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on the  
Transfer of Real Resources to Developing Countries)



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**Evolution of the World Bank Group – A Report to Governors**

Attached is the document titled “**Evolution of the World Bank Group – A Report to Governors,**” for the April 12, 2023 Development Committee Meeting.





**Evolution of the World Bank Group:  
A Report to Governors**

**Development Committee**

**March 2023**

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## Abbreviations

BSO	Balance Sheet Optimization
CAF	Capital Adequacy Framework
CCDR	Country Climate and Development Report
CCAP	Climate Change Action Plan
CO <sub>2</sub>	Carbon Dioxide
COVID-19	Coronavirus Disease 2019
CRW	Crisis Response Window
CPF	Country Partnership Framework
DOER	Day One Emergency Response
DRM	Domestic Resource Mobilization
EDs	WBG Boards of Executive Directors
E/L	Equity-to-Loan
ERF	Early Response Financing
FCS	Fragile and Conflict-Affected Situations
FCV	Fragility, Conflict and Violence
FDI	Foreign Direct Investment
FIFs	Financial Intermediary Funds
G20	Group of 20
GEMs	Global Emerging Markets risk database
GHG	Greenhouse gases
GPGs	Global Public Goods
GPP	Global Priority Programs
GRID	Green Resilient and Inclusive Development
HICs	High-Income Countries
HLAG	High Level Advisory Group
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFFs	Illicit Financial Flows
IFC	International Finance Corporation
JET	Jobs and Economic Transformation
LICs	Low-Income Countries
MCPPI	Managed Co-lending Portfolio Program
MDB	Multilateral Development Bank
MICs	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
MPA	Multi-Phased Programmatic Approach
MRV	Monitoring, Reporting, and Verification
ODA	Official Development Assistance
PCF	Private Capital Facilitation
PCE	Private Capital Enabling
PCM	Private Capital Mobilization
PCS	Preferred Creditor Status
PCT	Preferred Creditor Treatment
PPP	Public Private Partnerships
PFR	Public Finance Review
RSE	Real Sector Crisis Response Envelope
SCALE	Scaling Climate Action by Lowering Emissions
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SLL	Statutory Lending Limit
WBG	World Bank Group
WESP	Warehouse-Enabled Securitization Platform
WFP	World Food Program

## Executive Summary

- i. **The World Bank Group (WBG) must evolve in response to the unprecedented confluence of global crises that has upended development progress and threatens people and the planet.** The WBG Governors have called for intensified action, building on the historic WBG global crisis response since the onset of the COVID-19 pandemic. The urgency of action continues to escalate given the vast and increasing needs related to poverty reduction and shared prosperity, as well as to respond to accelerating global challenges such as climate change, pandemic risk, and fragility, conflict, and violence (FCV). Led by the WBG Boards of Executive Directors (EDs), the WBG’s evolution process entails ongoing engagement with WBG membership and stakeholders and with WBG Management. This paper reflects progress on the evolution since January 2023, proposing ways to enhance the WBG mission, strengthen its operating model, and adapt its financial model towards regaining lost ground and helping countries achieve the Sustainable Development Goals (SDGs). It lays out actions that can be taken in the short term and others for further considerations after the 2023 Spring Meetings.
- ii. **Scaled-up action is needed to reverse the erosion of economic growth, poverty reduction, and human development since 2020, all of which are increasingly threatened by global challenges.** Poverty eradication is off track to reach 2030 targets, progress on shared prosperity remains slow, and human development outcomes have reversed since the COVID-19 pandemic began. The WBG EDs and Management have reaffirmed steadfast commitment to ending poverty and promoting shared prosperity, also recognizing that achieving these goals is intimately linked to progress in addressing global challenges. Fragility, conflict, and violence are forcing displacement of millions of people. Emissions of greenhouse gases (GHGs) are still growing, and the world is not on track to meet net zero by 2050. Urgent investments in pandemic preparedness are needed. We cannot achieve country development outcomes without addressing the interlinkages with global challenges.
- iii. **The global community needs to come together to dramatically scale up development finance and impact.** Spending needs to meet the SDGs are already massive, and the WBG estimates that average annual spending needs to address the global challenges of climate change, conflict, and pandemics are US\$2.4 trillion per year for developing countries between 2023 and 2030 – a small cost compared to not addressing these issues. Yet, global development finance remains grossly insufficient to mitigate these crises and secure sustainable, inclusive, and resilient development. Scaled-up effort and financing will be needed from all sources: domestic and international, and from the public and private sectors.
- iv. **As the world’s leading development finance and knowledge institution, the WBG is uniquely placed to further scale efforts to reach the poor and vulnerable, deepen country impact, and catalyze global action.** The WBG offers its membership – 189 countries strong – an effective, leveraged, and unfragmented platform to tackle the complex challenges at the country and global levels. The WBG has already provided more crisis finance to developing countries than any other private or public actor: US\$330 billion since the onset of the pandemic, US\$115 billion of that in the last fiscal year alone. No entity has provided more climate finance to developing countries: US\$90 billion over the past three years, and almost two-fifths of that in the last fiscal year. But substantially more is needed, with increased urgency. The WBG has a history of evolving and innovating and can build on its track record of delivering finance and knowledge, working in partnerships towards the SDGs, and leveraging its financial capital to respond to client demand. Consistent with the *Forward Look* and discussions with WBG EDs, the focus will continue to be on poverty reduction and shared prosperity, while also addressing the interlinkages with global challenges, such as climate change, pandemic risks, and FCV.
- v. **This paper outlines proposals to enhance the WBG mission; strengthen its operating model; and adapt its financial model in line with the needs and priorities of WBG clients and shareholders.**
- vi. **The proposed provisional mission of the WBG would be: “to end extreme poverty and boost shared prosperity by fostering sustainable, resilient, and inclusive development.”** The WBG will

continue to focus on its vision of *A World Free of Poverty* as well as on the twin goals of ending extreme poverty and promoting shared prosperity. With the increasing importance of global challenges in achieving development goals, there is a need to sharpen the mission with greater emphasis on sustainability, resilience to shocks, and inclusion, which are also critical for achievement of the twin goals and the SDGs. The formulation of the mission is provisional and subject to adjustment after the Spring Meetings as discussions advance.

- vii. **Building on core strengths and lessons learned, the WBG operating model will evolve for even greater impact.** The WBG will decisively scale up and optimize to help countries achieve their SDG goals, building on core country engagement, global knowledge, strengthening the One-WBG approach, and intensifying outcome orientation. This will include a revamped corporate scorecard and broadened approach to country programming, strengthening the use of the Cascade approach to engage both public and private sectors given their critical roles in development. The WBG will support country impact on poverty and shared prosperity in ways that increasingly address and respond to global challenges; WBG global priority programs will be developed, and enhancements to concessionality and allocation mechanisms will be considered to connect country programs to actions that deliver global public goods (GPGs). This will include developing a multi-donor replenishable trust fund such as Scaling Climate Action by Lowering Emissions (SCALE) for outcomes that contribute to country and global challenges. The WBG will strengthen its crisis response capacity, expanding country access to contingent financing and preparing to respond to a future global crisis. Underpinning these efforts, the WBG will increase its support for private capital facilitation (PCF) and domestic resource mobilization (DRM).
- viii. **Adapting the WBG’s financial model and substantially increasing WBG financing capacity are integral to scaling up impact.** The WBG has a long track record of Balance Sheet Optimization (BSO) and financial innovations to build on in the current evolution. The WBG EDs have expressed support for measures to increase IBRD’s financing capacity with the potential to add up to US\$50 billion of IBRD financing capacity over the next ten years, while continuing to protect IBRD’s triple-A rating, long-term financial sustainability, and preferred creditor status. Given the huge gaps between global needs and current amounts of development finance, this enhanced capacity – a 15 percent increase over current IBRD financing levels – would be an important first step in securing resources for development. Discussions with members will continue after the Spring Meetings on additional measures to further enhance financial capacity, including for IDA given the sharp decline in its lending capacity in the outer two years of IDA20 following the significant frontloading in FY23 for crisis response. Also, none of the proposed measures would provide additional concessionality beyond what current sources of financing offer, which is needed to incentivize actions that contribute to GPGs and to scale up blended finance for the private sector. A key principle must be that additional concessionality for GPGs cannot come at the expense of concessional resources for IDA countries.
- ix. **The WBG seeks the Governors’ endorsement of the proposed steps in its evolution.** The WBG will also continue consultations with relevant stakeholders, both during and after the Spring Meetings. Building on this input, Management and the WBG EDs will advance implementation of the agreed actions and continue to develop further proposals. Strong shareholder support will be critical for the viability of key proposals under consideration and the overall success of the WBG evolution. To advance progress, Management and the WBG EDs have the following questions for the Governors:
- a) What are Governors’ views on the direction and ambition of the new mission statement?
  - b) Do Governors agree with the enhancements to the operating model, and are there specific improvements they consider as priorities?
  - c) Do Governors 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?
  - d) What do Governors expect by the 2023 Annual Meetings with regard to the WBG evolution, and do they support the proposed next steps for WBG Management and EDs to advance the agenda?

