Africa and the 2030 Sustainable Development Agenda: the Role of Financial Markets

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Following a sharp slowdown, a recovery is underway in Sub-Saharan Africa

There is also a pickup in economic activity in MENA

Source: MENA Economic Monitor, Oct 2017
Fragility in Africa increases vulnerability to shocks
Agricultural productivity remains low

### Agricultural Output

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</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.38</td>
<td>0.97</td>
<td>0.57</td>
<td>0.59</td>
</tr>
<tr>
<td>Other developing</td>
<td>0.01</td>
<td>0.97</td>
<td>0.73</td>
<td>1.36</td>
</tr>
<tr>
<td>regions</td>
<td></td>
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</tr>
<tr>
<td>Other developing</td>
<td>1.30</td>
<td>2.10</td>
<td>1.34</td>
<td>1.12</td>
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<tr>
<td>regions</td>
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Note: TFP = total factor productivity.

### Sectoral contribution to growth (percentage points 1995-2013)

- Agriculture: 2.4
- Industry: 1.1
- Services: 0.8

### Vulnerability to Climate Change, by country

Source: Adapted from University of Notre Dame Global Adaptation Index (ND-GAIN) (http://index.gain.org).
Infrastructure deficit is holding back growth

Kilowatt hours per person per year

Comparison of Costs and revenue Collected per kWh billed (in 2014 U.S. Dollars)
Each Industrial Revolution Shifts the Manufacturing Opportunities and Patterns of Specialization

Three “C”s determine the feasibility of success in export-led manufacturing:

- Competitiveness
- Capabilities
- Connectedness
An Opportunity for Transformation
Addressing Global Megatrends and Challenges

- Economic diversification; 600 million new jobs (SDG#8)
- Sustainable Health & welfare system (SDG#3)
- Urban management (SDG#11)
- Private expertise/funding for infrastructure/urban services (SDG#11; SDG#9; SDG#17)
- Shift from fossil fuels to renewables/efficiency (SDG#7)
- Agriculture adaptation (SDG#2)
- Shocks and risks preparedness (SDG#13)
- Protecting vulnerable from fragility & violence (SDG#1; SDG#16)
- New sources of growth and trade, especially for commodity exporters (SDG#9)
An Opportunity for Transformation: From MDGs to SDGs

The global development agendas serve as a compass and guide for countries to determine their national development path.
Financing the SDGs:
The key components

- US$ 135 Billion
  Global development community provides each year.

- Official development assistance must catalyze and leverage new development resources.

- US$ 440 Billion
  Remittances 2015

- Private Sector Finance
  The largest potential source of funding

- US$ 765 Billion
  Foreign Direct Investment 2015

To unlock these resources, countries must improve the business climate, develop local capital markets, and mitigate investment risk.

To unlock these resources, countries must build effective tax regimes and government institutions and improve public spending.
Implementing the SDGs:
Through the World Bank’s twin goals of ending extreme poverty and boosting shared prosperity

INVESTING IN PEOPLE
- Early childhood development
- Gender equality
- Skills for jobs
- Equal opportunities

INVESTING IN INCLUSIVE GROWTH
- Infrastructure
  - Roads
  - Energy
- Sustainable
  - Greening growth
  - Water management
- Private sector
  - Job creation

INVESTING IN RESILIENCE
- Fragility & Conflict
- Climate and weather shocks
- Pandemics

Sources: World Bank Group, 2017
Financing the SDGs:
Opportunities for the private sector

The SDGs open up US$12 trillion of market opportunities in four economic systems:

• These economic systems represent around 60 percent of the real economy and are critical to meeting the SDGs.

• To capture these opportunities in full, businesses need to pursue social and environmental sustainability as avidly as they pursue market share and shareholder value.

• If a critical mass of companies joins us in doing this now, they will become an unstoppable force.

• If they don’t, the costs and uncertainty of unsustainable development could swell until there is no viable world in which to do business.

The private sector can play a transformative role in supporting the SDGs.

These are some of the biggest market opportunities related to delivering the SDGs.

