WORLD BANK EVOLUTION ROADMAP
E3G CONSULTATION RESPONSE

JULY 2023

DANNY SCULL, CLAIRE HEALY, ERIN LANDY, JONATHAN WALTERS, SONIA DUNLOP

Mission statement

What are your views on the direction and ambition of the new mission statement?

Direction: The proposed updated mission statement of the World Bank, "To end extreme poverty and boost shared prosperity by fostering sustainable, resilient, and inclusive development" is a welcome development that reflects the Bank's evolving role and priorities. Re-stating the existing twin goals together while explicitly acknowledging that global challenges must be addressed in order to achieve them, is important. E3G anticipates that new WBG President Ajay Banga will integrate this updated mission into all layers of the Bank and embark on an internal change management process to ensure it is fully taken on board by all 16,000 staff.

Global Challenges: The Development Committee paper proposes deepening support for three global challenges: climate change, pandemics and health security, and fragility/conflict – all of which are cross-border and hinder development. While other challenges merit consideration, a relatively short list should be agreed by shareholders, rather than management, and the Bank should prepare straightforward metrics and KPIs to measure progress on global public goods (GPGs). While climate change is a natural starting point for the Bank's Global Priority Programs, biodiversity should also be seen as critical to both the climate and pandemic challenges.

Ambition: With shareholder input, Bank leadership should agree specific real-world outcomes they aspire to achieve, or levels and volumes of lending, concessionality, and/or private capital leveraging they aim to see mobilized for global challenges, and by when. The proposal offers no quantifiable end goal or timeline for what it hopes to accomplish on climate change, pandemic preparedness, fragility/conflict, or otherwise. This is a notable omission that risks

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diminishing the level of ambition and weakens the Bank's negotiating position in the pursuit of needed additional capital. Identifying the scale of challenges is a useful addition, but the Bank must then demonstrate its ambition relative to the problems it attempts to address. In our view, the World Bank would have to deliver a tripling in climate finance annually, in the range of $100bn/yr, to have a meaningful impact on climate change. This is in line with estimates from noted economists Vera Songwe and Nicholas Stern in their Nov 2022 paper, Finance for Climate Action.

Partnerships: The World Bank must unlock the process for scaling climate finance, as an example for all 550 public banks around the world, and in turn, the greening of the entire global financial system (often referred to as the Paris Agreement Article 2.1c objective, related to shifting financial flows across the entire financial system). Particularly among MDBs, the Bank should make good on its aspirations of being a climate leader by cooperating and coordinating on public co-financing platforms, national sectoral planning via diagnostics such as CCDRs and Country Sector Transition Partnerships, and knowledge sharing for project pipeline development. The Bank should pursue stronger partnerships with other development agencies, philanthropies, sub-sovereign entities, sovereign wealth funds, and the IMF. It should also share data with other trust funds to minimize the reporting burden for countries to access finance from multiple sources.

Operating model

Do you agree with the enhancements to the operating model, and are there specific improvements you consider as priorities?

E3G regards the proposed changes to the Bank's operating model as a starting point to be expanded upon, and it would be useful to clarify a sequence and timeframe for such actions. While there are many to address, the following should be prioritized and/or further developed:

GPG concessionality: This topic should be central to the World Bank's Evolution Roadmap. Increased concessional lending can incentivize borrowing countries to pursue finance for global public goods, but this increased lending must be additional to current lending volumes. Several ideas for channeling such finance are ripe for debate, and the Bank should work to select the best option for design ahead of the 2023 Annual Meetings, for implementation by 2025. These could include:

1. **New IBRD concessional GPG fund:** The WBG can only seriously step up its financing of global public goods if donors (both countries and private) endow it with substantial new concessional resources to be allocated through a dedicated fund. Donor capital injection would be voluntary and accompanied by a carefully balanced governance model, mitigating US-China geopolitical tensions associated with any IBRD vote share adjustment, as well as domestic or political budgetary concerns that may prevent some major donors, such as the US, from initially participating.

2. **New GPG lending window:** With an objective similar to the above, this “third window” would sit alongside IBRD and IDA, offering finance for GPGs to borrowing countries from either category on concessional terms. Allocations could be made via reverse auction, ensuring the best pricing for the biggest gains on global challenges, unlike IBRD/IDA. As above, with appropriate governance structures in place to address non-voting shares, additional capital could be raised from private sources, sovereign wealth funds, philanthropy, etc.

