



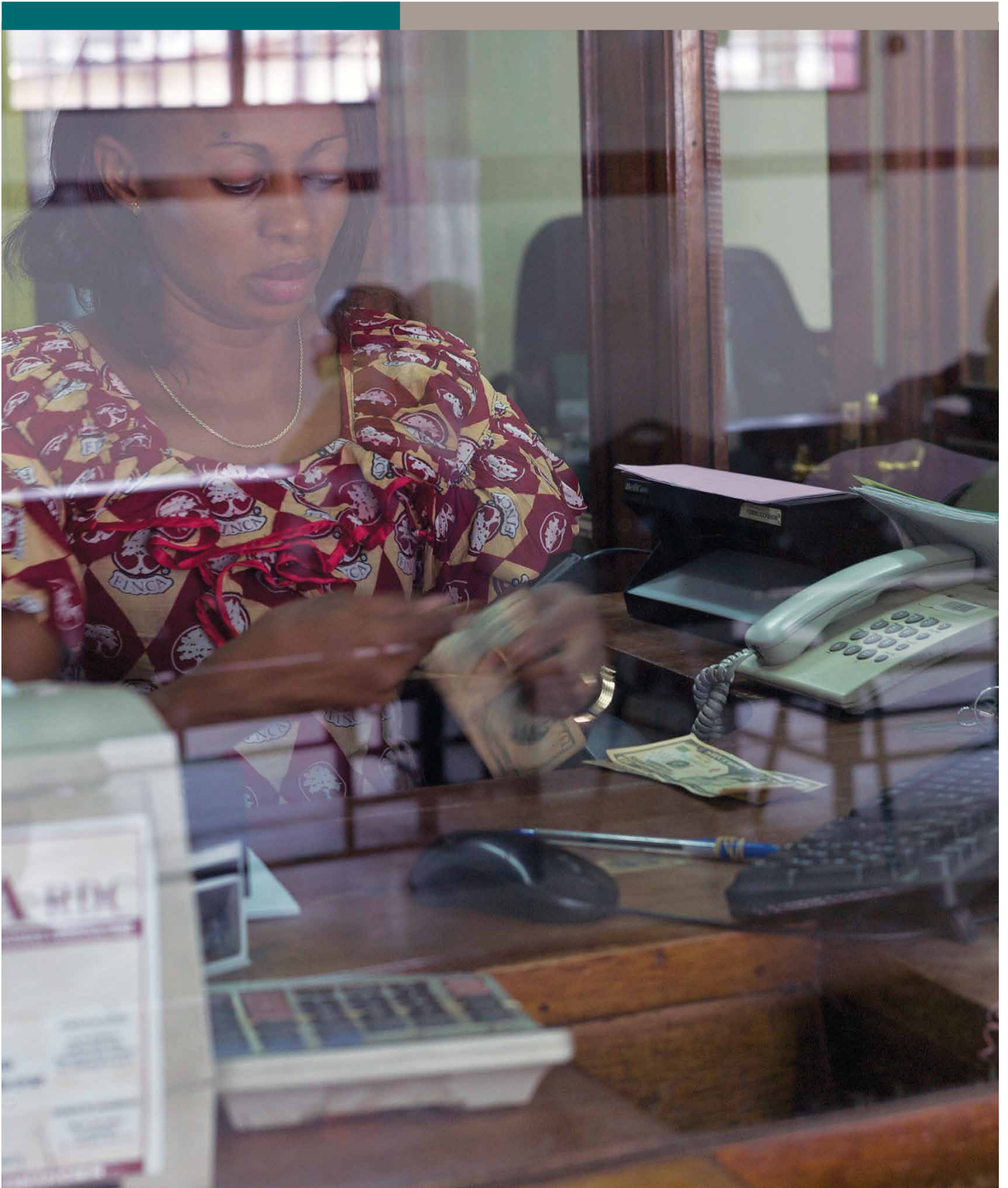
Transforming African Development

Partnerships and Risk Mitigation to Mobilize
Private Investment on a New Scale

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Foreword

The challenge is bold: ending poverty, confronting climate change, ensuring prosperity for all. Facing that task will take trillions in investment, the ingenuity of a generation, and sustained economic growth. None of it will be possible without thriving private enterprise and markets.

The role of the private sector is particularly significant in Africa—the focus of this report. Africa’s population is expected to increase to 1.7 billion in 2030. By 2050, the continent will be home to 2.4 billion people—a quarter of the world’s future population. A growing and rapidly urbanizing Africa requires substantially more services and basic infrastructure, including power, ports, roads, and railways. According to the World Bank Group, Africa’s unmet infrastructure investment needs are estimated at more than \$45 billion annually.

Only a robust private sector can create the jobs and deliver higher standards of living to an increasingly young African population.

Yet obstacles abound. In the poorest and most conflict-prone countries, private markets barely exist, slowing development. These markets must be built up and energized, work that will require new types of financial instruments that can attract private investment and mitigate risks for investors.

This report offers a template for how we can move forward—by showing how investors, governments, local enterprises, donors, and individuals are working together to address investors’ risk concerns and deliver more investment with positive impact.

Consider just one example. The World Bank Group’s Scaling Solar program helps develop large-scale solar power plants



across Sub-Saharan Africa through simplified government processes and low pricing. It allows governments to procure privately funded solar power stations—quickly, transparently, and at the lowest tariffs possible. Private developers, for their part, benefit from an all-in-one package of advice, risk management, finance and insurance.

So far, three countries are on board—Madagascar, Senegal and Zambia—and dozens of top-tier companies are competing for the chance to build solar plants in markets they would otherwise not know how to navigate. The program’s first auction, in Zambia, resulted this year in the lowest-priced solar power to date in Africa, just six cents per kilowatt hour. In a country where only one fifth of the population has access to electricity, consumers will now have a new source of affordable, renewable energy.

IFC has a track record of fostering and sustaining private enterprise in the most difficult environments. I hope this report will encourage governments, donor partners, and the private sector to collaborate in new ways.

Working together, we can accomplish a great deal more.

Philippe Le Houérou

IFC Executive Vice President and CEO

August 2016

Executive Summary

In 2015, countries across the globe signed on to the Sustainable Development Goals of ending poverty, protecting the planet, and ensuring shared prosperity through a new sustainable development agenda. To meet these goals in Africa, investment is sorely needed in basic infrastructure, agriculture and rural development, climate change mitigation and adaptation, health, and education.

Private investments can in many instances take place alongside public and donor investments. Further funding from international financial institutions, especially those that focus exclusively on the private sector, can be used to unlock additional capital through blended or pooled financing and risk mitigation, especially for infrastructure and other investments that support private sector development. Donors and private investors increasingly recognize the benefits of working together.

The timing is right: Africa holds enormous potential for private investors. A continent in transition, it is among the world's fastest growing regions, with a young and growing population in rapidly expanding cities, an improving business environment, expanding Internet connectivity, rising incomes, and shifting consumption patterns. Despite recent economic and political challenges, these enduring trends have created an abundance of commercial opportunities across the continent, transforming it into a market and opportunity that investors cannot afford to ignore.

Even before the recent global economic turmoil began, investor activity on the continent was constrained by structural obstacles, a lack of risk mitigation mechanisms, and few financing options, all of which inhibit the effective distribution and mitigation of risk associated with large-scale or long-term projects.

OPPORTUNITIES IN RAPIDLY CHANGING MARKETS

The African continent is susceptible to the short-term economic headwinds that most economies now face, and changing conditions are causing some opportunities to fade. Trade and growth in the region are impacted by the effects of a slowdown in China, while a significant drop in commodity prices and a depreciation of local currencies are creating challenges for companies and governments alike. As a net commodity exporter, many African countries are deeply affected by falling commodity prices, putting pressure on current account and fiscal balances. While most African economies continue to grow, the impact of such global economic trends is raising the cost of doing business in Africa, hampering productivity and growth.

And though near-term regional growth prospects have been revised downward, there are still convincing reasons to invest in Africa, including the existence of a wide range of partners to help overcome the financing challenges that come with working in the region. Notable trends include:

- *In Sub-Saharan Africa, growth slowed to 3.0 percent in 2015, from 4.5 percent in 2014. Although growth is expected to slow further to 2.5 percent in 2016 due to depressed commodity prices, it is forecasted to rise to an average of 4.1 percent in 2017-2018. This indicates an improvement in some of the region's largest economies, including Angola, South Africa, and Nigeria.*
- *In North Africa, average growth rates in Egypt, Morocco, and Tunisia are also expected to slow in 2016 to 2.4 percent, from 2.9 percent in 2015. However growth in both Tunisia and Egypt, the region's largest economies, is expected to pick up in 2017.*

- *Compared to other developing countries, projected per-capita growth rates are higher for African countries, including Ethiopia (6.0 percent), Rwanda (4.6 percent), Cote d'Ivoire (4.6 percent), and Tanzania (3.6 percent), among others (2010-2020 average growth rate).*
- *Driven by a young population and rapid urbanization, household consumption is expected to continue to grow in important sectors including clothing, communications, energy, financial services, food, health, housing, and transport. In North Africa, spending on education will be particularly critical and is projected to grow.*
- *Sub-Saharan Africa alone could productively make use of more than \$90 billion annually in infrastructure investment but currently receives less than half that amount. The capital shortage going forward is projected to be particularly acute in Nigeria, Angola, and Kenya, while investments in energy, transportation, and logistics offer the most potential for both impact and reward.*
- *Regional spending to adapt to climate change is expected to be between \$5-10 billion per year from public and private sources. Rising temperatures and water supply issues, among other environmental issues, are creating investment opportunities for scaling up low-carbon energy sources and managing water more efficiently.*

So while positive structural trends endure across Africa, they are offset to varying degrees, and differing by country and region, by recent cyclical and global economic developments. In suddenly more challenging, less liquid markets, the question, then, for donors, development finance institutions, and private sector participants looking to contribute to sustainable growth and development is: *what methods can be employed to raise capital and mitigate risks to enable development through the private sector?*

MOBILIZING PRIVATE AND PUBLIC FINANCING SOLUTIONS

Companies looking to seize still significant opportunities in Africa can benefit from additional sources of financing, as well as tools that crowd in more private sector participants and mitigate risk, spreading it among different investor classes and over longer time frames. Tools such as blended finance, co-

financing, climate finance, local debt and equity instruments, private equity, and public-private partnerships are being deployed in Africa in new ways that address risks associated with low-income and fragile states. Public funding or support for advisory services aimed at improving the conditions for private enterprise or the development impact of investments can be deployed alongside commercial financing to hasten growth and encourage shared prosperity. These tools provide innovative paths to securing financing on a scale that can match the scope of business opportunities and help manage risks – both new and old – in high-growth African markets.

Methods exist to underwrite successful investments in Africa. In a riskier environment going forward, they are sure to become more important.

- **Public-Private Partnerships** are a strategy for projects with the right regulatory framework, sector planning and a high quality off-taker of services and goods to provide the comfort level private investors require to participate. Development institutions often play a critical role in bringing the private and public sectors together to provide those elements.
- **Co-financing** between private investors and development finance institutions draws on the strength of both to build confidence and spread risk beyond private sponsors and private commercial banks.
- **Blended Finance** mixes concessional funds—typically from donor partners—with those of commercial development institutions and private investors in a risk-sharing arrangement, with aligned incentives that ensure that official assistance is leveraged as much as possible with private capital.
- **Climate Finance** brings together public and private sources of financing to support climate-smart investments in emerging markets, using a number of channels, including blended finance, support to local financial institutions, specialist bond issues, and asset management.
- **Local Capital Markets and Tailored Solutions** offer effective ways to access long-term, local-currency finance and protect economies from capital-flow volatility, and

reduce their dependency on foreign debt. Local debt and equity markets can be better leveraged by local corporations when large banks or development finance institutions provide risk guarantees or act as anchor investors, expanding access to additional funding instruments as well as new classes of investors. Other currency risks and market volatility can be addressed through tailored solutions and instruments.

- **Private equity**, through the assistance of anchor investors, can support the development of large and specialized funds that are able to invest in a wide variety of enterprises, including small and medium size businesses. Meanwhile, development finance institutions can help global institutional investors take equity in African companies, including through asset management.

CASE STUDIES

Successful examples of recently financed private sector projects with support from multilaterals, governments, and donors come from across the African Region.

CEC Africa Power: The World Bank Group combined its financial and advisory products into a package for Sierra Leone, which is still recovering from a decade-long civil war and a recent Ebola outbreak. The result is a \$134 million power generation facility, launched in 2016 in an industrial zone about four kilometers east of Freetown, for development, construction, and operation of a 57 megawatt heavy oil fuel fired power plant sponsored by CEC Africa Investments.

Azura-Edo Power Project: The World Bank Group worked with more than a dozen financial institutions, including commercial banks and development finance institutions, to support Azura, a greenfield gas-fired power plant that will provide electricity to an estimated 14 million people in Nigeria. Azura is Nigeria's first privately-financed independent power project and draws from the country's reserves of natural gas, a clean-burning transition fuel, to address critical electricity needs and move toward a less carbon-intensive economy.



Azito 3: Nine development finance institutions teamed up to provide the \$345 million in long-term finance and effect the regulatory reforms necessary to break ground on a 139 megawatt power plant expansion in Cote d'Ivoire.

ENDA Inter Arabe: Tunisia's leading microfinance institution ENDA contributes to developing the local economy and fighting poverty by enabling people excluded from the formal financial system to get services suited to their needs. IFC has been supporting ENDA through a comprehensive capacity building program that includes risk management and product strategy and transformation.

Bridge International Academies: An education company teamed with IFC and other development banks and new investors to expand its low-cost private school chain out of Kenya into three additional countries, at a cost of \$60 million. The partnership provided both regulatory assistance and seed investment.

Africa Improved Food Holdings: In a project that addresses chronic malnutrition, DSM, a Dutch multinational, established a nutritious food processing plant in Rwanda requiring \$60 million in initial investment. This is a project of ambitious scale and risk that needed to be mitigated by reputable sponsors and responsive governments. It required strong purchase, supply and off-taker arrangements for raw materials and final products.

Scaling Solar: Scaling Solar draws on the World Bank Group's expertise to deploy privately funded, grid-connected solar projects to deliver power at stable, competitive tariffs and rapid timelines, while investors enjoy structured and standardized projects in a competitive process that lowers risk, costs, and consumer tariffs. Zambia became the first country to join the program and its first auction resulted in bids for the lowest priced solar power ever in the region. Building on South Africa's program to encourage renewable energy projects, KaXu Solar One was the first large-scale concentrated solar power plant with storage to begin operating in any emerging market.



Cargill/SIB and Cameroon Agriculture: An agribusiness giant Cargill and an Ivorian bank SIB partnered with IFC to provide financing, via a \$6 million risk sharing facility, to cocoa farmers looking for funding methods to purchase better vehicles to transport product from farms to coops. Similarly, in Cameroon, a joint World Bank-IFC Program helped Banque Internationale du Cameroun pour l'Épargne et le Crédit participate in an \$8.3 million risk sharing facility to help two sorghum producer organizations purchase plants to process sorghum for Guinness Cameroon.

Ecobank Transnational: The pan-African bank extended lending to small businesses in eight African countries with particularly difficult economic environments in terms of fragility and low income levels. The project relied on a \$110 million risk sharing facility between Ecobank and two development banks, including IFC.

Rawbank: Founded in 2002, Rawbank was an innovator in a stagnant market. Embracing technology and the business acumen of a family with business presence in the country since 1922, it recently surpassed competitors to become the largest bank in the Democratic Republic of Congo. Donors were key to IFC's effort to combine \$22 million in lending with advisory services to help Rawbank expand lending.

Kenya Tea Development Agency: In 2016 IFC and KTDA, with the support of a major donor, launched a new 420 million Kenyan shilling (about \$4.2 million) initiative to improve productivity and business skills of smallholder tea farmers and strengthen KTDA's biomass fuel supply chain over the next four years. This follows multiple rounds of financing to help the cooperative grow.

Al Tadamun Microfinance Foundation: With support of IFC donor-funded advice, Al Tadamun was able to expand its loans exclusively to urban women entrepreneurs through solidarity group lending. It serves a microenterprise segment (low-income women) that is normally excluded from formal financial services due to gender and low incomes.

