Financing the 2030 Development Agenda

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Addressing Global Megatrends & 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)
Looking Back: The MDGs Era

MDG Progress, by Number of Developing Countries

- **MDG 1.1: Poverty**
  - Target Met: 71
  - Sufficient Progress (by 2015): 11
  - Seriously Off Target (after 2030): 2
  - Insufficient Data: 27

- **MDG 1.9: Malnourishment**
  - Target Met: 35
  - Sufficient Progress (by 2015): 8
  - Insufficient Progress (2015-2020): 4
  - Seriously Off Target (after 2030): 13
  - Insufficient Data: 33

- **MDG 2.2: Primary Completion**
  - Target Met: 40
  - Sufficient Progress (by 2015): 12
  - Insufficient Progress (2015-2020): 11
  - Seriously Off Target (after 2030): 17
  - Insufficient Data: 40

- **MDG 3.1: Gender Parity**
  - Target Met: 67
  - Sufficient Progress (by 2015): 10
  - Seriously Off Target (after 2030): 11
  - Insufficient Data: 28

- **MDG 4.1: Under-5 Mortality**
  - Target Met: 38
  - Sufficient Progress (by 2015): 18
  - Insufficient Progress (2015-2020): 16
  - Seriously Off Target (after 2030): 37
  - Insufficient Data: 34

- **MDG 4.2: Infant Mortality**
  - Target Met: 34
  - Sufficient Progress (by 2015): 4
  - Insufficient Progress (2015-2020): 18
  - Seriously Off Target (after 2030): 33
  - Insufficient Data: 54

- **MDG 5.1: Maternal Mortality**
  - Target Met: 15
  - Sufficient Progress (by 2015): 3
  - Insufficient Progress (2015-2020): 11
  - Seriously Off Target (after 2030): 20
  - Insufficient Data: 88

- **MDG 7.8: Water**
  - Target Met: 67
  - Sufficient Progress (by 2015): 5
  - Seriously Off Target (after 2030): 12
  - Insufficient Data: 40

- **MDG 7.9: Sanitation**
  - Target Met: 36
  - Sufficient Progress (by 2015): 7
  - Seriously Off Target (after 2030): 14
  - Insufficient Data: 58

Source: World Bank data, staff calculations
An Opportunity for Transformation: Lessons Learned from the MDGs

- 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
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.
The SDGs: An integrated agenda
SDG-related investment needs are high

Source: Global Economic Prospects, World Bank, January 2017
The needs exceed existing resources

BETWEEN NOW AND 2030 DEVELOPING COUNTRIES NEED AN ANNUAL INVESTMENT OF UP TO:

- **POWER**: $690 BILLION
- **TRANSPORT**: $470 BILLION
- **TELECOM**: $240 BILLION
- **FOR CLIMATE CHANGE MITIGATION & ADAPTATION**: $780 BILLION
A large pool of private capital is yet to be catalyzed with judicious use of scarce public and concessional resources.
THREE PRIORITIES:
“What the WBG should do”

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

FORWARD LOOK:
“How should the WBG do it”

MOBILIZATION FOR DEVELOPMENT
New sources of Private Capital / Mainstreaming joint WBG solutions / Domestic resource mobilization / Existing and new partnerships

Knowledge action plan / Agile pilots / Shared services / Simplification / People’s strategy / Values / Incentives for collaboration

SUSTAINABLE AND INCLUSIVE GROWTH
Creating markets (IFC/MIGA/ICSID) / Implementing IDA18 / Aligning IBRD lending with priorities

HUMAN CAPITAL
Implementing climate action plan / Enhancing crisis response approach

LEADING GLOBAL AGENDA
SERVING ALL CLIENTS

RESILIENCE
Implementing climate action plan / Enhancing crisis response approach

INNOVATION
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?

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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

Sources: World Bank Group Treasury, Press Release from 03/09/2017
Islamic Finance: A catalyst for prosperity

- Islamic finance is an effective tool for financing development worldwide, including in non-Muslim countries. Islamic finance has already been mainstreamed within the global financial system – and it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity.

- Today, Sharia-compliant financial assets are estimated at roughly US$2 trillion, covering bank and non-bank financial institutions, capital markets, money markets and insurance (“Takaful”).

- In many majority Muslim countries, Islamic banking assets have been growing faster than conventional banking assets. There has also been a surge of interest in Islamic finance from non-Muslim countries such as the UK, Luxembourg, South Africa, and Hong Kong.
Islamic Finance: A pro-development financial system

- Prohibition of Interest,
- Promotion of Exchange and Trade
- Information Asymmetry (gharar)

- Entrepreneurship
- Redistributive Instruments (Zakaat, Qard-al-Hassan, Waqf, Sadaqaat, etc)

- Risk Sharing
- Corporate Governance and Leadership
- Financial Inclusion
- Economic Development

- Economic Institutions
- Property Rights
- Contracts
  - Trust
  - Rules of Markets
  - Business Ethics

- Economic and Social Justice
- Inclusive Growth
Islamic finance supports a number of sustainable development objectives

1. **Financial stability**
   - Helps Islamic financial institutions to be more resilient to particular shocks
   - May help to diffuse risk in the financial system

2. **Financial inclusion**
   - Helps widening the range of products and services available to businesses and households
   - Helps improving access of the underserved to financial services

3. **Social impact**
   - Helps achieve empowerment of marginalized groups
   - Helps access funds used for nutrition, healthcare and education