3. **Scale-up existing GPG fund:** Recognizing the need for efficiency and continued fund consolidation, shareholders could instead further capitalize the relatively small, existing GPG fund while providing new guidance and criteria for increased concessional GPG lending, both in terms of eligibility and objectives. Significant capitalisation and leveraging would be necessary to achieve the scale needed to properly address climate change, taking the fund from tens of millions in annual commitments to tens of billions.

4. **Co-financing Platform Model:** Finally, the Bank could pursue an entirely country-based or regional platform model to mobilize more finance for Global Public Goods, using a structure similar to the Just Energy Transition Partnerships or the Country Sector Transition Partnerships. To be clear, this is not mutually exclusive of the above options, and in fact, could work in a complementary manner with a GPG fund or window, coordinating multiple sources of finance at scale. Working with MDBs, DFIs, and the private sector to pool finance, data, and risk-sharing, the WBG should drive joint implementation of the sector-based country transition platforms concept recently floated by MDB officials. The Bank could leverage its analytical capabilities and capacity to enable more efficient investment across the MDBs.

Global Priority Programs: GPPs are worth pursuing as means to address global challenges, but they would have to be additional and potentially linked to any of the concessional fund options above. GPPs notwithstanding, the Bank must provide more details on how to involve global practice management closely in collaboration with country management, in order to broaden country engagement to better encompass global challenges. Finally, if the selection of global priorities grows to include everything for which the Bank already lends, it risks becoming redundant to the Bank's current operating model.

Country Directors: The current organizational model in which country directors are nearly exclusively tasked with allocating budget, endorsing lending operations, and shaping country demand through the CPFs, should be reformed such that global practice management participates in those roles too, including in the allocation of resources from any potential GPG fund/window. Global public goods, by their very nature, are underinvested, so they must be incentivized at both the financial and operational level to avoid being underrepresented in a country-based lending model.

Country Partnership Frameworks: More detail is needed to clarify how CPFs would reflect global challenges, by cascading down into individual project documents and climate resilient development planning, and how the achievement of results would be monitored and evaluated. Overall project and portfolio results management must be adjusted to encourage substantially greater risk-taking by management and staff in project selection and design, particularly regarding the pursuit of GPGs.

Country Climate and Development Reports: Similarly, the integration of CCDRs into CPFs should be enhanced; based on lessons learned in the conduct of CCDRs to date, and additional detail provided on how the Climate Change Action Plan / CCDRs could be more effectively measured by results. The WBG should use these to contribute to making country NDCs more bankable.

Desired outcomes: A renewed focus on global challenges will require clear objectives and timeframes. The Bank should consider specifying future sectoral lending volumes and associated outcomes (e.g. XX amount of increased modern energy access and energy sector emissions reduction would be enabled by YY amount of increased lending, of which ZZ should be concessional) that correspond to various scenarios in mobilizing financial resources. Management should work with World Bank sector teams to develop these targets, and the

Bank should also consider benchmarks for GPG/climate lending and private capital mobilization.

Financial model

Do you agree with the recommendations to adapt the financial model, and the suggested financial proposals to be explored further, to address the wide gap between needs and resources?

Consensus: E3G appreciates the overriding need for financial additionality in this reform process, but politically, there is a need for consensus among shareholders on the way forward. In the pursuit of global challenges, the development goals of low-income countries and of middle-income countries should not be traded off against each other. On this point, the Development Committee paper's assertion of multilateralism is strong, underlining the comparative advantage of the WBG in unifying global efforts despite any political fragmentation.

IDA Replenishment: First and foremost, donor shareholders must explicitly protect and build on baseline IDA lending so that LIC development needs are not superseded by the additional integration of global challenges. This entire reform process cannot move ahead unless LIC development resources are first made whole after a frontloading of disbursals for COVID-related economic recovery. In light of the impending fiscal cliff, IDA replenishment has to be a top priority.

Capital Adequacy Framework: Adjustment of the Equity-to-Loan Ratio from 20% to 19% was a welcome development but did not go far enough and should be revisited. CSO CAF analysis from ODI and others suggests the Bank could lower its E/L ratio further without jeopardizing its AAA rating, thereby freeing up additional billions in annual lending. On ascribing more credit to callable capital, the Bank should focus on better delineating the parameters of its existing tranche of callable capital, rather than attempting to secure a new issuance of callable capital with clearer triggering criteria. This could have a sizeable impact on optimizing the Bank's balance sheet. All other CAF recommendations should also be considered and implemented.

