

Reforming the World Bank and Multilateral Development Banks to Meet Shared Global Challenges

Independent Think Tank Leaders Issue Call to Action for MDB Reform

Last July, the Center for Global Development hosted a meeting with other think tanks to exchange perspectives on the multilateral development bank (MDB) system.

We shared a common diagnosis that MDBs must more aggressively address the global challenges that defy national borders and threaten human life as we know it. By virtue of its global reach, financial firepower, and expertise, the World Bank is especially well positioned to be a major driver of progress on climate, pandemic preparedness, natural resource conservation and other global public goods. But it is not meeting its full potential.

Participants at our meeting agreed to set out a shared “call to action” where we lay out ideas to evolve the World Bank. The central ideas are to make climate mitigation and adaptation a core component of the World Bank’s mandate; greatly expand its financing capacity; create more incentives for countries to invest in climate and health preparedness; and reform the organizational structure of the institution. Together these could help lay the foundation for a modern World Bank that is meeting the defining challenges of our time head on.

Unless otherwise noted, we the undersigned support these ideas in our personal capacity. More information on related work underway in our organizations can be found at our respective websites.

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Key Messages

- ▶ Low-income countries and emerging markets alike are being battered by increasingly severe external shocks over which they have little control or responsibility.
- ▶ The intensity and frequency of these compounding and cascading crises—from climate to pandemics to conflict—affect countries' ability to pursue development priorities and prepare for future shocks. As a result, countries are suffering major setbacks around long-term poverty alleviation efforts and their broader development trajectories.
- ▶ The MDB system—by virtue of its global reach and financial firepower—has historically been a critical line of defense, along with the IMF, for supporting crisis resilience and post-crisis reconstruction in much of the developing world.
- ▶ But to remain pertinent in the face of 21st century challenges the MDB system must evolve.
- ▶ There is a huge and urgent need to scale up finance for investments in climate and development. The MDB system needs to be at the center of this investment push. But it also needs to do things differently and prioritize large-scale investments in global challenges that transcend national borders, from climate mitigation and adaptation to pandemic preparedness.
- ▶ The increased focus on aligning national and global needs will manifest itself differently across the range of MDB borrowers and across the MDBs themselves.
- ▶ Many countries will need support to invest more in mitigating risks and enhancing resilience, and in preparing high-quality projects. And some will need technical advisory and grants to map out a strategy for their low-carbon transition and creating the right environment for investment.

Update the Mission

- ▶ Shareholders should call on the World Bank to make a public statement adopting climate mitigation and adaptation as a core institutional priority alongside poverty reduction and shared prosperity.
- ▶ Shareholders should also recognize that to respond to global challenges alongside national priorities, the World Bank and other MDBs will need to substantially scale up their operations across the full spectrum of their client countries and change the way they operate in each context.

Increase MDB Financial Firepower

- ▶ **Reform the financial framework.** Shareholders and the MDBs should agree on a timebound plan to implement the recommendations of the G20 Capital Adequacy Review, including greater use of shareholders guarantees. This will enable MDBs to lend more with the existing capital without threatening their long-term financial integrity. Shareholders will need to be actively engaged in the design, approval, and monitoring of the implementation strategy drawing on the technical capacity of expert groups.
- ▶ **Launch a green capital increase.** In parallel, shareholders should jointly signal readiness to start discussions around capital increases and other measures of financial support, including guarantees for the MDBs, that would be focused on mobilizing additional financing for climate change-related lending and increasing the footprint and impact of their climate projects.
- ▶ **Private capital mobilization.** Shareholders should encourage MDBs to leverage their own resources with ambitious targets for mobilization of private capital to be achieved through a range of de-risking measures.
- ▶ **Rationalize and increase concessional finance.** Reform and rationalize the fragmented financial intermediary and trust fund architecture to increase financial firepower, strategic coherence, and impact.

Reform Terms and Conditions

- ▶ In addition to expanding the availability of financing, management and shareholders should announce plans to explore a new array of financial and policy incentives to encourage countries to access MDB resources to be used in programs targeting global challenges. These could include:
 - Differentiated lending terms: Sliding scale of project-based pricing with more concessional terms and longer repayment horizons for projects with positive global benefits including climate and health. Harder terms and surcharges for other lending could be used to create concessional terms for these programs and generate more net income for grants.
 - Dedicated flexible grant instrument: Expand the “Global Public Goods Fund” by increasing the IBRD net income allocation and through the consolidation of some GPG-related trust funds on the IBRD balance sheet. Expand the window for IDA countries.
 - Reformed financial instruments: increase the role of MDBs as guarantors by reforming guarantee provisioning rules and strengthening staff skills and incentives for non-lending products. This would include increasing the use of Development Policy Operations (DPO) to address global challenges.

Set out a New Operating Model

- ▶ Shareholders should ask the management of the World Bank to set out the operational and organizational changes needed at the World Bank to significantly scale up mobilization as well as to incentivize countries to pursue robust investments in climate and other global challenges. They should also ensure that global challenges are systematically addressed as part of national planning and investment with the MDBs.

