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A ROADMAP FOR WORLD BANK GROUP EVOLUTION

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Overview

At the 2022 World Bank/IMF Annual Meetings, shareholders called on World Bank Group[1] management to produce a roadmap to guide the institution in meeting the most pressing challenges of the twenty-first century. In a decade marked by crises beyond the scope of individual nations to tackle, the push for global solutions is timely. Reforming development finance is necessary to successfully meet development needs.

Given its history, global reach, and near-universal membership, the World Bank is the right place to start to reimagine the role of multilateral development banks (MDBs) in addressing global challenges. This briefing suggests actions for the roadmap, in the areas of vision, incentives, operations, and financial capacity. It also proposes timeframes and pathways for enacting reforms in 2023 that will be critical to the World Bank Group's evolution.

Summary of recommendations

1. Shareholders and management should move expeditiously in 2023 to agree the World Bank Group's evolution to better integrate and scale lending and investment for global public goods (GPGs), in support of national development. This clarity of vision on the Bank's strategic direction should be communicated in a statement by the Development Committee at the Spring Meetings for endorsement by the Board of Governors.

[1] The World Bank Group is actually five institutions in one: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). This paper focuses primarily on the IBRD and IDA, often referred to as "the Bank."

2. Significant additional lending capacity must accompany the Bank's vision refresh, first and foremost by implementing the recommendations from the G20-commissioned Independent Review of MDB's Capital Adequacy Frameworks (CAF). Elements of the CAF should be agreed by the 2023 Spring Meetings, along with a clear timeline for implementation.
3. The Bank's country-driven model should remain central but more systematically integrate and scale GPGs into its lending activities. The Bank should also be encouraged to experiment, through pilots, and find novel ways to enhance lending for GPGs.
4. The Bank should prioritize a narrow set of GPGs as an initial focus: pandemic preparedness and climate are a good place to start.
5. Reflecting the positive externalities of GPGs, the World Bank should incentivize GPG investments with cheaper finance, faster approvals, more flexible borrowing limits, and longer maturities.
6. To operationalize the integration of GPGs into the Bank's country-driven model we offer specific suggestions that build on existing mechanisms (CCDRs, trust funds); support innovations (Financial Intermediary Fund governance, GPG measurement, staff compensation); and make the case for additional resources (CAF, General Capital Increase). Ultimately, it is key that shareholders and management commit to implementing the Bank's strategic vision.

Timeline

Table 1 sets out our suggested major steps and milestones for the World Bank Group's 2023 roadmap. Reforming the global financial architecture is complicated and, like a chess game, pieces move, or fall, in relation to one another. This paper maintains its focus on evolving the World Bank to do more to address global challenges, consistent with meeting national development objectives; operationalized through incentives; and financed through implementation of the CAF recommendations. This is but one part of a broader reform agenda being advanced across multiple fronts and timelines. Meeting these benchmarks will ensure that 2023 is a year of action, providing the foundation for work in the months and years ahead.

Table 1. Suggested actions for the World Bank Group's 2023 roadmap

Q1	Building an understanding of reform proposals

Advance and agree the Bank's institutional vision and CAF elements in time for the Spring Meetings. The first priority for 2023 is to integrate the vision and financing pieces of the puzzle, with input from stakeholder engagement, and do the necessary technical work in time for the Spring Meetings.

This work must be done in Washington, DC, among and between shareholders and management at the Bank; in capitals, on the analysis of proposals; and between capitals, to formulate common positions and align shareholders.

Other critical venues to take forward this work to the Spring Meetings include G7 and G20 finance tracks, specifically the G20 International Financial Architecture (IFA) working group (the lead on the CAF) and relevant inputs from other working groups, for example, the Sustainable Finance Working Group (SFWG) (the lead on sustainability issues).

Q2	Establishing consensus on key activities

Shareholders should use the Spring Meetings to set clarity and consensus on the strategic direction of the Bank. The device through which to do this is a statement by the Development Committee recognizing the need to better integrate GPGs into country-led national development plans.

Additionally at the Spring Meetings:

> The Bank should report on progress on Trust Fund consolidation and ask donors to identify the resources for financing GPG incentives by the Annual Meetings.

