Enhancing the capacity of the LLDCs to access funds, facilities, and financing

Jaehyang So
World Bank Group

Expert Group Meeting on Financing Infrastructure Development for enhanced integration of the LLDCs into global trade

October 5, 2017
IDA: Implementation of the 2030 Agenda through Five Priority Themes
Who is Eligible for IDA?

Key Eligibility Criteria

- **Poorest**: GNI per capita below IDA operational cutoff (US$1,185 in FY17)
- **Lack creditworthiness**: No access to IBRD

77 countries as at FY17
IDA18 Record Replenishment: $75billion

Every three years, donors and borrower representatives agree on IDA’s strategic directions, financing, and allocation rules—known as the replenishment.

- Offers exceptional value for money, with $3 in spending for every $1 in partner contributions

- Key Eligibility Criteria
  - Poorest: GNI per capita below IDA operational cutoff (US$1,185 in FY17)
  - Lack creditworthiness: No access to IBRD

- 77 Countries in FY17
Cascade approach incorporates public and private financing systematically

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

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

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

4. PUBLIC & CONCESSIONAL FINANCING, INCLUDING SUB-SOVEREIGN
   - Public finance (incl. national development banks and domestic SWF)
   - MDBs and DFIs
   - Can development objectives be resolved with scarce public financing?
The balance of public and private funding differs among sectors:

**PRIVATE SECTOR FINANCING**

- Sector Investors/EPC // Institutional Investors // Equity Funds & Asset Managers // Commercial Banks
- Corporate Bonds (Including State Owned Enterprises Issuances)

**PUBLIC SECTOR FINANCING**

- Federal, National, Local Budgets // Development Finance Institutions & Multilateral Development Banks
- Public Bond Financing // National Development Banks

FUNDING:
- INFORMATION & COMMUNICATIONS TECHNOLOGY
- ENERGY
- TRANSPORTATION
- WATER

DELIVERY:
- PPPS
- PUBLIC

User Fees:
- 80-90%
- 10-20%

Tax Base:
- 40-60%
- 40-60%
- 30-70%
- 20-40%
- 60-80%

Income & Tax Base:
- 40-60%
- 40-60%
- 30-70%
- 20-40%
- 60-80%

Note: The percentages indicate the proportion of funding from public and private sources, which vary across different sectors.
WBG Mobilizing Agenda: Areas of focus

Increased Financial Leverage
- IBRDs increase in financial leverage through expenditure review
- MDB exposure exchange swaps
- IDA's triple-A credit rating helps enable capital market access, to provide clients with billions of dollars in additional resources

Innovative Approaches to Support Public Goods
- Creation of Pandemic Emergency Facility (PEF)
- Enhanced role in climate finance

Mobilization of Private Capital to invest in developing countries
- IFCs Asset Management Company (AMC) and Managed Co-lending Portfolio Program (MCPP)
- Global Infrastructure Facility

Convening platform for public & private sectors
- Innovative partnerships for leverage: e.g. Concessional Fin. Facility, Global Crisis Response Platform
- Development Finance Forum – annual gathering of influencers in private and public sectors

Increased Domestic Resource Mobilization
- Joint IMF-WBG Tax Initiative to build domestic resource mobilization capacity
- Intensified knowledge work (e.g. Colombia’s Building Local Currency Bond Markets to Finance Infra)
- Intensified work on Illicit Financial Flows
2015 Addis Ababa Action Agenda called on the MDBs to establish Global Infrastructure Forum in order to “improve alignment and coordination among established and new infrastructure initiatives”

First Joint MDB Report on Mobilization of Private Finance, April 2017, showed that out of $163.6 billion of private finance mobilized, $68.7 billion went to infrastructure in 2016
The Global Infrastructure Facility (GIF)

In order to contribute to the transformation of infrastructure into an attractive asset class for private sector investment, the GIF will serve as a project preparation and financing platform with three key characteristics:

- It will draw upon skills and financial instruments from multiple partners, public and private, rather than replicate those skills
- It will crowd in external financing - commercial, institutional and official
- It will focus on projects that meet specific eligibility criteria according to priority areas, size, complexity and the potential for financial viability as PPPs

(*)The GIF is not a new institution
Invest4 Climate Platform

- The Invest4Climate Platform, launched at UNGA, is designed to bring together national governments, financial institutions, private sector investors, philanthropies, and multilateral banks to support transformational climate action in line with the Paris Agreement.

- It will bring together investors with high-impact opportunities in developing countries such as large-scale development of battery storage, electric cars, and low emission air conditioning.

