

Supporting Inclusive Economic Growth



Inclusive Economic Growth: Reducing Poverty and Inequality
IMF-World Bank Annual Meetings 2018
Bali, Indonesia

I. Investing in inclusive growth to meet the SDGs

The SDGs present a major opportunity for transformation



	MDGs (2000-2015)	SDGs (2016-2030)
Goals/ Targets/Indicators	8/21/60	17/169/~230
Priority Areas	Human Development	Holistic: Economic, Social, Environmental
Scope	Developing Countries	Universal

Global development agendas serve as a guide for countries to determine their national development path

Investing in inclusive growth:

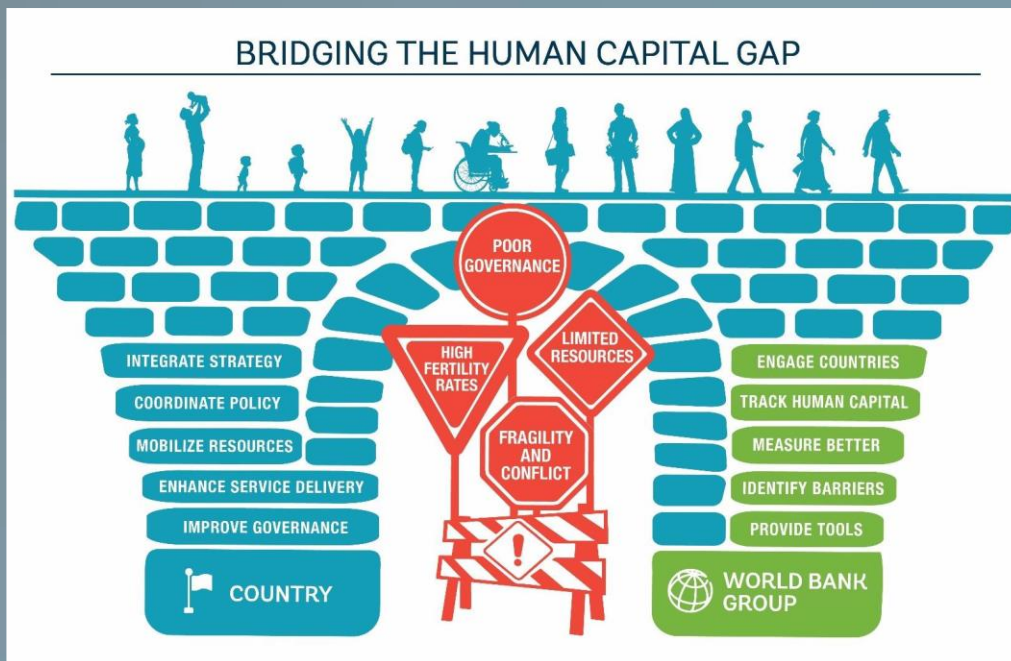
The Common Characteristics of High, Sustained Growth



Investing in human capital

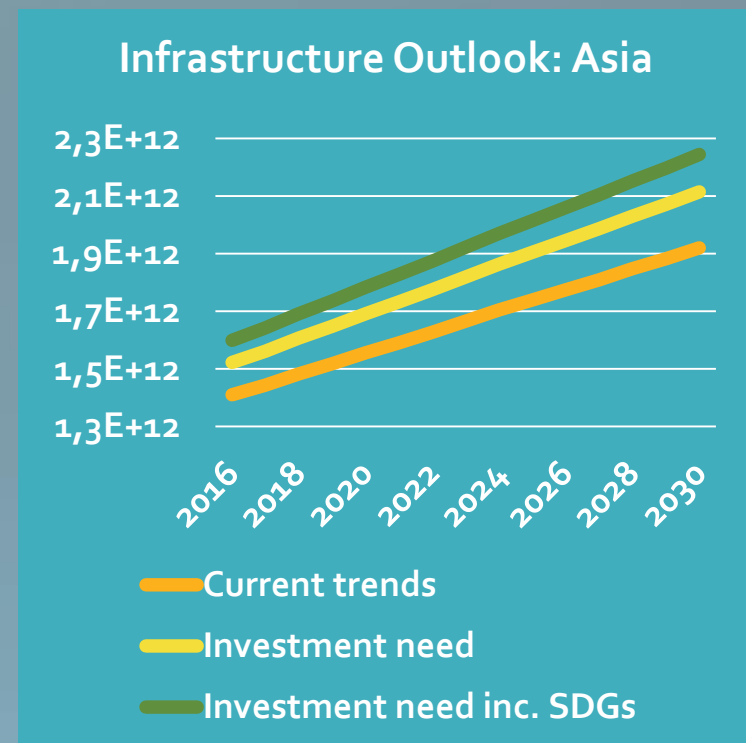
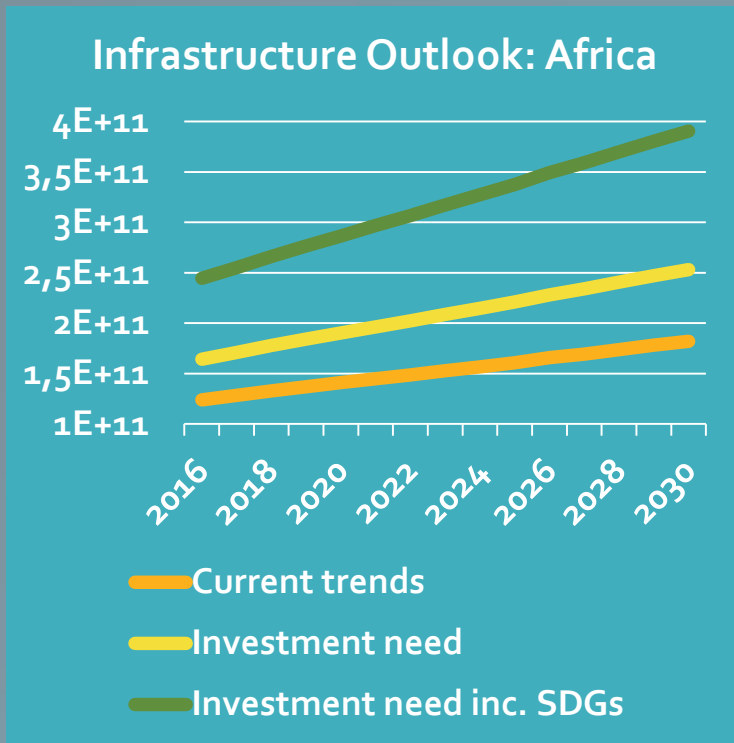
“How much human capital will a child born today acquire by the end of secondary school, given the risks to health, education and social protection that prevail in the country where she was born?”