Capital Injection: While World Bank financing typically originates with a General Capital Increase (GCI), seeding the scale-up of WBG finance for global challenges may require a more elegant Selective Capital Increase. Capital injection could be accomplished for a specific GPG fund or window on a voluntary basis to skirt any geopolitical tension between US and China over vote shares, as well as US congressional budgetary issues. By devising an alternative to a GCI, the Bank could allow countries with political difficulties in mobilizing support to take their time. Other shareholders such as European countries, for example, may be more eager and able to contribute concessional funding for global challenges right away. The Bank should provide more detail on the capital injection needs of MIGA and IFC to enable their role in private capital mobilization, and on how they can better leverage other development partners.

Special Drawing Rights: The Bank should propose options to its shareholders on how best to make use of a portion of rechanneled SDRs. For example, the WB could build on the work that AfDB has been doing in this space. Other ideas have been floated, including SDR-denominated bonds, which would expand the ability of lending substantially if around 50-100bn of SDRs were reallocated to the Bank alone. Leveraging SDRs could be a powerful tool, and establishing the WBG as a successful reserve holder of SDRs would set a powerful precedent in the event of future disbursals. However, the use of SDRs should not be seen as a substitute for capital increase.

Timeline

What do you expect by the 2023 Annual Meetings with regard to the WBG evolution, and do you support the proposed next steps for WBG Management and the Bank Group's Executive Directors to advance the agenda?

Bank management should expect shareholders to have the Roadmap formally agreed by the 2023 Annual Meetings and be prepared for full implementation by 2025. These reforms are desperately needed to reverse the development backsliding trend of the last several years, and the Bank's expectations should reflect this urgency. This process should not be viewed in isolation either, as there is a political pathway connecting the WBG Evolution with the current G7 and G20 agendas, the upcoming Paris Finance Summit, the Annual Meetings, COP28, the Bretton Woods 80-year anniversary, through to Brazil's G20 Presidency which is likely to prioritise reform of financial architecture. World Bank evolution is but one important piece of a larger reform of the international financial system and should be understood within that context.

E3G broadly supports the proposed next steps to advance the WBG Evolution agenda. However, newly elected President Banga must ensure that WBG management are fully bought into deep reform of the institution from day one.

Other items

Do you have any other views you would like to share?

Debt: While the World Bank's operational and financial capacity are not necessarily targeted to address the sovereign debt of individual countries, reforms to scale lending are intrinsically linked to countries' ability to borrow. Lack of fiscal space due to indebtedness is a major hurdle to solving developmental and global challenges, and the Development Committee paper should reference work being done in conjunction with the IMF, DSSI, Common Framework, etc. This problem needs to be addressed in tandem with World Bank reforms, and the Bank is well suited to do this. Using the Bank's unique knowledge to review other institutions' debt sustainability analysis, countries could explore treating exposure to climate risks as an opportunity to improve the quality of spending or harness natural capital.

Paris Alignment: The Bank's Paris Alignment strategy receives only a passing mention in the Development Committee paper. There is a complementarity between scaling up climate change mitigation lending and eliminating harmful lending e.g. for fossil fuel projects or activities that promote deforestation, so this should be a straightforward connection to make with respect to the Bank's priorities. There is also a pressing need to scale up World Bank adaptation lending, as well as a role to be played on Loss & Damage, ensuring every project maximizes climate resilience.

New Global Finance Pact: Many big ideas on financial system reform are being floated ahead of the upcoming Paris Finance Summit, and the Bank should further engage publicly on the current proposals. Some of these reforms are collectively being referred to as the Bridgetown Initiative, touching on debt, climate finance, concessionality, adaptation, MDB coordination, etc., and the evolution of the World Bank fits well within their objectives. Ideas for an independent Climate Mitigation Trust or FX guarantee facility, for example, would benefit from the Bank's input on a common currency platform within the ecosystem of MDBs. The World Bank can support these discussions at the Paris Summit including potentially by facilitating pan-MDB cooperation there and by ensuring that the WB Evolution process takes account of the reform calls made by developing countries.

About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

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