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IFC's 12th Annual Global Private Equity Conference
Returning to Growth: Private Equity in Emerging Markets
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President, World Bank Group
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I'm very pleased to have the opportunity to join you today, and want to thank all of you for coming.

Private equity investments represent one of our most important and promising ventures in developing countries. Private equity can help us transform thinking about growth and opportunity, whether in poor and emerging countries or developed ones.

The prospect of private equity in developing countries offers an on-the-ground example of why old concepts, such as the designation of the "Third World," are past their time.

The "Second World" collapsed 20 years ago. Developing countries are not some residual category; in their rich diversity, they are creating opportunities for a new multi-polarity of growth.

I particularly want to thank IFC's Private Equity & Investment Funds team, headed by Haydee Celaya, for their work in organizing this 12th Global Private Equity Conference.

I'd also like to thank EMPEA and its president, Sarah Alexander, for teaming up with IFC for a fifth consecutive year to host this conference. Thanks also to an impressive set of participants -- sponsors, panelists, speakers, and all of you.

You have heard excellent keynote speeches by Bob Pozen today, and by Nassim Taleb, Simeon Djankov, and David King yesterday.

I understand Lars Thunell spoke to you about IFC's strategy and leadership initiatives in these very challenging times. I would like to thank Lars again today for his stewardship and leadership at IFC.

He has been an excellent partner and counselor for me personally, and he is an exceptional executive with a track record of results.

I hope that you are having ample opportunity to discuss industry trends, cross pollinate ideas, share best practices, and network and renew friendships.

At the World Bank Group, we believe in the power of private equity as a strong change agent to boost local economies and jobs in the developing world, while also improving governance and sustainability standards in private industry and capital markets. This is at the core of our mission and what we do every day.

Private equity is also an important component of our financial intermediation role, as we seek to identify and connect pools of capital with those in need of capital for growth. Private equity is part of our larger effort to connect developing countries with the formation and growth of new global asset classes, whether equity, bonds, infrastructure, asset-backed securities or other structured transactions.

At another level, private equity is about the world we are seeking to foster: the encouragement of entrepreneurs, empowerment, innovation, ideas, building, work, longer-term commitment, partnerships --all positive features of societies that we would like to encourage.

Challenges and opportunities as the global economy recovers

Yet these are still dangerous times for the global economy.

I have suggested, from the start of the crisis, that we need to anticipate various stages, which would pose different risks.

I cautioned our Board in the first week of January that 2010 would be the year of repricing sovereign credit. Reinhart and Rogoff have documented the historical basis for this challenge. Now we are in the midst of it.

I suspect other speakers can give you sharper blow-by-blow assessments of tradeoffs among calculations of liquidity, solvency, and contagion.

But let me connect this stage of the crisis with the topic of this conference.

With high debt and deficits, the tools available to address today's challenges will not be the fiscal --or even some of the monetary-- policies of 2008-09.
Markets are now worried about government spending. Yet the macroeconomic policy shifts toward consolidation pose other risks.

So the policy mix must include growth strategies. We need the removal of barriers to creating new services, starting businesses, improving productivity, creating jobs. We need productive investment --not just spending-- from both the public and private sectors.

Growth strategies are not only essential for countries that need to repay sovereign credits.

The recovery has been multi-speed. Some countries now face the risk of overheating and asset price bubbles. These countries, too, need productive investment to remove bottlenecks and increase the potential of non-inflationary growth.

I sense that emerging markets --plus others connected to them, such as Australia in the Asia-Pacific-- are quicker to recognize the need to expand growth potential, not just demand.

Of course, this policy need offers an opportunity for private equity. In combination with public policies to open markets, improve quality education, build a supportive infrastructure, and increase living standards, private equity investments can flourish. I believe they will flourish.

Let's consider these opportunities further.

Many developing countries weathered the crisis relatively well.

Many entered the crisis having paid down their debts, so they were able to employ prudent expansionary programs.

Many developing countries accumulated large reserves, thus inoculating them from the devastating effects of the huge capital outflows they suffered in the 1997-98 crisis.

Most also moved to more flexible exchange rates, cushioning adjustments. And some developed local currency financing markets to help avoid foreign currency risk, a shift the World Bank is seeking to encourage in many ways.

Emerging and developing countries are posting impressive growth and, so far, have significantly contributed to pulling the global economy out of its worst recession since the 1930s.

This is not a temporary phenomenon. We are moving towards a multi-polar world economy, and the rebalancing of the world economy, in a broader sense, has accelerated as a result of the crisis.

