also develop fragility-sensitive operations to facilitate private sector-led employment. The Bank Group will advance cross-institutional research on private sector development in FCS, and will support potential new Bank Group instruments to operationalize this body of knowledge.

- The Bank Group will continue to encourage **Financial Inclusion** through a range of investment, advisory, Treasury activities, and partnerships including support for the G-20 Global Partnership for Financial Inclusion. This is in response to the recognition that the private sector is increasingly offering goods, services, and livelihoods to the Base of the Pyramid—and buying back from them in return. Programs which link poor people in commercially sustainable ways to the private sector have shown considerable promise. The IFC and World Bank will expand their focus on this agenda as part of scalable and sustainable models for social inclusion.

- **Corporate Integrity and Strategic Value Addition** activities will be strengthened as work with the private sector expands. For example, IFC and the World Bank will continue to build on the corporate governance agenda with other IFIs. The Bank Group anticipates a significant increase in corporate governance activities to support investees, broaden impact, and strengthen leadership. Work is also underway to build on leadership in sustainability, particularly by strengthening the capacity of clients through investment and advisory collaboration.

- An increased focus on **results and measurement**, to demonstrate impact and to focus activities on the most successful approaches, will be central to the World Bank Group private sector efforts. For example, IFC aims to develop a robust development results framework incorporating outcome tracking, development goals, and evaluation results into one interlinked system. Similarly, the World Bank's results framework for finance and private sector activities is being strengthened to leverage existing best practices to determine what works and what does not.

While there is existing commitment to build on the above themes, the Bank Group's partnerships will be critical to expanding impact of these interventions over time. Innovative sources of funds for both investments and advisory services are expected to grow in importance for the Group (as described for instance in the recent IFC Road Map), including via the Asset Management Company (AMC), foundations, new syndication structures, and new donor programs. Partnerships within the World Bank Group and with other development institutions will increase, such as the G20 SME and food security initiatives and the Deauville Partnership process, as will partnerships with private banks, and local and regional entities.

Questions for the Development Committee

The challenges described above raise crucial questions for the consideration of the Development Committee:

- How can development assistance be used more effectively to mobilize private finance, and how can the different parts of the World Bank Group help clients—MICs, LICs and fragile states—overcome the barriers to private sector growth?

- What are the appropriate instruments and incentives that will effectively catalyze private sector activity, mobilize private finance, and strengthen inclusion in the private sector growth agenda?

- How can the World Bank Group use its various instruments in a complementary manner to strengthen productive value chains in client countries, further unleash SMEs for jobs and growth, and better support the South-South exchange of knowledge, technology and investment?