Evolving Financial Systems to Reach the SDGs

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Dr. Mahmoud Mohieldin
Global Development Challenges

LAGGING HUMAN DEVELOPMENT
- 121 million children are not in school
- 400 million people do not have access to essential health services

FRAGILITY AND VIOLENCE
- 65 million people forcibly displaced globally
- 46% of the global poor will be in fragile & conflict situations by 2030

LACK OF RESILIENCE
- 26 million people are pushed into poverty each year due to extreme weather

TECHNOLOGICAL DISRUPTION
- Lightning-fast changes in technology which will disrupt markets and beyond
Between now and 2030, developing countries need an annual investment of up to:

- **$690 BILLION** for Power
- **$780 BILLION** for Climate Change Mitigation & Adaptation
- **$240 BILLION** for Telecom
- **$470 BILLION** for Transport

*Source: IFC Presentation to Center for Global Development, February 2017*
Looking Back: The MDGs Era

MDG Progress, by number of countries

MDG 1.1: Poverty

MDG 1.9: Malnourishment

MDG 2.2: Primary Completion

MDG 3.1: Gender Parity

MDG 4.1: Under-5 Mortality

MDG 4.2: Infant Mortality

MDG 5.1: Maternal Mortality

MDG 7.8: Water

MDG 7.9: Sanitation

Target Met
Sufficient Progress (by 2015)
Insufficient Progress (2015-2020)
Moderately off target (2020-2030)
Seriously Off Target (after 2030)
Insufficient Data

Source: World Bank data, staff calculations
Global Frameworks for Development: From MDGs to SDGs

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Goals</td>
<td>8</td>
<td>17</td>
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<tr>
<td>Targets</td>
<td>21</td>
<td>169</td>
</tr>
<tr>
<td>Indicators</td>
<td>60</td>
<td>~231</td>
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<tr>
<td>Priority Areas</td>
<td>Human Development</td>
<td>Holistic: Economic, Social, Environmental</td>
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<tr>
<td>Scope</td>
<td>Developing Countries</td>
<td>Universal</td>
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The global development agendas serve as a guide for countries to determine their national development path.
Transitioning from the MDGs to the SDGs: Lessons Learned

- Ensure the timeliness and effectiveness of policy instruments
- Increase efficient allocation of resources
- Recognize and identify interrelatedness of development goals at the onset
- Ensure strong government involvement
- Promote quality data
- Increase cross-institutional collaboration
- Prioritize engagement of communities and community mobilization
- Bridge the humanitarian and development agendas

Based on report: “Transitioning from the MDGs to the SDGs” jointly written by the World Bank Group and the UN Development Programme
The Sustainable Development Goals
The 2030 Agenda of Ending Poverty, Preserving the Planet, While Leaving No One Behind
The World Bank Group has a Key Role to Play

The World Bank Group Twin Goals are to **Eradicate Extreme Poverty** and **Boost Shared Prosperity** in a sustainable manner.

**THREE PRIORITIES:**

- SUSTAINABLE AND INCLUSIVE GROWTH
- HUMAN CAPITAL
- RESILIENCE

THREE PRIORITIES:
“What the WBG should do”

SUSTAINABLE AND INCLUSIVE GROWTH
HUMAN CAPITAL
RESILIENCE

WBG GOALS:
Eradicating Extreme Poverty and Shared Prosperity in a sustainable manner

FORWARD LOOK:
“How should the WBG do it”

Serving All Clients
- Creating markets (IFC/MIGA/ICSID
- Implementing IDA18
- Aligning IBRD lending with priorities

Leading Global Agenda
- Implementing climate action plan
- Enhancing crisis response approach

Mobilization For Development
- New sources of Private Capital
- Mainstreaming joint WBG solutions
- Domestic resource mobilization
- Existing and new partnerships

Improving Business Model
- Knowledge action plan/ Agile pilots
- Shared services
- Simplification
- People strategy
- Incentives for collaboration

HUMAN CAPITAL
RESILIENCE
SUSTAINABLE AND INCLUSIVE GROWTH
A large pool of private capital is yet to be catalyzed with judicious use of scarce public and concessional resources.

Alternative means of funding:
- cooperatives
- green finance
- ethical finance
- social impact financing
- Islamic finance

US$ 135 Billion
Global development community provides each year

Official development assistance must catalyze and leverage new development resources.

US$ 440 Billion
Remittances 2015

US$ 765 Billion
Foreign Direct Investment 2015

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

To unlock these resources, countries must build effective tax regimes and government institutions and improve public spending.

Sources: World Bank Annual Report 2015; World Development Indicators; OECD DAC Statistics
As development challenges at the global and national levels increase, so too should the resource envelope available to meet these needs. ODA flows are simply not enough.

Developing countries' total resource receipts (in millions of dollars)

ODA: Official Development Assistance. ODA in the chart includes bilateral ODA and multilateral concessional flows.
Non-ODA flows include: other official developmental flows, officially-supported export credits, FDI, other private flows at market terms and private grants.
Adjusted gross disbursements, three-year moving average, USD million, 2012 constant prices.
Sources: Remittances, World Bank. Other resource flows, DAC statistics. NB: Data on flows to MDCs are only available up to 2010.
• IDA is one of the largest sources of assistance for 77 countries, 39 of which are in Africa.
• IDA lends money on concessional terms.
  • IDA credits have a zero or very low interest charge and repayments are stretched over 25 to 40 years, including a 5- to 10-year grace period.
  • IDA also provides grants to countries at risk of debt distress.
• The 18th replenishment, just concluded this year, mobilized a record $75B Commitment.
Domestic Resource Mobilization

- A country’s ability to mobilize domestic resources and spend them effectively – at the national, sub-national and municipal levels – lies at the crux of financing for development.