Bayport Financial Services: Zambia's largest microfinance lender is a beneficiary of the type of newly functioning securities markets that donors seek to create and support. It was able to issue its first medium-term note raising 172 million kwacha, or about \$26.5 million, to expand lending to low and middle-income borrowers and small businesses. Development finance institutions assisted by providing anchor investments on the issue.

GLS Liberia and SME Ventures: A locally-owned logistics company stepped into a void during the Ebola crisis and became a critical player in the country's defense against the disease. GLS had a fleet and distribution network ready to move shipments from the airport to sites across the country, alleviating the impact of the crisis. It was supported by locally-managed risk capital with funds from SME Ventures, an IFC program designed to address some of the key financial and business challenges that hold back high-potential SMEs in the world's most difficult markets.

Tanzania Interoperability Standards: Tanzania became the first country to successfully develop and implement standard business rules for interoperable mobile financial services transactions. It allows electronic money transactions across subscribers of different mobile telecom operators. The process was facilitated by IFC and supported by the Bill & Melinda Gates Foundation and Financial Sector Deepening Trust of Tanzania





Joining Public and Private Resources on a New Scale for Development

THE NEW CHALLENGE OF SUSTAINABLE DEVELOPMENT GOALS

In 2015, countries across the globe signed on to the Sustainable Development Goals of ending poverty, protecting the planet, and ensuring prosperity for all as part of a new development agenda.

The sums required to achieve the SDGs are large. The United Nations estimates the total investment needs of developing countries to be as much as \$4.5 trillion per year, while the actual investment stands at less than a third of that. Investment is sorely needed in basic infrastructure, agriculture and rural development, climate change mitigation and adaptation, health, and education.

During just the first three years of the SDG period (2016-18), multilateral development banks plan financial support of over \$400 billion. But given the scale-up of investment that is required, multilaterals, donors, and other official aid can't achieve the SDGs alone. That makes it critical that the direct financial assistance provided by development institutions is used to catalyze, mobilize, and crowd in other sources of funds for development, both public and private.

Funds from varied sources complement one another. Public resources are required to mitigate risk, while deeper local financial and capital markets will allow companies to tap the pools of savings and capital needed for large, long-term projects. In Africa and other regions with low-income markets and fragile and conflict-affected states, creating a climate conducive to local and international private investment is more important than ever.

Investments by international financial institutions, especially those that focus exclusively on the private sector, are building on decades of experience to take successful models to a new scale. The activities of development finance institutions can be used to unlock additional capital through blended or pooled financing and risk mitigation, especially for infrastructure and other investments that support private sector development.

Donors and investors are showing an increasing willingness to work together. In some cases the goal is to better allocate risk so that commercial financing in important projects becomes possible; in others it is to create a project with demonstration effects that encourage other investors to pursue similar projects; and in still other cases the goal is to expand the reach or value chain of a business in a way that produces a development impact that would not be possible without donor funding. Donors and investors can learn from successful cases and experiences to make cooperation more effective.

Expanding market opportunities have spurred rapid growth in private enterprises across Africa. While promising, the amounts being directed toward Africa do not yet approach the level of investment required to achieve current development ambitions. Development assistance can play a bigger role by mobilizing financing that can sustain growth and deliver goods and services. This can only be achieved through significant innovations in financing, particularly by combining the capacity and resources of the public sector to spur more private investment and increase its impact.

This report explores a range of projects that are helping to unlock private capital to achieve development goals. It draws lessons from successful models, especially those where public funds and guarantees have made private investment possible. It looks at initiatives that have been employed across a range of industries and examines how local and international financial institutions and capital markets can work hand in hand with official development assistance to support the private sector and propel Africa's next decade of growth and development.

OPPORTUNITIES IN RAPIDLY CHANGING MARKETS

The time is right for the public and private sectors to seek more opportunities to work together. Africa is already demonstrating that it holds enormous potential for private investors. In the midst of a downshift in the global economy it remains a continent in transition and is one of the fastest growing continents, with a young and growing population in rapidly expanding cities, an improving business environment, broader Internet access, rising incomes, and shifting consumption patterns. North Africa, in particular, has large and well developed markets in transition with vibrant demographics, especially in Egypt and Morocco. And growth in several large economies in Sub-Saharan Africa—Ethiopia, Cote d'Ivoire, and the Democratic Republic of the Congo—are expected to accelerate beginning in 2017.

Taken together, these enduring trends have created an abundance of commercial opportunities across the continent and have given rise to markets that businesses and investors cannot afford to ignore. Despite those opportunities, Africa is susceptible to the short-term economic headwinds that result from slower worldwide growth and geopolitical risks. Global growth over the next two years is projected to be weaker, led by slowing growth in China, uncertainty in global markets, a stronger US dollar, and lower commodity prices after a decade-long boom. And dampened demand in both developed and developing countries is leading to a slowdown in international trade.

According to the World Bank's most recent *Global Economic Prospects report*, global growth for 2016 has been revised downward, to 2.4 percent, a 0.5 percentage point decrease from projections at the beginning of the year. Emerging markets and developing economies account for about half of this revision, primarily due to declining commodity prices and depreciating currencies. These have increased uncertainty on the African continent and sharply reduced the liquidity that allowed companies to expand in recent years. The decline in oil and commodity prices has underscored the need for economic diversification and the export of a wider range of goods and services.

In addition to current macroeconomic conditions, Africa faces other long-term challenges that include a lack of electric power, water, and road infrastructure, all of which impede growth. The projected population growth in African urban areas highlights the need for the creation of productive jobs, housing, and efficient infrastructure for current and incoming residents.

The continent also faces significant geopolitical challenges. In the North Africa region Libya is riven by conflict while Egypt and Tunisia are experiencing macroeconomic uncertainties along with security concerns. Morocco has witnessed relatively stronger growth rates and FDI inflows, but the economy is highly dependent on weather related agricultural harvests. Rising violence and conflict in Sub-Saharan Africa are fueling increased displacement. Emerging threats in the form of trafficking, piracy, and religious extremism are causing fragility over large parts of the continent, while the risk of pandemics remains high.

Yet even before recent international economic turmoil emerged, investor activity in Africa was constrained by structural obstacles and a lack of financing options that often inhibited the effective distribution of risk associated with large-scale or long-term projects.

CHANGING CONSUMPTION PATTERNS

Nevertheless, for investors the region's demographics present significant opportunities. Urbanization is accelerating spending on transportation, from cars and motorcycles to public transport. Young people joining the work force—the median age in Sub-Saharan African is 18—will continue to create demand for housing and access to better education, health services, and jobs. Connectivity via information technology is becoming a larger component of household budgets. Education, clothing, and footwear are dynamic growth sectors in most economies. While conflicts have caused major economic disruptions in North Africa, Egypt is showing incremental improvements, while demand for education, health services, housing, and transport is expected to grow further across this region as well.

According to proprietary IFC data, food and beverages continue to account for the largest share of household expenditures among African households. But as incomes rise and basic needs are more easily met, other priorities are emerging. For example, household spending on health care in Nigeria, the region's most populous nation, is projected to grow by more than 5.0 percent per year through 2025. Household spending on technology and transportation is expected to rise by 11.8 percent per year in Ethiopia, the second most populous nation, over the same period. Spending on housing will top 8.0 percent annually through 2025 in Mozambique, Ethiopia, and Senegal. In Egypt and Morocco, household spending on education and transport will be over 6.0 percent through 2025. Other examples of surging consumption abound.

FIGURE 1: HOUSEHOLD CONSUMPTION PROJECTIONS IN AFRICA, BY COUNTRY AND SECTOR, 2014-2025

SECTOR/ COUNTRY	COTE D'IVOIRE			DRC			EGYPT			ETHIOPIA			MOROCCO			MOZAMBIQUE			NIGERIA			SENEGAL			TANZANIA		
	Growth%	Share% 2014	Share% 2025	Growth%	Share% 2014	Share% 2015	Growth%	Share% 2014	Share% 2025	Growth%	Share% 2014	Share% 2015	Growth%	Share% 2014	Share% 2025	Growth%	Share% 2014	Share% 2015	Growth%	Share% 2014	Share% 2025	Growth%	Share% 2014	Share% 2015	Growth%	Share% 2014	Share% 2025
Transport	9.5	8.4	10.3	8.0	2.8	3.4	6.2	4.5	5.2	11.8	3.1	4.7	6.5	6.4	8.0	9.2	7.1	8.6	4.4	11.8	12.8	9.2	5.2	6.4	9.1	11.0	14.0
ICT	9.1	8.4	9.9	9.0	1.1	1.5	5.9	2.9	3.3	12.5	2.1	3.4	5.8	2.9	3.4	9.5	3.5	4.3	4.0	4.5	4.7	8.4	2.0	2.3	8.3	6.4	7.5
Housing	8.7	11.4	12.8	8.2	1.7	2.2	5.1	14.9	15.5	9.5	12.6	15.5	4.4	17.3	17.3	8.5	14.3	16.0	4.5	2.7	2.9	8.3	15.7	18.0	7.0	2.0	2.0
Water supply	7.3	0.9	0.9	7.9	1.2	1.5	4.6	0.6	0.6	5.6	1.5	1.2	4.5	1.4	1.4	8.8	0.8	1.0	3.9	0.3	0.3	6.8	1.9	1.8	7.5	1.6	1.7
Education	7.8	1.5	1.5	6.1	2.9	3.0	6.2	3.2	3.7	12.8	0.5	0.9	6.0	1.6	1.9	8.1	0.3	0.4	3.9	6.1	6.3	8.6	3.0	3.5	9.1	1.6	2.0
Clothing and Footwear	6.7	6.3	5.9	6.2	5.8	5.9	4.2	5.7	5.5	7.5	5.8	5.8	5.1	4.9	5.3	8.1	6.2	6.7	3.4	3.2	3.2	7.7	4.3	4.5	6.4	6.4	6.2
Personal care	7.3	1.2	1.2	6.3	1.4	1.5	4.6	1.3	1.3	7.9	1.6	1.7	5.1	1.1	1.1	8.6	1.3	1.5	3.7	0.5	0.5	7.3	1.8	1.8	8.8	0.1	0.1
Health	7.2	2.0	1.9	5.6	1.8	1.7	5.9	3.3	3.7	6.9	0.3	0.3	5.4	2.3	2.6	7.2	0.4	0.4	5.2	0.3	0.3	6.2	2.3	2.1	7.8	1.4	1.6
Energy	7.6	2.1	2.2	5.8	5.1	5.1	4.2	2.5	2.4	5.3	10.7	8.6	3.1	5.2	4.5	6.2	6.8	6.0	3.5	3.0	3.1	7.9	6.3	6.8	6.9	6.3	6.4
Food and Beverages	6.5	47.3	42.7	5.7	69.9	67.9	4.0	47.8	44.6	6.6	52.8	48.3	3.6	42.5	39.0	6.0	47.3	41.2	3.4	62.5	60.8	5.9	48.7	43.5	5.6	54.6	48.6
Avg Growth rate 2014-25	7.4			6.1			4.4			7.6			4.3			7.3			3.9			6.7			6.7		
Avg Population growth 2014-25	3.2			3.8			3.6			3.8			3.0			3.3			4.1			3.1			3.6		
Population 2014 (millions)	22			75			90			34			34			27			177			14			52		
Consumption (US\$ bn; 2014)	20.9			14.3			103.9			41.2			51.5			11.7			129.4			8.0			28.1		

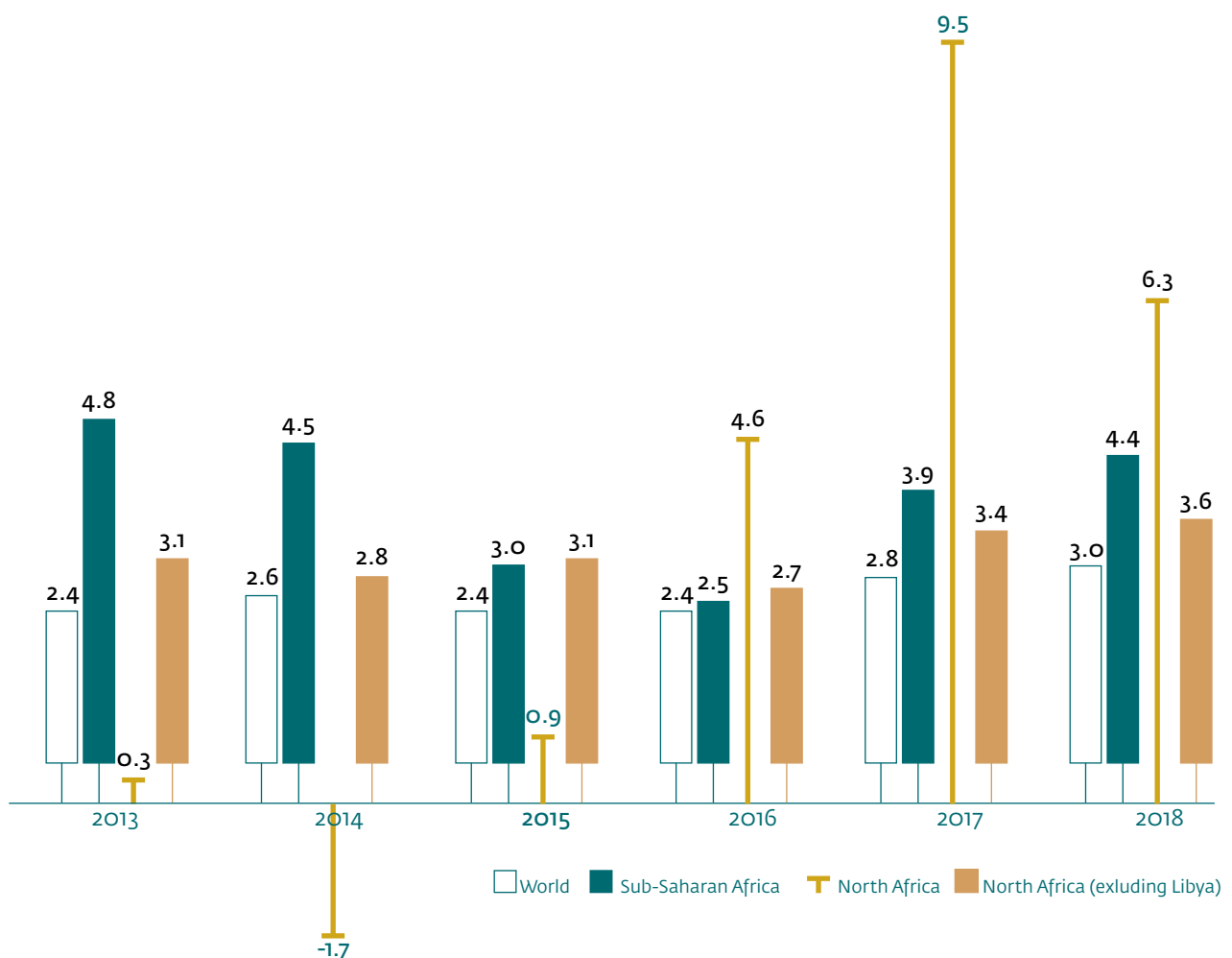
Sources: IFC and World Bank based on Household Surveys.

GROWTH PROSPECTS AND CHALLENGES

Most countries in Sub-Saharan Africa are expected to see a gradual pickup in growth over the next two years. Year-over-year growth for the region slowed to 3.0 percent in 2015. Though regional growth is expected to slow further to 2.5 percent in 2016, it should rise to an average of 4.1 percent in 2017-2018, according to the most recent World Bank projections. The region's lowest-income countries are expected to continue to enjoy even higher GDP growth in the near term. With a few exceptions—South Africa is a prominent one—

countries in the region are projected to sustain growth rates of more than 4.0 percent over the next three years, making it the second fastest growing region after Asia. In North Africa, the average growth rate (excluding Libya) is projected to be 2.4 percent in 2016, rising to 3.6 percent in 2017-2018. This is expected to be led by a recovery in Egypt, where growth is projected to rise to 3.8 percent in 2016 from 3.6 percent in 2015, and to 4.5 percent on average in 2017-2018. Advanced economies, by contrast, are expected to grow 1.9 percent a year through 2018.

FIGURE 2: **PROJECTED GLOBAL REAL GDP GROWTH** (percent)



Note: Figures for 2013-2014 are actual. 2015 figure is estimated. 2016-2018 are forecast.