> Shareholders should ask the Bank for a plan on how it will integrate GPGs into the country-driven model including increasing capacity for "global challenge reports" such as CCDRs, and a new staff compensation model.

A summit on financing solutions and reforms to the International Financial Institutions (IFIs), hosted by President Macron of France and Prime Minister Mottley of Barbados in Paris in June, will be a galvanizing moment to advance decisions and actions requiring leader-level engagement, and to look beyond 2023 to build longer-term structural and institutional reforms.

Q3	Securing buy-in and leader-level messaging

Work done throughout the year in the G7 and G20 finance and sherpa tracks will land at the G20 Finance Ministers meeting and Leaders' Summit in India in September. If a major outcome of Italy's G20 was the CAF, and Indonesia's was the Pandemic Fund, India's G20 result could be the implementation of the CAF to better integrate GPGs in the Bank(s).

The UN High-Level Political Forum on Sustainable Development – which also takes place in September, marking the half-way point of the Sustainable Development Goals (SDGs) – will focus political attention on investment in GPGs and shine a light on the achievements of the G20.

Q4	Agreeing to implement World Bank reforms

The September G20 Summit will feed into the Annual Meetings in October, and by this point there should be consensus on how bold shareholders will be on CAF implementation. For concessional financing, the Bank should report on the specific structures to be used and donors identify from where resources will come.

This level of ambition is warranted given the "Global Stocktake" taking place at COP28 in the United Arab Emirates – the official mechanism at the heart of the Paris Agreement to evaluate collective progress at the global, not country, level and used to inform the country targets in 2025.

Introduction

The evidence is clear. We're living through the simultaneous impacts of a warming world, the shock of a global pandemic, and the spillover effects of a war. With dozens of countries already at the limit of their capacity to respond to these challenges, gains in development are at risk of slipping away. In fact, the latest World Bank Poverty and Shared Prosperity report cites 2020 as the end of a phase of global progress in poverty reduction, with the number of people living below the extreme poverty line increasing by over 70 million.[2] As relates to climate, the UN-commissioned High-Level Expert Group on Climate Finance estimates that emerging markets and developing countries will require over a trillion dollars annually in external finance by 2030 to address the climate crisis

[2] World Bank Group, 2022, **Poverty and Shared Prosperity 2022 – Correcting Course**

alone, and more thereafter for decades.[3] Preventing further backsliding on poverty reduction and confronting global challenges of this magnitude will require public and private investment on a scale and speed that is virtually unprecedented.

The World Bank was created in the shadow of World War II with the mission of restoring a global economy deeply scarred by years of conflict. It has evolved nearly constantly ever since, reflected in both formal amendments to the Articles of Agreement and operational changes as determined by management and encouraged by shareholders. At the Bank's Annual Meeting in October 2022, the Chair of the Development Committee[4] called on WBG management to engage with the Board to enhance a shared vision for the institution, including strategic priorities, strengths and gaps, incentives, operational approach, and financial capacity. In addition, ten major government shareholders of the World Bank Group (WBG)[5] requested that the Bank outline an "Evolution Roadmap" for the necessary reforms to deliver substantially more and faster finance to respond to the overlapping crises now gripping developing countries. In response, a group of borrowing countries at the Bank ("the G11") supported the effort with a statement of first principles. This briefing aims to support these efforts by identifying fundamental issues in the areas of vision, incentives, operations, and financial capacity. It makes recommendations for the way forward.

Reforming the Bank on a scale commensurate with global challenges is a major undertaking, but there is reason for optimism. Donors and borrowers at the Bank offer a range of perspectives, but appear to be converging, if not yet aligning, on the need for additional resources and innovative approaches to support recovery from the pandemic, cut greenhouse gas emissions, and proactively address the most pressing development needs; and that addressing global challenges and national development goals are mutually reinforcing, not zero-sum.[6] Ongoing engagement, especially with borrowers, is essential throughout the reform

[3] Songwe V, Stern N, Bhattacharya A, 2022, **Finance for climate action: Scaling up investment for climate and development**. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science.

[4] Development Committee, October 2022, **Statement by the Chair**. The Development Committee is the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

[5] Australia, Canada, France, Germany, Italy, Japan, Netherlands, Switzerland, United Kingdom, United States. See **Remarks by Secretary of the Treasury Janet Yellen** at the Center for Global Development, October 2022.