Financing the SDGs:
Private sector engagement needs to increase

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?
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
Overview of sustainability mechanisms used by stock exchanges, by number of exchanges

Sustainable Stock Exchanges members - Total number of SSE Partner Exchanges by year

What green bonds finance

Source: The Role of Stock Exchanges in Fostering Economic Growth and Sustainable Development, UNCTAD, 2017
African Stock Exchanges and Sustainability

ESG Reporting Guidance
Out of 28 African exchanges, only 2 exchanges (Johannesburg (2004) and EGX (2016)) have issued a ESG reporting guidance for listed companies

8 markets are committed to prepare ESG reporting guidance over the upcoming 2 years. (Source: SSE)

Sustainability Products – (ESG indices and bond listings)
Only 3 markets have their local ESG index (Johannesburg- EGX- Mauritius)

Only 2 countries have already issued and Nigeria is planning to issue the first one in few weeks.

Africa’s share in new green bonds is nil

Sustainability Report
Only 2 African Stock Exchanges have published Sustainability Reports (EGX and Nigeria)
Green Bonds and WBG

- The WBG Green Bond raises funds from fixed income investors to support WBG lending for eligible projects that seek to mitigate climate change or help affected people adapt to it.
- Since 2008, the World Bank has now issued over USD 12 billion equivalent in Green Bonds through more than 135 transactions in 18 currencies.
SDG Everyone: Equity - Index Linked Bonds

The index composition follows a 3-step methodology to select companies from the overall investment universe (developed country companies assessed by VigeoEiris):

**Exclusion of companies**
- with a VigeoEiris ESG score below the regional average
- involved in alcohol, armament, gambling, nuclear, pornography or tobacco, or in critical controversies about the environment, human and labour rights
- that are part of the most intensive carbon emitters unless they have a robust energy transition strategy

**Selection of companies contributing to the SDGs**
- a significant part of their activity dedicated to sustainable products
- or a leading sustainable behaviour in their sector

**Final selection based on suitability for equity index investing**
- liquidity filter (Average Daily Volume for 1 and 6 months above 10 million USD or EUR)
- low volatility filter (The 50 stocks with lowest volatility meeting diversification constraints)
- geographical and sectorial diversification (max. 25% stocks from the same sector; min. 10% and max. 50% stocks from the same region - Europe, America, Asia)
- equally-weighted
- volatility control (10% volatility cap for USD; 8% for EUR)
- adjustment factor (3% p.a.)

Step 1 – ESG Control

Step 2 - SDGs Methodology

Step 3 – Financial Filters

50 Companies (rebalanced annually)

INDEX COMPOSITION

The index consists of 50 companies. The graph shows the current index composition mapped against each companies’ contribution to each of the 17 SDGs.

Source: VigeoEiris, Solactive (For illustrative purposes only.)
New areas of focus:

- Rise of South–South Banking
- Shift Towards Alternative Sources of Financing
- Influence of Technology on International Banking
“Digitization” is disrupting every part of financial services