Source: World Bank, Global Economic Prospects, June 2016

While most African economies continue to grow, global economic trends and other factors are weighing on them in various ways.

Global financial markets are increasingly volatile, with a resurgence of risk aversion to investment in emerging markets that is expected to continue through the near term. Investor appetite has diminished across asset classes, as evidenced by portfolio outflows and reduced foreign direct investment. Emerging market currencies, including those across Africa, will remain under pressure as the US dollar strengthens; they have also suffered from uncertainty stemming from the recent British vote to withdraw from the European Union. Consequently, the abundance of liquidity and low borrowing costs experienced by Africa and other developing regions in recent years has been reversing.

Furthermore, domestic conditions in many African countries remain difficult compared to the period before the global financial crisis, with higher fiscal and external deficits and higher levels of debt. There are signs of deterioration in bank balance sheets in many African economies, particularly those that rely on commodity exports, with non-performing loans rising and tight domestic conditions pushing down lending margins. In addition, inflation has begun to inch higher, though at the moment it remains at historically low levels. Conflicts and security risks in North Africa have caused major disruptions,

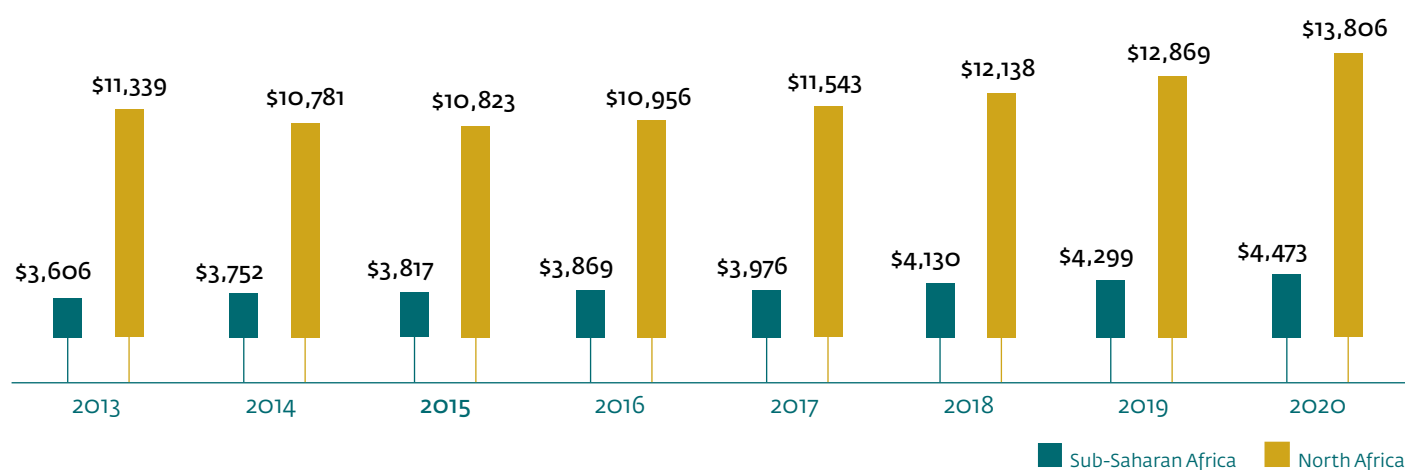
damaging infrastructure and institutions, reducing savings, and eroding fiscal and external positions.

Still, per capita GDP in Sub-Saharan Africa has been rising rapidly since 2000 and is projected to exceed \$4,400 in 2020, up nearly 40 percent over the 2010 level. In the North African region per capita GDP is expected to rise by 12.6 percent over the 2010 to 2020 period. Compared with other emerging economies, projected per capita growth rates in Africa are higher: Ethiopia is projected to grow at an average annual rate of 6.0 percent over the 2010-2020 period, Rwanda at 4.6 percent, Cote d'Ivoire at 4.6 percent, and Tanzania at 3.6 percent.

From 2010 to 2015, private consumption accounted for almost 60 percent of total economic growth in Africa, a contribution of 2.8 percentage points per year on average. As a result, the retail sector grew more than 10 percent a year over the 2008-2013 period, *more than any other emerging market region.*

The bottom line is that Africa's economies continue to grow, its citizens are becoming wealthier, they have access to more disposable income, they are connected to the rest of the world more than ever, and they are hungry for the broad variety goods and services that businesses can offer.

FIGURE 3: **SUB SAHARAN AFRICA AND NORTH AFRICA, GROSS DOMESTIC PRODUCT**
(Based on purchasing-power parity (PPP) per capita GDP) (US \$)



Source: IMF

BUSINESS PROSPECTS IN A SHIFTING ENVIRONMENT

Companies in Africa and from around the world have seized on these opportunities over the past decade, expanding both at home and regionally. And the region's potential has inspired a new breed of global private investors looking to tap substantial opportunities in Africa. Gross capital flows to African nations increased from \$15 billion in 2005 to \$57 billion in 2014 (\$8 billion to North Africa and \$49 billion for Sub-Saharan Africa), according to IFC and Dealogic data.

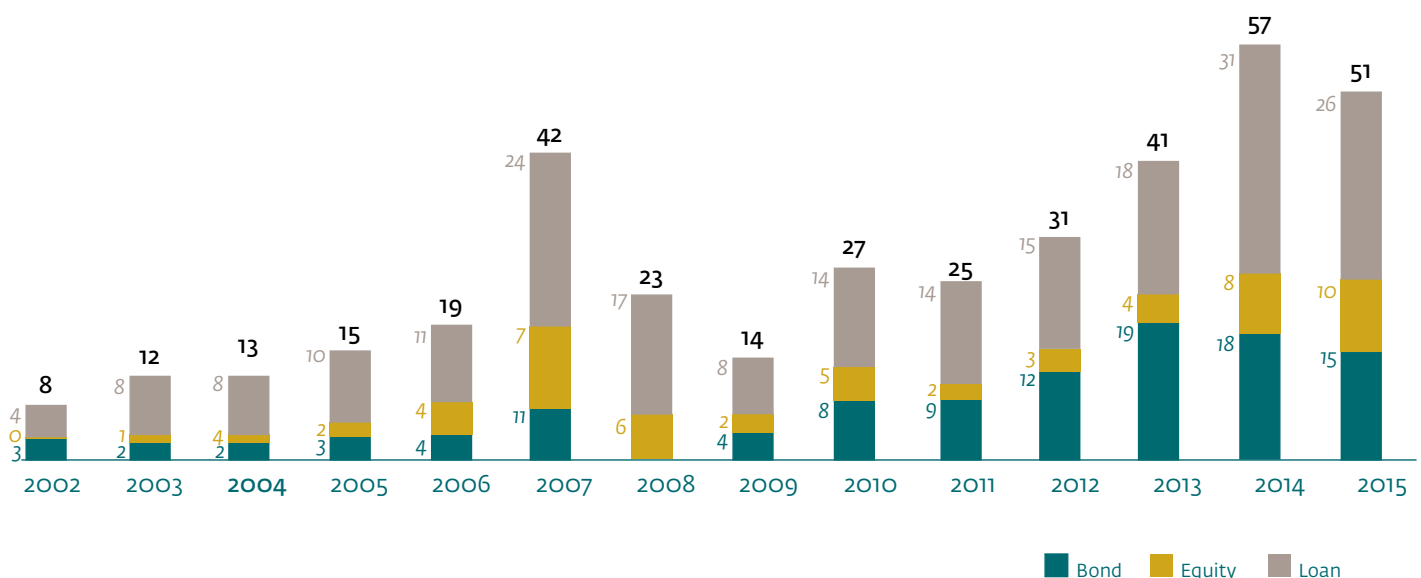
But recent economic headwinds are having an impact. Gross capital flows to Africa fell off slightly in 2015, to \$51 billion, a decrease of 11 percent from 2014. Flows to Sub-Saharan Africa declined in 2015 to \$40 billion, from \$49 billion in 2014. South Africa, with a slight increase in flows last year, was the exception, apparently a flight to perceived quality relative to other regional markets on the part of international investors. North Africa was the only emerging market region in the world that saw an increase in gross capital flows in 2015, due to the recovery in flows to Egypt, but the level is still below the 2007 peak before the global financial crisis.

And Africa's thirst for capital remains significant. The continent lags all other global regions in terms of reliable access to electricity, sanitation facilities, water sources, and paved roads. Infrastructure projects across Africa could absorb more than \$93 billion annually, yet spending on such projects was half that in 2009, according to a 2014 World Bank Group report. The capital shortage going forward is projected to be particularly acute in Nigeria, Angola, and Kenya, and investments in energy, transportation, and logistics offer the most potential for both impact and reward, World Bank figures show. In North Africa a stronger private sector that can create jobs and opportunities for the youth population will be critical to growth while also contributing to broader economic participation and social stability.

Other key sectors where opportunities for investment are not sufficiently funded include:

- **Financial Services:** Only about 15 percent of adults in Sub-Saharan Africa had deposit accounts as of 2012, according to World Bank figures. Yet with incomes rising rapidly across the continent—and surpassing the critical \$1,000 level—retail banking in the region is expected to grow at

FIGURE 4: GROSS CAPITAL FLOWS TO AFRICA (US \$bn)



a 15 percent annual rate through the end of this decade. The banking sector is more mature and efficient in North Africa in general, with better penetration, but banks there lag in innovation and competitiveness compared to banks in countries with similar per capita income levels.

- **Manufacturing and Services:** Consumers across Africa are demanding a greater range of affordable goods and services. Construction materials, energy efficient machinery, real estate, retail, and tourism are among the areas where competitive businesses are likely to thrive in coming years. In North Africa, Egypt has several established manufacturing companies and Morocco is increasingly attractive to automobile manufacturers looking for locations to establish new factories.
- **Housing:** African cities are growing rapidly, yet the supply of housing is struggling to keep up. African cities absorb 40,000 new residents each day, many of whom find themselves without housing. In Kenya, for example, there is an estimated two million unit housing shortage; in Nigeria the shortage is estimated at 17 million units.
- **Education:** Public education systems in many countries face challenges in providing quality education to the poorest children. The World Bank estimates that more than 50 million children are out of school in Sub-Saharan Africa. Governments have committed to achieve ‘Education for All’ by 2030, but realizing that goal will require creation of additional capacity for 127 million students. In North Africa, although literacy rates improved in the last 20 years, the quality of education remains a challenge. There is also a significant skills mismatch—critical to sustainable job creation for the region’s youth population bulge—that education systems must bridge.
- **Healthcare:** Sub-Saharan Africa bears 24 percent of the global burden of disease but only accounts for 1 percent of global health expenditures. In North Africa the burden is increasing due to a rise in death and disability due to non-communicable diseases. The supply of healthcare workers and hospital beds remains well short of demand. Investment

opportunities are expanding for health service providers, pharmaceuticals, and medical technology in order to create greater access to affordable, quality healthcare. The sector also lacks consolidation, with too many small actors working independently, creating unique opportunities for companies that can manage change on a large scale.

- **Climate Change-Related Business:** The World Bank estimates that annual regional spending to adapt to climate change will be between \$5 and \$10 billion. Rising temperatures and water supply issues are creating investment opportunities for scaling up low-carbon energy sources and managing water more efficiently, including investments in irrigation systems. North Africa is expected to be particularly affected by droughts that reduce agricultural land use.

Where can firms looking to fill these and other needs across Africa—and see a return on their investments—find the needed capital?

FUNDING SOURCES AND IMPEDIMENTS

There are numerous sources of funding—including domestic and international bank loans, local and international equity and bond markets, and private equity—for firms looking to invest in Africa. The problem is that several of these sources are chronically underdeveloped in Africa, while others are constrained by recent economic headwinds or the fallout from the global financial crisis of 2007-2008. In North Africa recent bouts of conflict and instability have also deterred investors.

There was a steep drop in bank loans for African infrastructure projects after 2007, most likely a consequence of new capital requirements imposed on commercial banks since the financial crisis. Overall, loans to emerging market infrastructure fell after 2007, slowly recovering through 2014 before turning down again. Bonds and equity have followed a similar pattern. The recent slowdown in capital flows can also be attributed to expectations of future interest rate hikes in the US and renewed concerns over global growth prospects (Figure 4 and 5).

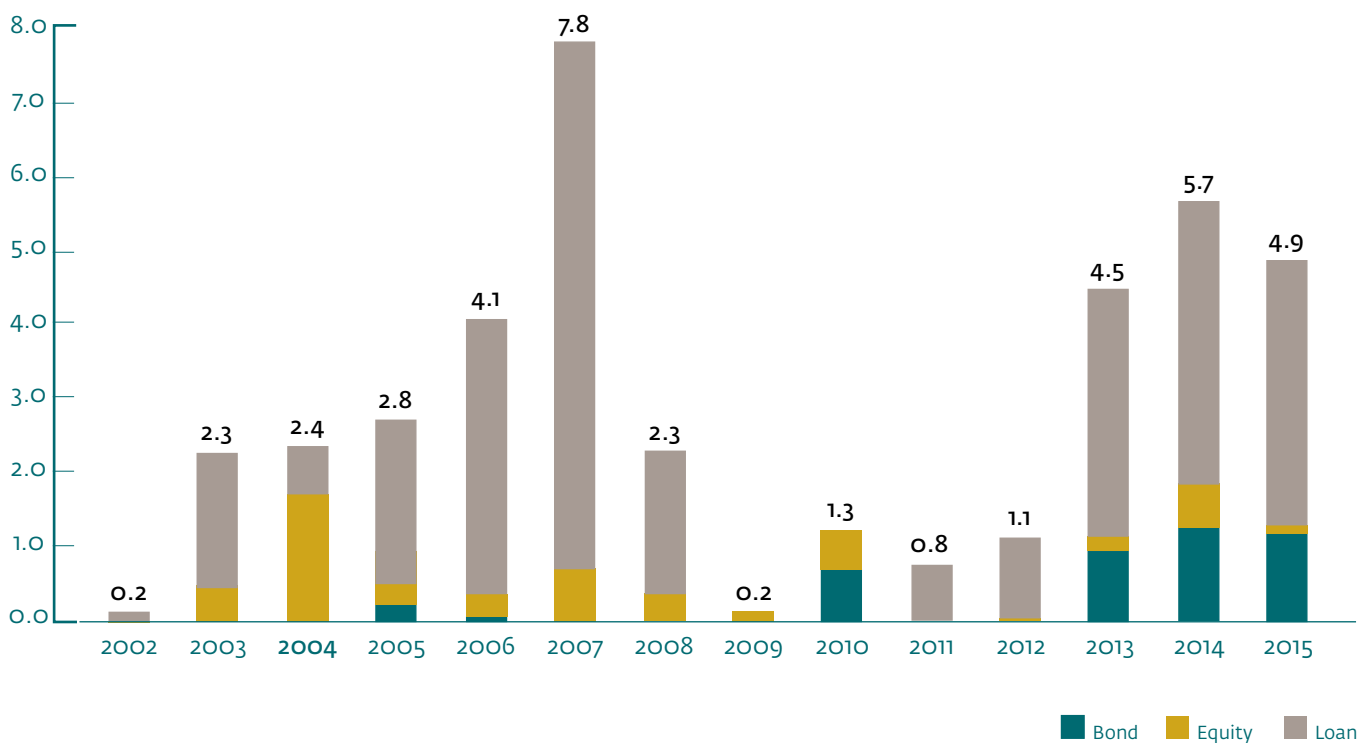
Africa's banking sector remains underdeveloped compared with other emerging market regions. The sector lags all other regions in terms of access, depth, efficiency, and stability, according to a 2012 World Bank study. While the financial sector has grown and matured in recent years, it is highly concentrated—the three largest banks held 78 percent of bank sector assets as of 2011—and the focus remains on lending to high-margin corporate businesses, not individuals and small enterprises. In North Africa the banking sector is more developed than in most Sub-Saharan African countries, but inclusion rates remain low and overall competitiveness continues to lag other countries at similar income levels.

And regional capital markets—with a few notable exceptions—lack the size and liquidity necessary to make a significant

contribution to Sub-Saharan Africa's capital needs. The Johannesburg Stock Exchange represented 83 percent of total Sub-Saharan Africa's market capitalization in 2012, and the Nigeria Stock Exchange 8 percent, according to World Bank figures. Outside those two nations, stock market capitalization in the region remains low at only 10 percent of GDP, a fraction of that in emerging markets outside of Africa. Market liquidity remains a problem region-wide.