# Overall Summary: The WBG Evolution –2023 Spring Meetings Report

## Vision & Mission

Our vision is a world free of poverty.

Our proposed provisional enhanced mission is: to end extreme poverty and boost shared prosperity by fostering sustainable, resilient, and inclusive development.

## Operating Model

### Building Blocks

Country-based model

Partnerships for the SDGs



One WBG and cascade approach

Knowledge

### Objectives

- Scaling up and optimizing for impact
- Supporting good country outcomes while addressing global challenges
- Engaging at regional and global level to complement country engagement
- Stepping up WBG ability to respond to crisis
- Cross-cutting: Facilitating private capital
- Cross-cutting: Mobilizing domestic resources

### Initial Steps

- Revamp country diagnostics
- Develop criteria to select global challenges
- Redesign the Corporate Scorecard
- Crisis response toolkit
- Explore new sources of concessionality
- Results-based financial terms
- Enhance guarantees and joint WBG products for PCF

## Financial Model

### Objectives

- Increase financial capacity to better support enhanced operating model
- Ensuring AAA, PCT, and long-term sustainability
- Mobilizing resources for concessionality for GPGs

### Agreed Steps

- Lower IBRD's minimum E/L ratio
- Increase limit for shareholder guarantees
- Present IDA Crisis Facility to IDA Deputies
- Draft report from EDs to Governors to remove SLL from Articles for consideration
- Pilot program for hybrid capital issuance in capital markets

## I. Introduction

1. **The world is facing an unprecedented confluence of crises. Urgent action is required, by all stakeholders in development, to dramatically scale up financing and impact.** At a time when the world economy is hampered, with sluggish growth, fiscal constraints, increasing debt, weak private sector investment levels, and decreasing international aid to developing country governments, we need new approaches to ensure every dollar of development assistance leverages, mobilizes, and delivers for maximum impact. We need to reaffirm our commitment to eliminating extreme poverty and promoting shared prosperity, with support to all clients and especially to poorer IDA countries, while also recognizing that achieving these goals is intimately linked to progress in addressing global challenges.

2. **The WBG has a long history of evolving and innovating in a changing world.** Our membership at the 2022 Annual Meetings asked the WBG EDs and Management to identify how to accelerate the WBG’s evolution given the present crisis in development. Many stakeholders called on Multilateral Development Banks (MDBs) more generally to step up as the international community looks for effective ways to tackle global challenges. After discussing an initial Evolution Roadmap (WBG 2022a) in January 2023, Management and WBG EDs have had intensive engagements over February and March 2023, as part of a Board-led process.

3. **This paper reflects the progress and proposes next steps in the WBG evolution.** It first outlines the magnitude of the challenges facing WBG clients and the urgent need for a scaled-up response by the international community, as well as potential sources of financing and the role of the WBG in this landscape. It then presents how the WBG mission needs to be enhanced to support good country outcomes while addressing global challenges. It proposes ways that the WBG can strengthen its operating model and adapt its financial model for urgent and scaled-up response, including actions that can begin immediately and others that will require further consideration after the April 2023 Spring Meetings.

## II. Addressing the Challenges of a Rapidly Changing Landscape

### *a. Threats to future prosperity*

4. **Since 2020, the world has witnessed declines in growth, increases in poverty, and reversals in hard-won human development.** Multiple overlapping crises have eroded pre-2020 development progress, resulting in increased poverty and vulnerability, intensified risks, and multiplied needs, exacerbated by the impact of Russia’s invasion of Ukraine. The number of people in extreme poverty increased for the first time in decades by 11 percent in 2020 to 719 million worldwide (Figure 1A). Today more than three billion people still live below US\$6.85 a day (Figure 1B). Shared prosperity shows similar trends, as measured by the prosperity gap (Figure 1C).<sup>1</sup> 349 million people across 79 countries are experiencing acute food insecurity (WFP 2022). The compounding crises are also eroding human capital gains, including decreases in life expectancy (Figure 1D), severe learning losses, and reversals in progress on gender equality.

5. **Threats to prosperity are increasingly originating from global challenges, with cross-border effects and consequences that stretch far into the future and are often irreversible.** Emissions of GHGs are increasing beyond sustainable levels (Figure 1F). Climate change has far-reaching impacts, including slowing agricultural productivity in some regions, rising food insecurity, declines in biodiversity, tree-cover loss, and shrinking renewable water resources – all of which are hitting the poor and women the hardest, and especially in LICs and fragile contexts. Loss and damage from natural disasters are already large in

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<sup>1</sup> The prosperity gap is a new indicator of shared prosperity, defined as the global average shortfall in income from a standard of prosperity set at \$15 per day (adjusted for differences in purchasing power parity).

many countries, and the incidence of disasters is increasing, especially in small states. The number of conflicts and forcibly displaced people have risen sharply (Figure 1E). Pandemics threaten massive disruptions to societies and economies.

6. **There are clear interlinkages between global, regional, and country development outcomes.** Achieving country development and tackling global challenges are both urgently needed and mutually reinforcing. Both must be addressed, as poverty alleviation and economic development are not possible without addressing global challenges.<sup>2</sup> Failure to do so puts long-term development at risk: climate change and pandemics have a disproportionate impact on the poor, poverty is concentrated in fragile and conflict situations, and unmitigated global challenges will reverse hard-fought country development gains. Countries need to be brought into a position that allows them to align domestic efforts to achieve the twin goals with their response to global challenges, building on national ownership of these issues.

7. **As threats are growing, there are also opportunities.** Demographic changes, migration patterns, urbanization, technology, and digitalization create opportunities as well as challenges. Countries with younger populations and increasing urbanization can capitalize on these trends for growth. Technological change in renewable energy-related areas creates opportunities to close the energy access gap while responding to climate change; low internet penetration in LICs creates opportunities for growth. Digital developments in fintech and health research have transformational potential. The private sector will support the development of these opportunities, when governments set an enabling regulatory and institutional environment for broad-based, sustainable growth.

*b. Now is the time: a call to action*

8. **The global community needs to take urgent action to reverse negative trends for people and the planet. It is time to declare a state of emergency on poverty, inequality, and hunger, as well as on climate change, pandemic risks, conflict, and violence.** Achieving good country outcomes depends on the combined technical and policy expertise, knowledge, and research of all development partners at the country, regional and global levels. The ability to draw expertise and knowledge that spans regions and sectors to facilitate the exchange of ideas and good practices is particularly important when it comes to finding solutions at the nexus of domestic and global challenges. A major push is needed in three directions:

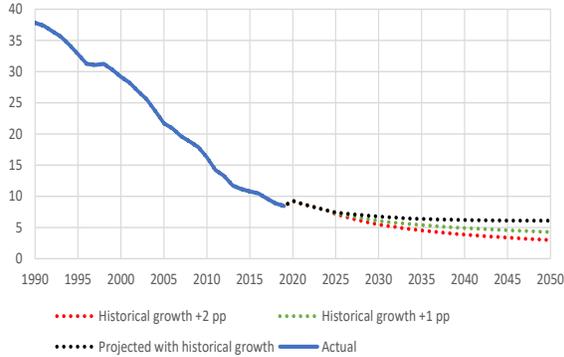
- **Scaling up impact for good development outcomes for countries.** Years of development gains have come under threat due to the unprecedented impact of the multiple, overlapping crises since 2020. The reversal in gains calls for doubling down on poverty reduction and shared prosperity and scaling up the impact of global development efforts on country development outcomes, especially in the poorest and most vulnerable countries such as IDA recipients.
- **Tackling cross-border global challenges.** The need for climate adaptation and mitigation is front and center, requiring a transformation of the global economy. Even if HICs have a major responsibility, all countries must contribute; MICs and LICs also have a role to play, following the principle of common but differentiated responsibility. Addressing fragility and forced displacement will be key. Pandemics need to be anticipated and addressed. These challenges are interdependent, and need to be addressed along with other global challenges such as food insecurity, water and energy access, the need for regional integration, digitalization, and debt sustainability.
- **Preventing, preparing, and responding to crises.** The COVID-19 pandemic unequivocally signaled the importance of strong crisis management capacities at the domestic, regional, and global levels. This requires the ability to identify and mitigate risks and develop resilience. It entails preparing, preventing, and rapidly responding to crises associated with climate change, fragility, major disease outbreaks, and other shocks that worsen poverty and shared prosperity.