<table>
<thead>
<tr>
<th>Digitization Of:</th>
<th>Money</th>
<th>Cash Transfers</th>
<th>Identity</th>
<th>Origination / Lending</th>
<th>Payments</th>
<th>Capital Markets Infrastructure</th>
<th>Supply Chain/Invoicing</th>
<th>Savings and Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drivers</td>
<td>• Ecommerce</td>
<td>• Govt efficiencies</td>
<td>• KYC, security</td>
<td>• Big data (KYC automation)</td>
<td>• Global trade</td>
<td>• Search for global returns</td>
<td>• Data analytics &amp; underwriting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Convenience</td>
<td>• Govt policy programs</td>
<td>• SIM reg., govt payments</td>
<td>• Need for transparency &amp; efficiency</td>
<td>• Ecommerce</td>
<td>• Convenience, convenience</td>
<td>• Falling interest rates &amp; invest income</td>
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<td></td>
<td>• Govt action (e.g., India)</td>
<td>• Fraud reduction</td>
<td>• E-services, elections</td>
<td>• Convenience</td>
<td>• Business &amp; leisure travel</td>
<td>• Digital identity</td>
<td>• Business need for efficiency, transparency</td>
<td></td>
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<tr>
<td></td>
<td>• Transport</td>
<td></td>
<td>• Falling costs biometrics</td>
<td>• Digital identity</td>
<td></td>
<td></td>
<td>• Govt push for transparency + tax compliance</td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>Account service providers; cash collection networks; regulatory advice to govs</td>
<td>Govt payment contractors (govts may unintentionally create largest payment banks)</td>
<td>Govt platforms for digital ID followed by innovative private-sector led applications</td>
<td>Digital lenders, marketplaces, originators, Scale SME Lending, Robo advice</td>
<td>Money transfer operators, cross border payment networks, FX operators</td>
<td>Back office operations, main exchanges (stock, currency, bonds, derivatives)</td>
<td>Back office operations, exchanges, value chain securitization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Global - populous countries first</td>
<td>Markets with cash transfer programs</td>
<td>Country specific and global (ID4D is global, regional, country specific)</td>
<td>Global - focus on large demographics</td>
<td>Global - main trade corridors</td>
<td>Financial market capitals (NY, London, Tokyo)</td>
<td>Direct insurance, online brokers &amp; advisors, data and analytics, aggregators</td>
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</tr>
<tr>
<td>Impact</td>
<td>1.5 Bn wallets in 6 years</td>
<td>Over 300m accounts</td>
<td>1.5 Bn people without ID</td>
<td>$34 Bn in China alone</td>
<td>$3.6Trn value globally p.a.</td>
<td>$20Trn p.a. global flows</td>
<td>&gt;$1Trn p.a. in LAC alone</td>
<td></td>
</tr>
<tr>
<td>Examples</td>
<td>Paytm, Fino, AADHAAR, Kasee, ML</td>
<td>Over 300m accounts</td>
<td>1.5 Bn people without ID</td>
<td>$34 Bn in China alone</td>
<td>Kreditech, Impact, Kabbage, bankFacil, Remitly</td>
<td>LMRKTS, Lemonade</td>
<td>&gt;5 Trn GWP, &gt;15 Trn AUM</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank F&M Global practice, October 2017
FinTech Technology enabled innovation in financial services

Source: FSB, Financial Stability Implications of FinTech, July 2017

Source: World Bank F&M Global practice, October 2017
New demands on capacity and remit of regulators

- Are investors in peer-to-peer lending fully aware of the risks?
- How to balance FinTech incentives with competition?
- Protection for data privacy and ownership?
- What is the jurisdiction of regulators with respect to new entrants?
- How to update and strengthen consumer protection frameworks?
- A need to take a functional regulatory approach?
- What are the implications of these on profitability of banks?
- Apply AI/machine learning to new/alternative data sources?
- Use DLT to secure efficiencies or improve cyber resilience?

*Source: World Bank F&M Global practice, October 2017*
Components of a Sound Financial Sector

Mobilize Savings and Allocate Investments

- Consumer/Investor Protection
- Effective Regulations
- Financial Literacy
- Financial Innovation

Legal framework to enhance trust, confidence in financial contracts and transactions
## Components of a Sound Financial Sector

### The Egyptian Example

**Mobilize Savings and Allocation of Investments through Financial Markets**

<table>
<thead>
<tr>
<th><strong>Consumer/Investor Protection</strong></th>
<th><strong>Effective Regulations and Governance</strong></th>
<th><strong>Financial Literacy</strong></th>
<th><strong>Market Development &amp; Financial Innovation</strong></th>
</tr>
</thead>
</table>
- Legislative reforms (2008)  
- Revision of auditing principles to enhance information disclosure (2008)  
- Establishment of Egyptian Institute of Directors (EIOD) – 2004  
- Egyptian Financial Supervisory Authority (EFSA) – 2009  
- Issuance of ESG Index for Corporate Governance (2009)  
- Approving arbitration rules (2014)  
- Additional disclosure rules (2015)  
- Establishment of Institute of Investment and Finance (2009)  
- Interactive map showing financial statements of listed companies and members firms (2017)  
- Securitization (2004)  
- Money Market Funds (2008)  
- Facilitation of Bonds issuance (2010)  
- Establishment of NILEX (small cap stock exchange) - 2007  
- Shifting OTC market from manual to automatic system  
- Establishment of ETFs (2014) |
| **Regulations against insider trading (2006-2008)**  
**Law on the establishment of the Egyptian Supervisory/regulatory authority (2009)** | | | |

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The Egyptian Example

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Thank You

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