Domestic debt markets, while growing, remain shallow and are dominated by government securities, which account for three-fourths of total bond market capitalization. Only South Africa has a deep domestic bond market. Corporate bond markets outside that country remain nonexistent or in an embryonic stage.

FIGURE 5: GROSS CAPITAL FLOWS TO INFRASTRUCTURE IN AFRICA (US \$bn)



Sources: IFC Economics and Industry Research based on Dealogic.

Mobilizing Private and Public Financing for Africa

FINANCE SOLUTIONS FOR AFRICA

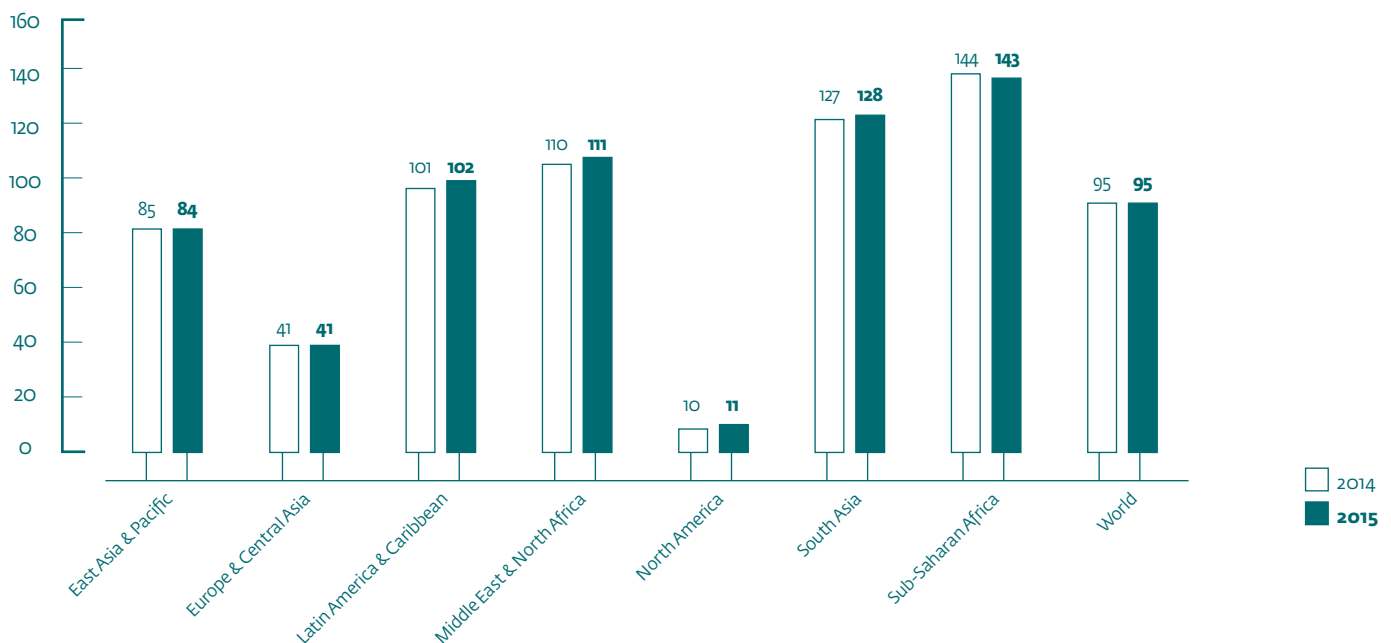
The abundance of opportunities across Sub-Saharan Africa, and the appetite of institutional investors to take advantage of them, stand in stark contrast to the limited approaches available to finance projects. Businesses and investors in Africa are searching for new methods to underwrite potentially profitable ventures on the continent.

Increased availability of commercial bank financing and funds, along with the slow but steady growth in domestic capital markets and other sources of commercial financing, are encouraging signs. These already play a major role in supporting the growth of private business in Africa and they will become increasingly critical in coming years. But given the region's

rapidly changing demographics and its need for investment on a far greater scale than in recent years, commercial finance alone cannot underwrite long-term, large-scale projects in Africa with high risks.

In addition to being the world's lowest-income region, Africa has many fragile and conflict affected states—the region accounts for half of the globe's countries defined as such by the World Bank Group. While governance is improving, it is weak in most markets. And Africa remains the most difficult region in the world in which to do business. Poor perceptions of Africa may be exaggerated, but all of the above factors contribute to actual risks that must be managed and mitigated (*Figure 6*).

FIGURE 6: **EASE OF DOING BUSINESS INDEX** (1=most business-friendly regulations)





IFC's Africa Leasing Facility

Using Leasing to Provide Assets to Businesses

Increased use of leasing is critical to development in many emerging markets, Africa among them. In its simplest form leasing is a means of delivering finance, where one party provides an asset—a car, truck, sewing machines, and heavy machinery are common examples—for use by another party, which can then generate cash from its use.

Leasing is based on the proposition that income is earned through the use of assets rather than from their ownership, and it is often the only source of medium to long-term financing for small business owners who lack the traditional collateral required to obtain a loan from a commercial bank to buy the assets needed for their operations.

Between 2008 - 2015 the leasing market in 25 economies in Sub-Saharan Africa (excluding Nigeria and South Africa) more than doubled, from \$300 million to approximately \$800 million. This creates a tremendous opportunity for private sector development in the region through micro, small, and medium enterprises that will be able to use leasing to grow their businesses.

IFC's Africa Leasing Facility program, launched in 2008, has established leasing as an innovative and robust financing tool to increase access to finance for the small-scale business sector. The second phase of the program, ALF II, launched in 2013, has focused almost exclusively on fragile and conflict-affected states in Sub-Saharan Africa, where the need for access to finance is the greatest and where leasing can have the biggest impact.

Since its inception the Africa Leasing Facility program has provided advice on leasing policy to governments that has led to the enactment of 24 leasing laws, it has trained nearly 20,000 small and medium enterprises, and it has mobilized \$57 million in investment capital.

ALF II is primarily supported by the Swiss Secretariat for Economic Affairs. Other donor partners include the UK Government, the Netherlands, Canada, and the Swedish International Development Cooperation Agency. The program is active in the West Africa Economic and Monetary Union region, Burundi, Chad, Djibouti, Democratic Republic of the Congo, Ethiopia, Guinea, Guinea Bissau, Liberia, Seychelles, Sierra Leone, and South Sudan. With additional funding the program may expand to other countries in Sub-Saharan Africa.

PROJECT IMPACT

- 24 new leasing laws enacted.
- 200,000 SMEs trained; \$57M in investment capital mobilized.

Continued from page 17

At the same time, part of the attraction of Africa is the improving climate for business, particularly in Sub-Saharan Africa. In the 2015 and 2016 World Bank Group Doing Business reports, African countries made up 5 of the top 10 most improved global economies for ease of doing business. Included in the top 10 were: Benin (2015 and 2016), Cote d'Ivoire, Democratic Republic of Congo, Kenya, Mauritania, Senegal (2015 and 2016), Togo, and Uganda.

Certain other countries have made large strides in recent years. Rwanda, for example, has made consistent improvements in its investment climate to become the second easiest place to do business in Africa. Within the region in the overall Ease of Doing Business rankings, Rwanda falls behind only Mauritius, another country that has consistently undertaken reforms to make the country more hospitable to investors.

To ensure that large, multi-year investments and projects can be undertaken, existing sources of finance can be leveraged and supplemented by other types of financing and support, including private sector development financing, donor funding, a mix of public and private financing, and more debt and equity instruments that work together to better spread risks across parties without misallocating it.

Fortunately, there is a combination of strategies and innovations in financing and risk mitigation now being employed in Africa that can provide those methods.

CASE STUDY

CEC Africa Power

Adding Significant Power Capacity in Sierra Leone

With less than 10 percent of the population connected to the power grid, Africa has the lowest level of electricity access among emerging market regions. In Sierra Leone the power sector is particularly problematic due to decades of underinvestment in power generation, transmission, and distribution.

Transmission losses are at 38 percent, among the highest in Africa. Grid connection rates are low, and there is regular load shedding and a non-cost recovery tariff scheme. A non-credit worthy national power utility company—Electricity Distribution and Supply Authority, or EDSA—had challenges that trapped the country's power sector in a vicious cycle that keeps residents in the dark and hinders economic growth.

To break that cycle the World Bank Group combined its financial and advisory products into a package for the West African nation, which is still recovering from a decade-long civil war and a recent Ebola outbreak. The result is a \$134 million power generation facility, launched in 2016 in an industrial zone about four kilometers east of Freetown, the country's capital. The project covers development, construction, and operation of a 57 megawatt heavy oil fuel fired power plant. It is sponsored by CEC Africa Investments, a private sector pan-African energy company, and Abu Dhabi energy company TCQ Power Limited. Electricity generated by the facility will be sold to the national off-taker EDSA under a 20-year power purchase agreement.

Given private investors' limited risk appetite for projects in fragile and conflict affected states, IFC provided senior debt of up to \$30 million and acted as the lead arranger and interest rate swap provider to mobilize up to \$100 million in long-term financing from other development finance institutions and donors, including the Emerging Africa Infrastructure Fund, the Netherlands Development Finance Company, the German Investment Corporation, and the Investment Climate Facility for Africa. The World Bank Group's International Development Association is providing a partial risk guarantee of up to \$40 million, in addition to a \$56 million package to rehabilitate and upgrade the national distribution network. The World Bank Group's Multilateral Investment Guarantee Agency will provide a political risk guarantee of up to \$60 million to cover equity, shareholder loans, and retained earnings.

With World Bank and MIGA's provision of upstream advice and guarantees for non-commercial risks, the project was able to reduce exposure to real investment risks (including operational and off-taker risks), achieve financial viability not otherwise possible, and benefit

from the downstream investments by IFC, other development finance institutions, and the prospective private investors.

At full capacity the plant will increase Sierra Leone's power generation capacity by more than 50 percent, helping to stimulate economic growth and job creation. As the first independent power producer in the country, the project is also expected to trigger additional private sector participation in the domestic power sector.



PROJECT IMPACT AND RISK MITIGANTS

Impact

- Increasing power supply in a country with significant power needs by 50 percent (relative to capacity prior to construction)
- As the first independent power producer project in Sierra Leone, triggering private sector participation in the country's power sector

Financing Risk Mitigants

- Provision of long-term debt by IFC, EAIF, FMO, DEG, and ICF
- IFC led due-diligence process on behalf of lenders
- IFC swap, fixing interest rate on senior debt

CASE STUDY

Azura Edo

Meeting the Energy Needs of 14 Million Nigerians with a New Template for Power Projects

A weak electricity grid and insufficient power generation cause widespread and regular blackouts in Nigeria, forcing millions of people to rely on costly and polluting diesel generators to keep on lights, refrigerators, and computers. An estimated 42 percent of the 180 million residents lack access to electricity.

Solving this perennial power shortage has been arguably the biggest development challenge for successive governments in Nigeria, Africa's most populous country. Available electricity capacity is less than 5 000 megawatts, yet demand is estimated to be several orders of magnitude higher.

In 2010 the government of Nigeria embarked on a comprehensive power sector reform to liberalize the electricity sector, increase private participation, and improve efficiency. In support of the reform process, the World Bank Group developed the Nigeria Energy Business Plan, bringing together the resources of the International Bank of Reconstruction and Development IFC, and the Multilateral Investment Guarantee Agency to attract private investment in the sector.

The World Bank Group worked with nearly fifteen financial institutions, including commercial banks and development finance institutions, to support Azura, a greenfield gas-fired power plant that will provide electricity to an estimated 14 million people in the West African country. Azura is Nigeria's first privately-financed independent power project and draws from the country's reserves of natural gas, a clean-burning transition fuel, to address critical electricity needs and move toward a less carbon-intensive economy.

The new 459 megawatt plant near Benin City, about 300 km east of Lagos, is the start of a two-phase project that will ultimately generate about 1,000 MW of additional power for the country. Commercial operation is expected to begin in mid-2018.

The approximately \$876 million financing package signed in December 2015 was a breakthrough for power generation in Nigeria, and received a stamp of approval from the World Bank Group as well as financing partners including Standard Chartered Bank, Siemens Bank, Rand Merchant Bank, KfW, Proparco, Swedfund, and OPIC, among others.

An array of World Bank Group instruments was used to structure the financing, including partial risk guarantees from IBRD, as well as political risk insurance cover for equity, swaps, and commercial debt from MIGA. IFC provided \$50 million in debt and \$30 million in subordinated debt and mobilized \$267.5 million of senior debt alongside the Dutch development organization FMO, and an additional \$35 million of subordinated debt.

The transaction introduced almost 20 investors, between shareholders and lenders, with no previous experience in Nigeria to the country's power sector, many of whom are expected to pursue other opportunities in the country. As a result, the Azura project's documentation and financial structure are expected to become a template for future privately-financed power deals in Nigeria, providing a model that could save time and cut costs—and attract additional investors.

In addition to delivering much needed electricity to millions of Nigerians, the Azura project demonstrates the ability of appropriately structured solutions to attract international financing even in the most challenging investment environments.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Increasing power supply by 459MW megawatts by year 2018, an increase of 10 percent over current national available generation capacity.
- Providing electricity to an estimated additional 14 million residents.
- Creating a new project document templates for privately financed power projects.

Market/Off-taker Risk Mitigants

- A 'Put-Call Option Agreement' between the Company and the off-taker backstopping the off-taker payments;
- Credit enhancements through a World Bank Partial Risk Guarantee and the MIGA political risk insurance
- World Bank Group participation through multiple instruments, providing comfort to other investors

Construction / Operational Risk Mitigants

- Standard project finance structure
- Fixed-price turn-key EPC contract and O&M contract with Nigerian and international entities with strong operational track-record

Gas Supply Risk Mitigants

- Strong contractual arrangements with the gas supplier (Seplat – coupled with strong operational track record) and with the off-taker under the power purchase agreement

PARTNERSHIP FINANCING TOOLS

PUBLIC-PRIVATE PARTNERSHIPS

PPPs are a tested strategy, especially for large infrastructure projects and other projects involving public services. They can be applied to numerous sectors, from core infrastructure to health, education, and other areas.

Power generation, for example, which is lacking across the region, requires large-scale funding, the appropriate regulatory framework, sector planning, and a high quality off-taker to provide the comfort level that private investors require to participate. Development institutions often play a critical role in bringing the private and public sectors together to provide all of those elements.

In 2012 nine development banks teamed up to provide the long-term finance, regulatory reform and power purchase agreements necessary to enable a 139 MW natural gas power project to go forward in Cote d'Ivoire. It will increase electricity production at an existing plant by 50 percent with no incremental gas consumption. More recently in Sierra Leone, CEC Africa Power is bringing together funding from multiple sources to support a power generation project (see case study).

CO-FINANCING WITH DEVELOPMENT BANKS

Another approach to mobilizing funds and spreading risk is co-financing. Through it investors can gain a greater level of comfort via a lead development bank's connection with

governments, its financial strength, its willingness to remain through difficult economic conditions, and its financial imprimatur, all of which help attract other financiers.

NewGlobe Schools, which runs Africa's largest network of low-cost private schools, teamed with development banks and new investors to launch an expansion of its Bridge Academies chain out of Kenya into three additional countries. The partnership provided seed investments and regulatory assistance, and Bridge is now on its way to educating one million students from low-income communities at 2,100 schools by 2020 (see case study).

BLENDED FINANCE

Blended finance is an approach that can be used to enable the private sector to invest where it would not otherwise be possible. The idea is to mix concessional funds—typically from donor partners—with those of commercial development institutions and private investors in a risk-sharing arrangement, with aligned incentives to make sure official assistance can be leveraged as much as possible with private capital.

