Financing the SDGs

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World Bank Group

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SDG-Related Investment Needs

Percent of global GDP

- Power
- Transport
- Telecoms
- Water and sanitation
- Food security
- Climate change
- Health
- Education

- **Investment gap**
- **Current investment**

Source: Global Economic Prospects, World Bank, January 2017
BILLIONS TO TRILLIONS

Between now and 2030 developing countries need an annual investment of up to:

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

Financing the SDGs:
What are the needs in various sectors?
## Financing the SDGs: The key components

<table>
<thead>
<tr>
<th>1. National public resources:</th>
<th>Improving domestic resource mobilization (DRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Global public resources:</td>
<td>Better and smarter aid</td>
</tr>
<tr>
<td>3. National and global private resources:</td>
<td>Unlocking private investment for development, Attracting FDI, Remittances, Philanthropic finance</td>
</tr>
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</table>
Official development assistance must catalyze and leverage new development resources.

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.
ODA is not enough - Need to recast from Billions to Trillions

- Official Development Assistance has been flat between 1990 and 2015
- While a critical source of external financing, ODA is not sufficient to realize IPoA or 2030 Agenda
- 142 billion USD – 8.9 % increase compared to 2015, but 3.9% decrease to LDCs in real terms
- Recast development finance from ‘billions’ in ODA to ‘trillions’ in investments of all kinds: public and private, national and global, in both capital and capacity
Since Addis, the WBG has taken seriously the question of how to unlock new resources and use every dollar more efficiently and leverage ODA to attract additional investments

First, with the International Development Association

- 173 shareholder countries, 77 borrowers
- Results-driven
- Works across sectors and regions
- Translates global challenges into country solutions
- **Implementer, convener, and source of global knowledge**
- Helps manage shocks and build resilient, inclusive economies
- Major presence in fragile and conflict-affected countries
WHAT IS IDA?

At the forefront of global ambitions—SDGs, COP21, Sendai, Addis Ababa Agenda—to address persistent global challenges

• Global economic headwinds
• Fragility, extremism, conflict
• Climate change
• Inequality
• Natural disasters
• Refugee crises
• Health crises
$75 BILLION for next 3 years

Innovative financing approach

Ground-breaking policy package

$2.5 BILLION IFC-MIGA
Private Sector Window
Towards 2030: Investing in Growth, Resilience and Opportunity
IDA18 REPLENISHMENT: $75b

IDA18 IS THE LARGEST REPLENISHMENT

Every three years, donors and borrower representatives agree on IDA’s strategic directions, financing, and allocation rules—known as the replenishment.

Offers exceptional value for money, with $3 in spending for every $1 in partner contributions.

Hybrid financial model allows IDA to scale up financing from $52B in IDA17 to $75B in IDA18—while donor contributions stayed flat in national currency terms.
IDA18 EXCEPTIONAL REGIMES FOR SPECTRUM OF FRAGILITY

Turn-Around Regime

- Responds to “turn-around” situations where there is a critical window to build stability and resilience, e.g., cessation of conflict
- Replaces PBA
- Exceptional; swift

Risk Mitigation Regime

- Pre-identified countries to target drivers of fragility and prevent escalation
- IDA18: Nepal, Guinea, Niger and Tajikistan
- Additional to PBA (up to 1/3; US$300m max)
IDA18 FOR SMALL STATES

Given the unique challenges faced by small states, IDA18:

• Quadruples minimum base annual allocations

• Extends exceptional lending terms for small island states to all small states

• Links eligibility for the 20 percent cap under the Regional program to population, rather than size of country allocation

• Harmonizes regional financing terms with terms for core IDA
IDA Windows
<table>
<thead>
<tr>
<th>Amount</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$3B</td>
<td>To support IDA countries’ response &amp; preparedness against:</td>
</tr>
<tr>
<td></td>
<td>• Severe natural disasters</td>
</tr>
<tr>
<td></td>
<td>• Economic crises</td>
</tr>
<tr>
<td></td>
<td>• Health emergencies</td>
</tr>
</tbody>
</table>

**Eligibility:** All IDA eligible countries

**Terms:** Same as country’s core IDA assistance*

* For severe natural disasters (damages and losses > 1/3 of GDP), mid-year adjustments of credit/grant mix are possible (based on updated Debt Sustainability Analysis)
## REGIONAL PROGRAM

<table>
<thead>
<tr>
<th>Amount</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$7B</strong></td>
<td>To promote development through a regional approach by “topping-up” IDA core funding</td>
</tr>
<tr>
<td>(SDR 5B)</td>
<td>(including new $2B refugee window)</td>
</tr>
</tbody>
</table>

**Eligibility:** All IDA countries pursuing projects with regional benefits

**Terms:** Same terms as country core allocations

**20% cap on country contributions:**
Now applies to all small states, no longer based on country allocations*

* Typically countries are required to contribute 1/3 of regional project costs from their national IDA allocations; this amount is capped at 20% of a country’s allocation for small states.
## REFUGEE SUB-WINDOW