- It will also facilitate such investments through the development of risk mitigation instruments and, based on demand, will work with national governments to improve policy environments.
The Belt and Road Initiative, first proposed by President Xi Jinping in 2013, is an effort to improve regional cooperation and connectivity on a trans-continental scale:

- Precise scope of each aspect of the initiative is still taking shape.
- Initiative is open to all countries and international organizations.
- WBG deeply engaged in countries along the Belt and Road.
- WB commitments of about US $80 billion for infrastructure in Belt and Road countries, plus numerous projects addressing infrastructure, trade, and connectivity in project pipeline.
Technology

- Cost of solar power fell by 80% in last 6 years; wind power by 50%
- Installed capacity of solar energy grew 40 times and that of wind 6 times in the last 10 years
- Cost of smartphones has decreased 5% per year (2008-2013)
- Concerns of inequitable access, privacy and security
- Impact on jobs from automation and improved technology must be analyzed

From a global population of 7.4 billion

- Only 3.2 billion people have internet access
- Only 1.1 billion people have Broadband access

Source: WDR 2016
Thank You

[Link to World Bank Group SDGs]

Follow us on twitter @WBG2030

Mahmoud-Mohieldin on LinkedIn

October 2017
Can the SDGs be met without infrastructure?
Enhancing LLDC Connectivity is a Key Priority

- WB transport portfolio: $42 billion and 217 projects realized in 78 countries
- Largest provider of development finance for transport globally
- One fourth of all transport-related programs is for enhancing the connectivity and regional integration of LLDCs
- Assistance supports Vienna Program of Action and includes:
  - corridor projects
  - backbone internet connectivity
  - intermodal connections, especially at the interface between ports, rail, roads and inland waterways
  - asset preservation
  - expansion of broadband coverage and border crossing interventions.

12.4 billion
Transport & ICT Global Practice supports 26 LLDCs:
- 72 lending projects
- 85 Advisory Services and Analytics
The current volume of financing for infrastructure is not sufficient

Public spending by client governments on infrastructure investments is significant
- Roughly $1.5tn spent annually
- PPP $112bn in 2015 with financing leverage 1:1
- $80bn contributed by MDBs in 2015

However, major quality and service gaps remain...
- 1.1 bn individuals are without electricity
- 663 mn lack improved drinking water sources
- 2.4 bn still lack improved sanitation facilities
- 1 bn live more than 2 km from an all-weather road.
- 55% of emissions are directly or indirectly attributable to infrastructure.
- Women disproportionately bear the burden of service gaps.

Value of private financing to public providers is unknown but clearly below potential given limited credit-worthiness of many utilities
- 17 percent of developing-country water utilities generate enough revenues to be deemed credit-worthy
- Only two countries in Sub-Saharan Africa charge tariffs high enough to recover the full capital cost of service provision

Affordability concerns:
- *Who pays?* User fees vs. taxes: the poor may be better served by a combination of cost recovery and targeted subsidies and payment schemes
- *Who funds?* Public vs. commercial: commercial financing costs more—often a binding constraint for low income countries; but high opportunity cost of public and concessional finance
WBG Involvement with Public-Private Partnerships
Addressing the infrastructure services and finance gap now has great momentum

- G20 central theme / APEC central theme
- Primary response has been more liquidity: New MDBs / New funds at existing MDBs

An important challenge is to catalyze private finance--such as pension funds, insurance companies and sovereign wealth funds

- Estimates of long-term assets held by the largest institutional investors are in the tens of trillions of dollars
- By end-2012, pension funds in emerging economies had c.$2 trillion in assets, insurance companies over $3 trillion, and SWFs more than $ 5 trillion.
- Only a tiny part of their increasing resources is invested in infrastructure finance (c.1% of assets).

To turn infrastructure assets in developing countries into a recognized asset class:

- Build pipeline of well prepared and commercially viable projects.
- Structure projects to address the regulatory, political and reputational risks associated with investments in emerging economies
Potential of Islamic finance

An Expanding Market

- Shariah-compliant assets have reached nearly USD1.9 trillion, spreading across 50 Muslim and non-Muslim countries across the world. There is an estimated $3.3 trillion in sovereign wealth funds based in OIC countries.

Intersection of Islamic finance & PPPs in infrastructure:

- Both types of investment intend to meet basic service-delivery needs and achieve social good.

- Hallmark of sharī‘ah-compliant structures is their asset backed or asset based nature (a tangible or physical asset underlies the transaction)

- Interest income or guaranteed returns are forbidden in Islam, there must be a degree of risk sharing, as in the case of PPPs.

- Given the long-term and stable nature of infrastructure investments generally, they allow for long-term stable rates of return to investors.

- Co-existence of conventional and Islamic financing