In 2015, IFC agreed to provide a \$21.5 million loan and \$4.5 million equity investment in Dutch Africa Improved Foods Holding in Rwanda. This loan comes with support from the donor-funded Global Agriculture Food Security Program, and is intended for the construction and operation of a 45,000 tons-per-year processing plant in Rwanda for fortified cereals to treat child malnutrition. The project will source raw materials through existing farmer cooperatives in Rwanda and through



CASE STUDY

Azito Energy

Meeting Africa's Power Needs

Despite being blessed with a huge endowment of natural gas reserves, hydro capacity, and other natural resources, Sub-Saharan Africa is massively underpowered. Generation capacity is lower than that of any other world region and is marked by unreliable supplies, high prices, and low rates of access. Some 600 million Africans lack access to electricity, according to a 2015 report by McKinsey & Co..

And the gap between supply and demand is growing. Because new household connections in many countries are not keeping pace with population growth, the electrification rate, already low, is actually declining. At the same time, the high penetration of diesel generators across the continent—with prices three to six times what grid consumers generally pay—is a strong indication that African businesses and consumers are willing to pay for electricity. McKinsey predicts a period of rapid electrification for Africa in coming decades.

Yet in the immediate aftermath of a long civil war and a contested and violent election in Cote d'Ivoire, it seemed all but impossible for a private entity to embark alone on a major power infrastructure project in 2012. The risks, from political volatility to regulatory and currency risk to a lack of local expertise, among many others, were too daunting. To enable such a project to go forward, in 2012 nine development finance institutions teamed to provide the long-term finance and design regulatory reforms necessary to break ground on a 139 megawatt power plant expansion in Cote d'Ivoire.

The power plant is located near Azito village in Cote d'Ivoire's Yopougon district, about six kilometers west of the port of Abidjan. It was initially built in 1998 when IDA, the World Bank's fund for the poorest, provided up to \$30 million in partial risk guarantees. The IDA guarantees helped mobilize long-term finance substantially beyond prevailing market terms for the country, allowing for the completion of the initial project. Now, the power plant is majority owned by Globeleq Generation Holdings, a power generation developer focused on emerging markets.

An expansion and modernization of the existing Azito plant was estimated to cost \$430 million and would require financing and technical expertise, currency hedges, interest rate swaps, insurance against political risk, a reliable fuel supply, and end-user purchase agreements. It was a large and complex package to pull together, beyond the scope of any private investor.

Enter IFC. The development bank provided a \$125 million anchor investment and arranged another \$220 million in long-term loans from eight other development banks. World class turbine technology was procured from General Electric, and experienced contractors including Hyundai Engineering and Construction were brought in to build, operate, and maintain the facility.

A reliable supply of natural gas was organized among several regional producers while the national government and the private utility CIE were

contracted to off-take and distribute the power produced. And the World Bank engaged the Cote d'Ivoire government on energy sector reform and financial management.

As part of the expansion, the existing plant was fitted with two heat recovery steam generators, a 140MW steam turbine generator, one steam condenser, and an air-cooled cooling water system. Essentially, the technology makes use of waste heat generated by the existing gas turbines to produce steam to drive another generator, thereby reducing the need for additional fuels to increase the plant's capacity.

Those add up to an expanded facility that will generate 50 percent more power with no incremental gas consumption. It is expected to reach 2.3 million additional customers and is a successful example of a major investment in Cote d'Ivoire following the recent crisis.

Opportunities to replicate the Azito plant's successful expansion are proliferating across Africa, yet are all but untapped. New private sector power capacity created in 2012-2014 was just 6 percent of annual demand for new capacity across Africa. And the continent could absorb \$490 billion of capital for new power generating capacity over the next 25 years and an additional \$345 billion for transmission and distribution, McKinsey reports.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Creating power generation capacity for 2.3 additional customers with no incremental fuel consumption.

Financing Risk Mitigants

- IFC long-term finance, providing comfort to other investors
- Strong financial standing of project sponsors
- IFC swap, fixing interest rate on the debt for 15 years

Operational Risk Mitigants

- Project sponsors very experienced in power sector
- Experienced international contractors

Market/Off-Taker Risk Mitigants

- MIGA equity guarantee on the concession contract and political and transfer risk
- World Bank engagement in sector structural reforms and financial management

the government. It was designed with the help of the World Food Program, the food aid branch of the United Nations, which has agreed to buy a significant portion of the final product and distribute it in Southern Sudan, Uganda, Burundi, and other countries (see case study).

Financing for agricultural development lends itself to blended finance. An example is agribusiness giant Cargill and Cote d'Ivoire's Societe Ivoirienne de Banque, which in 2015 were able to partner with IFC to create a truck leasing program in Cote d'Ivoire that provides more reliable vehicles to collect cocoa beans from the field.

The development bank guaranteed 50 percent of an up-to-\$6 million leasing portfolio through a risk sharing facility with some of that risk assumed by donors through the Global Agricultural Food Support Program (see case study).

A similar approach was used with Ecobank, a pan-African full-service banking group. IFC supported a project to extend Ecobank lending to small businesses in eight African countries with particularly difficult economic environments in terms of fragility and income levels. The project uses a \$110 million risk sharing facility between Ecobank and IFC and the UK's Department for International Development (see case study).

Where development needs exist, there are opportunities to use blended finance to expand business. In most African markets, for example, financial institutions have yet to develop a sustainable strategy to address the significant market gap in serving women, creating a missed opportunity that also constrains economic growth and private sector development.

Rawbank in the Democratic Republic of Congo introduced "Lady's First" banking, offering specialized services to women. IFC provided advice to help establish services and invested in Rawbank with support from the Global SME Finance Facility, a donor facility IFC launched in 2012 to expand lending by development institutions to small businesses in emerging markets (see case study).



Warehouse Receipts

Providing Innovative Inventory Financing to Farmers

An improved climate for business is essential to ensure rising incomes from commercial activity. IFC, in partnership with the World Bank Group Trade and Competitiveness Global Practice, supports numerous programs across Africa to encourage simpler regulation and improved technologies that make it cheaper, faster, and easier to do business. This includes programs that assist the private sector in exploring and expanding market opportunities in agribusiness.

A lack of collateral needed to access credit and store crops is a constant problem for farmers across Africa. Without it farmers can't expand their operations and often must sell crops at times when prices are lowest.

But solutions are emerging through the linking of farmers and other value chain actors.

Cote d'Ivoire, Kenya, Malawi and Senegal are piloting an innovative method of inventory financing in which loans are made to producers, suppliers, traders, and processors against goods held as collateral. Known as the warehouse receipt system, this method enables thousands of farmers in East and West Africa to access short-term finance against warehouse receipts, or to sell the receipt at a more opportune time.

Continued on page 24

With funding support from the Government of Japan, IFC—through the Trade & Competitiveness Global Practice—is assisting the Senegal's efforts to establish a full-fledged warehouse receipt system to address the challenges of access to credit and better storage infrastructures in the agricultural sector. Starting with rice as the pilot commodity, a draft legal and regulatory warehouse receipts framework has been completed, and an assessment of current storage capacities and investment requirements to rehabilitate and build new infrastructure that is adapted to the system is underway.

IFC is also providing support to the government in its effort to create a regulatory authority, and has helped to set up a steering committee on the system's implementation that brings all the important stakeholders together. The committee comprises public and private actors including banks, collateral managers, rice value chain actors, as well as key ministries. An expected 2,500 beneficiaries comprising farmers, millers, and traders will be introduced to the system to store their goods and access credit within three years of project completion. This support is expected to release a minimum of \$2.5 million annually in credit to the agricultural sector.

The warehouse receipt system will help small rural farmers in Senegal's rice sector who are often unable to borrow the money they need to finance their operations because of lack of conventional loan collateral. Efficient warehouse receipts financing will soon enable these farmers to delay sales of their agricultural products. By using the goods they have in storage as collateral, Senegalese farmers will enjoy more flexibility in timing the sales of their products, and allow them to get better prices for the crops they grow.

PROJECT IMPACT

- An expected 2,500 beneficiaries, including farmers and traders to the system.
- Expected \$2.5 million in credit per year will be released to the agricultural sector.

CASE STUDY

ENDA Inter Arabe

Providing “Starting Point” Loans to Entrepreneurs in Tunisia While Promoting Youth Employment

For the last several years IFC has been supporting the leading microfinance institution in Tunisia, ENDA, with a comprehensive capacity building program that includes risk management, institutional strengthening, product strategy and transformation. Most notably, IFC helped ENDA develop an approach to reduce nonperforming loans following the uprising in Tunisia; it reviewed ENDA's product marketing strategy and costs; developed its human resources and MIS strategies; and introduced an advanced risk management framework for the micro-lender. In addition, IFC worked with ENDA on developing sharia'h-compliant risk-sharing products for customers seeking alternatives to conventional microfinance. Over this period, IFC has also provided three credit lines to ENDA for a total of \$16 million equivalent to fund its growth.

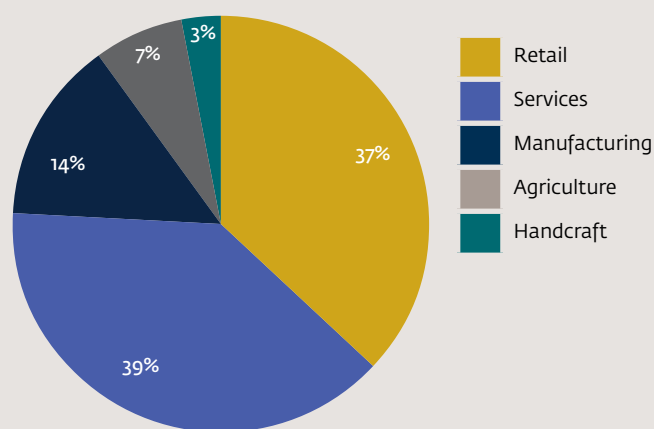
In parallel, during the last several years ENDA has been fighting youth unemployment in Tunisia through an entrepreneurship program it has developed which was funded by Switzerland's State Secretariat for Economic Affairs Economic Cooperation and Development Division, or SECO.

ENDA's Bidaya program—Bidaya means “starting point” in Arabic—was designed to help young Tunisian entrepreneurs develop their business plans and, if needed, help provide financing. Since its 2011 launch, the program has provided 10,000 Bidaya loans to approximately 8,000 micro-enterprises through 70 of its branches across Tunisia. Among these borrowers, roughly 63 percent are under 35 years of age, 42 percent are women, 17 percent have an advanced degree, and 42 percent were unemployed at the time they got their first loan.

To enhance the efficiency of the Bidaya program, ENDA has undertaken the following measures:

- Strengthened its internal capabilities to assist upstream entrepreneurship. ENDA managed a specific training program for Bidaya agents (40 agents were trained) and deployed eight coaching agents to assist them.

SECTORS FINANCED BY BIDAYA PROGRAM



Source: IFC Financial Institutions Group

- In 2015 ENDA launched the first test of post-entrepreneurship assistance. ENDA aims to support Bidaya borrowers after their enterprises are established to ensure the sustainability of their businesses. So far, some 230 Bidaya borrowers have received technical assistance from 11 ENDA coaches and external consultants.
- In parallel, an assessment of entrepreneur needs (in terms of assistance) was developed and an entrepreneur toolkit was designed.
- In partnership with Youth Business International, ENDA tested a mentoring program that gathered volunteers to assist young entrepreneurs. "Entrepreneur clubs" have been set up in some regions to promote networks.



- ENDA partnered with Tunisia's Ministry of Vocational Training and Employment, business centers, the Food and Agriculture Organization of the UN and the International Chamber for Youth to promote the Bidaya program, encourage networking among entrepreneurs, and allow for knowledge exchange.

Building on the success of the Bidaya program, ENDA now plans to create "Village Entrepreneur" (entrepreneurship villages), which are places dedicated to assist entrepreneurs. The first village called "El Kahina" was launched in 2015 in Tunis with plans to develop 150 sustainable and innovative projects by assisting 200 young entrepreneurs, 60 percent of whom receive free accommodations.

The program has had success in creating employment among Tunisia's youth. ENDA estimates that it has fostered the creation of 5,000 jobs so far in many different industries. Although Bidaya loans are essentially start up loans, a total of TND 25 million (\$12.5 million) in loans were used to help boost dormant microenterprises. One beneficiary, Essia (pictured) is an entrepreneur and found of Pouffy, a unique concept of Tunisian handcrafted furniture. She started her business with the support of ENDA's Bidaya program and plans to begin exporting her creations.

PROJECT IMPACT & RISK MITIGANTS

Impact

- Increased access to finance overall for micro-entrepreneurs in Tunisia, while improving portfolio quality (nearly 1% PAR 30 days).
- About 10,000 Bidaya start-up loans have been disbursed to nearly 8,000 micro-enterprises through 70 ENDA branches across the country.
- An estimated 25 million TND (\$12.5 million USD) in loans made to young entrepreneurs.
- Fostering the creation of 5,000 jobs, as estimated by the MFI.

Addressing Risk Exposure for MFIs

- IFC capacity building support to ENDA has resulted in better NPL management, a strong risk management framework, and helped them strengthen systems and develop new products.
- For the youth program (Bidaya) in particular, ENDA has limited the risk of start-ups by investing in its staff to build their capacity and providing support & accompaniment to help young entrepreneurs to succeed.

CASE STUDY

Ecobank

Bringing Credit to Small Businesses

Committed to inclusive lending and looking for more customers, a pan-African bank wanted to extend lending to small businesses in eight countries with particularly difficult economic environments in terms of fragility and income levels. The project involved a \$110 million public-private risk sharing facility and additional risk mitigation measures.

Small and medium sized enterprises have been poorly served by the banking industry in Sub-Saharan Africa. Fewer than one-in-three medium sized firms in the region have a bank loan or line of credit, according to a World Bank survey; for small firms it is fewer than one-in-five.

In fragile and conflict affected states those firms represent the backbone of the economy and provide the bulk of employment, yet they receive just one-quarter of all loans and credits. Part of the explanation is that there is a general lack of knowledge about the creditworthiness of such firms. In addition, FCS countries lack institutional lending capacity, they have poor financial infrastructure, and they generally suffer some level of macroeconomic instability. The unfortunate result is that banks in those countries have little appetite to lend to SMEs.

Ecobank Transnational Inc., the largest pan-African bank, with a presence in 36 countries, had been strong in corporate banking since its incorporation in 1985, but was also committed to serving small and medium business enterprises and retail customers.

A project to expand SME lending to more economically challenged countries in West and Central Africa, however, required the kind of assistance that development banks can provide.



The lending package Ecobank put together with IFC and the UK's Department for International Development in 2015 was designed to overcome the challenges of lending to smaller businesses with high risk profiles in very poor countries, including Burundi, Chad, Cote d'Ivoire, Democratic Republic of the Congo, Republic of the Congo, Guinea, Mali and Togo. DFID participated through the Global SME Finance Facility.

The centerpiece of the Ecobank package is a \$110 million risk sharing facility between IFC and Ecobank, with further risk mitigation provided by DFID, which is available to the eight Ecobank affiliates in the target countries. The European Investment Bank has also committed \$100 million to support risk sharing facilities in Africa.

The facility also provides Ecobank affiliates tools to build scale in SME lending, including advisory services and SME finance training. There is also a pricing incentive for Ecobank affiliates that achieve 50 percent facility utilization within 12 months.

The new facility means improved access to finance for smaller enterprises in the eight countries, stronger financial sectors, and better employment opportunities. For Ecobank it means a broader customer base and – eventually – stronger economies to lend into.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Access to Finance for 10,000 small and medium-sized enterprises in eight countries, including Burundi, Congo, Cote d'Ivoire, DRC, Guinea, Mali, Chad, Togo.

Risk Mitigation Mechanisms for SME lending in fragile situations

- The IFC Risk Sharing Facility
- DFID additional risk mitigation
- Ecobank risk management framework and IFC's bank training support

Supervision challenges

- IFC's well-structured supervision model

Utilization challenges

- IFC's provision of RSF utilization action plan and targeted RSF training

CASE STUDY

Rawbank

Targeting Women and Small Business

Founded in 2002, Rawbank was an innovator in a stagnant market. Embracing technology and the business acumen of the Rawji family—a business presence in the country since 1922—it recently surpassed competitors to become the largest bank in the Democratic Republic of Congo, as measured by total assets and deposits.

In 2014 banking penetration in the DRC was estimated at only 2 percent. A small number of banks had historically controlled most of the market, mainly lending to government and large corporations.

The challenging business environment, ranked 184 out of 189 in 2016, meant they primarily lent through referrals and high collateralized credit, thereby excluding much of the market.