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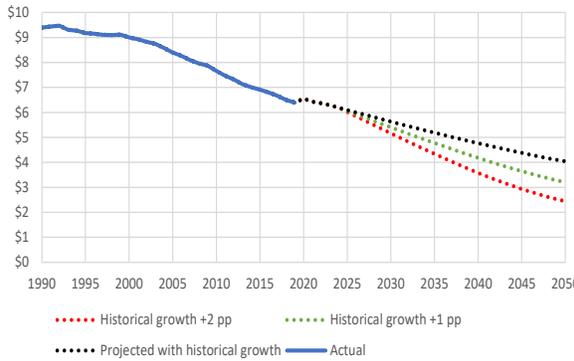
<sup>2</sup> This paper uses ‘global challenges’ to reference regional and global challenges as well as global public goods.

**Figure 1: Development Threatened by Global Challenges**

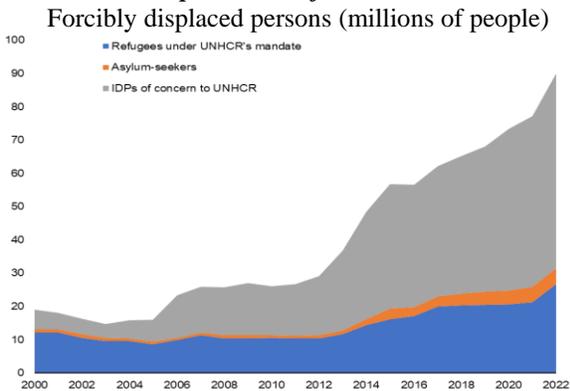
**A) Poverty eradication is not on track...**  
Global extreme poverty rate at US\$2.15 per day (2017 US\$ PPP), % of population



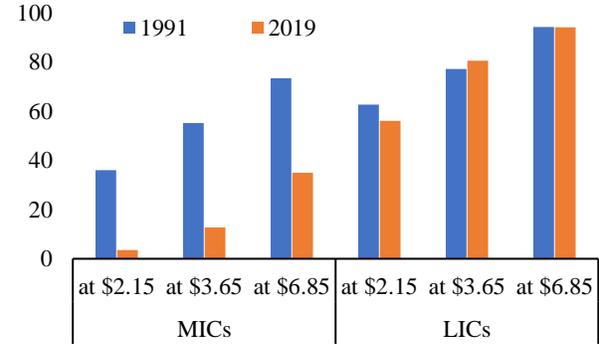
**C) The reduction in prosperity gap is slow...**  
Global prosperity gap (2017 US\$ per day at PPP)



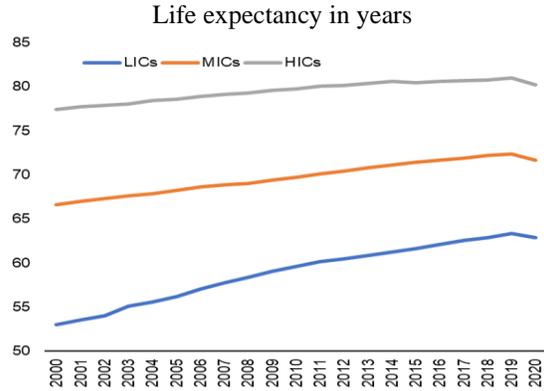
**E) Fragility, conflict, and violence continue to force displacement of millions...**



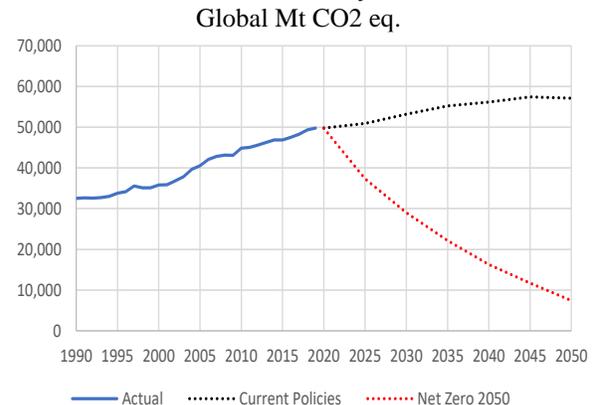
**B) And broader definitions of poverty show large share of population in precarious conditions ...**  
Poverty rates in LICs and MICs at US\$2.15, 3.65 and 6.85 per day (2017 US\$ PPP), % of population



**D) Progress in life expectancy dropped during COVID-19...**



**F) CO2 emissions continue to grow and are not on track to net zero by 2050**



Sources: A) B) C): World Bank Poverty and Inequality Platform. D) Global Burden of Disease; Our World in Data; World Bank; and WDI; E) UNHCR; Our World in Data; World Bank; F) ClimateWatch/CAIT, Global Carbon Project.  
Notes: A) C): Dotted lines are projections through 2050.

9. **The WBG estimates that the total average annual public and private spending needs to address the global challenges of climate change, conflict, and pandemics are US\$2.4 trillion per year for developing countries between 2023 and 2030.** This is equivalent to around 6 percent of the total GDP of all IDA and IBRD countries (Figure 2A and Annex 2). While these estimates are huge, they represent a small cost compared to not addressing these global challenges. These needs represent a substantial increase relative to current levels of public and private spending in these areas. These needs also contrast drastically with overall declining flows of financing and capital, including Foreign Direct Investment (FDI) which has consistently declined for a decade (Figure 2B), and ODA flows that remain inadequate (Figure 2C) to close the gap. Other estimates of the costs of attaining SDGs and climate commitments, although not directly comparable, show a similar magnitude of the increase in spending that is required.<sup>3</sup>

10. **Responding to these needs requires scaled-up finance from all sources: public and private, domestic and international, as well as knowledge and capacity to implement.** Domestic resource mobilization in developing countries needs to be combined with financing from the private sector and the international community. Domestic resources can be used to unlock regulatory and infrastructure constraints to foreign investment or to finance Public Private Partnerships (PPP) that trigger domestic private investment. International development finance can support domestic tax systems and support growth-inducing reforms. International development finance can also mobilize the private sector, which will generate growth and DRM. The connecting tissue is knowledge to guide financing where it has the best impact and to build the capacity to implement development solutions at scale.

11. **Private sector development will play an important role.** More can be done to fully leverage the capital, track record, innovation, and employment creation the private sector brings to client countries. Many of the innovations needed for the green economy transition depend on private sector solutions. The private sector can also mobilize a large share of the investment needs. These flows need to be enabled and incentivized by sound public policies and public finance. Yet, private capital deployment remains hindered by actual and perceived obstacles affecting both the recipients and providers of capital, both within countries and between countries. Intermediation by MDBs, through private-capital-enabling reforms, individual project structuring, and active fundraising from private and institutional investors, is critical. Domestic capital markets must be strengthened to crowd in local private sectors. Concessional resources are needed to address market failures and align financial returns and risks. Blended finance (concessional resources combined with commercial funds)<sup>4</sup> is an integral tool to de-risk investments and crowd-in private capital.

12. **Domestic resources, policies, and investments provide the foundation for countries to realize good development outcomes.** Increased and sustainable economic growth is critical for DRM. Equally important are sound economic management and fiscal policies that enable domestic public resources and private sector development. Good country policies are essential for growth and to address cross-border challenges. These policies include broadening tax bases, enhancing progressivity, better use of targeted subsidies, reducing tax exemptions, and addressing corporate tax avoidance and evasion. Sequenced DRM programs at the country level can raise tax-to-GDP ratios over the medium term to provide necessary resources. They need to reflect informality and fight illicit financial flows. But a key constraint on government deployment of domestic resources is the rising government debt level across the developing world (Figure 2D). This requires a systematic solution building on the G20 Common Framework.