- Strengthening the capacity of local governments, including to raise their own revenues, to manage expenditures and service delivery, and to borrow and manage debt prudently is critical.

- Developing inter-government fiscal transfer arrangements that consider the needs of sub-national governments and equalize fiscal capacity and expenditure is also critical.

Sources: IMF data; World Bank Financing for Development Post-2015
## Many Provinces Outsize Entire Countries

### Countries with Population 
**Under** 5 Million People

- 78 countries out of 196 total

<table>
<thead>
<tr>
<th>Countries</th>
<th>Number</th>
<th>Out of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>7</td>
<td>31 total</td>
</tr>
<tr>
<td>Mexico</td>
<td>8</td>
<td>27 total</td>
</tr>
<tr>
<td>South Africa</td>
<td>5</td>
<td>9 total</td>
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<tr>
<td>Other</td>
<td>66</td>
<td>122 total</td>
</tr>
</tbody>
</table>

Source: Data calculations from local government statistics
Expenditures for Local Governments

Sample Expenditure Plan

<table>
<thead>
<tr>
<th>Expenses on Delegated Functions</th>
<th>Own Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preschool Education</td>
<td>1. Infrastructure and Public Services</td>
</tr>
<tr>
<td>2. Primary and Secondary School</td>
<td>2. Environment Protection, including waste</td>
</tr>
<tr>
<td>3. Health Care</td>
<td>3. Social, Cultural, Recreational Expenditures</td>
</tr>
<tr>
<td>4. Social Assistance and Poverty Alleviation</td>
<td>4. Local Economic Development</td>
</tr>
<tr>
<td>5. Public Order and Civil Protection</td>
<td>5. Social Housing</td>
</tr>
<tr>
<td>6. Other</td>
<td>6. Urban Development</td>
</tr>
<tr>
<td></td>
<td>7. Civil Security</td>
</tr>
<tr>
<td></td>
<td>8. Transfers to Sub-local Government Entities</td>
</tr>
<tr>
<td></td>
<td>9. Subsidies, Grants, Equity, In-Kind</td>
</tr>
<tr>
<td></td>
<td>10. Loan Repayment</td>
</tr>
<tr>
<td></td>
<td>11. Interest Charges</td>
</tr>
<tr>
<td></td>
<td>12. Guarantees Called</td>
</tr>
</tbody>
</table>

Source: Municipal Finances Handbook: Managing Local Expenditures, Morrell and Kopanyi
Revenue Sources for Local Governments

- **TAX**
  - Property, Motor, Sales, etc.

- **TOLLS**
  - Roads, Bridges, etc.

- **FEES**
  - Licensing, Facilities, Fines, etc.

- **INTEREST**
  - on bank deposits or other funds

- **CHARGES**
  - Bus Stations, Taxi Parks, etc.

- **RENT**
  - Land, Buildings, Vehicles, etc.

- **SURPLUSSES**
  - from local commercial enterprises

Source: Municipal Finances Handbook: Managing Local Expenditures, Devas, Munawwar, and Simon
Private Sector & Sustainable Development

“BUSINESS WILL BE THE SINGLE MOST IMPORTANT ACTOR IN DELIVERING THE SDGs” – 2016 Global CEO study

Sources: Adapted from 2017 Deloitte study on “2030 Purpose” and the 2016 Accenture “Global CEO” study.
Leveraging Private Finance
How Much is Out There?

$2 TRILLION
Assets held by the world’s ten largest pension funds

$4.5 TRILLION
Assets held by the world’s largest insurance companies

$5 TRILLION
Assets held by the world’s largest sovereign wealth funds

$100 TRILLION
Global bond market

Source: IFC Presentation to Center for Global Development, February 2017
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.
Can commercial financing be cost-effectively mobilized for sustainable investment? If not…

Can upstream reforms be put in place to address market failures? If not…

Can risk instruments & credit enhancements cost-effectively cover remaining risks? If not…

Can development objectives be resolved with scarce public financing?
SDG Everyone: Equity - Index Linked Bonds

- Bonds that for the first time directly link returns to the performance of companies advancing global development priorities set out in the 2030 Agenda
- The equity-index linked bonds raised a total of EUR163 million from institutional investors in France and Italy
- World Bank Group Treasury anticipates coming to market with similar issuances that would attract a range of investors across the world

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

**Step 1 – ESG Control**
- 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

**Step 2 - SDGs Methodology**
- 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

**Step 3 – Financial Filters**
- 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.)

Source: World Bank Group Treasury
Key Areas for Countries to Unlock their Implementation Potential

Accumulation
- Future orientation
- High investment
- High saving

Inclusion
- Leadership and governance
- Credible commitment to growth
- Credible commitment to inclusion
  - Capable administration

Allocation
- Market Allocation
- Prices guide resources
- Resources follow prices

Stabilization
- Macroeconomic stability
- Modest inflation
- Sustainable public finances

Innovation
- Openness
- Import knowledge
- Exploit global demand

Thank You

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