As the country began to recover from civil war and macroeconomic stability was restored, Rawbank was faced with increasing competition and recognized the opportunity to target lending to the historically underserved SME market segment. In the most recent World Bank Enterprise Survey, 90 percent of such firms in the DRC reported a lack of access to credit.

IFC support through financing and advisory services was key to helping Rawbank reach SMEs. The bank lacked capacity in its risk management and credit operations for targeting SMEs, and needed to develop a better understanding of the lower-end market.

Beginning in 2010, using a \$7 million IFC Africa Micro, Small and Medium Enterprise Finance Program facility, Rawbank set up its SME lending program, including *Lady's First*, a lending program that targeted female-owned businesses. This helped strengthen capacity of potential borrowers, establish rudimentary transaction histories, and, through *Lady's First*, build trust with businesswomen.

IFC financed Rawbank a second time in 2013 through an SME Financing Facility, which is funded by the UK's Department for International Development. Harnessing blended finance, the second IFC loan contained financial incentives, including a 3 percent concessionary aspect to be triggered if Rawbank expanded its SME and female-owned SME portfolios at a higher rate than its overall portfolio. The facility also earmarked 25 percent of a \$15 million facility for female-owned firms.

By the end of 2014 Rawbank's small and medium enterprise portfolio had grown to \$29.4 million, with women-owned businesses accounting for \$3.3 million. In addition, the IFC imprimatur helped the bank attract additional financing from the French Development Agency. This capital infusion, coupled with IFC's second loan, was important in maintaining Rawbank's momentum, which had slowed as its natural risk-aversion

confronted non-performing loan rates of 16 percent in its SME portfolio (compared with less than 1 percent in its higher-end portfolio).

Given the challenges faced by Rawbank and its clients, its progress in expanding credit and financial services to small and medium enterprises is a promising sign for the DRC's business environment and private sector development. IFC projects Rawbank's SME and female-owned SME portfolios to grow to \$103.3 million and \$13.8 million, respectively, by the end of 2018. This would represent a meaningful impact for a young institution established in the wake of civil war.



PROJECT IMPACT AND RISK MITIGANTS

Impact

- Supporting Rawbank expanding its SME portfolio from \$29.4 million (\$3.3 million for female-owned SMEs) to a projected \$103.3 million (\$13.8 million for female-owned SMEs) in 2018.

Financing Risk Mitigants

- Second IFC loan funded through DFID.
- IFC imprimatur attracting additional financing from the French Development Agency.

Operational Risk Mitigants

- Rawbank's increased transactional history in SME lending since 2010.
- 3 percent concessionary aspect of the IFC loan conditional on Rawbank's capacity of expanding female owned SME portfolio.

CLIMATE FINANCE

Public and private sources of financing can be used together to support climate-smart investments in emerging markets, using a number of channels. For high-risk projects with a big climate impact, IFC co-invests concessional funding provided by the Global Environment Facility, the Climate Investment Funds and bilateral sources such as Canada alongside its own funds. In South Africa the KaXu Solar One power plant became the first large-scale concentrated solar plant with storage to begin operating in any emerging market. To help this technologically challenging and first-of-its-kind project succeed, innovative approaches across several project dimensions were essential, including blended finance through a Clean Technology Fund concessional loan by IFC (see case study).

Local banks and other financial intermediaries have a role to play in supporting climate-smart activities. IFC's financial partners are finding success in new climate-smart market segments while their clients reduce risk, lower operating costs, and become more resilient to the impacts of climate change and economic uncertainty.

Development finance institutions can combine efforts to develop capital markets with investor interest in supporting projects that are climate friendly. IFC Treasury is a leading issuer of green bonds, whose proceeds support investments in renewable energy, energy efficiency, and other climate-related areas. IFC works with investors to help them identify, gauge and act on climate change risks and improve the resilience of their

investment portfolios. To scale up low-carbon investments, IFC supports development of innovative investment structures and de-risking techniques that meet institutional investors' needs for risk-adjusted returns, diversification, ticket size, and liquidity. The IFC Asset Management Company's Catalyst Fund makes investments in private equity funds focused on providing capital for companies that enable resource efficiency and develop low-carbon products. Green Bonds are an example of such investment products.

CAPITAL MARKETS AND TAILORED SOLUTIONS

Deep, efficient local capital markets are a particularly effective way to access long-term, local-currency finance, the foundation of a thriving private sector and a key driver of jobs and growth. Sound local capital markets protect economies from capital-flow volatility and reduce dependency on foreign debt. Beyond local markets, other currency risks and market volatility can be addressed through tailored solutions and instruments.

The development of such markets is a priority for development banks. IFC promotes them by issuing non-government local-currency bonds, paving the way for other issuers. In addition to providing local currency finance to meet the needs of the private sector, development banks can work with governments and regulators to promote reforms and policies supporting local capital markets and local currency finance.

IFC has issued bonds in 18 local emerging-market currencies, from Armenian dram and Chinese renminbi to Indian

KaXu Solar One

South Africa's KaXu Solar One was the first large-scale concentrated solar power plant with storage to begin operating in any emerging market. Developed, financed, and constructed by private-sector investors and lenders, its 100 MW parabolic trough CSP design has been supplying clean, baseload energy to the country's grid since February 2015.

The project created 4,500 jobs during construction and 80 permanent jobs during operation. It supplies energy to approximately 80,000 homes. Sponsors are Abengoa, IDC, and Kaxu Community Trust.

Structured by IFC, Clean Technology Funds offered innovative concessional financing to the project. Blended with IFC funds, it played a critical role in making the project's financial structure viable for the financiers while keeping the cost of generated energy acceptable to end-consumers.

rupee, Peruvian soles, and Zambian kwacha. Loans, swaps, guarantees, risk-sharing facilities, and other structured products are other methods used to hedge foreign exchange, interest rate, and commodity price exposure.

The Efficient Securities Market Institutional Development program in Africa is a partnership between the World Bank Group and the Swedish International Development Cooperation Agency. The program supports the development of well-functioning securities markets in order to improve financing for key sectors such as housing, infrastructure, and microfinance.

With assistance from development institution anchor investments, Zambia's Bayport Financial Services Limited, a microfinance lender, was able to issue its first medium-term note raising 172 million kwacha, or about \$26.5 million, in 2014, the first corporate bond issuance in Zambia in five years. Proceeds will expand Bayport lending to low and middle-income borrowers and small businesses (see case study). IFC first developed a constructive dialogue with Zambian capital market regulators through a prior Zambezi bond issuance in 2013.

Beyond local debt, deploying capital market instruments such as cross-currency swaps can be critical to helping companies manage the risk of market volatility and finance successful projects. In Senegal, for example, IFC and the Overseas Private Investment Corporation provided financing for the 53 megawatt Cap des Biches power plant with project developer ContourGlobal, the Government of Senegal, and Senegal's national electricity utility. The project's innovative financing model was customized to the needs of the private sector operator to allow ContourGlobal to finance the project with an 18-year IFC swap to Euros of OPIC's \$91 million US dollar financing.

The approach reduced the risk of currency movements to provide stability by ensuring that revenues match debt service obligations. The project will provide electric power to 100,000 Senegalese.



Efficient Securities Market Institutional Development

Developing Well Functioning Stock and Bond Markets where None Exist

Sub-Saharan Africa is experiencing rapidly growing demand for housing, roads, power, and other forms of infrastructure, and a corresponding need for ways to finance them. Governments and other public institutions in the region are seeking private sector solutions, and are increasingly looking to securities markets, as they allow countries to mobilize private funds for projects that require local currency financing.

The Efficient Securities Market Institutional Development program in Africa, or ESMID, is a partnership between the World Bank Group and the Swedish International Development Cooperation Agency. ESMID supports the development of well-functioning securities markets in order to improve financing for key sectors such as housing, infrastructure, and microfinance.

In East Africa ESMID is supporting the implementation of a regional capital market to facilitate greater levels of financing for sectors where long-term local currency funds are necessary. Since the launch of the ESMID program in 2007, \$1.6 billion has been raised through corporate bonds in East Africa. All countries in the region are now prioritizing infrastructure investment by allocating significant budget resources—\$3.5 billion in 2015-16—to the energy, infrastructure, and transport sectors.

ESMID's work has supported many efforts to raise capital through bond markets.

- The Banque Commerciale du Rwanda went back to market in 2011 with the issuance of a \$1 million corporate bond to support its mortgage portfolio.
- Shelter Afrique successfully raised \$35 million in 2010 for various housing projects in Kenya following transaction support from ESMID.
- The Kenya Roads Annuity program aims to raise \$400 million in local currency, enough to build 10,000 kilometers of new roads.
- The Kenya Wildlife Service plans to raise \$70 million in local currency equivalent to fund conservation-related initiatives, including housing for rangers within national parks.
- In Tanzania the National Microfinance Bank proposes to issue a bond equivalent to \$150 million in local currency.

CASE STUDY

Scaling Solar

Tapping a Source of Efficient, Cleaner Power across Africa

While two-thirds of people in Sub-Saharan Africa lack access to grid-connected electricity, the economics and suitability of the continent for utility-scale solar power have never been better.

Solar energy is ideal for the needs of Sub-Saharan Africa. Plants can be constructed quickly and deliver electricity with lower long-term price certainty than diesel fired power plants.

And with high irradiation levels continent-wide, most countries can accommodate utility-scale solar solutions and diversify their energy production toward renewables. Nevertheless, there has not been any meaningful, privately funded solar development in the region outside of South Africa due to a lack of bankable projects in small, idiosyncratic markets where high risks and costs discourage financing.

At the same time, solar projects in Sub-Saharan Africa can deliver the financial returns that investors and developers around the world are seeking. The keys to attracting the necessary financing for such solar projects lie in standardizing projects and markets and eliminating avoidable layers of risk.

Scaling Solar was designed with this in mind. The project leverages the World Bank Group's expertise to deploy privately funded, grid-connected solar projects within two years of engagement, and to deliver power at stable, competitive tariffs and rapid timelines, while investors enjoy structured and standardized projects in a competitive process that lowers risk, costs, and consumer tariffs.

For a Scaling Solar project to go forward, the host country needs a government champion to lead the project, as well as support in the ministries of energy and finance, the regulator, and the off-taker. Project and bid preparation set the stage for a competitive, transparent tender and awarding process. Developers bidding for a Scaling Solar project encounter a fully structured deal, using standardized documents, with much of the necessary due diligence completed by the World Bank Group. This allows them to focus on their financial models and bid preparation.

In addition, pre-qualified bidders have access to an array of World Bank Group financing and de-risking instruments that can address remaining uncertainties and ensure a rapid bidding process. The World Bank Group, including the International Development Association and the Multilateral Investment Guarantee Agency, can help address off-taker credit risk and provide political risk insurance, respectively; IFC can extend local currency project financing as well as foreign currency hedging.

Scaling Solar sets ambitious targets for each phase of engagement to ensure country needs are met in the near term. Committing to achieving low-cost sustainable energy within two years of project initiation creates a tangible win for governments and developers.

In 2015 Zambia became the first country to join the program. Facing daily blackouts due to drought that crippled its hydroelectric generation capacity, the government sought to build two large solar plants as part of its strategy to generate 600 megawatts from solar in the near future. The program recently completed its first auction and the lowest bid—fixed over 25 years—came in at 6.02 cents per kilowatt hour, the cheapest solar power to date in the region and well below diesel fired power which can cost upwards of 20 cents. The project is expected to deliver 73 megawatts of solar power capacity within two years.

Senegal and Madagascar signed up for engagement in early 2016, agreeing to develop 200 and 40 megawatts of solar capacity respectively, while Zambia has already committed to a second tender through the program.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Deliver an additional 100 MW of electricity to Zambia within two years (Scaling Solar in Zambia)

Financing Risk Mitigants

- Donor support leveraging substantial private capital via competitive tenders

Operational Risk Mitigants

- Technology risks allocated to the experienced EPC and O&M contractors
- Due diligence provided by the World Bank Group
- World Bank's support in creating a sustainable regulatory environment
- MIGA's provision of political risk insurance products

CASE STUDY

Bayport

Tapping Bond Markets to Expand Lending

Capital markets are a traditional source of funds for an expansion of bank lending, yet debt and equity markets are underdeveloped and illiquid in many African countries—if they exist at all. And domestic debt markets are dominated by government securities in Africa. Zambia is no exception: As of 2014 there hadn't been a Zambian kwacha corporate bond issuance in five years.

Cooperation with multilateral development banks enabled Bayport Financial Services to end that dry spell and tap capital markets for the funds it needed to expand lending. IFC first developed a constructive dialogue with Zambian capital market regulators through a Zambezi bond issuance in 2013. The development bank then used its extensive experience with capital markets transactions—both in Zambia and more broadly—to help Bayport plan its own issuance that could be appropriately structured and launched in a timely manner.

IFC and African Local Currency Bond Fund, a unit of the German-government owned development finance institution KfW, also made funding commitments: IFC committed to purchase 35 percent of the issue as an anchor investment in the Bayport bond and ALCB Fund promised to buy 13 percent. Those investments were catalytic, as IFC's imprimatur enhanced the issuer's profile and created a comfort level for other investors, eventually attracting pension funds and insurance companies to the transaction.

Investor interest in the issue was robust enough that Bayport increased the offering by ZMW 21 million, from the initial 150 million planned. In the end, the company was able to issue its first medium-term note, raising ZMW 172 million, or about \$26.5 million. Not only did the issue break a long dry spell for the market, it was the largest corporate bond issuance in Zambian history.

In addition to expanding Bayport's lending base and profit potential and encouraging Bayport's efforts to strengthen responsible finance practices, the Bayport bond project helped deepen Zambia's domestic capital market, a critical ingredient to financing the country's domestic economy. It also had a positive impact on the private sector by establishing strong financial practices and demonstrating the possibilities for tapping capital markets to fund new business ventures in Africa.

Bayport's example is expected to encourage other enterprises in the region to pursue bond issuance as a means of broadening their investor base and lowering their funding costs.



Perhaps most important, the credit now available to low and middle-income workers and small businesses in Zambia will encourage investments in business ventures, small scale agriculture, education, and home improvement, and those in turn will generate economic growth and new sources of profits for other private enterprises.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Raised \$1.6 billion through corporate bond offerings in East Africa
- Raised \$26.5 million through new bond issues in Zambia to finance microlending.