Three main indicators, reflecting building blocks of the human capital:



- **Survival** – Will kids born today survive to school age?
- **School** – How much school will they complete and how much will they learn?
- **Health** – Will kids leave school in good health and be ready for further learning and/or work?

Investing in infrastructure



Source: Global Infrastructure Hub, 2018

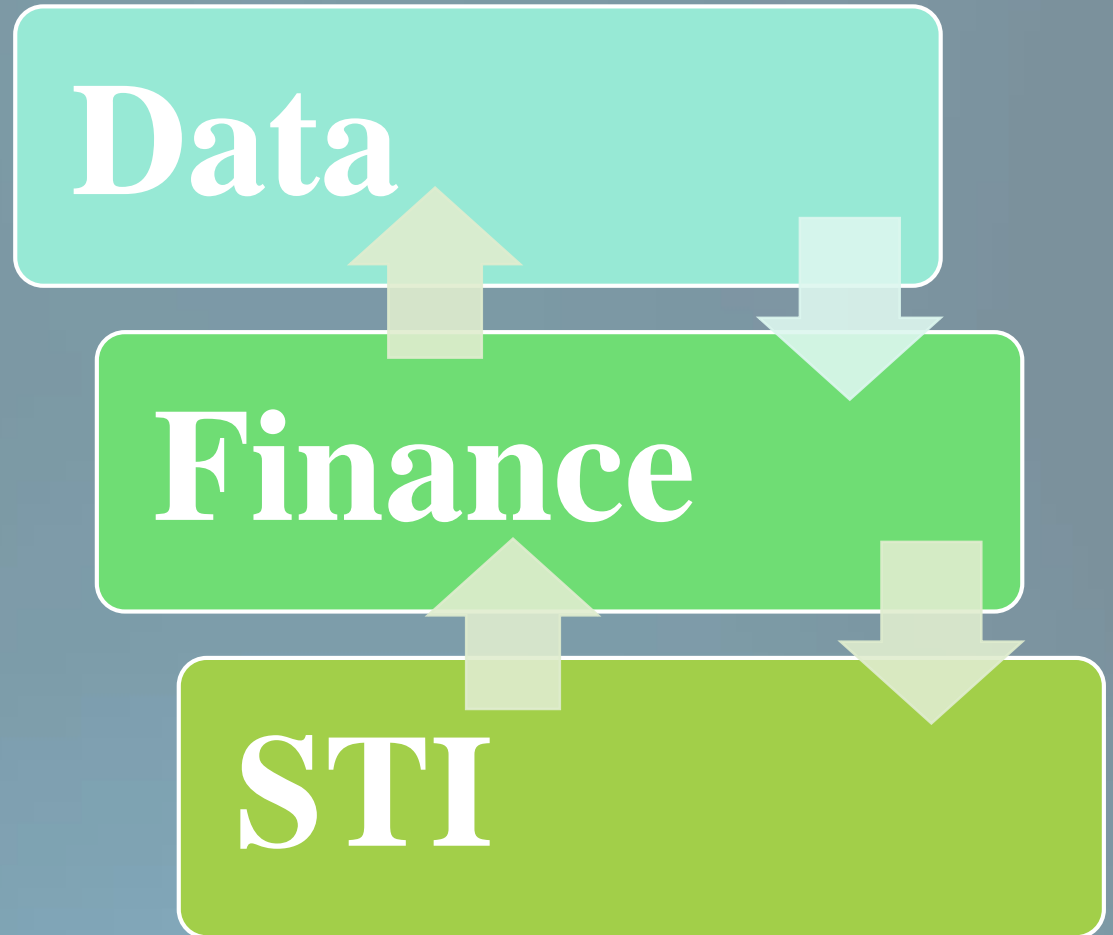
Investing in resilience

**Social protection
and labor regulation
can help manage
labor market
challenges**

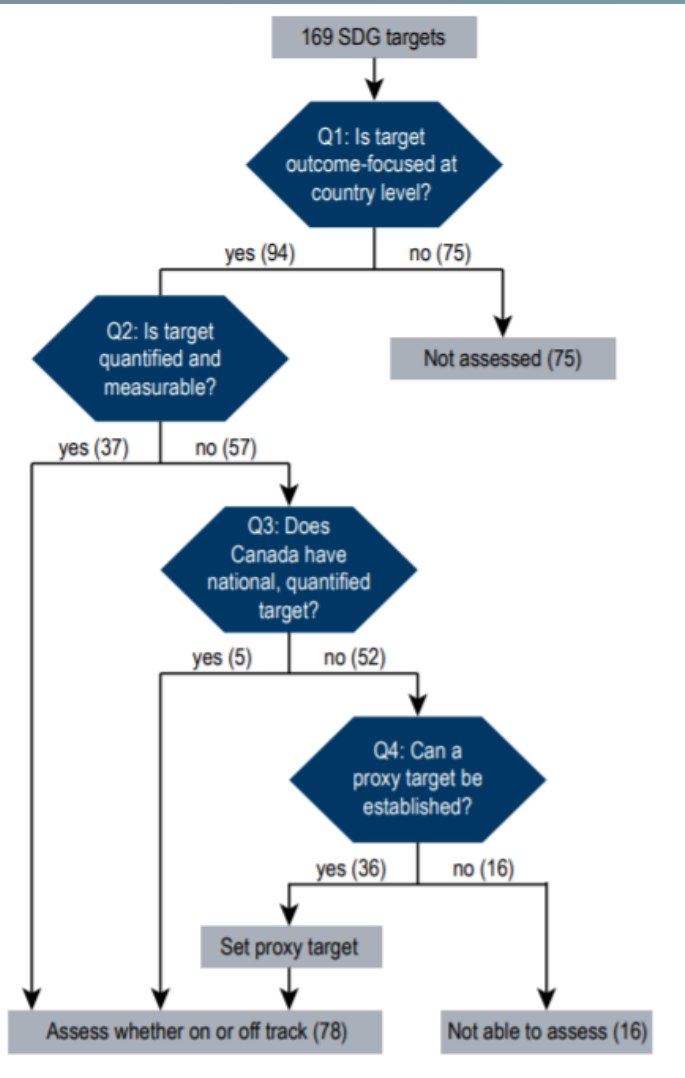


Source: WDR 2019

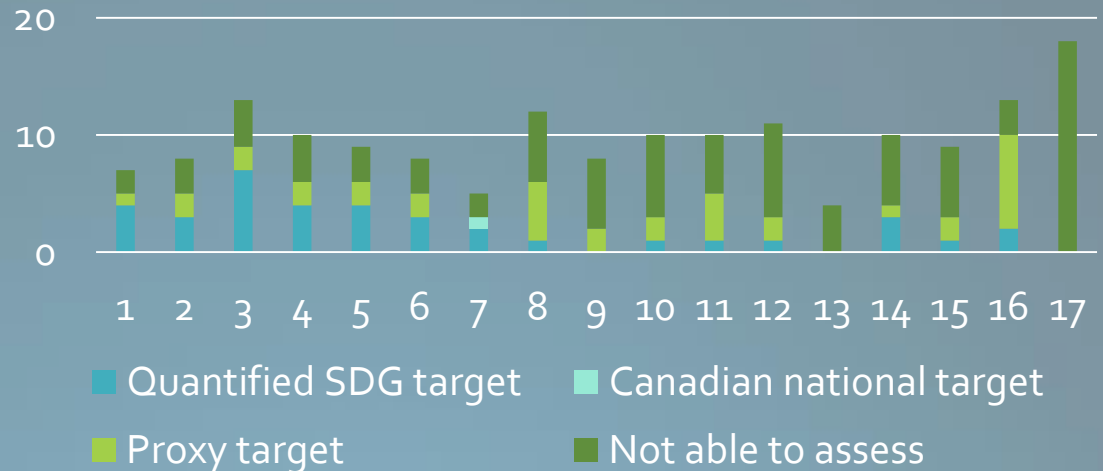
How will we enable these investments?