[6] Center for Global Development, November 2022, **Our Wish List for the World Bank's Evolution Roadmap**.

process. The challenge now is to agree a path forward and ensure that roadmaps do not become roadblocks to action.

A refreshed vision

Greater focus on global public goods (GPGs) does not require amendment to the Articles of Agreement. The Bank's mandate is derived from the Articles of Agreement and shaped by the times, shareholder preferences, and management direction under which it operates. The IBRD's Articles, last amended in 2012, include among the Bank's purposes to "assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes" and "promote private foreign investment by means of guarantees or participations in loans […]; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources."[7] Since 2013, two primary goals, both framed by sustainability as an overarching theme, have guided the Bank's work: ending extreme poverty and boosting shared prosperity. The Bank's work has also been guided by the 17 Sustainable Development Goals (SDGs) and, as of next year, the Paris Agreement,[8] which together set out shared action agendas across multiple global challenges with targets to be met by 2030.

Consistent with its mandate, the Bank already assists in providing global public goods (GPGs), which are, by definition, available to all ("nonexcludable") and can be enjoyed again and again without diminishing the benefits they deliver to others ("nonrival"). However, the COVID-19 pandemic, combined with unprecedented heat waves, fires, and floods attributed to climate change, have focused attention on the economic and human costs of underinvestment in such goods. And while climate has undeniably been an increasing focus of the Bank's work, especially since the Paris Agreement in 2015, it is also clear that the world is a long way from meeting the SDGs or emissions reduction targets, putting a spotlight on the pace and scale of World Bank lending for GPGs.

Thus, shareholder focus on how the Bank can be reimagined is an opportunity to better integrate, catalyze, and scale investment in GPGs into its operations and to address cross-border risks. As national development goals and GPGs are complementary, amendment to the Articles is not necessary. Addressing national

[7] The World Bank, **IBRD Articles of Agreement**

[8] For more information on progress on Paris Agreement alignment at the World Bank Group (which is split into IDA/IBRD and IFC), please see the **E3G Public Bank Climate Tracker Matrix**.

development needs alongside global challenges is to the benefit of all; while not addressing these risks, at the requisite pace and scale, will lead to a resurgence in poverty and undermine hard-won development gains, as we've seen.

Greater focus on GPGs does not require a fundamental change to the Bank's country-driven operating model. At present, the World Bank operates primarily in a country-level project financing and policy lending framework environment, and lending depends in part on country demand. At the same time, Bank lending accrues benefits to client countries, but at the "cost" of increased debt. This model does not always serve GPGs well, leading to underinvestment in GPGs, especially where public funding is limited and/or relatively more expensive.

We recommend the Bank retain the country-driven model, but more systematically integrate and scale GPGs in its lending activities, reflecting the widely shared benefits of GPGs in incentives for the borrowing country. Maintaining the country-led model preserves agency and accountability, as countries remain the central actors in co-developing a new approach to integrating, scaling, and speeding up investment in GPGs through their development plans. That said, the Bank should be encouraged to experiment, through pilots, and find novel ways to lend – for example, on a regional basis, thematically, and to non-sovereigns where warranted.

The Bank will need to focus to operationalize the integration of GPGs into the country-led model. Many activities could fit the definition for GPGs but integrating them into the Bank's country-led model will require sufficient specificity to incentivize and measure results. To some extent, the Bank already considers public goods by categorizing and prioritizing investments with co-benefits and positive spillovers. We recommend the Bank build on this work and prioritize a narrow set of GPGs for initial focus.

A 2016 paper[9] authored by a High-Level Panel on the Future of Multilateral Development Banking recommended a "laser-like focus" on energy and climate mitigation, health, agriculture, and data for development. US Treasury Secretary Janet Yellen recently framed a list to address climate change, global health, and fragility. A short list of GPGs to include health (pandemic preparedness) and climate (mitigation, adaptation, biodiversity) is a sensible place to start, given the Bank's current work in these areas and efforts to measure and quantify results,

[9] Center for Global Development, 2016, **Multilateral Development Banking for This Century's Development Challenges**

for example in GHG emissions reductions. A more expansive definition, at least initially, could lead to paralysis and be counterproductive. The Bank must be explicit and transparent in what outcomes it hopes to achieve and prove the approach in a few select areas first, paving the way for eventual inclusion of other GPGs, such as education.