<table>
<thead>
<tr>
<th>Amount</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$2B</strong></td>
<td>To help refugee host communities:</td>
</tr>
<tr>
<td><strong>(SDR 1.4B)</strong></td>
<td>• Mitigate shocks</td>
</tr>
<tr>
<td>Country cap: $400M</td>
<td>• Facilitate sustainable solutions</td>
</tr>
<tr>
<td></td>
<td>• Strengthen preparedness</td>
</tr>
</tbody>
</table>

### Eligibility:
IDA countries:
- Hosting more than 25,000 refugees or 0.1 percent of population;
- Adequate refugee protection framework; and
- With action plan, strategy or compact on country’s response

### Terms:
- High risk of debt distress: 100% grants;
- Moderate and low risk of debt distress: 50-50% grants/credits;
- If target only refugees, 100% grants could be considered case by case
## SCALE-UP FACILITY

<table>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>US$6.2B</strong></td>
<td>To enhance support and flexibility for high-quality transformational</td>
</tr>
<tr>
<td>(SDR 4.4B)</td>
<td>single country and regional operations with strong development impact</td>
</tr>
</tbody>
</table>

**Eligibility:** All IDA eligible countries

- IDA-eligible countries at low or moderate risk of debt distress
- Consistency with IDA’s NCBP and IMF Debt Limit Policy
- Consistency with IDA18’s policy priorities and WBG goals

**Terms:** IBRD terms
## PRIVATE SECTOR WINDOW

<table>
<thead>
<tr>
<th>Amount</th>
<th>Purpose</th>
</tr>
</thead>
</table>
| US$2.5B (SDR 1.8B) | - To expand private investment in IDA-only countries, with a focus on IDA-eligible FCS  
|                   | - Scale-up IFC/MIGA engagements                                           |
|                   | - Crowd in private investment; create markets                           |
|                   | - Support IDA18 Special Themes                                           |

**Eligibility:** 3 Categories:
- IDA-only, non-gap
- Gaps and Blends FCS (with WB CPIA < 3.2 or UN peacekeeping)
- Gap and Blend non-FCS with sub-national fragility on case-by-case basis

**Four Facilities:**
- **Risk Mitigation Facility** – Project-based guarantees without sovereign indemnity
- **MIGA Guarantee Facility** – Political risk insurance
- **Local Currency Facility** – IFC loans denominated in local currency
- **Blended Finance Facility** – Blends PSW funds with IFC investments
How will the PSW work?

**IDA**
supports sector reforms through knowledge and resources that enable the private sector to grow in improved business environments

**IFC**
blends investment with advice and resource mobilization to help private sector advance development

**MIGA**
promotes foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives
The PSW will **reduce risks** for private sector investments
AT THE TRANSACTION LEVEL, THE PSW WILL

transfer a portion of risk from private sector participants to IDA

- POLITICAL RISK: non-commercial risks such as expropriation, currency transfer restriction and inconvertibility, war and civil disturbance, and breach of contract (MGF, RMF)
- CURRENCY RISK: Early movers take brunt of risk, impedes pioneering investments (LCF)
- DE-RISKING/ REWARDING PIONEERING INVESTMENTS through blending, including in debt, equity and guarantee instruments (BFF) and liquidity products (RMF)
TO MAKE A BIGGER IMPACT
THE PSW WILL TAKE MORE RISKS

Market reference price

Transactions too risky or prohibitive for regular market pricing/participation
# PSW FACILITIES AT-A-GLANCE

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Risk Mitigation Facility*</th>
<th>Blended Finance Facility*</th>
<th>MIGA Guarantee Facility</th>
<th>Local Currency Facility*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project-based guarantees without sovereign indemnity</td>
<td>Loans, subordinated debt, equity, guarantees and risk sharing</td>
<td>MIGA Political Risk Insurance (PRI) products to private sector</td>
<td>Local currency denominated loans to private sector clients who operate in markets where there are limited currency hedging capabilities</td>
<td></td>
</tr>
<tr>
<td>Types of interventions supported</td>
<td>Large infrastructure, public-private partnerships</td>
<td>High-impact, pioneering</td>
<td>Investments in markets currently underserved by PRI and reinsurers</td>
<td>High impact investments with currency risk</td>
</tr>
<tr>
<td>Sectors</td>
<td>Infrastructure &amp; PPPs</td>
<td>Multiple sectors</td>
<td>Infrastructure, agribusiness, manufacturing and services, financial markets &amp; PPPs</td>
<td>Sectors determined by underlying loans</td>
</tr>
<tr>
<td>Indicative allocation</td>
<td>US$1,000M</td>
<td>US$600m</td>
<td>US$500m</td>
<td>US$400m</td>
</tr>
</tbody>
</table>

* IFC-led PSW Facilities
**Case Studies**

**Power Sector in Pacific Island Countries**

The Challenge

Electricity expensive for consumers; viable projects too costly for investors; unable to find a financial solution

The Solution

Create a risk-sharing facility; IFC would cover 50% of credit risk; PSW's blended finance facility would cover a first loss of 20% of IFC’s maximum risk amount

**Solar Power in a West African Country**

The Challenge

Small grids, low generation capacity; heavy reliance on imports and fuel oil-based generation; solar power presents opportunity to increase supply at competitive prices, bring energy security; financial fragility of off-taker and absence of payment track record discourage private investment

The Solution

IFC seeking to finance the country’s first solar Independent Power Product (IPP); provide support via the Risk Mitigation Facility
Our New Cascades Approach – Increased private sector engagement

1. **COMMERCIAL FINANCING**
   - Can commercial financing be cost-effectively mobilized for sustainable investment? If not...