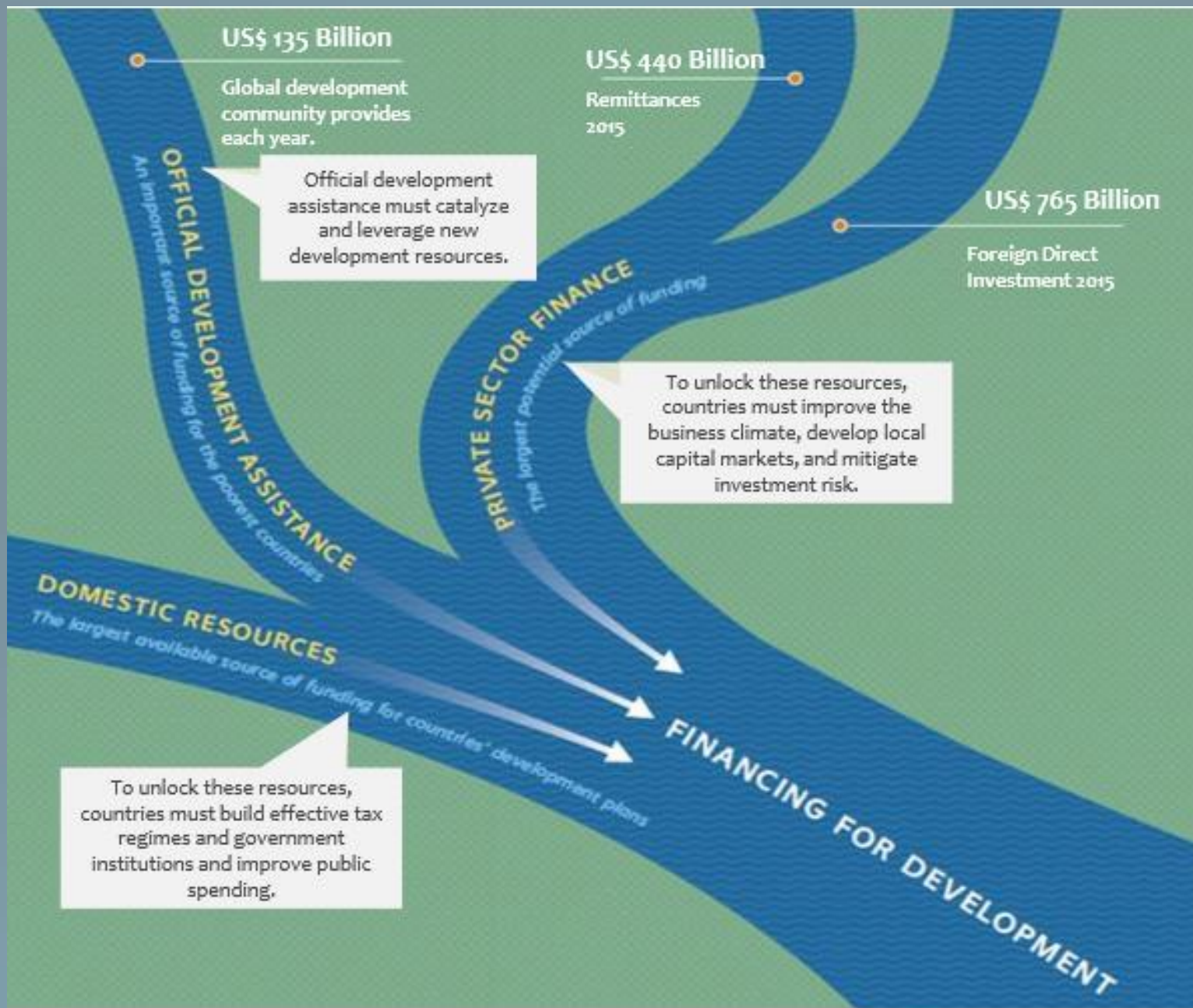


Data is a problem, even in Canada











Seventy-eight of 169 SDG targets describe potentially assessable outcomes for Canada





Financing sustainable development:

“Digitization” is disrupting every part of financial services

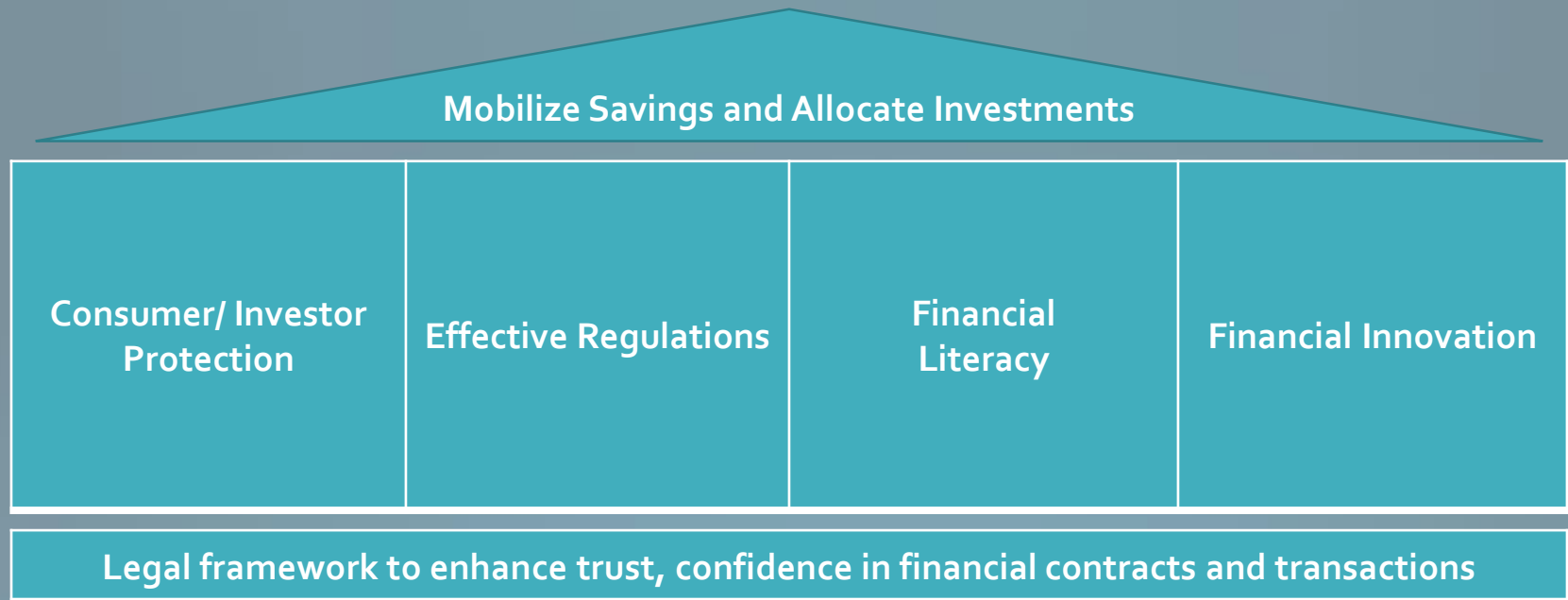
Digitization Of:	Money	Cash Transfers	Identity	Origination / Lending	Payments	Capital Markets Infrastructure	Supply Chain/ Invoicing	Savings and Insurance
Drivers	<ul style="list-style-type: none"> Ecommerce Convenience Govt action (e.g. India) Transport 	<ul style="list-style-type: none"> Govt efficiencies Govt policy programs Fraud reduction 	<ul style="list-style-type: none"> KYC, security SIM reg., gov't payments E-services, elections Falling costs biometrics Mobile devices 	<ul style="list-style-type: none"> Big data (KYC automation) Need for transparency + efficiency Convenience Digital identity 	<ul style="list-style-type: none"> Global trade Ecommerce Business & leisure travel 	<ul style="list-style-type: none"> Search for global returns Convenience of personal investments Democratization of share ownership 	<ul style="list-style-type: none"> Business need for efficiency, convenience, transparency Gov't push for transparency + tax compliance 	<ul style="list-style-type: none"> Data analytics & underwriting Falling interest rates & invest income Business need for efficiency & risk assessment
Opportunities	Account service providers; cash collection networks; regulatory advice to govts	Govt payment contractors (govts may unintentionally create largest payment banks)	Govt platforms for digital ID followed by innovative private-sector led applications	Digital lenders, marketplaces, originators, Scale SME Lending, Robo advice	Money transfer operators, cross border payment networks, FX operators	Back office operations, main exchanges (stock, currency, bonds, derivatives)	Back office operations, exchanges, value chain securitization	Direct insurance, online brokers & advisors, data and analytics, aggregators
Location	Global - populous countries first	Markets with cash transfer programs	Country specific and global (ID4D is global, regional, country specific)	Global - focus on large demographics	Global - main trade corridors	Financial market capitals (NY, London, Tokyo)	Regional & cross border	Global, regional and country specific
Impact	1.5 Bn wallets in 6 years	Over 300m accounts	1.5 Bn people without ID	\$34 Bn in China alone	\$3.6Trn value globally p.a.	\$20Trn p.a. global flows	>\$1Trn p.a. in LAC alone	>5 Trn GWP, >15 Trn AUM
Examples								