Additional lending capacity should accompany a more systematic integration of GPGs into the Bank's current country-driven model. Increased focus on GPGs without expanding overall financial capacity would risk draining resources for traditional country-specific development and be unacceptable to most Bank clients. The world cannot sacrifice poverty reduction as a goal, so the integration of GPGs must be inextricably linked to the Bank being able to lend more, with additional capital deployed at speed and scale. To this end, several ideas are considered in the section on financing capacity.

Incentives to encourage investment in GPGs

It is the nature of public goods that makes them relatively unattractive candidates for private sector investment absent incentives, such that public goods tend to be provided largely by governments. Public goods provided at the local level (education, policing) and national level (defense) correspond with local and national government structures. At the global level, however, there is no single mechanism to provide and finance such goods, making their provision more challenging. Incentives are key to reconciling the need to meet global challenges in a way that supports national development objectives, especially if a country's fiscal space is limited, financing is scarce, and there are competing demands.

Given the Bank's country-driven model, it only lends where there is demand. At the same time, the Bank is a "knowledge bank" and can therefore influence country preferences. The World Bank's vision refresh must therefore encourage countries to invest in projects and programs that both advance national development goals and provide benefits beyond national borders. Currently, several factors deter such investment, including the cost of borrowing, country-specific borrowing and debt limits, excessive conditionality, technical capacity, and project preparation. For borrowing countries to endorse an agenda that integrates GPGs into national development plans, these constraints must be addressed. Investment in project preparation is especially critical to success.

More attractive loan pricing in the form of blended finance (finance with a subsidy component) for projects that provide GPGs is likely to be the most

potent incentive for Bank clients. Currently, most projects that provide GPGs are not systematically linked to the price of capital. The World Bank could incentivize more investment in GPGs by providing preferential pricing for projects that provide measurable benefits beyond national borders and where required to mobilize investment. Providing the economic benefit of investing to meet global challenges, for example, by reducing the fees and interest on such investments, is arguably the most compelling way for the Bank to integrate such investment into national development plans.

The Bank could also enact ex ante prequalification to speed the process of loan approvals for projects and programs with GPG elements. Borrowing countries have long complained that procedures for accessing World Bank loans are too lengthy and bureaucratic. The Bank could reduce the time it takes to approve loans that support GPGs by streamlining certain processes, while maintaining adequate safeguards, starting with countries who have drawn up pandemic preparedness or energy transition plans consistent with ambitious Nationally Determined Contributions (NDCs), and developing projects that can support execution of these plans.

The Bank could also consider incentives to allow for more flexible borrowing limits and lend bigger amounts at longer maturities. Resolving the systemic crises we face through the provision of GPGs requires large scale investment. Borrowers need assurance that an executable plan to support their efforts on GPGs will be met with funding at speed and scale. This may require flexibility regarding country borrowing limits and/or debt sustainability analysis where the investment significantly advances a GPG. The Bank could also offer longer term maturities, a central tenet of the Bridgetown Initiative that is gaining traction. Just Energy Transition Partnerships (JET-Ps) with South Africa ($8.5 billion in official finance) and Indonesia ($20 billion in official and private finance) provide a sense of the scale required to support bespoke, context-specific, national development goals and advance toward meeting SDGs and climate targets.

Finally, the Bank could offer more innovative tools for investment in GPGs. The litmus test for a reimagined Bank is a new approach to defining risk tolerance, as per the CAF recommendations. With its 70+ year track record and unique characteristics, the Bank can afford to be creative when it comes to finding new ways to assess risk for enhanced GPG investment, all the while preserving long-term financial sustainability, robust credit ratings (AAA ratings), and preferred creditor status.

Operational approach

Once shareholders and management agree on the institutional vision and need for incentives, the challenge will be to integrate work on GPGs more systematically with country development plans. Bank leadership, the Executive Board, and shareholders should have a shared vision and commitment to the Bank's continued evolution. Stakeholders should acknowledge the scale of the challenge and demonstrate alignment behind the direction of travel. **This could take the form of a statement or communique from the Development Committee during the Spring Meetings.** Such statements should make clear the specific GPGs the Bank intends to support.