Financing Risk Mitigants

- IFC's presence in the bond program, providing comfort to investors
- IFC's sound technical expertise to support structuring of the bond program

Operational Risk Mitigants

- Competent mid-level management
- IFC's knowledge of Zambian bond market through the issuance of Kwacha denominated "Zambezi" bond in 2013
- IFC's strong relationship with the Company's senior management, its creditors and the arranger (Barclays/ABSA)

CASE STUDY

Cargill/SIB and Cameroon Agriculture

Securing Agricultural Supply through Loans to Farmers and Coops

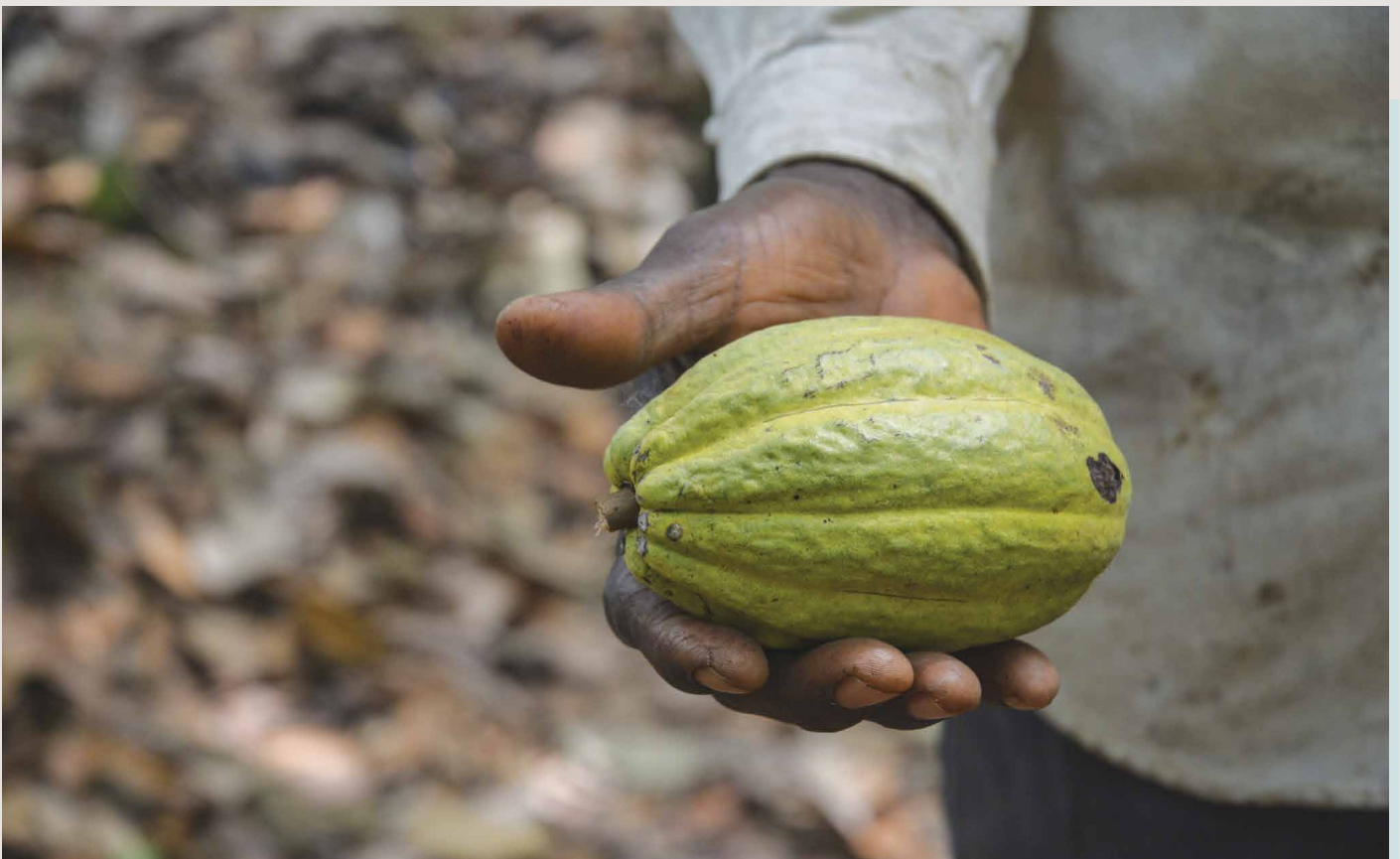
Cote d'Ivoire is among the world's largest producers of cocoa beans and their export is a mainstay of the West African nation's economy. Nearly all cocoa production in the country comes from small farmers, many of whom belong to farming cooperatives. Yet logistics has historically been a major challenge for these farmers, as bad roads lead to damaged vehicles, the proper maintenance and repair of which have often proved to be prohibitively expensive. A Risk Sharing Facility was provided to secure agricultural supply through loans to farmers and coops in Cote d'Ivoire, with similar efforts observed in Cameroon.

Cooperatives have access to short-term financing through exporters, but the duration of available loans has generally prevented them from financing new trucks. The result is that cooperatives need to resort to second and third-hand vehicles which involve significant maintenance costs. Cocoa collection via existing or older trucks is the largest component in the cooperatives' cost structures.

In 2013 agribusiness giant Cargill, a major global purchaser and processor of cocoa, established Cargill Coop Academy, a program to help Cote d'Ivoire cocoa cooperatives better manage their businesses by teaching management, governance, finance, auditing, and marketing skills. The program is part of a broader Cargill effort, Cargill Cocoa Promise, to secure a reliable supply of cocoa, much of which is grown by smallholder farmers around the world, in order to meet a rising global demand for cocoa and chocolate products.

In 2015 Cargill wanted to expand the Coop Academy program in Cote d'Ivoire to improve the coops' profitability by reducing the burden of maintaining old trucks. To do so it collaborated in a risk sharing facility—along with IFC, an Ivorian bank, and the Global Agriculture and Food Security Program—to add a financing arm to the Coop Academy. With access to finance, coops could lease trucks to more easily and efficiently collect beans from the fields.

IFC and Societe Ivoirienne de Banque, Cote d'Ivoire's fourth largest bank, agreed to equally share the credit risk in a \$6 million portfolio of medium-term (three-year) truck leases provided by SIB to the coops. Cargill was the off-taker for the cocoa produced by the coops and made the deal bankable by arranging to service the coops' debt from the proceeds of their cocoa sales, thereby mitigating the credit risk involved.



In September 2015, 43 cocoa cooperatives in Cote d'Ivoire took delivery of new trucks at a ceremony in Abidjan. Medium-term financing is now available to 70,000 underserved smallholder farmers through 100 cooperatives. For Cargill that means a stronger cocoa value chain and a more reliable supply of cocoa beans.

Similarly, in Cameroon, a joint World Bank-IFC Program was launched in March 2015 to improve the competitiveness of producer organizations of farmers growing cassava, maize, and sorghum. Banque Internationale du Cameroun pour l'Epargne et le Crédit, the third largest bank in the country, is the first partner financial institution to participate in the risk sharing facility, the total size of which is about 5 billion Central African CFA francs, or about \$8.3 million.

According to the terms of the program, BICEC lends to producer organizations that satisfy certain criteria set by BICEC and IFC, and IFC shares the risk up to 50 percent of total project costs. Funding from the Global Agriculture and Food Security Program was also mobilized by IFC as additional risk mitigation. The World Bank provided another \$100 million in financing through the International Development Association to assist producer organizations with capacity building, core public services support, and infrastructure improvements.

BICEC kicked off the program with two sorghum producer organizations in north Cameroon, financing their acquisition of plants to process clean sorghum for Guinness Cameroon. Targeting a sector that banks have historically shied away from, this program allowed smallholder farmers to increase and modernize production.

Going forward, the hope and expectation is that the public-private multiparty credit arrangement can be replicated for other crops in Cote d'Ivoire, Cameroon, and beyond, providing smallholder farmers across Africa with access to medium-term financing to cut costs and improve profitability.



PROJECT IMPACT RISK MITIGANTS

Impact

- Access to 130 new trucks serving to 70,000 farmers in Cote d'Ivoire
- 90,000 metric tons of cocoa collected by the cooperatives benefiting from the leases in Cote d'Ivoire
- Reaching minimum 25% female working population given women's domination in value chains such as cassava and maize in Cameroon

Financing Risk Mitigants

- The 4-partite Risk Sharing Facility between Cargill, SIB, IFC and GAFSP
- Cooperatives' long track record of serving Cargill's working capital advances

Sector-Specific Risk Mitigants

- Successful implementation of the sustainable trading margin regime for coops following the 2012 Cocoa Sector reforms

Environmental/Social Risk Mitigants

- Requirements for coops to certify mitigation of child labor and traceability risks through the sustainability and supply chain management programs by Cargill

CASE STUDY

Al Tadamun Microfinance Foundation

Supporting Women Entrepreneurs in North Africa

With donor support from DANIDA, Japan, and the Middle East and North Africa Transition Fund, IFC is supporting a key microfinance player in Egypt called Al Tadamun Microfinance Foundation.

By providing advisory services to microfinance institutions like Al Tadamun—and specifically by helping them build resilience, diversify their product portfolio, and build their overall institutional capacity—IFC helps these lenders better serve their clients. It also furthers the effort to provide access to financial services to the poorest segments of Egyptian society.

Al Tadamun has a 20 year history of helping meet the needs of underprivileged Egyptian women entrepreneurs by serving as a source of finance to establish, sustain and expand projects that generate income for families. In 2013, Al Tadamun entered into a three-year partnership agreement with IFC, in cooperation with SANAD Fund for Micro, Small and Medium Enterprises, to support Al Tadamun to build resilience, diversify products, and enhance institutional capacity. The microfinance institution has ambitions to grow rapidly, and achieve a larger share of the market for microloans and deeper penetration in the communities it serves.

As of December 2015, Al Tadamun had more than 66,000 active borrowers with an average loan balance of \$145. It added 5,000 more borrowers in the first half of 2016. The average loan balance as a percentage of GNI per capita is around 5 percent for Tadamun, well below the regional average of 14.2 percent, an indication that Al Tadamun is reaching poorer clients than those served by other lenders in the region.

Al Tadamun lends exclusively to urban women entrepreneurs through solidarity group lending and in doing so serves a microenterprise segment (low-income women) that research suggests is doubly excluded from the formal financial sector as a result of low income and gender. World Bank data shows that microenterprises in Egypt suffer disproportionately from low financial intermediation with only 11.1 percent having loans (compared with 38.2 percent among large enterprises). Evidence from the most recent Investment Climate Assessment for Egypt suggests that women face much greater hurdles than men in accessing finance and are confronted with higher rejection rates.



Al Tadamun exclusively serves female clients in the Greater Cairo area. This area has the largest number (7.5 million) of people classified as poor in Egypt.

Tadamun's branches are all located in the poorest parts of Greater Cairo including Imbaba, Boulaq, El Marg, and Dar El Salam, and serve a clientele in need of financing that can support income-generating activities and reduce overall vulnerability.

Tadamun reaches women like Zeinab (pictured), a 19-year old who produces wallets on her own sewing machine. She received a LE 1,500 loan (about \$200), with ambition to one day own her own workshop with more machines and staff.

PROJECT IMPACT

- A fully functional and trained internal audit department established, contributing to a professional and fully staffed HR function
- Between 2013-mid 2016, added 30,000 borrowers
- Nearly 160% of outstanding portfolio growth

CASE STUDY

Kenya Tea Development Agency

Improving Tea Farmer's Yields with Better Fertilizer and Training

Tea is a major cash crop in Kenya, the world's third largest tea producer. And as the leading provider of foreign exchange, the tea industry is a critical source of employment and economic growth for the East African nation. Over 60 percent of Kenya's black tea production—or 13 percent of global production—is grown by 560,000 Kenyan smallholder farmers. They are the owners of the Kenya Tea Development Agency Ltd., which operates 67 tea factories.

KTDA operates across the entire tea value chain, from the procurement of fertilizer for farmers to the transportation, processing, and marketing of the tea produced. Each factory purchases and processes the tea grown by its member farmers.

Tea farmer revenues depend primarily on tea prices, the cost of inputs, and the ability of farmers to maximize yields. KTDA has made substantial efforts to address the first two elements. Yet there is significant potential for further productivity improvements to boost yields. Currently, KTDA smallholder yields average two tons per hectare, lower than the average three tons per hectare achieved by Kenya's large-scale tea plantations.

The main obstacle to better smallholder yields is nutrient management: KTDA's tea factories apply uniform fertilization across all estates based on soil analyses from the 1950s and 1960s, leaving some tea estates nutrient depleted and others over-fertilized. Critical micronutrients also have been depleted in some areas, risking long-run yield reduction or quality deterioration, or both.

Concerns have also been raised regarding KTDA's biomass fuel use for tea processing. Along with the rapid expansion of agricultural land for tea cultivation, some of KTDA's tea factories were found to be using wood sourced from third-party suppliers, which may be depleting indigenous trees in protected forests. Such practices have put those factories at risk of losing their Rainforest Alliance certification and could result in the loss of key buyers such as Unilever that demand sustainably produced tea.

Those risks, both real and perceived, and the resulting low risk-adjusted returns, deterred private investment in Kenya's tea industry. In response, in 2016 IFC and KTDA, with the support of a major donor, launched a new 420 million Kenyan shilling (about \$4.2 million) initiative to improve productivity and business skills of smallholder tea farmers and strengthen KTDA's biomass fuel supply chain over the next four years. Through this initiative IFC and KTDA will set up continuous soil and leaf testing for all member farmers in order to formulate tailored fertilizer blends that can improve soil productivity. In addition, 330,000 farmers will receive financial training to more effectively manage their farms and incomes. IFC will also work with KTDA to strengthen its fuel supply chain and ease the company's transition to renewable energy sources.



The new initiative continues an ongoing partnership between IFC and KTDA that began in 2012 when IFC first invested in the company's expansion. In 2016 IFC made another loan of \$55 million to finance seven small hydropower plants to power KTDA's tea factories.

The funding from IFC has been made possible by the Government of Japan through the comprehensive Japan/IFC Trust Fund - Tokyo International Conference on African Development (TICAD) window. This substantial Japanese government financial support will significantly improve KTDA's risk/return profile, making it more attractive to private investors.

Going forward, more African enterprises with large smallholder footprints similar to KTDA are looking to benefit from financial aid and technology transfer of Japanese expertise in areas including agronomic management, energy efficiency, soil fertility management, and biomass fuel use. The result should be a fundamental improvement in the livelihood of smallholder farmers who provide up to 80 percent of the food supply in Sub-Saharan Africa.

PROJECT IMPACT

- 560,000 farmers have access to improved agronomic advice and tailored soil nutrient solutions
- 20 percent increase in KTDA average yield per farmer
- 330,000 farmers received financial mgmt. training

CASE STUDY

Bridge International Academies

Expanding Education That Gets Results

Many African nations struggle to provide affordable quality education to the poor in their societies. Limited classroom space, high absentee rates among teachers, hidden fees, and non-standardized curriculums all contribute to create obstacles that low income families often cannot overcome.

Three years ago NewGlobe Schools Inc. wanted to expand Bridge International Academies, which at the time operated 250 low-cost schools in Kenya. The goal was to increase the number of schools, which serve families living on \$2 or less a day, to over 400 in Kenya and to replicate the Bridge model in Uganda, Nigeria, and India. The ultimate objective is to provide access to education for 1 million low-income students by 2020 and 10 million by 2025.

Bridge Academies' innovative strategy delivers quality education to children of poor families at low cost. It leverages data, technology and scale to standardize everything from content development and teacher training to academy construction and billing. Computer tablets provided to Bridge Academy teachers allow them to deliver scripted lessons and track lesson completion and assessment scores.

Bridge schools are generally built on greenfield sites located in high density, low-income communities where children have to walk no more than 500 meters to the school. Its academies reach operational sustainability after just one year, on average.

The highly standardized and replicable model allows Bridge to charge students an average of just over \$6 per month in fees, making them affordable to 90 percent of the people in the communities where they operate and encouraging poor families to send both boys and girls to school to improve their lives and prospects.

With an estimated price tag of \$60 million and the additional regulatory hurdles inherent in a cross-border expansion, NewGlobe's expansion project turned to development banks, including IFC and CDC, the UK's development finance institution, for help. IFC made a \$10 million preferred equity investment and CDC invested \$6 million. The Gates Foundation invested \$10 million, existing NewGlobe investors put in \$15 million and new investors another \$15 million. A \$10 million loan was arranged from the Overseas Private Investment Corporation, the US government's development finance institution.

The funds were used primarily for new country expansion (71 percent) and new schools in Kenya (14 percent), and development of Bridge's software and general operations. IFC and the World Bank helped Bridge understand and navigate government policies and regulations in the three new markets.



Today Bridge educates more than 80,000 students in 459 nursery and primary schools across multiple countries. Bridge Academy students consistently outperform their peers in public and other low-cost private schools in reading and math, according to independent testing. Additionally, the World Bank has launched a rigorous, independent impact evaluation of the Bridge International Academies program in Kenya, which will be the first large-scale, randomized, controlled trial of fee-paying schools in sub-Saharan Africa.

In November 2015, Bridge's first class of students sat for the national exams in Kenya, and early results are positive. Bridge's very first academy in Mukuru Kwa Njenga, which opened in 2009, was one of 19 of its academies with a 100 percent pass rate and average scores that exceeded the national average in national exams in 2015. Bridge founders Jay Kimmelman and Shannon May were named Social Entrepreneurs of the Year, World Economic Forum for Africa, in 2014.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Access to education for 1 million students from low-income backgrounds by 2020
- Creation of 57,000 teaching jobs by 2020

Financing Risk Mitigants

- IFC's provision of highly needed long-term financing to support Bridge's early stage expansion

Operational Risk Mitigants

- High replicability of Bridge's business model and success in Kenya

Market and Regulatory Risk Mitigants

- Action plan initiated by IFC, World Bank and other development partners to support Bridge's cross-border expansion
- World Bank assistance in understanding and navigating government regulations in the new markets
- NGS certification as an examination center for 134 of its schools

CASE STUDY

Africa Improved Foods

Nutrition on a Larger Scale in East Africa

In a project that addresses chronic malnutrition, DSM, a Dutch multinational, established a nutritious food processing plant in Rwanda. This project of ambitious scale needed risk mitigation by reputable sponsors and responsive governments. It required strong purchase, supply, and off-taker arrangements for raw materials and final products.