Source: World Bank Group, 2017



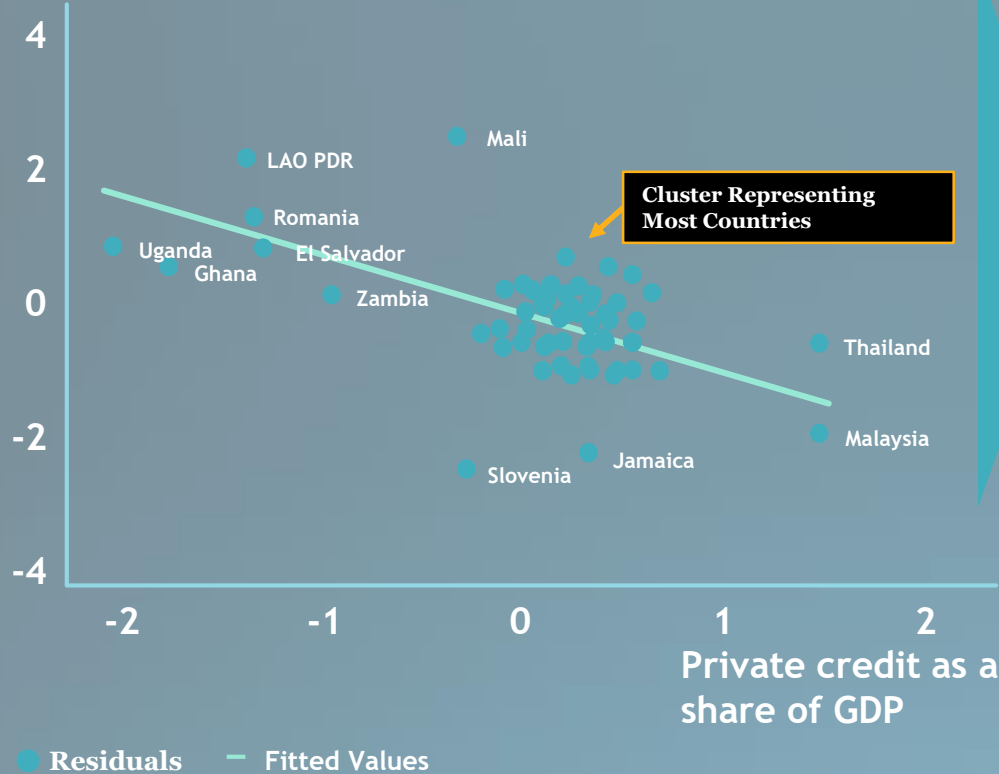
II. The role of the financial sector

Components of a sound financial sector



Research has shown that financial sector development reduces poverty levels

Change in poverty headcount



Higher levels of financial development cause:

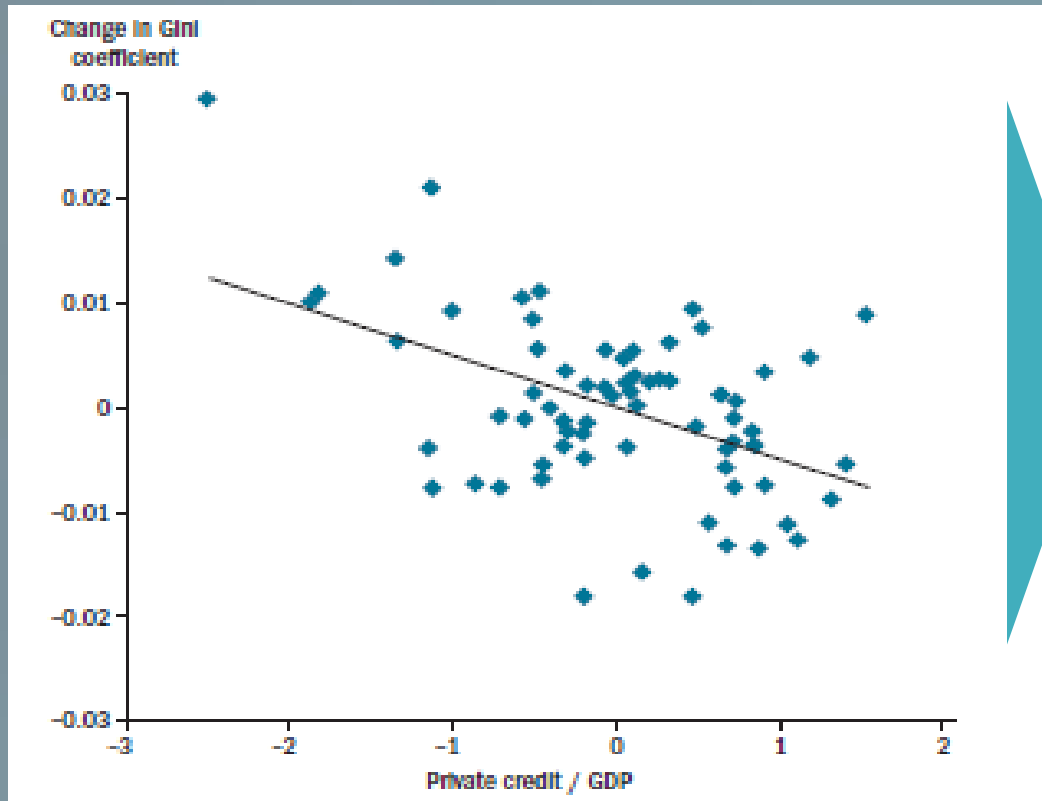
- ❖ a faster decline in the fraction of population living below the poverty line.
- ❖ a lower incidence of poverty compared to other countries at the same income level