This effort will impact all Bank activities including lending, knowledge networks, technical assistance, and policy advice to members. Operationalizing evolution of a major institution can be disruptive, but so too is the status quo given the dangers associated with inaction. The following ideas are preliminary, and we offer a few specific suggestions to promote concrete thinking toward operationalizing this evolution.

In a global institution as vast and diverse as the World Bank, there is no substitute for clear operational guidance. Management's plan on how to integrate and incentivize priority GPGs, endorsed by the Executive Board, will be important to convey shareholder support for implementation. By identifying a limited number of priority areas where outcomes can be quantified and verified, the Bank can propose operational and financial incentives to integrate these areas into Bank-supported national development projects.

Operationalize incentives

Financial incentives are likely to be the most impactful tool for engaging countries on global challenges, as discussed above. The Bank already hosts multiple trust funds and financial intermediary funds (FIFs) whose resources can lower the overall costs to borrowers for a particular activity.[10] Building upon work already underway to consolidate trust funds under Umbrella Programs, further consolidation and alignment of resources would support the integration of GPGs with national development plans. This refresh moment is an opportunity to think more holistically about investment in GPGs and dramatically scale the

[10] From the 2022 Trust Fund Annual Report: as of June 30, WBG trust funds and FIFs held assets of $54.6bn, of which: $37.3bn correspond to FIFs; $15.1bn to World Bank trust funds; $1.2bn to IFC trust funds; and $1.0bn to other trust funds. Together they disbursed $5.8bn in FY2022, making up 5% of the Bank's total project disbursements and covering 25% of administrative expenses.

pockets of resources that donors have created throughout the system. There are examples of multi-donor trust funds that can be integrated with Bank operations to support the development and financing of projects designed to meet global challenges and advance development goals.[11] At the same time, work is needed to better understand the effectiveness of existing funds in meeting global challenges.

Such funds also provide scope to link the Bank's work on global challenges to civil society and private sector efforts, including in standards development and co-financing. In particular, the distinct governance structure of FIFs provides an opportunity to bridge between the Bank, philanthropy, civil society, and even the private sector. In the case of the Pandemic Fund, sovereign donors and potential implementing countries have equal representation on the Governing Board, alongside representatives from foundations and civil society. Incorporating the private sector into the governance structure and/or as technical advisors, for example, and including actors engaged in standard-setting work, would likely support efforts to mobilize private capital.

Operationalize GPGs in country engagement

The Bank can showcase and support mechanisms that integrate global challenges into the country-engagement model. "Global challenge reports" would be an initial step to operationalizing priority areas and allow for engagement with country authorities on GPGs. For climate and environment, the new Country Climate Development Reports (CCDRs) provide an example of what integration might look like by engaging the Bank's clients at the start in developing a country-led strategy. Though nascent, CCDRs have proved valuable engagement tools that continue to evolve. The Bank needs to increase institutional capacity to speed up delivery of CCDRs and unlock financing (including from the IMF's Resilience and Sustainability Trust which also utilizes the CCDRs). It is important to integrate key elements of CCDRs – along with any future "global challenge reports" (e.g., for pandemic preparedness) – into the Systematic Country Diagnostic (SCD) reports and Country Partnership Frameworks (CPFs).

"Global challenge reports" (and SCDs and CPFs) should include metrics for key country-owned objectives that are consistent with GPG objectives. Measuring results is critical to providing incentives for investments in GPGs. Country-owned objectives, and their measurement, can serve as the basis for a more streamlined

[11] Examples include the Global Environment Facility; the Clean Technology Fund and Strategic Climate Fund (together, the Climate Investment Funds or CIFs); and the newly created Pandemic Fund (PF) and Global Facility to Decarbonize Transport (GFDT), among others.

and expedited process for loan approvals, while maintaining adequate safeguards. Streamlining proposals should also consider “ex ante approvals”, building upon existing Development Policy Financing (DPF), which provides non-earmarked general budget financing based on adequate macroeconomic policies, satisfactory implementation of the overall reform program, and completion of other policy-based prior actions.

