Mobilizing Savings and Facilitating Investment in Developing Countries

The Development Challenges

Financial markets facilitate economic growth by mobilizing capital, allocating capital to the best investments, and providing liquidity. Markets also play an important role in providing retail investors access and means to savings. More than half of the population in developing countries does not have a bank account, compared to just 10 percent in rich countries. Even among those who do have a formal bank account, only 43 percent use their accounts to save. Financial services such as investment funds can help people fund education, save for a home, or start a small business.¹

Investment funds mobilize savings, facilitate investment, and help increase the strength and diversity of developing financial markets in the countries and regions where they operate.

- The mutual fund industry, for instance, manages approximately US$25 trillion² in assets worldwide. These funds mobilize savings by issuing shares in their funds and using the proceeds to buy financial assets and real estate, thus helping transfer savings into investments. Mutual funds also offer an opportunity for retail investors to save and diversify their investments in a cost-effective manner.

- The private equity industry managed close to US$2.4 trillion in assets at the end of 2010.³ When targeted to invest in start-ups and small and medium enterprises (SMEs), venture capital and private equity funds fulfill another important financial intermediation role. The funds meticulously mentor and monitor companies they have invested in. This allows the companies to become more creditworthy, and banks are more inclined to invest in them.

- The sovereign wealth fund industry holds approximately US$5 trillion in assets. These public investment agencies fulfill an important macroeconomic role for a country by investing surplus income for intergenerational wealth, fiscal stability, and other economic development.

Major infrastructure gaps exist in the world. Recent research highlighted in the WBG Infrastructure Strategy Update shows that Africa needs 7,000 megawatts (MW) of new power generation each year, but has been installing only 1,000 MW in recent years. The public sector is central to the delivery of infrastructure services. Yet, in many countries, private investment funds finance infrastructure with public guarantees, playing an important role in reducing the worldwide infrastructure gap.⁴

However, challenges exist to the growth and operation of investment funds in developing countries. Investment funds, for instance, are deterred by lack of information on nascent markets, by hurdles in the legal and regulatory environment of the countries where they operate, and by the lack of opportunities to profit while exiting the investment. Each of these challenges can deter funds from investing and operating in developing countries.

Highlights

- Investment funds mobilize savings, facilitate investment, and increase the strength and diversity of developing financial markets in the countries and regions where they operate.

- The Investment Funds Group within Capital Markets Practice is a joint group between the Non-Bank Financial Institutions Service Line and the Capital Markets and Corporate Governance Service Line. It focuses on design and implementation of policies and programs that support four types of investment funds:
  - Mutual funds
  - Private equity funds
  - Infrastructure finance funds
  - Sovereign wealth funds
The World Bank’s Response

The Investment Funds Group within Capital Markets Practice is a joint group between the Non-Bank Financial Institutions Service Line and the Capital Markets and Corporate Governance Service line. It focuses primarily on design and implementation of policies and programs that support development of investment funds.

**Mutual funds** mobilize domestic and international savings and invest in a broad range of traceable securities. These securities include equities issued by listed corporations, government bonds, sub-sovereign bonds, and corporate bonds. **With the International Organization of Securities Commission Secretariat**, the group is studying the development impediments to the mutual fund industry in developing countries. This study will help design policy to support mutual funds based on case studies across emerging markets and developing countries.

**Private equity funds** mobilize domestic and international savings and invest in equities of non-listed corporations. These corporations include SMEs from start-ups through growth companies to pre-initial public offerings and sales to strategic investors or for management buyouts. **The Investment Funds Group is currently developing a feasibility study to assess the potential business model for a private equity fund combined with a technical assistance facility in East Africa targeting early stage SMEs with high growth potential.** This joint private equity and technical assistance (PE/TA) fund will be set up in partnership with an investment funds manager, and in collaboration with Africa’s Financial and Private Sector Development (FPD) group. The group is also identifying similar opportunities for joint PE/TA funds in the Latin America and Caribbean (LAC) region.

**Infrastructure finance funds** mobilize domestic and international savings and invest in equity and debt of infrastructure projects, in particular public private partnerships. **The Investment Funds Group is studying the role of institutional investors in infrastructure finance in collaboration with the Sustainable Development Network.** The group is in the early stages of developing public–private partnership finance funds in different regions. The Investment Funds Group also works in close partnership with FPD Global Practices and Regional Departments, SDN Anchor and Regional Departments, World Bank Treasury, and IFC to support the design and implementation of sub-sovereign finance funds across Regions through a combination of analytical work, advisory services, and lending and guarantee operations.

**Sovereign wealth funds** are state-owned funds that invest in diverse financial asset classes to maximize long-term return. **The Investment Funds Group is developing a World Bank Group value chain to support the establishment and/ or development of sovereign wealth funds in developing countries.** The group is also establishing a World Bank corporate secretariat for sovereign wealth funds.

**Notes**

2 Investment Company Institute
3 The CityUK, Private Equity 2011 report
4 World Bank Group Infrastructure Strategy Update, FY2012-2015

**How to Follow Up**

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