Empirical evidence shows:

- ❖ a 10 percentage point increase in private credit to GDP ratio reduces the share of the population in poverty by 2.5 to 3 percentage points
- ❖ a 1 percentage point increase in private credit to GDP reduces malnourishment by 0.2 to 2.5 percentage points

Sources: Beck, Demirgüç-Kunt, and Levine (2007); Honohan (2004), Claessens and Feijen (2007).

There is also evidence that financial sector development reduces income inequality



In countries with more developed financial intermediaries:

- Income inequality falls more rapidly (declining Gini coefficient)
- Income of the poorest 20% grows faster
- Credit constraints on the poor are less severe, helping capital allocation and improving growth

Vertical axis: Income Inequality – changes in Gini coefficient (1960-2005);

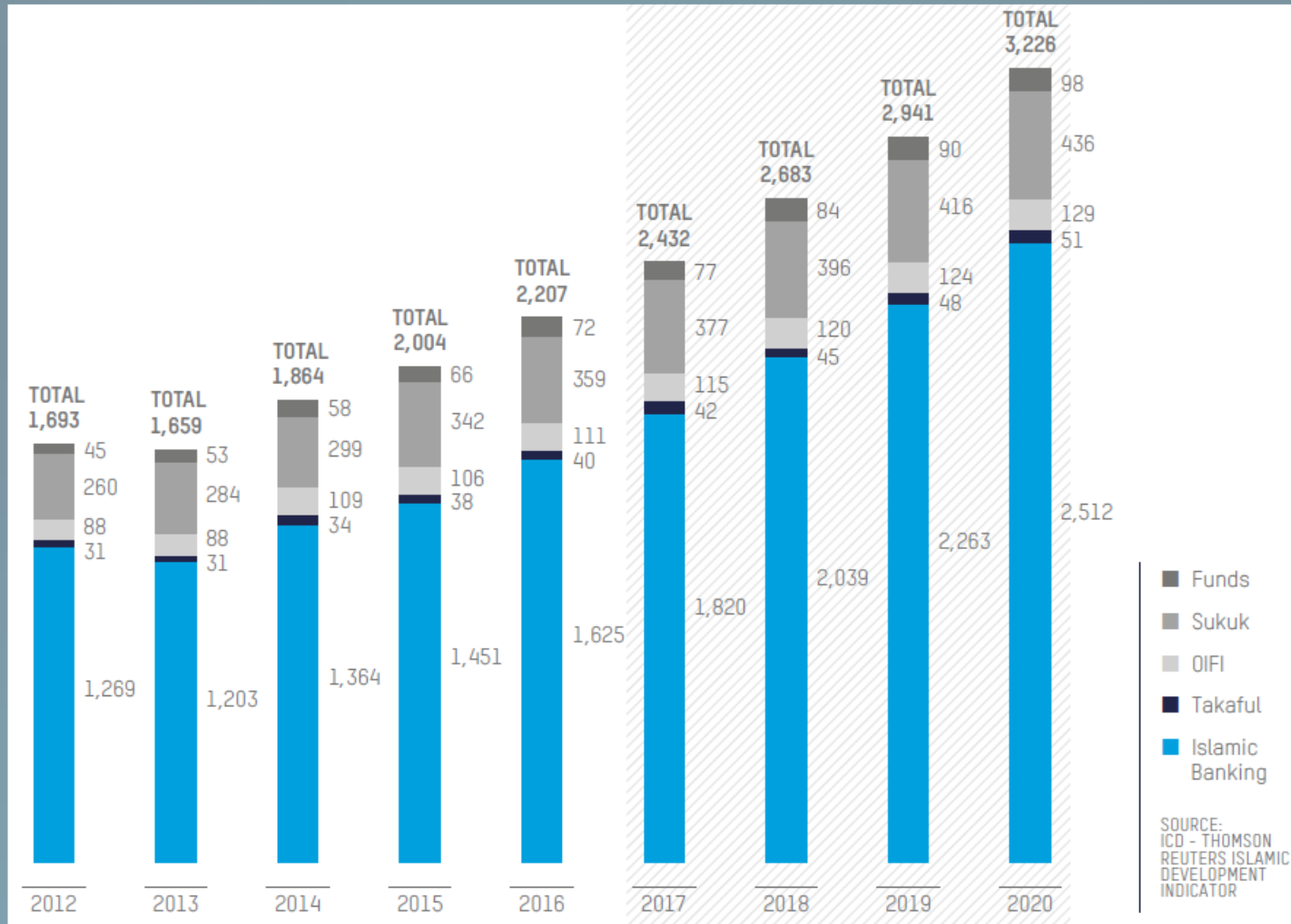
Horizontal axis: Financial Sector Development – logarithm of private sector credit to GDP ratio (period average).