The Bank is ideally placed to apply the latest and best technology to track and measure progress in certain GPGs. On climate for example, satellite imagery and geospatial technologies can now precisely track GHG emissions, and therefore abatement. The Bank could make a virtue of working with client countries and the private sector to tap into new technology to measure progress on GPGs, and precisely quantify outcomes from greater GPG lending.

The Bank should consider differentiated treatment for purposes of internal processes and risk management. If successful, incentives to engage with the Bank in meeting integrated global and development needs will lead to an increase in overall demand for Bank lending. This would be a good news story, as it would represent increased appetite on the part of individual countries to invest in projects with national and global benefits. However, increased demand can only be met if there is financial capacity at the Bank and borrowing headroom for sovereign borrowers. The latter could be addressed, even independent of additional capital, by applying differentiated treatment for country exposures associated with lending in support of addressing priority global challenges. Such a proposal could be brought into other discussions on increasing the Bank’s overall risk tolerance and management of the Bank’s risk framework as discussed in the next section.

While delivering on a refreshed vision will require more finance overall, a handful of middle-income economies play an outsized role in promoting GPGs given their large populations and economies. A central issue, therefore, is to how to expand available finance from the WBG and make it more attractive. To this end, the IBRD can learn from IDA and adopt some of its key characteristics, including the ability to lend at a regional level. The WBG might also consider thematic mechanisms, for example, on energy storage, distributed renewable energy, and coal retirement.

Finally, shareholders should request and carefully consider a new internal compensation framework and methodology to build capacity and buy-in to deliver on a refreshed vision. The World Bank is a well-established institution, employing thousands of highly skilled subject matter experts and development and finance professionals at its headquarters in Washington, DC, and throughout its country offices. Like many big bureaucracies, it is hard to change established procedures and perceptions, though not impossible. The Twin Goals – ending extreme poverty and boosting shared prosperity – cover a wide array of issues and can seem amorphous at times; strategic direction is vital. The leadership team at the World Bank must own the mission to integrate GPGs and development as mutually reinforcing, lean into it and lead; anything less would see it wither on the vine. The mission should be reinforced throughout all operations and incentive structures within the Bank, including bonus structures, performance appraisals and promotion tracks. This will likely prove contentious but is critical to operationalize and incentivize a change in approach and, by extension, a change in real-world outcomes.

Building greater financial capacity

All of the above is contingent upon more firepower for the Bank. Simply adding greater GPG demands on top of national development needs, without additional financing capacity, presents borrowers (and the Bank) with a trade-off. Additional lending capacity is therefore critical, alongside enhancing domestic resources and mobilizing private capital. While the World Bank is but one actor, its ability to leverage a relatively small amount of shareholder capital to improve real-world outcomes is precisely the model that needs to be pursued at even greater scale and speed to meet the current moment.

There are multiple ways the Bank can further scale its capital, starting with the G20 Capital Adequacy Framework (CAF) review recommendations. The report's five recommendations are to (1) change MDBs' approach to defining **risk tolerance**, (2) give more credit to **callable capital**, (3) expand **financial innovations** including guarantees and securitization, (4) improve **credit rating agency (CRA) assessments** of MDB financial strength, and (5) increase access to **MDB data** and analysis.

The CAF panel estimates that these recommendations would unlock additional lending capacity in the "hundreds of billions," depending on exactly how they are implemented. To send the strongest signal to the markets and rating agencies, and hence maximize additional lending capacity at each institution, the CAF recommendations could be adopted as a package, and collectively with multiple MDBs moving at the same time, with clear and strong shareholder backing.

Stakeholders have acknowledged the complexity of the CAF recommendations; shareholders have expressed a range of views and the need to respect individual MDBs' governance structures. The recommendations could be advanced piecemeal if the Bank's shareholders, or MDBs writ large, need more time to assess the full range of technical and political implications, which are not immaterial, and reach a consensus. However, that must be done with the full knowledge that MDB resources fall short of their maximum impact. Were each institution to take up the specific recommendations independently, shareholders should take a common position at each institution and urge common positions among coalitions.