WBG-IFC response to the crisis and what we are doing post-crisis

The Bank Group has played a key countercyclical role in the financial crisis, while also laying the foundation for sustainable, stronger growth coming out of the crisis. We have committed over $108 billion in resources since the middle of 2008, breaking all records. Of that amount, IFC has committed over $18 billion.

IFC has combined strong innovation with resource mobilization in launching initiatives in global trade, infrastructure, microfinance, bank capitalization, and private debt restructuring.

Even though the World Bank Group has traditionally been a lender for long-term projects, our development disbursements have actually exceeded the IMF's crisis payments.

In the poorer countries, the triple blow of the food, fuel, and financial crises has taken a terrible toll. But we mobilized resources fast, and working with partners, got help to those most in need.

At the same time, we have kept our eye on financing longer-term investments for the development of our client countries. For example, our drive to improve food security can boost the agricultural sector as a source of productivity and higher incomes. To do so, we are looking at investments all across the value chain: property rights; seeds; irrigation; fertilizers; basic technology advancements; financial services; harvesting; storage; getting goods to markets; and processing.

Outcome of Spring Meetings

Our shareholders appreciated our crisis response and reinforced our capabilities to assist in the stages to come.

At our recent Spring Meetings, the Bank Group received a strong vote of confidence from our shareholders, which endorsed the first capital increase for the World Bank in more than twenty years.

We also increased the voice of developing and transition countries in the World Bank Group to better reflect changes in the world economy. The percentage of shares owned by developing and transition countries at the World Bank will be raised to 47.19% -- a shift of 4.59 percentage points since 2008. We are also adding another Board chair for sub-Saharan Africa and quickly increasing the role of staff from developing countries, including in our top leadership.

Developing and transition countries' shares at IFC will increase by over 6 percentage points to almost 40%.

IFC will receive a selective capital increase of $200 million and expects to further boost its capital through issuance of a hybrid capital instrument and earnings retention.

The hybrid instrument we are considering would be long-term capital that IFC would sell to some of our current national shareholders.

The increase in financial resources endorsed by our shareholders will allow us to continue to support our clients --developing countries.

But we need to be more efficient and innovative than ever in managing these resources to achieve the maximum development impact.

Therefore, innovative financing instruments that help generate *additional* development funds by tapping into the private sector are essential. They enable the Bank Group's shareholders and donors to get the most development bang for their buck. And they generate very good returns for investors.

World Bank Group role in private equity

The World Bank Group –through IFC– has been at the forefront in raising resources for development by engaging the private sector in emerging economies.

Yesterday, Lars talked about IFC's strategy and its commitment and leadership in private equity.

Private equity is a cornerstone of our push to encourage growth and development led by the private sector. It is fundamental to building businesses, creating jobs, widening opportunities -- and establishing a virtuous upward spiral.

IFC's activities in funds aim to boost our particular development aims: support for the poorest countries; post-conflict states; and high priority sectors such as agribusiness, health care, infrastructure, and climate change.

IFC is an early supporter of PE funds

IFC has now invested in private equity funds for over two decades. It is one of the largest dedicated investors in private equity in emerging markets globally. IFC started investing in emerging market private equity in the 1990s and has been very successful. Yet we look for opportunities to learn more from all of you --including how our involvement can help grow this market.

AMC

IFC's new Asset Management Company, or AMC, led by Gavin Wilson, represents an even higher stage of our commitment: the AMC is raising and managing private equity funds to co-invest with IFC, expanding our role as a platform that connects new pools of capital with long-term investment opportunities in developing countries to boost growth, jobs, and productivity.

You may recall that not long after I started at the World Bank Group, I called for a "One Percent Solution": an investment by sovereign funds of one percent of their resources in the private sector equities of sub-Saharan Africa.

At first, when the financial crisis hit, I thought our plans would be slowed down.

But as we persevered, potential investors suggested a fascinating insight. They had learned developed markets were risky, too. And, in fact, these longer-term investors recognized that growth opportunities were more promising in developing countries. But, they didn't know where to go to invest within their standards.

That's where our AMC comes in. And where you can benefit from an expanding market.

IFC's investments in sub-Saharan Africa and Latin America since 1990 have been highly developmental and commercially strong, with an internal rate of return of over 20%. There are great opportunities. So we created a new IFC equity fund within our AMC to invest in companies in Africa, Latin America, and the Caribbean.

This new IFC equity fund has already received commitments of $800 million, including $600 million from sovereign funds and pension funds, along with $200 million from IFC.

