

Globally, there are significant pools of capital for sustainable finance...

... but sizeable investment gaps persist in developing countries.

Domestic capital markets can help fill these gaps, but face challenges.

THE OPPORTUNITY FOR EMERGING MARKETS

With an estimated total size of \$178 trillion, capital markets around the world are one of the most powerful global drivers of economic growth and wealth creation. At the same time, investors’ interest in financing sustainable investments with development impact is growing. Total sustainable investing assets—including environmental, social and governance-related (ESG) investments, sustainable bonds, and social impact investments—reached \$30.7 trillion in 2018, a 34 percent increase over 2016.

Yet, developing countries remain short of around \$3 trillion in annual investments for infrastructure and climate action alone. If the unmet needs of small and medium enterprises (SMEs) are added, **the financing gap in emerging markets grows to \$8 trillion a year.**¹

- **Commercial bank lending** is not sufficient to close these gaps because many projects are too long-term, too risky, or have a pronounced public-policy aspect. Basel III requirements limit banks’ lending capacity.
- **Governments** in many countries are constrained by high public debt, especially foreign currency debt.²

Local capital markets can help to fill these gaps. But in many developing countries, they face significant challenges, such as an underdeveloped investor base, limited numbers of issuers and instruments, costly and inefficient infrastructure, and inadequate regulatory and institutional frameworks. Even those that are open to foreign investors often lack competitive local currency solutions. And while policymakers understand the importance of capital markets, they may need assistance to grow and sustain successful local capital markets.

1 McKinsey, *Bridging Global Infrastructure Gaps*, June 2016; Climate Policy Initiative, *Global Climate Finance: An Updated View*, November 2018; SME Finance Forum, *MSME Finance Gap*, 2017.

2 IMF, *Global Financial Stability Report*, October 2018.



PHOTO: TOM SAATER

Developing countries can address long-term financing needs through well-functioning and sustainable local capital markets that:

- provide a significant source of equity capital and/or debt financing to the domestic private sector
- offer a menu of investment opportunities and risk-diversification options to domestic investors
- help finance public and, more broadly, social investment projects without building up foreign-currency debt

J-CAP: HELPING COUNTRIES REALIZE THE BENEFITS OF STRONG CAPITAL MARKETS

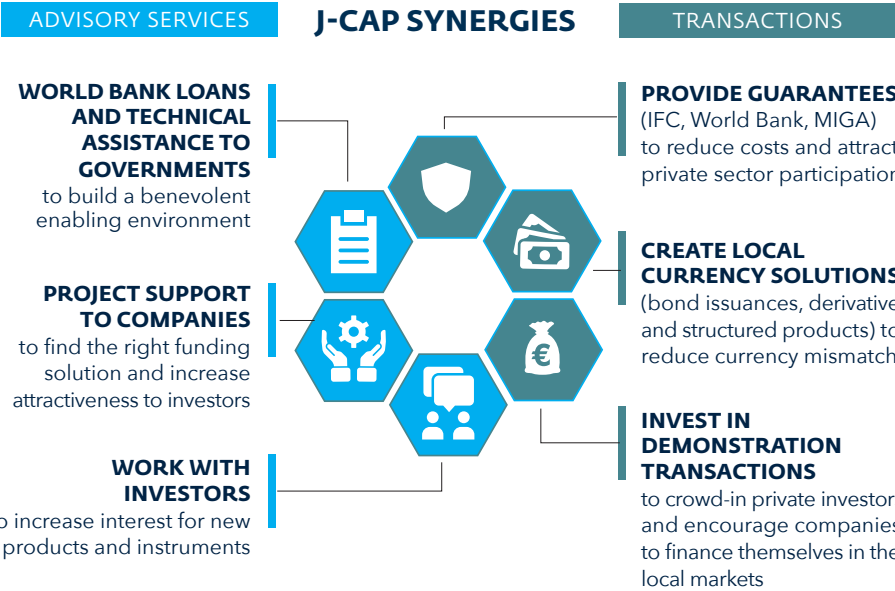
The Joint Capital Markets Program (J-CAP) is a World Bank Group initiative launched in 2017. It is grounded in the latest economic research, an extensive survey of private sector views, and the accumulated experience of the World Bank Group around the world. J-CAP aims to help countries develop their capital market.

Under J-CAP, the World Bank and IFC work in **close collaboration to develop the legal and regulatory framework** with the Government and regulators to improve the functioning of capital markets in order to promote increased capital market activity. In the case of IFC, it seeks to do **new transactions, mobilize private sector co-investors, and set the stage for deal replication** by domestic and international investors.

The centerpiece of J-CAP is a **country-specific strategic framework and action plan**, developed in cooperation with country authorities. It sequences necessary reforms at the country level as well as World Bank Group interventions to address specific bottlenecks, reduce risk, and guarantee value for money for donors.

The framework combines and coordinates World Bank advisory services, technical assistance, and policy loans; IFC investments and bond issuance; and World Bank/MIGA/IFC guarantees.

Interventions in countries last for 3-5 years, or longer if necessary.





J-CAP TO DATE

J-CAP was launched with an initial focus on seven countries/regions – the West African Economic and Monetary Union (WAEMU), Kenya, Bangladesh, Morocco, Peru, Indonesia, and Vietnam – plus two supplementary countries (Argentina and South Africa) that were selected to participate.

Country selection is based on a quantitative and qualitative selection methodology that evaluates the preconditions and the market development potential for each J-CAP candidate.

Diagnostics and Action Plans were completed for all focus countries, in cooperation with country authorities. Implementation is well underway.

Early Successes:

In Kenya, project loans, technical assistance, and advisory support were provided in a coordinated way to public and private counterparts to introduce infrastructure debt funds as new asset classes for infrastructure finance. The country supported efforts enable capital markets to finance affordable housing through the launch of the Kenya Mortgage Refinance Company (KMRC).

In the West Africa Economic & Monetary Union (WEAMU), J-CAP is supporting affordable housing finance, including a 15-year bond issuance by Caisse Régionale de Refinancement Hypothécaire (CRRH). Among other initiatives, J-CAP is working to develop the rules and regulations needed for securitization and exploring related investments that will leverage the local capital market to finance SMEs.

J-CAP IN THE FUTURE

J-CAP is **selective**, ensuring the World Bank Group can provide the level of sustained, multi-instrument support that is needed.

For countries not participating, each arm of **the World Bank Group will continue to provide its standard products**: diagnostics, advisory services, technical assistance, investments, and local currency solutions. These engagements will focus on building the preconditions for local capital market development and potential inclusion in the J-CAP program.



For questions about J-CAP please contact the J-CAP Secretariat via: J-CAP@WorldBankGroup.org.

J-CAP is made possible because of the support of the governments of Australia, Germany, Japan, Luxembourg, Norway, and Switzerland.



THE WORLD BANK GROUP'S JOINT CAPITAL MARKETS PROGRAM

J-CAP



WORLD BANK GROUP

THE WORLD BANK
IBRD • IDA

IFC International
Finance Corporation