In 2015, IFC agreed to provide a \$26 million financing package. It comprised \$21.5 million in loans from IFC and mobilized from other sources, and \$4.5 million in equity to Africa Improved Foods Holding. The donor-funded Global Agriculture and Food Security Program private sector window provided key support to this project with \$8 million of the \$26 million financing package intended for the construction and operation of a 45,000 tons-per-year processing plant to produce fortified cereals to treat malnutrition in nearly one million children.

This project created a partnership involving several parties: DSM; the UK's and the Netherlands' development finance companies CDC and FMO; the World Food Program; the government of Rwanda; and the Clinton Health Access Initiative. It will source raw materials through farmer cooperatives in Rwanda and through the government, thereby providing a stable market for farmers' produce.

The off-taker agreement with WFP, the food aid branch of the United Nations, is a key anchor for the project. The WFP plans to distribute the product in Southern Sudan, Uganda, and Burundi, among other countries. Rwanda has also agreed to purchase a portion of the output to distribute to the most vulnerable, while the remaining output will be sold in the retail market.

The project aims to develop a suite of nutritious products produced locally for young children and women, based primarily on local agricultural products and that suit local eating habits. After Rwanda, a similar plant is planned for Ethiopia.

The first phase of the project in Rwanda is expected to cost nearly \$60 million in capital expenditure and working capital. IFC has played a leading role in the financing and helped to bring in FMO and CDC as equity partners.

The Clinton Health Access Initiative played a key role in developing this project, especially by bringing the public parties and DSM to the project. CHAI has no financial interest in the project but sees this initiative as important in addressing health issues in Sub-Saharan Africa.



PROJECT IMPACT AND RISK MITIGANTS

Impact

- Plant capacity of 45,000 tons-per-year to produce fortified cereals to treat malnutrition in nearly one million children

Financing Risk Mitigants

- Provision of patient equity capital by GAFSP, IFC, FMO and CDC
- Provision of long-term debt by IFC and other financiers
- Off-take agreement denominated in US dollars to match currency of debt

Operational Risk Mitigants

- Highly experienced sponsor, contractor and management team

Market/Off-Taker Risk Mitigants

- Guaranteed off-take by UN's World Food Program and the Government of Rwanda

CASE STUDY

GLS Liberia and SME Ventures

Providing Risk Capital and Technical Assistance to Entrepreneurs

As the Ebola epidemic overwhelmed Liberia in 2014, foreign logistics companies largely withdrew from the West African country. But GLS Liberia, a growing, locally-owned logistics company, stepped into the void and became a critical player in the country's defense against the disease. As urgently needed medical supplies arrived in Liberia, GLS had a fleet and distribution network ready to move shipments from the airport to sites across the country, alleviating the impact of the crisis.

GLS owner Peter Malcolm King launched operations in 2012 with little more than a staff of four and his international logistics experience, his knowledge of local market needs, and the motivation to build a competitive logistics operation in Liberia.

But building a company like GLS requires significant funding—in this case for obtaining trucks and other equipment. An investment from SME Ventures' locally-managed risk capital fund enabled King to build his fleet and start operations. GLS is now a leading logistics supplier in Liberia with more than 40 employees and a roster of local and multinational clients.

Small and medium-sized enterprises drive employment and economic growth in emerging economies and they are particularly important to fragile and conflict-affected economies such as Liberia. But small and medium-sized firms face an enormous need for *risk capital*—forms of loans or equity that involve a higher risk tolerance than bank loans. They also face operating challenges such as limited management experience and scarce access to necessary skills and inputs. Even a motivated and experienced entrepreneur like King isn't immune to such problems; a series of civil wars in Liberia created a generation with little or no education, hampering his ability to find employees with essential skills such as financial management.

IFC's pioneering SME Ventures program was designed to address some of the key financial and business challenges that hold back high-potential SMEs in the world's most difficult markets. The program provides a unique combination of risk capital and advice to entrepreneurs. Building on the private equity model in which fund managers carefully select and cultivate high-potential firms, IFC provides emerging (and often first-time) fund managers with capital to invest and funding to extend technical assistance to their investee SMEs. The program also engages World Bank Group counterparts to assist governments in developing regulatory frameworks in which these funds—and future market entrants—can operate. SME Ventures now encompasses five funds covering nine fragile and frontier markets—Bangladesh, Burundi, Central African Republic, the Democratic Republic of the Congo, Liberia, Nepal, the Republic of Congo, Sierra Leone, and Uganda—most of which are countries in which no other funds previously existed. SME Ventures' first phase resulted in more than \$50 million in investment into more than 70 high-growth companies

in fragile and frontier markets. These firms created more than 9,500 direct and indirect jobs in countries where employment opportunities are particularly scarce. Additionally, 20 percent of these companies were women-owned firms and 20 percent of the overall direct jobs created are held by women.

Based on these promising results, IFC is expanding SME Ventures into additional fragile and frontier markets, with the goal of investing \$500 million in up to 20 funds over the next four years. The expansion also provides an opportunity to involve more development partners. Co-investment alongside IFC—such as investments from the Dutch development bank FMO, Cordaid, and the Lundin Foundation into SME Ventures' initial Sub-Saharan African funds—helps unlock additional capital for high-growth SMEs. Partners are also important to SME Ventures' grant program which enables SMEs to obtain the technical assistance needed to achieve their full potential.

In the case of GLS, support from an SME Ventures fund propelled the firm from startup to an established local incumbent. It has quadrupled sales, increased its staff tenfold, and is now expanding its geographic footprint. King is in the process of significantly expanding GLS's fleet and also envisions a role for GLS in other aspects of Liberia's infrastructure, including air cargo facilities.

PROJECT IMPACT AND RISK MITIGANTS

Impact

- Investments of more than \$50 million into 70 high-growth companies.
- Creation of 9,500 jobs, directly and indirectly.
- 20% of companies supported are women owned.

Financing Risk Mitigants

- IFC's provision of risk capital through the SME Ventures program.
- IFC's presence, providing comfort to potential SME investors (including other development finance institutions).

Operational Risk Mitigants

- IFC's provision of advice through the SME Ventures program
- World Bank Group's assistance in developing regulatory frameworks

CASE STUDY

Tanzania Interoperability Standards

Pioneering Mobile Money

Sub-Saharan Africa has undergone a technological revolution during the past 15 years. Africa has leaped from less than one percent mobile telephone penetration in 2000 to over 70 percent today. Change has been fueled by progressive regulatory measures, supported by advice from the World Bank in at least 40 governments, and substantial investments in rollout of new mobile operations and in regional fiber networks to connect Africa globally. IFC, for example, has financed 32 technology, media, and telecoms projects in 12 African countries, and provided advice to encourage new technologies to flourish.

In 2014, Tanzania became the first country to successfully develop and implement standard business rules for interoperable mobile financial services transactions. Interoperability refers to the seamless transfer of electronic value stored in mobile wallets between different mobile financial service providers as well as mobile wallet-to-bank transfers. Through an interoperable switch, service providers can more effectively reach the unbanked. The lack of interoperable services is an impediment to the expansion of mobile financial services.

The process by which the interoperable standards were developed in Tanzania was facilitated by IFC and supported by the Bill & Melinda Gates Foundation and Financial Sector Deepening Trust of Tanzania, which provided \$2.8 million funding to develop the Scheme Rules for Mobile Financial Services in Tanzania.

Tanzania's interoperability standards allow registered users at participating mobile financial services providers to receive and send money directly to one another's wallets under rules developed at the industry level that govern how those payments flow. It is the first phase of a longer term vision of interoperability across the entire mobile financial services ecosystem.

Despite the obvious advantages of interoperability, great industry interest, and some ambitious initiatives, success has generally been elusive outside of bank-to-wallet integrations in most markets.

IFC played a key role in facilitating development of Tanzania's interoperable standards. As a party independent of operators and regulators, IFC could facilitate the process for the creation of a domestic mobile money payments scheme, which enabled industry players to work together in developing common standards.

Based on a Moody's study across a sample of 51 developed and emerging countries, a one percent increase in electronic money transaction volumes can translate to an average GDP growth of 0.24

percent. Tanzania is already a leading market for mobile money and banking. Interoperability standards will help it continue to innovate and encourage a more accessible financial services industry, which promotes further growth and financial inclusion.



PROJECT IMPACT

- In September 2014, final agreement was reached for wallet-to-wallet operating rules
- The agreement increases access to mobile financial services and advances financial inclusion

PRIVATE EQUITY

Private Equity funds are another financing option gaining prevalence in Africa. An initial \$20 million equity injection from IFC in 2007, followed by another \$60 million in 2010, were made to Helios Investment Partners, an Africa-focused private investment firm. The development bank’s anchor investment attracted otherwise hesitant investors, putting Helios on its way to a capital commitment goal of over \$1 billion. Meanwhile, development finance institutions can also help global institutional investors take equity in African companies.

IFC’s pioneering SME Ventures program was designed to address some of the key financial and business challenges that hold back high-potential SMEs in the world’s most difficult markets. The program provides a unique combination of risk capital and advice to entrepreneurs. Building on the private equity model in which fund managers carefully select and cultivate high-potential firms, IFC provides emerging and often first-time fund managers with capital to invest and funding to extend advisory services to their

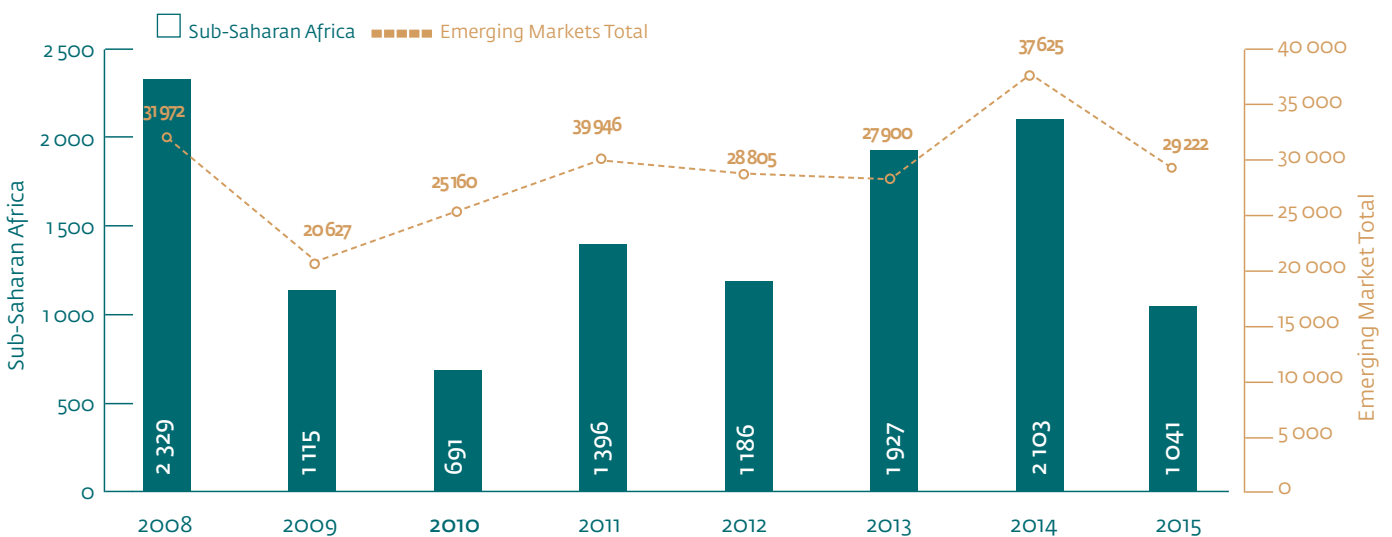
investee SMEs. The program also engages World Bank Group counterparts to assist governments in developing regulatory frameworks in which these funds—and future market entrants—can operate (see case study).

The IFC Asset Management Company offers a new way to expand financing for development and help investors benefit from IFC’s extensive investment experience in developing countries. Since it was established in 2009, AMC has set up nine investment funds, with assets approaching \$9 billion in 2015, including a number of funds specifically focused on Africa

MEETING THE MARKET CHALLENGE

Certainly challenges remain to investing in emerging markets in general, and in Africa in particular. Investors looking at opportunities in the region must consider political and sovereign risk, currency risk, regulatory uncertainty, governance and corruption issues, and a lack of local expertise and suitable

FIGURE 7: CAPITAL INVESTED THROUGH PRIVATE EQUITY (US \$mn)



Note: Includes private equity, private credit, private infrastructure and real assets.

Source: EMPEA Industry Statistics, data as of 31 December 2015.

investment vehicles, among other factors. Even in developing economies with mature capital markets and stable political systems, achieving the investment grade rating that many institutional investors require often remains a challenge.

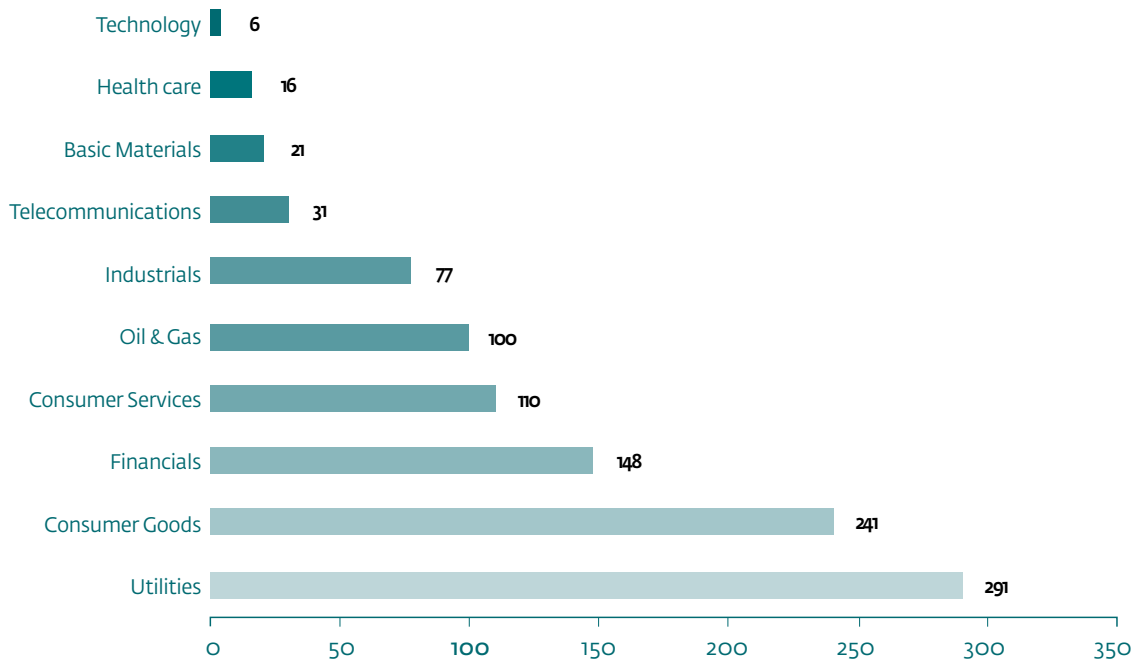
Therein lies the role for development finance institutions, which can help mitigate risk and “crowd in” private investment in a number of ways.

- *Contributing anchor funding to provide the confidence and creditor status investors require.*
- *Providing institutional investors with new ways to tap African markets, such as through IFC Asset Management Company, which provides equity investment alongside IFC.*
- *Providing insurance against political risks such as expropriation and terrorism.*

- *Providing currency swaps to eliminate foreign exchange volatility.*
- *Providing structuring and technical expertise to ensure bankability.*
- *Improving local policy and regulatory environments.*
- *Supporting regional governments with project selection and preparation.*
- *Strengthening domestic capital markets and promoting cross-border investment.*

Even in difficult economic and risk environments, methods exist to underwrite successful investments in Africa.

FIGURE 8: SUB-SAHARAN AFRICA INVESTMENT BY INDUSTRY, 2015 (US \$mn)



Source: EMPEA Data as of 31 December 2015.



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Woman in Dodoma, Tanzania, p. 39, photo by C. Shubert (CCAFS)



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