Source: Beck, Demirgüç-Kunt, and Levine (2007).

III. Islamic finance, economic growth & development

Total Islamic financial assets now exceed US\$ 2 trillion

Global Islamic Finance Assets (US\$ Billion)



Islamic finance can support sustainable development objectives



**Financial
Stability**

**Financial
Inclusion**



**Social
Impact**

**Infra
Development**

Specific features of Islamic finance give it the potential to significantly enhance growth and reduce poverty

Partnership- and equity style financing

Profit and loss sharing

Socially responsible investments

Emphasis on tangibility

Islamic finance can contribute directly to boosting growth, reducing inequality and enhancing the sustainability of growth

Financing business enterprises, including SMEs and innovative entrepreneurs

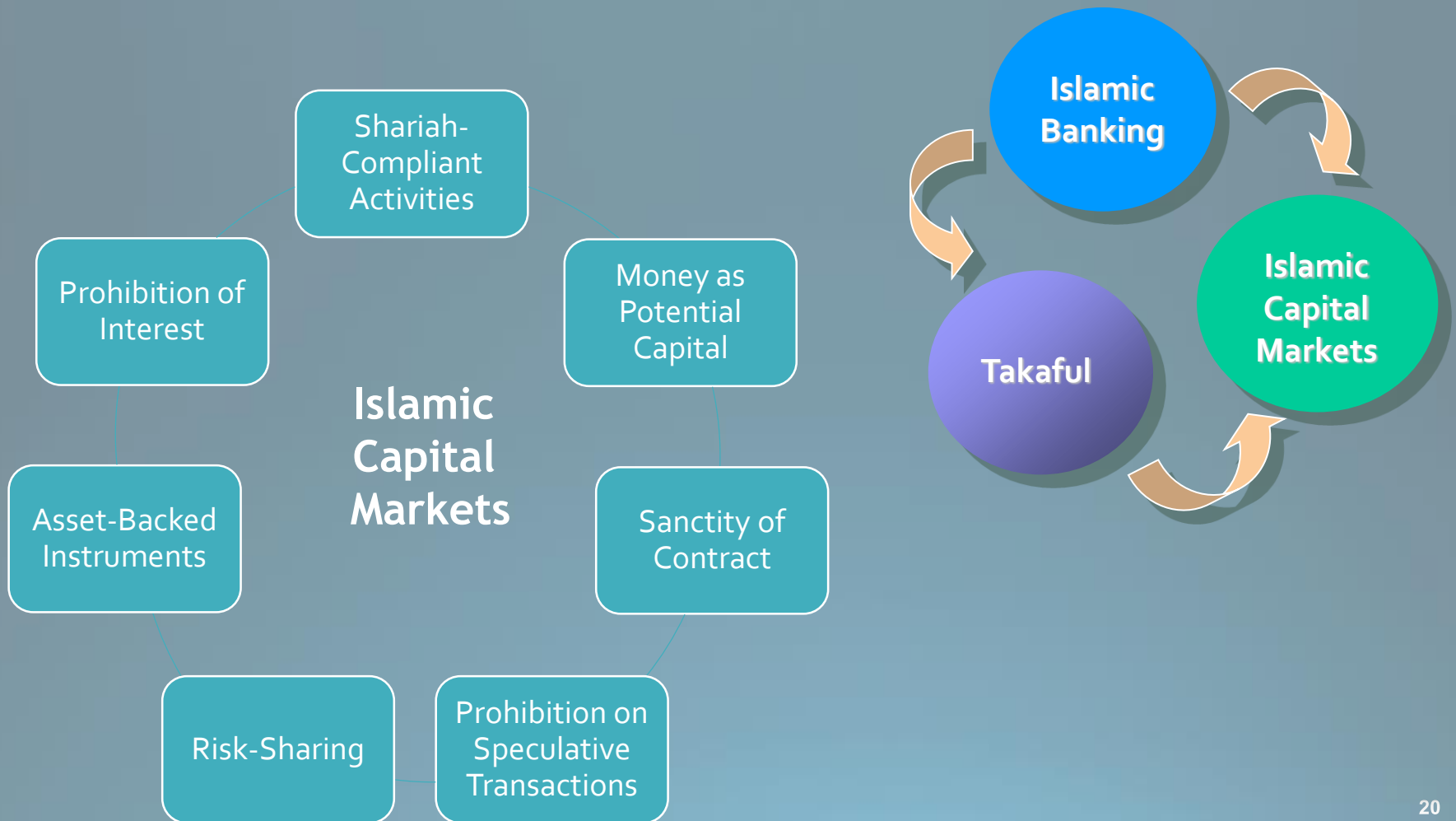
Financing infrastructure projects

Improving the poor's access to financial services

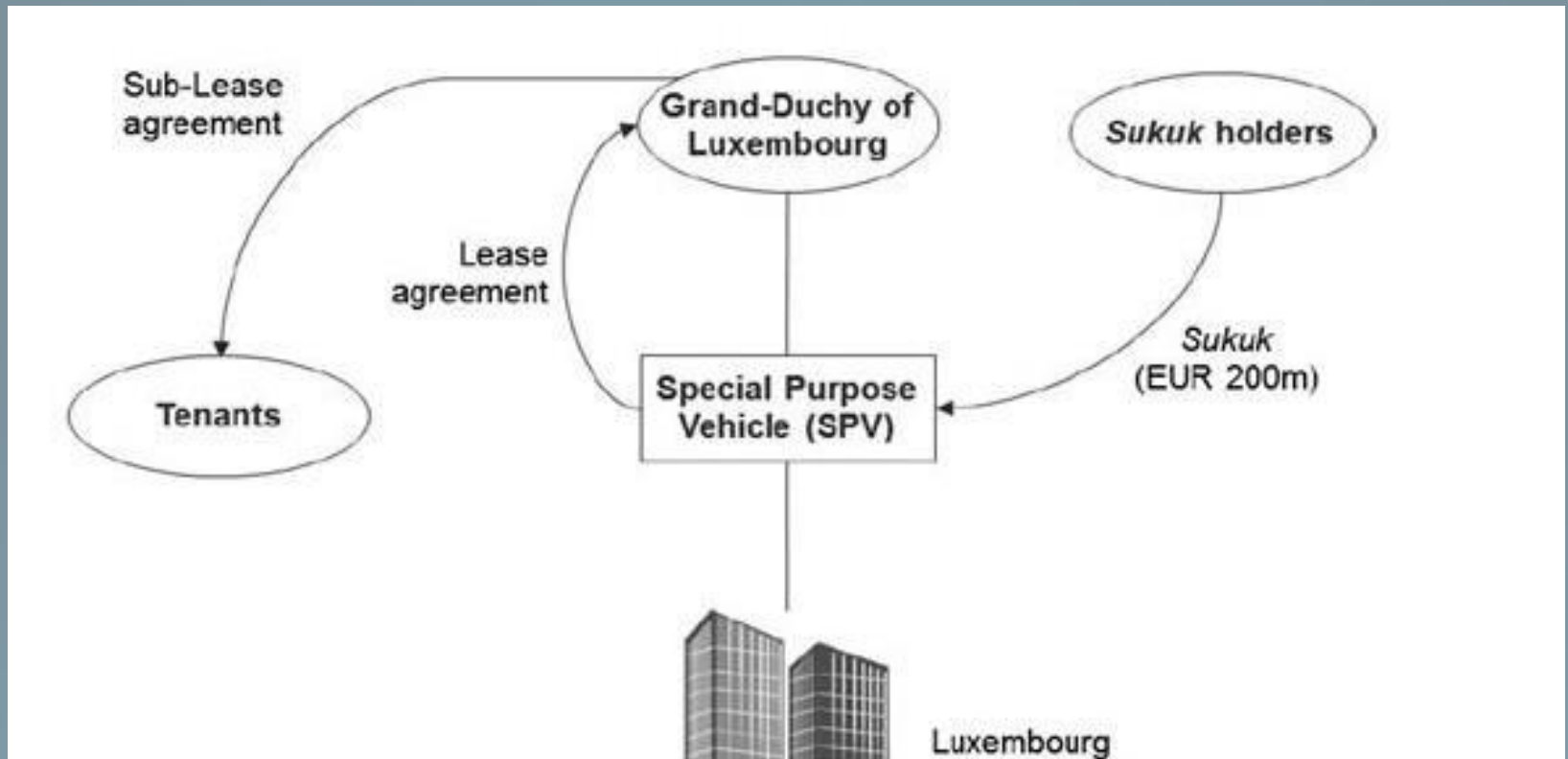
Supporting social investments in education and health

Supporting “green” investments to address climate change

Islamic Capital Markets can be viable sources of long-term development finance



Can sukuk be used for infrastructure investment?



Policy interventions to unlock the potential of Islamic finance for sustainable development

Enhance corporate governance and risk management

Strengthen the regulatory and supervisory framework

Promote standardization of products and documentation

Improve bankruptcy and insolvency regimes

Raise public awareness (financial literacy)

Increase the number of skilled professionals

Examples of WBG work in Islamic finance



- First green sukuk, in 2017 in Malaysia for \$59M
- Issuance of various IF instruments, incl *sukuk*, which raised \$700M in 2015
- Doraleh Container Terminal Project, Djibouti
- Technical Assistance to various governments