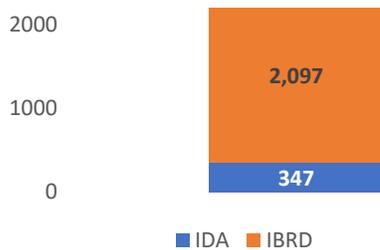
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<sup>3</sup> IMF (2021) estimates that public and private sectors together have to spend US\$2.6 trillion more every year until 2030 to meet the SDGs in five key areas (education, health, roads, electricity, water and sanitation). The Independent High-Level Expert Group on Climate Finance finds that development compatible with climate commitments requires annual spending by developing countries other than China of US\$2.4 trillion per year (Songwe et al 2022).

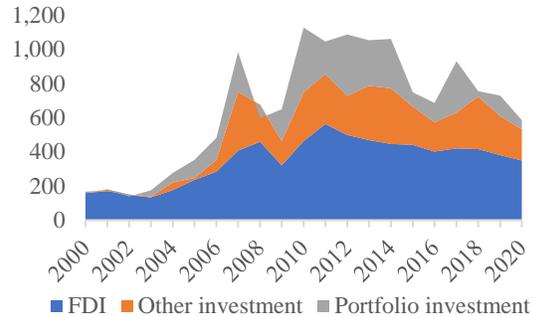
<sup>4</sup> Blended finance can take the form of price concessionality (below market lending rates) and non-price subsidies (longer maturities or structural subordination): in both cases, the donor earns below market returns.

**Figure 2: Financing needs and role of the World Bank Group**

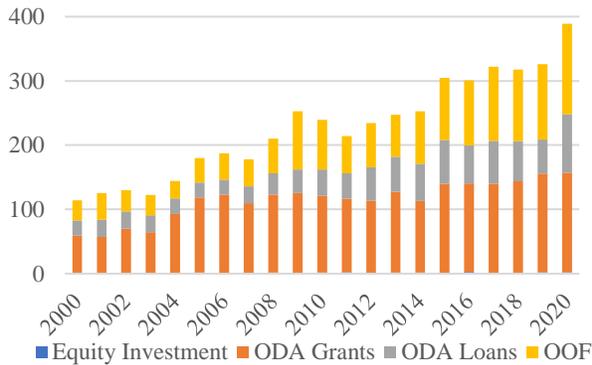
**A) Spending needs are massive...**  
Annual spending needs in US\$ billion for IDA and IBRD countries, 2023-2030



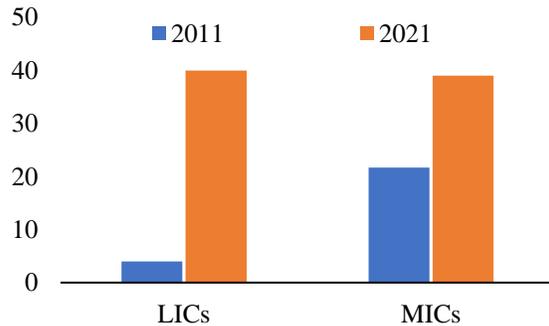
**B) Meanwhile overall financial flows to developing countries decreasing along all dimensions, incl. FDI...**



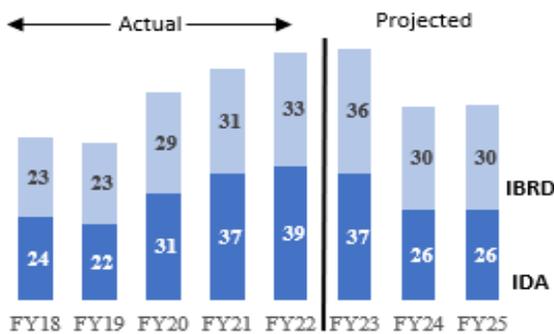
**C) While official flows are improving, they are not in the magnitudes needed ...**  
Official Financial Flows (by aid type)



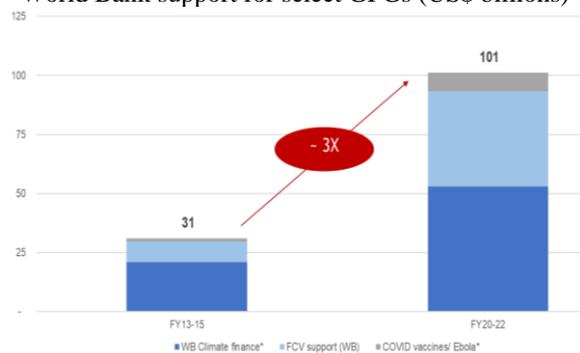
**D) And governments are already stretched ...**  
Developing countries with fiscal deficits larger than 5 percent of GDP (percent of LICs and MICs)



**E) The WBG has been stepping up, but IDA and IBRD are now financially constrained...**  
IDA and IBRD Commitments, FY18-25



**F) World Bank commitments on global challenges have increased significantly**  
World Bank support for select GPGs (US\$ billions)



**Sources:** A) World Bank staff estimates. B) OECD (2022), based on IMF BOP data. C) OECD DAC Creditor Reporting System. D) E) F): World Bank.

**Notes:** A) Estimates focus on the subset of climate and resilience, pandemic, and conflict (Annex 2). C) Data include equity investment, which is too small in scale to be visible. E) IBRD projections are as shown in December 2022 FSF paper; IDA projections include PSW and based on Jan 2023 USD/SDR rate of 1.34847 F) GPGs refer to climate, pandemics, and FCV; \*net of overlap in FCV, COVID, Ebola response, and climate financing.

13. **International development finance and knowledge remains the cornerstone of development at the global level.** All development partners need to ramp up efforts to deploy finance, enable blended financing with private capital, and secure greater levels of concessionality to incentivize work on global challenges. The latter must not crowd out other development priorities in the most vulnerable countries. In the case of sovereign debt financing, issues of debt sustainability need to be managed proactively since eventually all sovereign debt has to be repaid from domestic resources. Development knowledge needs to be produced, flow, and inform development solutions across the globe for best outcomes. A key challenge is in reversing major trends related to the proliferation of donor channels over the past two decades, the fragmentation of donor-funded activities of decreasing size, and the verticalization of donors and providers on narrowly defined issues or themes.<sup>5</sup> These trends increase the burden of administration and coordination on recipient countries; result in a smaller fraction of financial flows that are channeled through country systems (currently less than half); and can create tension between country and donor priorities.

*c. The role of the WBG in a robust multilateral response*

14. **As the leading global MDB, the WBG offers an effective, leveraged, and unfragmented platform to respond to country, regional, and global challenges.** In a fragmented world, a multilateral response provides an effective way to address development challenges at all levels. Over the last 20 years, the vast majority of official multilateral financing was channeled through MDBs including the WBG that adopt a country-model approach.<sup>6</sup> IBRD has generated US\$820 billion of lending, and has transferred US\$21 billion of income to IDA and other development purposes, out of only US\$20 billion of paid-in capital.<sup>7</sup> The introduction of a hybrid financial model in IDA18 has also allowed every dollar of partner contribution to mobilize three to four dollars in IDA commitment authority, resulting in IDA significantly expanding its financial capacity since IDA17 despite a decline in donor contributions in real terms. IFC is the largest provider of development finance for the private sector across developing countries, having committed US\$469 billion in total financing with paid-in capital of US\$22 billion. Reflecting the enhanced focus on low-income markets, since FY18, IFC has deployed US\$15.5 billion to support investments in IDA and countries with fragile and conflict-affected situations (FCS). Since its inception in 1988, MIGA has issued guarantees of US\$71.5 billion on only US\$366 million of paid-in capital. Section V explores how to further adapt the financial model.

15. **The WBG can build on its track record of delivery through its finance, knowledge, and partnerships.** The WBG contributed to several decades of poverty reduction, drawing on its country-based model, the One-WBG approach, and an extensive network of partnerships. The WBG committed US\$330 billion between April 2020 and December 2022 ; financed the purchase and delivery of more than 500 million COVID-19 vaccines and galvanized global coordination through our leadership of the High-Level Task Force on Vaccines; channeled more than US\$413 billion of private capital through a combination of co-financing, mobilization, policy advice, financial intermediation, and capital markets transactions;<sup>8</sup> and launched the most comprehensive set of analytical work on country climate and development.

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<sup>5</sup> The size of ODA grants halved over the past 2 decades, from an average of US\$1.6 million to US\$0.8 million. There is also limited leverage from many funds, weakening the efficient use of concessionality.