2. **UPSTREAM REFORMS & MARKET FAILURES**
   - Can upstream reforms be put in place to address market failures? If not...
     - Country and Sector Policies
     - Regulations and Pricing
     - Institutions and Capacity

3. **PUBLIC AND CONCESSIONAL RESOURCES FOR RISK INSTRUMENTS & CREDIT ENHANCEMENTS**
   - Can risk instruments & credit enhancements cost-effectively cover remaining risks? If not...
     - Guarantees
     - First Loss

4. **PUBLIC & CONCESSIONAL FINANCING, INCLUDING SUB-SOVEREIGN**
   - Can development objectives be resolved with scarce public financing?
     - Public finance (incl. national development banks and domestic SWF)
     - MDBs and DFIs
Financing the SDGs: 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
Implementing the SDGs: Private sector engagement

12.6
Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle

12.6.1
Number of companies publishing sustainability reports

How can this be done?

Financial and asset-management institutions can provide positive incentives to companies – those that incorporate sustainability, long-term thinking, and ESG performance criteria in core business models – by allocating assets accordingly.

Integration of ESG considerations could help investments outperform expectations. Add to that financial-market incentives, and huge amounts of capital could be attracted to ESG investments.

Development of a robust, transparent reporting framework that allows companies to report on financial and non-financial performance – this must also support the effort to combine profit maximization with the pursuit of long-term ESG objectives.

Many business leaders already view solving “societal challenges as a core element in the search for competitive advantage.” Almost 50% of CEOs believe “business will be the most important actor in delivering the SDGs”*
Implementing the SDGs: Opportunities for the private sector

Six actions that business leaders can take to capture their share of the economic “prize” of investing in the SDGs:

- Build support for the SDGs as the right growth strategy
- Incorporate the SDGs into company strategy: applying an SDG lens to every aspect of strategy
- Drive the transformation to sustainable markets with sector peers
- Work with policy-makers to pay the true cost of natural and human resources: internalize the externalities
- Push for a financial system oriented toward long-term sustainable investment
- Rebuild trust in business

Implementing the SDGs: Opportunities for the private sector

12 largest business themes in a world economy heading for the SDGs

<table>
<thead>
<tr>
<th>Theme</th>
<th>Value of incremental opportunities in 2030 (US$ billions: 2015 values)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobility systems</td>
<td>2,020</td>
</tr>
<tr>
<td>New healthcare solutions</td>
<td>1,650</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>1,345</td>
</tr>
<tr>
<td>Clean energy</td>
<td>1,200</td>
</tr>
<tr>
<td>Affordable housing</td>
<td>1,080</td>
</tr>
<tr>
<td>Circular economy manufacturing</td>
<td>1,015</td>
</tr>
<tr>
<td>Healthy lifestyles</td>
<td>835</td>
</tr>
<tr>
<td>Food loss &amp; waste</td>
<td>685</td>
</tr>
<tr>
<td>Agricultural solutions</td>
<td>665</td>
</tr>
<tr>
<td>Forest ecosystem services</td>
<td>365</td>
</tr>
<tr>
<td>Urban infrastructure</td>
<td>355</td>
</tr>
<tr>
<td>Buildings solutions</td>
<td>345</td>
</tr>
<tr>
<td>Other</td>
<td>740</td>
</tr>
</tbody>
</table>

BEYOND IDA – OTHER INNOVATIVE WAYS WBG IS PROVIDING FINANCING SOLUTIONS

Green Bonds
- Rapidly developing and according to UNEP has about $118 billion dollars outstanding
- Johannesburg, South Africa, issued Africa’s first municipal green bond in 2014 – over $100 million dollars – to help finance emissions-reducing projects including bio gas energy, solar power, and sustainable transport

Green Finance
- Increased interest from private sector
- Developing countries need to increase annual energy spending to $1.8 trillion by 2035
- WBG increase climate-related financing from 21% to 28% by 2020
- Draw in non-traditional sources of finance: sovereign wealth funds, pension funds, that have trillions of dollars in liquidity
BEYOND IDA – OTHER INNOVATIVE WAYS WBG IS PROVIDING FINANCING SOLUTIONS

ISLAMIC FINANCE

• Form of impact investing
• Enhance financial inclusion – expanding 10-12 % per year during the last decade
• WB Treasury issued variety of Islamic Financial instruments, including two Sukuk, which have raised $700 million
• IFC Sukuk Company - $100 million dollars in trust certificates in 2015
• MIGA - $427 million Sharia-compliant investment guarantee for an infrastructure project in Djibouti and $450 million in political risk insurance for a telecommunications investment in Indonesia
Thank you

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worldbank.org/sdgs