October 2022

Non-Paper:
Evolving the World Bank Group to Better Respond to Our Evolving World

Guiding Principles and Roadmap for Reform as Recommended by Australia, Canada, France, Germany, Italy, Japan, Netherlands, Switzerland, United Kingdom, United States

A core principle of World Bank Group evolution is that this process must deliver benefits for all shareholders – low-income countries, middle-income countries, and non-borrowers. A small group of donor non-borrowers drafted this non-paper to initiate conversations on a roadmap, but we recognize that the success of this work depends on engagement and support from the broadest possible group of stakeholders. The process itself will need to evolve as we work together. We seek feedback on the principles and ideas outlined below, as well as additional ideas, from all Chairs.

Evolving World, Evolving MDBs – Context and Goal

Many of the biggest challenges in our world today are transboundary and pose, in some cases, existential risks for our societies and economies. Climate change and biodiversity loss, pandemics, fragility, conflict and resulting refugee flows, and other global challenges disproportionately affect the poorest, most vulnerable populations. By definition, no one country alone can successfully tackle these global challenges in isolation, yet it is necessary to address them to improve the outlook and achieve sustainable development in all developing countries. However, our existing multilateral development finance architecture was not designed to address these types of transboundary challenges within country portfolios. Despite various initiatives for improvement, notably through the establishment of vertical funds for climate and pandemic preparedness and response, the world is facing significant funding gaps, and there are a greater number of investments needed where the costs and benefits do not accrue to the same country, and we must address this. The world is evolving, and the World Bank Group (WBG) must evolve with it.

Achievement of the WBG's twin goals – eradicating extreme poverty and boosting shared prosperity in a sustainable manner – must account for this changing global landscape. A refreshed vision of the MDB role in development that integrates work on the goals of poverty reduction, shared prosperity, achievement of the Sustainable Development Goals (SDGs), and addressing global challenges is needed. Crucially, this must recognize that global challenges and traditional development are interlinked and mutually dependent, and that work to address one does not come at the expense of the other. Indeed, most SDGs are based on or represent global public goods and making timely and enduring progress on them by 2030 will depend on a range of global challenges being addressed. And, delivering on this refreshed vision will likely require a greater scale of finance, both for LICs and MICs.

As shareholders, we seek to evolve and invigorate the WBG such that it is better equipped to respond to the increasing frequency, scope, and complexity of global challenges with both sufficient speed and scale. To do this, we seek to "update" the WBG's vision, incentive structure, operational approach, and financing capacity to face the collective challenges of the 21st century. This update should preserve and build on the still relevant objectives and commitments of the 2016 Forward Look and the 2018 capital package.

We thus call on Management to formulate and deliver to shareholders an initial roadmap before the end of the year for how the WBG can evolve in the aforementioned four areas: vision, incentive structure, operational approach, and enhanced financing capacity. We share our objectives and key issues to consider in doing this work in the rest of this note. As co-signatories, we are eager to engage with WBG Management and all shareholders, as we seek to pave the way for a consensus around improvements reflecting the institution's truly global and diverse composition. We intend to take the opportunity of the upcoming Annual Meetings to reiterate our recommendations and build strong support across a broad number of shareholders, including borrowing countries, around these. Building on the process that was initiated with the Board ("open conversation" on GPGs and MICs in March 2022) and guided by the above-referenced roadmap, we ask Management to provide the Board with a series of proposals on how the key issues below (and related additional issues) could be comprehensively addressed. We aim to assess progress on this at the Spring Meeting 2023.

Evolving the World Bank: Four Areas of Focus

I. A Refreshed Vision

Integrating national development trajectories and addressing global challenges is anchored in the World Bank's Articles of Agreement, the commitments of the 2018 Capital Increase and reflected in the 2016 Forward Look framing and the corporate strategy of "Green, Resilient and Inclusive Development" (GRID). To sharpen its focus, we recommend that the WBG publicly convey an updated vision that integrates addressing global challenges as well as poverty reduction, shared prosperity, and achieving the SDGs.