<sup>6</sup> Official commitments from these “horizontal platforms” increased from US\$40 billion in 2000 to US\$190 billion in 2020. The largest provider among horizontal platforms was IBRD, with US\$415 billion in commitments (24 percent of total official financial flows from multilaterals), followed by the Asian Development Bank (US\$257 billion or 15 percent) and the Inter-American Development Bank (US\$217 billion or 12 percent). In terms of concessional finance, IDA provided much larger volumes of both ODA loans and grants than all other horizontal funds, contributing 61 percent of ODA commitments from horizontal funds from 2000-20.

<sup>7</sup> Cumulative amounts by end-FY22. Other development purposes mainly comprise the Heavily Indebted Poor Countries (HIPC) Initiative, and the Trust Fund for Gaza and the West Bank (TFGWB).

<sup>8</sup> Of that, US\$164 billion corresponds to ‘mobilization’, two thirds from IFC, making the WBG the lead among MDBs.

16. **Demand for WBG support by member countries is strong and growing.** Demand for IDA resources has always followed increased supply, even when IDA resources were increased by 44 percent in IDA18. IBRD demand has also responded to supply, both on the upside when the crisis buffer was made available in 2020 and on the downside when country-specific risk limits become binding. Despite the pandemic-induced surge in commitments in FY20-21, the ratio of undisbursed balances to net commitments is at a decade low. On the private sector side, since the onset of the pandemic and amid the significant contraction in private sector investment, IFC has committed US\$105 billion with mobilization of US\$36 billion, while MIGA's gross guarantee portfolio exposure reached a record US\$24.4 billion. Surveys confirm considerable demand for MDB support now and in the future.<sup>9</sup>

17. **The WBG needs to play an even larger role in the global efforts to tackle the ongoing compounded impacts of key global challenges.** The WBG has already been focused on the global challenges that are most critical for development (Box 1). The WBG increased its financing related to the three priority global challenges of climate change, pandemics, and fragility to roughly half of all Bank lending between FY20-22 (Figure 2F). Health financing in IDA and IBRD has grown from US\$2 billion in FY13 to US\$11 billion in FY22. Since the start of the COVID-19 pandemic, IFC has provided US\$3 billion in long-term financing in healthcare. This is part of IFC's broader COVID-19 support amounting to US\$23 billion for clients impacted by the pandemic, including through the Fast Track COVID-19 Facility. Almost half of the support is targeted towards IDA and FCS. MIGA had US\$9 billion financing through its Fast Track COVID-19 response facility. The WBG recently framed its approach in a Pandemic Preparedness Positioning Paper (WBG 2023). WBG support for FCS has grown from US\$6 billion in FY13 to US\$32 billion in FY22; the Group's approach to FCV was presented in the recent FCV Strategy (WBG 2020).

18. **The WBG is now the largest provider of climate finance to developing countries.** WBG lending for climate finance increased from US\$12 billion in FY16 to US\$34 billion in FY22. As part of the WBG's Climate Change Action Plan (CCAP 2021-2025), the WBG has committed to aligning its financing operations approved starting July 1, 2023, with the Paris Agreement goals.<sup>10</sup> IFC has fundraised for a new platform under its Managed Co-lending Portfolio Program (MCP), a US\$3 billion MCP One Planet platform focused on climate finance that is fully aligned with Paris Alignment goals.

19. **Demand for country support that contributes to addressing global challenges can be further incentivized.** Non-financial incentives such as countries' desire or need to adhere to regional or global standards, or to thrive in emerging global value chains that pay attention to carbon footprint, can be powerful incentives for local action in support of regional or global challenges. Strengthened analytical foundations for the identification of country priorities can also serve as an efficient link between domestic and global challenges: the recent Country Climate and Development Reports (CCDRs) illustrate the potential that analytical work has within the WBG's engagement at the intersection between country development issues and global issues. More generally, the increasing WBG engagement on global challenges reflects incentives Management has put in place, such as the target on climate co-benefits, the creation of a multi-billion multiphase programmatic approach (MPA) on COVID-19 vaccines, targeted increased in FCV staffing, and commitments made during IDA replenishments. In some cases, targeted financial incentives will also be required (Section IV).

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<sup>9</sup> An April 2022 survey by the Overseas Development Institute (ODI) for example found that the majority of government officials from developing countries felt that the demand for grants, loans, technical assistance, and policy advice from their countries would increase in the next five to ten years if there were no constraints to supply.

<sup>10</sup> The Bank will align all new financing operations approved starting July 1, 2023. IFC and MIGA will align 85 percent of new approved operations starting July 1, 2023, and 100 percent starting July 1, 2025.

### **Box 1: WBG Selectivity in Addressing Global Challenges and GPGs**

Global challenges are defined as key development problems faced by all or most countries in the world at a given moment of time. Some aspects of these challenges include the need to deliver GPGs, when some of the benefits of actions to address a global challenge at the national level spill across borders and benefit other countries – and hence call for concessionality to stimulate sufficient demand.

Selectivity in the WBG’s focus on addressing global challenges is informed by guidance from WBG members on priority areas, building on ongoing analysis of key issues facing our clients. A 2007 paper to the Development Committee defined five principles for World Bank engagement on GPGs (WBG 2007):

- There should be an emerging consensus in the international community that global action is required;
- There should be a clear institutional gap in responding to the problem;
- WBG engagement should be consistent with its development mandate and its relative strengths;
- The Bank should have the requisite capabilities and resources to be effective; and
- Global action by the Bank should catalyze other resources.

Today, the WBG supports clients to address varied global challenges – including food insecurity, water and energy access, the need for regional integration, digitalization, and debt sustainability among others – on a range of fronts. The WBG will continue to do so. At the same time, given the large impact of three key global challenge, namely climate change, health, and fragility, the Forward Look of 2016 and the Capital Package of 2018 outlined the need for an expanded role for the WBG in these areas. These remain key global challenges, and the current proposed focus on climate change, pandemic preparedness, and fragility reflects a continuation. Updated selectivity criteria are being developed, acknowledging that priorities may shift over time as the global context continues to evolve.

### **III. Shaping the Future of the WBG: Vision and Mission**

20. **The current vision of the WBG is a World Free of Poverty.** An organization’s vision reflects how it intends to impact the world, what it strives for, and its aspirations. Anchored in the institutions’ Articles of Agreement and Conventions, the evolution process reaffirms the commitment of the institutions and their membership to this vision, particularly given the recent reversals in poverty reduction.

21. **Since 2013, the mission of the WBG has been “ending extreme poverty and promoting shared prosperity in an environmentally, socially and fiscally sustainable way”** (WBG 2013). This mission was endorsed by the Development Committee in 2013 and is commonly referred to as ‘the twin goals’. While endorsed before the establishment of the SDGs, the twin goals aspire to a broad definition of development, with a focus on extreme poverty. The twin goals remain valid, but their definition and measurement can be evolved and sharpened in line with the current development context and needs:

- **Elimination of extreme poverty will continue to be at the core of the WBG’s mission.** The WBG remains committed to ending extreme poverty, if not by 2030 then as soon as possible afterwards. Poverty remains a challenge in MICs based on the lower and upper MIC poverty lines used in these countries, and progress in living standards is needed in both LICs and MICs. It is therefore key to supplement the current extreme poverty measure with ones that explicitly recognize that basic needs grow with average income levels, and that higher levels of consumption are needed to achieve the status of “non-poor” in MICs relative to LICs.
- **Shared prosperity must remain an essential goal.** High vulnerability to poverty in the face of shocks and major differences in per capita incomes within and across countries serve as a reminder that escaping extreme poverty is insufficient for economic security and prosperity: strong, sustained, and inclusive growth in LICs and MICs is critical. As such, the current concept of shared prosperity should be expanded to directly address the aspirations of people living in LICs and MICs to (i) achieve a substantially higher standard of prosperity and (ii) live in more equitable societies.