Ultimately, re-envisioning the role of MDBs in mobilizing the capital needed to address global challenges will require political will at the most senior levels of government, as reflected in the November G20 Leaders Declaration calling on MDBs to deliver an update on options for implementing the CAF recommendations by Spring 2023.[12] Broad political support is needed to achieve a coordinated move on the recommendations, which go hand-in-hand with the vision refresh, incentives, and operational reforms trained on global challenges articulated in this paper. Reimagining the role of the MDBs, chief among them the World Bank, to view global challenges as integral to their development mandate is ambitious. The onus is as much on the shareholders as the Bank's staff and management.

Domestic Resource Mobilization (DRM) is also essential to supporting financing for sustainable development and GPGs. Starting in 2015, the Addis Ababa Action Agenda elevated DRM as part of a global framework to align financial flows and policies to support implementation of the SDGs. In COVID-19's aftermath, DRM is once again being elevated as a development priority, including in the context of efforts to support GPGs. Prioritizing GPGs could give fresh impetus to enhancing country capacity; as well as carbon taxes and emissions trading systems, which would raise revenue as well as incentivizing a reduction in GHG emissions. Carbon pricing instruments (CPI) have grown significantly in the last ten years, in part because the international financial institutions have promoted them for greater policy coherence and DRM. Absent more binding carbon pricing, subsidies are being deployed as a primary tool to shift behaviors. However, financing for incentives is not unlimited, and adequate carbon pricing is necessary to sustainably shift behavior, generate revenues, and support investment in the GPG agenda.

[12] G20, November 2022, **G20 Bali Leaders' Declaration**

Reforming fossil fuel subsidies is a further potential source of revenue for national development priorities and GPGs. The world spends an astounding $423 billion annually to subsidize fossil fuels for consumers.[13] Factoring in indirect costs, including to the environment, brings that total to $5.9 trillion – or 6.8% of GDP in 2020 – and rising.[14] These funds are intended to protect consumers by keeping prices low, and this is especially salient in the context of volatile and rising energy prices. But they impede action on the SDGs and climate change. The Bank must reinforce efforts to help countries phase down subsidies for fossil fuels (e.g., as a condition for qualifying for GPG incentives) and use the revenue gain to better target social spending and productive investments in support of, not in contradiction to, the provision of GPGs.

Mobilizing private capital is arguably the most consequential and highest yielding of the Bank's actions to support development goals and investment in GPGs. Private capital mobilization (PCM) is already central to the Bank's mandate, but the Bank's track record is underwhelming. Much more can be done to leverage World Bank interventions, notwithstanding the challenges of bringing in the private sector. Reinforcing PCM as core to Bank operations, separate from Bank lending, should be clearly articulated in the Bank's institutional vision, and recognized in the Bank's compensation framework. PCM will come through a range of WBG activities, and there needs to be far more Bank–IFC interaction at the operational level and far more innovation at MIGA. Improved coordination and creativity could catalyze an order of magnitude more private investment in national development projects that also support GPGs.

The World Bank has a critical role to play in increasing the use of guarantees to de-risk investment at the project and portfolio level. While guarantees are not a panacea, they can increase available resources if wielded well, especially if donors coordinate or pool these instruments through country or regional platforms. Guarantees can lower the risk profile of projects and bring down barriers to entry for private capital. Riskier GPG investments can use guarantees such as first loss mechanisms to bring more risk-averse institutional investors, such as pension funds, to key projects in developing countries.

Successfully instituting the above reforms leading to demonstrated results in delivering GPGs would make a compelling case for either a Selective Capital Increase (SCI) or a General Capital Increase (GCI) in due course. While the World

[13] UNDP, October 2021, **UNDP: The amount spent directly on fossil fuel subsidies is three times the annual amount needed to eradicate global extreme poverty: time to make the choice**

[14] IMF, **Fossil Fuel Subsidies**

Bank's Evolution Roadmap may not explore one explicitly, reforming its incentives and operations to drive demand for Bank lending, if successful, would lay the foundation for an eventual capital increase. In this spirit, donors and management alike should be open to a future scenario where a bigger Bank more effectively leverages private finance to address global challenges without sacrificing development needs. This is what the modern world requires, and this is where the Bank must evolve.

Annex: roundtable participants

E3G and CSIS conducted two roundtable discussions in November 2022 to inform the recommendations put forth in this report. The authors would like to thank all roundtable participants for their candid views and input. Participation was in a personal capacity, and views expressed in the paper are solely those of the authors.

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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. More information is available at **www.e3g.org**

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