4. **Infrastructure development**
   - Helps attract investment in infrastructure
   - Can be leveraged to attract private funding and form private public partnerships (PPPs)
Islamic finance: a natural partner for PPPs

- Intersection of Islamic finance & PPPs in infrastructure:
  - Both types of investment intend to meet basic service-delivery needs and achieve social good.
  - Hallmark of sharīʿah-compliant structures is their asset backed or asset based nature (a tangible or physical asset underlies the transaction)
  - Interest income or guaranteed returns are forbidden in Islam, there must be a degree of risk sharing, as in the case of PPPs.
  - Given the long-term and stable nature of infrastructure investments generally, they allow for long-term stable rates of return to investors.
  - Co-existence of conventional and Islamic financing
Examples of WBG support for Islamic finance

- Issuance of various Islamic Finance instruments, incl. sukuk, which have raised $700M in 2015
- Doraleh Container Terminal Project, Djibouti
- The World Bank Global Islamic Finance Development Center, Istanbul, Turkey
- Technical Assistance to various governments
- Knowledge hub in Malaysia
- Knowledge products

Different parts of the WBG support Islamic finance

- Financing package for Iraqi power company for $375 million
- Establishment of the IFC Sukuk Company, which issued $100M in trust certificates in 2015
- Queen Alia Airport Project, Jordan
- Hajj terminal and Madinah airport in Saudi Arabia and

- Provision of a $427M Sharia-compliant investment guarantee for infrastructure projects
- Political risk insurance worth $450M in 2015

The WBG is working with partners to leverage the potential of Islamic finance and has introduced investment projects that use Islamic financing across the world
Scope of Joint Project Financing

14 projects delivered including one regional

Volume of Joint Project Financing (US$ m)

Approx. $1.3 billion also raised from other sources

Pipeline, 6,792
Delivered, 3,649

G: 786 (22%)
IL: 1,599 (44%)
G: 126 (3%)
IL: 1,136 (31%)

Active regional project co-financing
Active project co-financing
WBG-I$D$B a range of knowledge products

Technical & Advisory Assistance
- Yemen Damage Needs Assessment
- Pakistan Financial Sector Assessment Program
- Global report on Islamic Finance 2016, "Islamic Finance: A Catalyst for Shared Prosperity"

Knowledge Events & Training
- Participation in the FCV Forum and managing projects in FCV locations
- Joint seminar on CDD
- Training on education reform
- A range of workshops on the E4C initiative
- Workshop on Mashreq integration

Country Policy Dialogue
- Launch and participation in the Pan-Arab Regional Energy Trade Platform
- Participation in the MENA Network of Water Excellence
- Concluded first joint country dialogue on Iraq
Importance of collaboration to support 2030 Agenda

• To take advantage of the growth in Shariah-compliant assets:

✓ **New joint financing instruments** such as– Concessional Finance facility and Guarantees for Sukuks are a clear step in the right direction to help us leverage our comparative strengths.

✓ **WBG and IsDB Increasing Knowledge on PPPs**: Upcoming report on mobilizing Islamic finance for PPPs to raise awareness on how best to mobilize shariah-compliant capital towards infrastructure PPPs

✓ **The MDB Heads Group** is a valuable coordination venue through which the WBG can engage with other MDBs to harmonize approaches to the use of **Cascade principles** and to measure **private investment catalyzation** – an MDB methodology to measure direct and indirect (ie cofinancing) mobilization of private capital was launched earlier this year.
Thank You

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Collaboration to meet the SDGs: Focus on PPPs

- **Examples of MDB Collaboration in Shariah-compliant PPPs:**
  - Doraleh Container Terminal Project, Djibouti (IsDB & WBG – MIGA, AfDB)
  - Queen Alia Airport Project, Jordan (IsDB & WBG–IFC)

- **Examples of Shariah-compliant PPPs with direct impact on SDGs:**
  - Konya Integrated Health Campus Project, Turkey
  - Master Wing Energy Limited Project, Pakistan
  - East Klang Valley Expressway, Malaysia
  - Yayasan Amir Trust School Programme, Malaysia
Example of Shariah-compliant PPPs:

Doraleh Container Terminal Project, Djibouti

• 30 year concession between DP World and Government of Djibouti.
• Scope: development, financing, design, construction, management, operation and maintenance of the port (1.05 km quay).
• Shariah structure: The project financing was executed by combining the following key concepts of Shariah: *Musharaka, Istisna’া and Ijara*
• Total cost is $397 million, with IsDB Participation $65 million.
• Co-Financing by DIB, SCB, West LB, AfDB, BLME, and Proparco.
• WBG (through MIGA) provided Political Risk Insurance on: (i) Transfer and Convertibility Risk, (ii) Expropriation, (iii) War and Civil disturbances, and (iv) Breach of Contract by the government.
Example of Shariah-compliant PPPs:

**Queen Alia Airport Project, Jordan**

- 25 year concession
- Scope: refurbishing and rehabilitating the existing airport, constructing a new terminal with a capacity of 12 million passengers per year, operating and managing the airport and the collection of revenue and toll.
- Shariah structure: a US$100 million Istisnaa provided by IsDB, combined with a forward lease under the Ijara structure.
- IFC served as transaction advisor to the Jordanian government and financed the project by providing and arranging $280 million in loans.
- This project is possibly the first Middle-East PPP-style dual tranche conventional loan and Islamic facility.