22. **Yet achieving these goals requires more explicit recognition that resilience to shocks, sustainability, and inclusion are essential to the WBG mission.** This would carry forward and reinforce

the drive to deliver the WBG twin goals “in a sustainable manner,” raising the profile of this longstanding aim. Given experience over the past decade and hard lessons learned, three concepts must be better reflected in the mission, recognizing their impacts on poverty and shared prosperity at the local and global levels. *Resilience* factors in exposure to the high risks of shocks such as extreme weather events or conflict and the ability to absorb these shocks. This broadened concept is related to the ability of people and countries to prepare, manage, and recover from shocks. *Sustainability* reflects the need to ensure that WBG impact is positive including in fiscal, economic, social, and environmental terms; it also recognizes the increasing interlinkages between progress on countries achieving their SDG goals and on reducing the impacts of global warming and other environmental risks. The twin goals explicitly recognize economic *inclusion* as critical to the WBG mission. But greater social inclusion and citizen and beneficiary engagement are also necessary to achieve the twin goals. Improving gender equality and investing in women’s empowerment generate large development gains: no society can develop sustainably without increasing and improving the distribution of opportunities, resources, and choices for women and men to have equal power to shape their own lives and contribute to their families, communities, and countries. Providing opportunities for youth is also critical. Gains can be achieved through the inclusion of marginalized groups such as persons with disabilities and ethnic and racial minorities – including consideration of the particular needs of people facing compound risks of exclusion, such as related to both gender and race. Further inclusion of citizens and beneficiaries from small states, islands, and fragile countries is also necessary to achieve the twin goals.

23. **Reflecting these needs, and that progress toward a world free of poverty requires sharper focus on global challenges, WBG EDs recommend an enhanced formulation of the WBG mission: “To end extreme poverty and boost shared prosperity by fostering sustainable, resilient, and inclusive development”.** Indicating the emerging consensus to date, this formulation is provisional and pending the completion of the WBG evolution process; guidance from Governors; further elaboration of indicators and dimensions of poverty; and preventing potential trade-offs with regard to resource allocations between country engagements and global challenges. The sharpened mission must reaffirm the centrality of ending poverty and boosting shared prosperity. It also must emphasize the interconnectedness of the twin goals with vulnerability to shocks and the need to adapt to an increasingly crisis-prone world, and reflect the Green Resilient and Inclusive Development (GRID) approach, which was endorsed by the Governors in Spring 2021. Achieving the enhanced mission requires progress across a broad set of inter-related development areas, recognizing the need for global collective action to tackle global challenges and the importance of HICs and MICs to achieving the twin goals. This proposed change in the WBG mission is provisional and subject to adjustment, including further refinement and consolidation, as discussions advance on the operating and financing model and on indicators to measure performance.

24. **In emphasizing sustainability, resilience, and inclusion, the WBG will continue its support to countries’ efforts to achieve their SDG goals while deepening longstanding support for three global challenges that have become increasingly prominent in the last decade: climate change, pandemics and health security, and fragility and conflict** (see Box 1). This focus in terms of global challenges will build on and complement other priorities that the WBG has committed to over time, including GRID, gender equality, citizen engagement, Jobs and Economic Transformation (JET), and governance. The WBG will elaborate principles to inform the focus on global challenges, acknowledging the importance of other global challenges as well and that priorities may shift over time as the global context continues to evolve.

25. **After adopting an enhanced mission, Management will propose indicators to capture its sharpened scope.** These indicators will provide the direction of travel toward the mission, complementing current indicators on poverty and shared prosperity. They will serve as proxy headline indicators to capture the development context in which the WBG operates and will measure private sector development outcomes. Indicator selection will balance the desire to ensure focus with the ability to adequately monitor and communicate progress. These indicators will fit into Tier 1 of the Corporate Scorecard, reported

annually along with other complementary indicators. Following Governors’ feedback on the enhanced mission, Management will develop these indicators, continuing to engage with WBG EDs in doing so.

**Table 1: Proposals to evolve the WBG mission**

Initial steps	To be further explored
Seek guidance from Governors on the provisional updated mission statement: <i>To end extreme poverty and boost shared prosperity by fostering sustainable, resilient, and inclusive development.</i>	<ul style="list-style-type: none"> <li>• Further adjust and refine the proposed mission as necessary as the evolution process advances.</li> <li>• Develop indicators to assess WBG performance reflecting the enhanced mission.</li> </ul>

#### IV. Enhancing the WBG Operating Model

26. **The WBG operating model must evolve in response to the urgent need to support countries to achieve their SDG goals.** Based on the WBG’s long-standing experience, the building blocks of the current operating model (Box 2), insights from the WBG’s Independent Evaluation Group (IEG, Annex 1), and extensive dialog with WBG EDs, key directions for enhancing the operating model have been identified and specific proposals for immediate follow-up as well as further consideration are put forward.

**Box 2: Building Blocks of the WBG’s Operating Model**

**The country-based model is at the core of the WBG delivery model and value proposition and will remain so.** Being country-driven is necessary, as we need government counterparts to engage with and help deliver as an interested borrower; as well as highly value-adding, through adaptation to country circumstances and strong national ownership. The 2015 Country Engagement model was designed to increase strategic focus and selectivity based on a diagnostic of a country’s constraints to achieving the twin goals in a sustainable manner. It covers operational engagement with the public and private sectors in client countries, including citizen engagement and consultations, and has been reinforced over the years to enhance its results focus, including on corporate priorities such as gender. Drawing on global knowledge, the country-based model has demonstrated its ability to deliver not only for country outcomes but also for global challenges. Enhancements to the WBG operating model to reflect the enhanced mission will build on and supplement this core country-based approach.

**The One-WBG and Cascade approach reflects the strength of the Group.** It brings solutions to clients that optimize the comparative advantages of the public and private sectors and informs WBG programming to use WBG instruments in a coordinated manner to leverage private capital and enterprise and maximize the WBG’s impact (WBG 2017). This means that WBG teams consistently test—and advise clients on—whether a development solution is best delivered through private sector (private finance and/or private delivery) while limiting public liabilities, and if not, whether WBG support for an improved investment environment or risk mitigation could help achieve the intended outcomes.<sup>11</sup> To further increase the scale of impact under the enhanced mission, the WBG will invest more in upstream analytical work and support to the business enabling environment; make the Cascade concept central to the country engagement cycle to inform diagnostics, country dialogue and programming; further develop joint programs to maximize the One-WBG approach; institutionalize joint WBG program pipeline reviews within countries; and revise instruments and approaches across institutions to scale up PCF.<sup>12</sup>

**Knowledge will continue to be central to the WBG’s comparative advantage.** The WBG produces essential analytics, data, and knowledge products that benefit the international community as well as client countries. This work forms the basis of policy dialogue, technical assistance, and reform at the country level, as well as advocacy

<sup>11</sup> Each WBG institution plays an unique role in the Cascade approach and the WBG’s impact is maximized when these roles are coordinated, selectively applied and collaboratively delivered: For instance, the World Bank supports the enabling environment work, de-risking private investment, funding hybrid PPPs and funding public projects, IFC works upstream to engage in regulatory reform and project preparation and funding and mobilizing capital into private enterprise and MIGA de-risks private investment.

<sup>12</sup> Private Capital Facilitation (PCF) covers Private Capital Mobilized (PCM) through private co-financing of WBG operations and Private Capital Enabled (PCE) by policy reforms and public sector investments supported by World Bank operations.

and standard setting at the regional and global levels. Knowledge will be even more important as the WBG supports clients to scale up impact on country outcomes while increasingly addressing global challenges. Core Advisory Services and Analytics (ASA) can be expanded to reflect the enhanced mission. Providing knowledge support and associated technical assistance to clients to enable evidence-based decision making can also encourage country action on global challenges. The WBG will continue to scale up its use of knowledge in projects, build local capacity in data and analytical skills, and ensure that global knowledge can be freely used by all.

**The WBG will continue to work through and convene its extensive network of partnerships for the SDGs.** Development is inherently about partnerships, including public and private, local, and global. IDA embodies this partnership, bringing together IDA Deputies and Borrower Representatives as well as public and private partners. Partnerships with other Development Partners will be essential to support countries to achieve their SDG goals and the WBG's enhanced mission, including the IMF, WTO, other MDBs, and the UN, as well as with international non-governmental organizations, civil society organizations, and the private sector. The WBG will focus on partnerships that have strategic relevance, drawing on the WBG's comparative advantage. Reflecting the enhanced mission, the WBG can convene country and regional thematic platforms around objectives targeting global challenges to enable public and private sector stakeholder partnerships.

*a. Enhancing the operating model: key directions*

27. **The operating model will be enhanced along four strategic directions, building on the key strengths of the WBG's current operational approach.** The WBG's core country-based model; the One-WBG and Cascade approach that reflect the strength of the Group; the commitment to work through an extensive network of partnerships to support countries to achieve their SDG goals; and capacity to deliver country and global knowledge, alongside its ability to mobilize large-scale financing, are key strengths of the WBG operating model on which the following enhancements can be built (see Box 2 for more detail).

