FIRST and Maximizing Finance for Development

Maximizing Finance for Development (MFD) refers to the World Bank Group’s approach to systematically leverage all sources of finance, expertise, and solutions to support developing countries’ sustainable growth. Meeting the challenges of the Sustainable Development Goals (SDGs) by 2030 will require an estimated US$2.5 trillion, which far surpasses countries’ budgets and available donor funding. Hence, new sources of capital will be required to meet global development needs, and sound and inclusive financial sectors will be essential to mobilizing private sector participation and finance to support the MFD agenda.

In 2017, the World Bank Group introduced a set of new principles for MFD, which entail prioritizing private sector solutions wherever possible, effectively crowding in commercial financing and reserving concessional and public resources for deployment where can have the greatest development impact. The MFD approach emphasizes the role of policy guidance, technical assistance (TA), and knowledge exchange in unlocking risk-averse private pools of capital to respond to development needs and priorities.

The Financial Sector Reform and Strengthening Initiative (FIRST) is a multi-donor grant facility that provides short- to medium-term technical assistance to promote sound, efficient, and inclusive financial systems. Since its inception in 2002, FIRST has funded 778 projects in 120 countries, with commitments over US$181 million. As such, FIRST is well-positioned to play a critical role in supporting the financial sector reforms that are critical to the MFD agenda.

- Creating the Financial Sector Enabling Environment: FIRST supports the MFD agenda by creating the enabling environment for financial markets to thrive so they can mobilize long-term finance and private sector investment in low- and middle-income countries (LICs and MICs). FIRST takes a comprehensive approach, including TA to:

**FIRST’s Approach in Supporting the MFD Agenda**

- Strengthening the Legal Framework
- Modernizing the Financial Infrastructure
- Expanding and Diversifying the Investor Base
- Developing Investment Vehicles and Demonstration Transactions
- Developing Government Bond Market
FIRST initiative 2.0

KENYA: Supporting Long-Term Finance for Infrastructure
(US$1.5 Million | July 2017 – July 2020)

FIRST is supporting a 3-year programmatic TA to work with the Kenyan authorities to create an enabling environment and a demonstration capital market solution to address the country’s vast infrastructure needs, estimated at almost US$ 4 billion per year. Specifically, the FIRST program is working to: (i) improve the efficiency and transparency of the government bond market; (ii) establish an enabling regulatory framework and build capacity for institutional investors to participate in infrastructure and housing financing; and (iii) create a new capital market financing vehicle to be tested in a demonstration transaction. Thanks to the FIRST TA, the Kenya Pension Fund Investment Consortium has officially been created, consisting of 10 pension funds (and 7 more pending), representing US$2 billion in assets, with the objective to invest in infrastructure and housing public-private partnership (PPP)-type projects. In April 2019, large US pension funds will visit Kenya and seek to announce co-investment deals. The collaboration between the World Bank, FIRST, and the United States Agency for International Development (USAID) has provided comfort to the Kenyan pension funds to come together with the perspective of co-investing with US counterpart funds.

(i) strengthen the legal framework; (ii) expand and diversify the investor base; (iii) modernize financial sector infrastructure; (iv) develop the government bond market; (v) develop investment vehicles and demonstration transactions; (vi) build local capacity; and, (vii) more generally, build sound, stable financial markets that can replicate MFD financing solutions by aligning financial sector policy, institutional, and regulatory reforms to MFD.

- Galvanizing Domestic Institutional Investors: Insurance and pensions are long-term savings and risk management instruments for households and firms. They also serve as important sources of finance for long-term development, including infrastructure. FIRST supports financial sector authorities to strengthen the legal, regulatory, and supervisory frameworks for insurance and pensions in line with international principles. FIRST also provides policy recommendations to prudently increase the exposure of long-term institutional investors to infrastructure assets in a prudentially sound manner.

- Developing Financial Instruments: FIRST works with country authorities to: (i) develop capital market solutions for infrastructure financing; (ii) draft regulatory guidance for new financial instruments; (iii) design credit enhancement tools to provide confidence for institutional investors to invest in infrastructure and other long-term projects; and (iv) provide support during pilot transactions. FIRST also supports financial sector authorities to introduce new insurance and pension products, which would promote long-term savings as important sources of finance for investment.

- Deepening Financial Markets: FIRST supports financial sector regulators in LICs and MICs to improve soundness, efficiency, and transparency of financial markets. A typical FIRST TA package to develop long-term bond markets, for example, includes: (i) an action plan to develop the primary market; (ii) a design plan for the secondary market architecture; (iii) a primary dealer framework; (iv) guidelines and principles for market infrastructure; and (v) capacity building for capital market authorities to oversee the market.

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