Our new investor partners will benefit from our lowering of transaction and information costs as they learn more about investing in Africa. And we believe they will earn good returns as they diversify.

For you, we hope to develop the recognition of --and performance in-- these markets. If we can help deepen the local financing market in the process, it could help your investments access funding and improve the environment for exit. More investors will look to you and other vehicles. As the economies grow, as private markets grow, as equity opportunities grow, we can expand the opportunities for gains and development.

Our AMC also manages the IFC Capitalization Fund --jointly funded by a $1 billion IFC commitment and a $2 billion commitment from the Japan Bank for International Cooperation. The IFC Capitalization Fund is designed to support systemically important emerging-market banks during the global financial crisis.

The AMC has the potential to channel even bigger pools of capital held by pension and sovereign funds to attractive investment opportunities in developing countries.

Our aim is to help developing countries strengthen and build all dimensions of their financial markets --from microfinance to market microstructure, from robust capital markets to more integration with the real sector. We hope to open up new markets and asset classes for global investors, and substantially "grow the pie" for attractive investment opportunities in developing countries.

The AMC Funds will co-invest with our fund managers and with IFC's direct investments. With your involvement and partnership, we are excited that we will be able to "crowd in" the private sector.

We hope that you --as investors, managers, entrepreneurs, leaders, and policy makers focused on emerging markets-- will be beneficiaries of our initiative.

IBRD & MIGA

As a World Bank Group, we can also combine IFC's initiatives with our other arms.
The IBRD --our public sector work-- can create better environments and policies for private sector growth.

We can assist with our "Doing Business" assessments and help in reforming stultifying policies. We can invest in Early Childhood Development and the MDGs, so publics will be healthier and better educated. We can help with infrastructure and investment in sectors to boost productivity and inclusive and sustainable development.

MIGA, our political risk insurance arm, has also successfully entered the emerging market private equity business: MIGA provides conditional political risk guarantees for funds seeking to raise private capital.

Just this week, MIGA signed its third contract with a private equity fund. All three of the funds that MIGA is supporting are focused on Africa. The most recent one signed this week is raising $50 million for agribusiness investments in Zambia and Botswana. This effective support can offer a big plus to those raising funds from investors who are anxious about political uncertainties.

Impact of Private Equity

The combination of expertise and capital is the reason why private equity companies have a strong developmental impact. This combination accelerates both growth and efficiency.

Companies backed by private equity are more inclined to make long-term investments; they pursue more economically important innovations and concentrate on the business application of core technologies.

Private equity acts as a catalyst for creating jobs. It is part of a dynamic that improves governance, too. Private equity usually is complemented by active directors with relevant expertise in areas of anticipated challenges. And private equity managers remain actively engaged in their portfolio businesses.

Concluding remarks

We believe a great challenge --but also opportunity-- of development is to combine sustainable private enterprise and profitable investing with the responsible management of risks.

As you know, the global recovery is fragile; we are not yet out of the woods. Credit markets remain strained. Deal-making and M&A activity are recovering, but fundraising could remain challenging as limited partners face an ongoing liquidity squeeze.

Developed countries are moving towards greater regulation of financial markets. Better regulation and supervision are no doubt necessary. Yet policy-makers also need to beware of "unintended consequences," especially for developing country markets. We don't want to stifle innovation in the financial sector; or constrain financing we need to recover and invest in future growth.

As former President Zedillo of Mexico once observed, the problem for poor people is not that they have too many markets, but too few, including access to financial markets for saving, borrowing, investment, and insurance.

A year ago, at this same conference, I spoke about the need to restore and uphold integrity and transparency after the recklessness and greed that led to the financial crisis.

The World Bank Group can make an important contribution by pressing a governance and anti-corruption agenda, embedding it into all of its work. But we need your help. All of you know that developing and emerging markets offer great opportunities. But you also know that we need to urge for them to embrace higher standards of transparency, honesty, and legality.

Many temptations --and bribes-- are from developed countries. We will fight companies and individuals that are corrupt, expose them, debar them, and refer them for criminal action. As you have seen, we will go after big names, too. Just last month, we signed a path-breaking agreement on cross-debarment with the other MDBs: If a company cheats one of us, it will be out of business with all of us.

We welcome your help and support. As all of you know, greater transparency and integrity should increase investor confidence.

So thank you again for joining us. This has become a great conference, with an expanding reputation. We learn from you, and I suspect you learn a lot from one another.

The world needs growth. Growth needs private equity. So we look forward to learning more how we can help you, and, in the process, expand opportunities for development.

Thank you.