28. **First, the WBG will support country development impact in ways that increasingly respond to and address global challenges.** A country's development challenges can originate not only at the country level but also at the regional and global levels; and a country's development trajectory can have an impact across borders. As such, a strong understanding of these connections is needed. The roll-out of CCDRs and the process of Paris Alignment are examples of this connection. These linkages also necessitate revising the programming of WBG resources at country level, through a reform of the Country Partnership Framework (CPF) and using analytics and financing instruments and approaches that connect project outcomes to global challenges. Results-based financing can be increasingly used to incentivize outcomes that contribute to both country and global challenges, such as to operationalize CCDRs; this can include providing concessional resources as incentives such as through the SCALE trust fund. MPAs can coordinate financing over time or across countries for cross-border issues, building on the successful COVID-19 response. IFC and MIGA can use platform approaches to support private sector clients to contribute to global challenges across countries. A specific proposal is to create WBG Global Priority Programs (GPPs, see paragraph 37), in which countries that choose to participate invest in country development outcomes that help deliver on selected global challenges at scale.

29. **A particular issue to connect country programs with global challenges is the need for concessionality and adjustments to allocation mechanisms.** Concessionality can be essential when country investments by the public and private sectors deliver benefits for other countries. Increasing support for GPGs will be substantially faster with additional concessionality – but this cannot come at the expense of concessional resources for IDA countries' development needs. While potential sources of concessionality are discussed in Section V, operational principles will also need to be developed to efficiently target concessionality. Allocation mechanisms also need to be reviewed, to ensure that they enable support to countries that matter most for global challenges. Results-based mechanisms can increasingly be used as an efficient way to target concessionality, such as through the SCALE trust fund. Questions of vulnerability could also be better factored into the eligibility for IDA and IBRD financing.

30. **Second, the WBG will decisively scale up and optimize for impact.** Given the delays in achieving SDGs and the urgency of responding to global challenges, WBG support needs to achieve results at scale. This can be done by increasing the financing resources that are available from the WBG and through co-financing (Section V) as well as through PCF and DRM (see below). On the operating model, the first step will be to ensure that country programming more systematically focuses on scaling impact. This will require enhancements to the One-WBG approach including more systematic prioritization of programs at the country level across the Bank, IFC, and MIGA, as the development impact of the WBG institutions can be more than the sum of its parts if country programs are better coordinated and utilize the full suite of WBG financial and advisory instruments. The second step is to better integrate development knowledge into operations, both introducing existing evidence in project design and embedding learning and evaluation approaches into projects to generate new knowledge. A third step is to promote programmatic approaches, including through the proposed WBG GPPs. The WBG can also scale up support for subnational entities, in line with the Cascade approach: IFC and MIGA can increase subnational lending and guarantees on commercial terms; the Bank and MIGA can increase subnational lending with a sovereign guarantee; and the Bank can further support clients not yet able to receive finance on commercial terms, and increase support in other ways including engaging with clients on regulatory aspects.

31. **Third, the WBG must increasingly engage at the regional and global levels, complementing its country engagement.** As essential as country-based engagement is, economies of scale and coordination issues also require engagement beyond the country level, be it multi-country, regional, or global. The WBG can engage in strategic regional and global partnerships, such as with regional development banks and other organizations and regional platforms, to address regional development challenges. Areas of focus could include FCV contexts and cross-border issues such as river basins, regional climate adaptation approaches, regional power trading, and fisheries, which are often regional in nature. The WBG can also support global and regional standard-setting, working through partnerships to establish standards related to global challenges such as monitoring, reporting, and verification (MRV) protocols for carbon markets and disease surveillance networks. More global and regional data and analytics can also be developed, for example to establish interlinkages between different global challenges; this work could include the perspective of HICs where we intend to engage more systematically through analytical work and facilitate monitoring of global and regional issues. IDA has a Regional Window that has successfully created incentives for regional solutions to development challenges, and Management will continue working on proposals to create incentives for IBRD countries, noting this will require identifying a source of concessionality.

32. **Fourth, the WBG will strengthen its operational capacity for crisis response.** The enhanced mission recognizes that resilience and sustainability are important development goals in and of themselves. Recent years are a sad reminder that decades of development can be wiped out by crises. The WBG can strengthen its capacity for crisis response: (i) for country-level crises, making contingent and emergency response financing more systematically accessible and deployable across all countries; and (ii) for regional and global-level crises, by drawing on the lessons learned from the response to COVID-19. This can include further expanding existing products such as issuance of catastrophe bonds. The Bank could establish a fund to channel donor resources to pay debt service on behalf of clients for a period of time to create fiscal space to respond to loss and damage from a crisis, and is reviewing options for climate resilient debt clauses.

33. **Cutting across these strategic directions are two essential priorities: private capital facilitation (PCF) and domestic resource mobilization (DRM).** Development impact can be brought to scale by interventions through both governments and markets and doing so requires more resources – both public and private – to support countries’ efforts to achieve their SDG goals. PCF and DRM can also contribute significantly to addressing cross-border global challenges.

34. **The WBG will support private sector development and scale up its PCF by better engaging private capital providers and improving the enabling environment:**

- *Private capital enabling* is a key step with the aim to create a conducive environment for private capital to flow and comes through the proposals for strengthening core country diagnostics, stepped-up programmatic support including for upstream reforms, mainstreaming Cascade principles into CPFs, and contributing to the development of international standards.
- *Capital investment pipelines* are needed. Establishing WBG GPPs (see paragraph 37) and greater use of joint one-WBG programming can expand investable opportunities. SOEs can be supported to attract private capital. Advisory services and financing support can help sovereigns, subnationals, and private sector clients access sustainability, green, and blue debt capital markets. The WBG can also support ‘hybrid PPPs’ that provide public sector support to social or basic infrastructure projects to reduce risk perceptions and make private investment affordable and feasible.
- *Private capital connectors* enhance the supply of capital. On the domestic side, the WBG can increase its support to public strategic investment funds and to developing domestic institutional investors such as pension funds, insurance, and investment firms. It can scale up support to national development finance institutions. To facilitate cross-border private capital flows, the WBG will develop private co-financing and investment platform proposals (see below) and contribute to enhancing investors’ access to payment history for private sector projects in LICs and MICs through the Global Emerging Markets risk database (GEMs, Section V).

35. **The WBG will increase its support to countries to improve their DRM systems in ways that are fair, progressive, efficient, and sustainable.** The Bank can evolve its Public Expenditure Review (PER), a core diagnostic, to become a Public Finance Review (PFR) by including an assessment of DRM and providing policy recommendations on how fiscal space can be better generated. Increased support can also be provided to address illicit financial flows. The Sustainable Development Finance Policy (SDFP) can be used to incentivize DRM in IDA countries. The WBG can also use its convening power to work with partners in the public and private sectors on DRM issues, for example to advocate for developing countries in global and regional forums such as the Platform for Collaboration on Tax.

36. **The WBG will also continue to improve the efficiency of its internal operational processes and assess the resources required to enable its evolution.** Increasing internal efficiency and capacity will be critical to enable more efficient project preparation and responsiveness to clients in delivering on the enhanced operating model. The WBG has made significant progress in recent years: while Bank lending volumes and size of operations have increased, the time from concept to Board approval and the time from approval to first disbursement have both decreased, and COVID-19 health projects financed by the Bank disbursed almost ten times faster than other health projects. IFC has improved efficiencies with its fast-tracking approval of pandemic response projects through the Real Sector Crisis Response Envelope (RSE) facility and its updated Accountability and Decision Making (ADM). MIGA’s fast-track COVID-19 response program also enhanced efficiencies, with learning from the program informing productivity gains across MIGA’s business. Over the past decade or so, the WBG has also maximized available financial resources through tight budget discipline and an ambitious program of efficiency and economy of scale savings, and additional efforts are underway. Further efforts such as increased use of data tools to inform risk-based approaches, as well as additional staffing resources, are needed, however, to reduce transaction costs for WBG teams and clients and to scale up finance and impact, acknowledging that responsibilities to deliver on corporate commitments and adhere to well-respected standards add to the cost of delivery.

***b. Enhancing the operating model: proposals***

37. **To deliver on these strategic directions, an initial set of proposals will be advanced.** These proposals represent important first steps that can be taken as part of the WBG evolution and could become part of the work program of engagements between the WBG EDs and Management beyond the Spring Meetings.