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



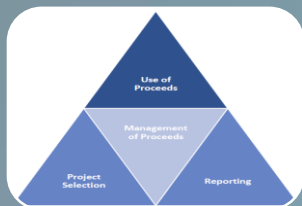
- Provision of a \$427M Sharia-compliant investment guarantee for infrastructure projects
- Political risk insurance worth \$450M in 2015

Conventional instruments can be Islamic

Some instruments are structured in a manner that may be compliant with Islamic finance. World Bank Group examples include:



The SDG Bonds: Equity-linked bonds that link returns to the performance of companies advancing global development priorities



IFC's Social Bond Program

Collaborating for CHANGE



GLOBAL

REGIONAL

NATIONAL

LOCAL

We share a common goal: eliminating extreme poverty by 2030 and boosting shared prosperity. We must work in partnership to be successful.

Thank You

worldbankgroup.org/sdgs



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Annex: Role of Sukuk in financing economic development

Usage	Example
Fiscal support	<u>Sudan</u> : Over \$100 million of Sukuk issued in 2012 to raise funds for the government
Liquidity management	<u>Bahrain, Gambia and Brunei</u> : Short-term Sukuk as tools of liquidity management
Education	<u>Osun State, Nigeria</u> : Local currency, sub-sovereign Sukuk issue (\$62 million equivalent) for the construction and rehabilitation of 24 schools in 2013
Health	<u>World Bank</u> : Global Sukuk for \$500 million raised by International Financial Facility for Immunization to fund the supply of vaccines to some of the world's poorest nations in 2014
Infrastructure	<u>Saudi Arabia</u> : Global Sukuk for \$1.7 billion to finance electricity projects in 2010. <u>Malaysia</u> : Global Sukuk for \$300 million to finance the Klang Valley Rapid Mass Transit Project
Environment	<u>Malaysia</u> : The World's first green sukuk launched in 2017 to finance sustainable, climate-resilient growth