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Executive Summary

**Governmental Financial Tools for
Mobilizing Institutions' Investment in
Developing Countries**

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About the Milken Innovation Center Fellows Program

The Milken Innovation Center Fellows Program accelerates Israel's economic growth through innovative, market-based solutions for long-term economic, social, and environmental challenges. Our goal is to accelerate Israel's transition from a Start-up Nation to a Global Nation with solutions that others can replicate.

The Program awards annual fellowships to outstanding Israeli graduate students. We train and deploy some of Israel's best and brightest young professionals to create pragmatic financing and economic policy solutions. Our applied research and Financial Innovations Labs® are a launching pad for transformative change, using innovative financing mechanisms, programs and policies to bridge social, regional, economic and productivity gaps within Israel and between Israel and the world.

In addition, Fellows craft their own projects during their internship aimed at barriers to job creation and capital formation in Israel. The Fellows' research, carried out under the guidance of an experienced academic and professional staff, support business and policy makers to shape economic reality in Israel. The program offers the ultimate training opportunity, combining real-life work experience with applied research.

Throughout the year, Fellows receive intensive training in economic and financial analysis, public policy and research methods. They acquire tools for communication and presentation, policy analysis, leadership and project management. The fellows participate in a weekly research training workshop where they work with senior economic and government professionals, business leaders, and top academic and financial practitioners from Israel and abroad. They also participate in an accredited MBA course, taught at the Hebrew University School of Business Administration by Prof. Glenn Yago.

Fellows Program alumni can be found in senior positions in the public and private sectors. Some serve in key positions in government ministries while others work at private-sector companies or go on to advanced graduates studies at leading universities in Israel, the United States and Great Britain.

The Fellows Program is a non-partisan. It is funded, in part, by the Milken Institute and other leading philanthropic organizations and individuals in the United States and Israel.

Economic development in developing countries has changed shape and form with respect to the challenges these countries face and the massive investments required to close the gaps which separate them from the developed world. In response, the UN has announced the 17 interlinked Sustainable Development Goals (SDGs) to be achieved by 2030. In Israel, the government has intensified its aid, grants and investments in developing countries, and following Israeli Government Resolution 4021, in 2018, it has begun to explore ways to create opportunities for the private sector as well. In this study, I outline and examine the governmental tools which can incentivize institutional investors to invest in projects in developing countries. Finally, I propose the creation of an Israeli investment fund which can help to achieve the UN SDGs and begin to lay the groundwork for a development ecosystem in Israel.

There are economic, political and social benefits to investing in emerging markets, as well as asset classes in which to invest so as to obtain these benefits. Interviews conducted with relevant stakeholders reveal that there is a strong interest in penetrating emerging markets through public investment. Institutional investors such as pension funds and insurance and provident funds, manage more than NIS1.8 trillion, and this amount has doubled in the past ten years, demonstrating that there is a supply of investment capital in Israel. Furthermore, there is a great demand for investment capital in developing countries, with annual demand for development projects exceeding \$1 trillion. According to the IMF, growth in developing countries will be more than double that of the U.S. or the EU economies in the coming five years. When these forecasts are considered together with the match between supply and demand for development capital and the growing number of regulations regarding socially responsible investments, it is clear that there are great opportunities for institutional investors in developing countries.

However, political, regulatory and financial barriers prevent institutional investors from mobilizing capital for projects in developing countries. The good news is that Blended Finance tools can ease these limitations and shift the risk from private investors so that they can mobilize their capital toward such investment.

Institutional investors are on the lookout for new long-term, low cost investments, and they have a window of opportunity to use the Blended Finance tools to do so. My international comparison demonstrates a growing trend in the creation of special

government-supported investment funds for development in emerging markets. These funds are earning returns in the range of 5%-20% and their investment periods are between ten and 20 years. They are facilitating the creation of a new asset class for institutional investors and provide unique opportunities to penetrate these countries with lower risk and a higher return portfolio.

The recommendation of this study is to create an Israeli investment fund for projects in sectors where Israeli companies have a relative advantage, and to aim to help to achieve the UN SDGs. The fund should condition investment in a project upon inclusion of an "Israeli element." This condition might be satisfied by adding an Israeli company as an investor along with the fund, or adding an Israeli company which would provide goods or services for the project in the developing country. The fund would help shift risk away from institutional investors by providing preferential terms for capital from private institutions. The creation of such a fund can benefit the State of Israel by catalyzing investments in new markets and helping the government to implement Resolution 4021. I believe that such a fund may also realize economic, social, and political returns, while creating new asset classes in which Israeli Institutions can invest the growing capital in their possession. This new investment tool can help both private and public investors to learn from, and gain exposure to new and growing markets. By contributing to knowledge and experience of development finance, the fund can be a first step on the way to creating a development finance institute and laying the groundwork for a development ecosystem in Israel.



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