Key Issues to Consider:

- Ways to incorporate tackling global challenges as a core strategic priority alongside country anchored work on poverty reduction, shared prosperity, and achieving the SDGs, while maintaining the strong focus on impacts for low-income countries and their access to concessional finance and identifying how these objectives are mutually reinforcing.
- Achieve alignment and coherence of the vision with the 2030 Agenda for Sustainable Development and Paris Agreement, with the WBG playing a leading role among MDBs in promoting this vision.
- Develop criteria (such as need for collective action, SDG co-benefits, WBG's comparative advantage) to assist us in prioritizing WBG work on global challenges, possibly drawing from and updating the 2007 Development Committee paper.[1]

II. Incentives

Increasing country demand for financing to address global challenges is critical. Positive incentives, corporate standards, analytics, and staff guidance will be needed, and will vary based on differing country needs, project-specific externalities, and differing mechanisms for addressing global challenges.

[1] https://www.devcommittee.org/sites/dc/files/download/Documentation/DC2007-0020%28E%29GlobalPublicGoods.pdf

Key Issues to Consider:

- Ways to provide greater and better targeted concessional and non-concessional resources to address global challenges, including by lessening the costs of investments when this is required to make them economically viable and the benefits are shared more broadly, with a focus also on middle income countries, while ensuring that reforms have a strong positive impact on and accommodate continued strong support for low-income countries.
- Ways to adopt more differentiated approaches to engagement with middle income countries that accounts for their income levels and creditworthiness in determining the level of integration of work to address global challenges in country programs alongside country-specific needs and priorities.
- Develop a dynamic methodology for calculating project-specific positive externalities for addressing global challenges, and factor macro-economic negative externalities of global challenges into the rate of return calculations when deciding on the viability of projects.

III. Operational Approach

Addressing global challenges requires identifying and addressing institutional constraints and changes to the Bank's existing culture without sacrificing quality.

Key Issues to Consider:

- Ways to incorporate global challenges into the DNA of the Bank's Country Engagement Model (CEM) to systematically make country analytics, strategies and pipelines consistent regarding the linking of national priorities with global targets, which will facilitate country demand for financing to address global challenges.
- Assess IBRD, IFC, and MIGA's business and financing models to enhance private sector mobilization.
- Make the best use of IDA resources within the agreed framework to assist low-income countries tackle global challenges and address their development needs.
- Capitalize on and sharpen the World Bank's convening power, advocacy, standard-setting, and knowledge work, including work on data collection and analysis to close data gaps.
- Ways to create more flexibility in who the WBG can support, including possibly sub-sovereign and supra-sovereign/international entities.
- Seek ways to work better within the MDB system and across the broader international architecture of development finance to create synergies and enhance the use of scarce resources from across the development finance system, including more division of labor where there is a clear comparative advantage.
- Better integration of regulatory reform (DPOs), investment lending, ASA and standard setting in pivoting towards global challenges.

IV. Financial Capacity

A refreshed vision that aims at poverty reduction, shared prosperity, and achieving the SDGs, and addressing global challenges will require enhanced WBG financial capacity. Indeed, a refreshed vision, incentives to spur demand for financing to address global challenges, and removal of institutional limitations alone can only take us so far in the direction of our ultimate goal. The G20 Independent Review of MDBs Capital Adequacy Frameworks ("CAF Review") provides important recommendations in the shorter and medium-term for achieving this increased scale of financing to address global challenges as well as to deliver on development needs, better mobilize private capital and build buffers to respond to future shocks.

Key Issues to Consider:

- Specific analysis of each of the CAF Review recommendations as they apply to the WBG, the impact that implementing them could have on financial capacity, and under what timeframe the recommendations could be pursued. This should be done through a structured process involving the Board of Directors.
- This should include financial innovations such as increasing use of exposure exchange agreements, scaling up use of donor guarantees, increased risk sharing and transfer of risks to private markets, issuance of hybrid capital to the private sector, establishing new windows funded by non-sovereign actors, a grants-based window for global challenges, innovative mechanisms to secure rapidly scalable financing in response to crises, and setting a portfolio-wide private capital mobilization target.
- It should also include recommendations on risk appetite, incorporating the uplift from callable capital into capital adequacy frameworks, issuance of non-voting shares, MIGA and private provision of insurance for MDB loans, along with scaling of IFC, and boosting domestic resource mobilization.