- i. **Revamp core WBG country diagnostics.** Building on the experience of the CCDRs, the WBG will further invest in core country diagnostics, to ensure systematic country analysis of (i) the poverty, growth, and sustainability pillars of the enhanced mission and (ii) challenges to both public and private sector resource mobilization. More systematic analytical work on HICs and their role in and experience on global challenges will inform the WBG diagnostic. This will feed into country programming and policy dialog with country clients and inform strategic partnerships.
- ii. **Develop criteria for the selectivity of global challenges.** The WBG has been selective in addressing global challenges and GPGs in the past (Box 1). Criteria will be developed to continue to identify relevant global challenges to be selectively considered in the evolution process, with a process of periodic review to be able to adjust as new needs and priorities may arise in the future.
- iii. **Propose revisions to redesign the Corporate Scorecard.** Strengthened results targets in CPFs and a revamped Corporate Scorecard will better measure WBG contributions to supporting countries to achieve their SDG goals and to contribute to global development outcomes, in line with its enhanced mission.
- iv. **Pilot results-based financing terms within our suite of instruments.** Responding to a specific client demand, this pilot entails the buy-down of interest payments under a Bank lending agreement using grant resources once certain environmental performance targets are met. Subject to the availability of concessional funds, this pilot could be expanded to increase incentives for results related to global challenges, adding to the WBG suite of performance-based financing tools.
- v. **Seek opportunities to expand concessionality.** A primary option to explore is increasing funding for SCALE and the existing IBRD GPG Fund, which is fully integrated into the IBRD operating model and is unearmarked; Management could open the Fund to donor contributions with a clear focus on the selected global challenges of focus. An alternative option is to use a limited number of umbrella trust funds focused on GPGs. Concessionality can also come from co-financing from FIFs, bilaterals, or other IFIs (see below proposal on co-financing). The WBG will coordinate fundraising for concessional funds for GPGs, even when such funds will be deployed through separate vehicles for private sector and public sector uses. The WBG will also work with donor capitals to explore optimizing and redirecting existing Trust Funds and FIFs.
- vi. **Expand the crisis response toolkit.** The WBG intends to *increase country access to contingent financing for disaster response*. This can include expanding use of catastrophe deferred drawdown options for Bank borrowers; establishing disaster preparedness MPAs with contingent emergency response phases; and enabling more efficient repurposing of undisbursed funds in a country portfolio for immediate disaster response. IFC and MIGA can adapt and expand lending and guarantee instruments to back working capital, liquidity support, and other products that support private sector clients that are impacted by crises. The WBG can also *establish a playbook for WBG Day One Emergency Response (DOER) to respond to crises at the global level*, drawing on lessons from the WBG's global COVID-19 response. This would identify and put in place the preparatory steps to be ready to activate an emergency response plan as soon as a relevant crisis occurs.
- vii. **Sharpen instruments across the WBG to mobilize private capital.** IFC and MIGA will seek opportunities for a joint product using MIGA's political risk insurance to cover certain IFC clients (B-Loan participants) to support private-sector financing in long-term projects where perceived political risk is high. MIGA will augment its Breach of Contract coverage to further crowd in new institutional investors to LICs and MICs. Guarantees will be enhanced, including using IBRD and IDA guarantees to support risk-sharing facilities for climate-smart investments, in situations where IFC and MIGA's commercially priced products to financial intermediaries cannot be utilized;

expanding MIGA guarantees to cover risks related to carbon rights; and seeking to manage Bank guarantee exposures through the private insurance market (without diluting the Bank's preferred creditor treatment, which may require concessional funds given the Bank's low lending rates).

38. **Beyond these initial steps, WBG EDs and Management will also further explore the following avenues.** These represent steps with significant potential to enhance the operating model, but which will benefit from further analysis, development, or consultation.

- i. **Broaden country programming.** CPFs could include a standard 'Global and Regional Challenges' section and more explicitly build programming around resilience, inclusion, and sustainability, drawing on the revamped core WBG diagnostics. New CPFs should also bring a more systematic, upstream strategic engagement across WBG institutions to emphasize the attention to PCF, drawing on the Cascade approach with a dedicated approach to scaling impact.
- ii. **Improve learning from projects and deploy this knowledge to improve development impact.** The WBG has deep expertise in using data and experiments to inform operational decisions and improve project design and implementation by building local project management and analytical capacity. Small investments in learning and impact evaluation can generate large increases in operational impact. The WBG can systematically expand investments in learning and evaluation to increase the scale of results that can be achieved with its financing.
- iii. **Bring to the Board a proposal to pilot a few WBG-wide Global Priority Programs (GPPs) that contribute to mitigating global challenges.** A GPP would provide a framework for a set of objectives and targets in a thematic program area, combining WBG instruments and expertise following the Cascade approach, which can be deployed across countries based on client demand. Selection would be based on strategic priorities and WBG GPPs would be launched where there is a critical mass of countries interested and a potential for more to join, with a coverage across regions. GPPs must remain fully based in the WBG country-based model, and countries would choose to participate in the GPP based on their domestic priorities, using their IDA/IBRD envelopes, IFC and MIGA financing, as well as private capital resources mobilized or enabled by WBG interventions. Further details on these GPPs, including a joint WBG methodology for selection of the themes and implementation details, will be developed.
- iv. **Extend incentives for regional projects to IBRD countries.** IDA has experience with its Regional Window to develop regional projects, while IFC and MIGA can use platforms and regional firms, as well as their existing balance sheets, to support regional transactions in both IDA- and IBRD-eligible countries. IBRD will explore a proposal to extend these incentives to IBRD countries.
- v. **Develop concessionality principles for IBRD countries.** IDA has well-established principles for concessionality for LICs, which must retain top priority. IFC and MIGA pioneered the development of private sector blended finance principles and continue to lead DFIs in disclosure and transparency. Increased concessionality will also be needed to accelerate the focus on GPGs and attract more private capital in MICs. More work will be needed to define concessionality principles, for the public sector in IBRD countries, likely around minimum concessionality, development impact, simplicity, value for money, and transparency. For the private sector, IFC and MIGA are exploring options to broaden the scope of blended finance to include projects requiring longer paths to commercial viability or higher subsidy levels. The WBG will also continue to innovate on the IDA PSW, which will be reviewed at the IDA20 MTR.
- vi. **Introduce an IFC warehouse securitization facility.** IFC is developing a new project warehousing and securitization platform (the Warehouse-Enabled Securitization Platform, WESP)

that can be implemented to unlock institutional capital for development finance at scale. This facility would create a bridge between assets originated by MDBs/DFIs and institutional investors, facilitating access to their deep pools of long-term capital and shifting the MDB/DFI business approach towards ‘originating to distribute’ investments and balance sheet recycling.

- vii. **Consider vulnerability in eligibility.** Reflecting the growing impact of cross-border challenges, notably climate change and in particular on small states, Management will review options to factor in vulnerability for IDA/IBRD eligibility, subject to prudential risk considerations.
- viii. **Develop co-financing platforms for public sector operations,** in partnership with MDBs and bilateral development partners (see Section V). More broadly, the WBG EDs and Management will review how partnerships with other institutions can be strengthened toward delivery on SDGs.
- ix. **Develop PCM co-financing funds for IBRD countries, with private capital providers co-lending to projects that are prepared and financed by the Bank on blended finance terms.** In order to enhance the affordability of financing provided by the PCM fund as well as better meet investors’ investment appetite, the platform would require first-loss support from donors.
- x. **Develop a multi-donor replenishable trust fund for private sector concessionality for GPGs.** IFC and MIGA are exploring the development of a multi-donor trust fund to provide concessional funding for private sector operations.

39. **With these proposals, the WBG operating model would be strengthened to scale up its response and impact.** The first group of actions proposed have been discussed with the WBG EDs, who expressed general support. Management will advance their development now, continuing the close engagement with the Board to provide updates, seek guidance, and request approval as appropriate. Other actions require additional consideration, and Management will explore them further in close consultation with the Board with the aim to have an update and potential proposals following the 2023 Spring Meetings. This includes proposals on the elements needed to put in place the administrative incentives to realize the ambitions of the evolved WBG.

**Table 2: Proposals to evolve the WBG operating model**

For initial development	To be further explored
WBG EDs and Management to engage on proposals to: <ul style="list-style-type: none"> <li>- Revamp core WBG country diagnostics (with emphasis on Cascade principles, PCF, and DRM)</li> <li>- Develop criteria for the selectivity of global challenges</li> <li>- Propose revisions to the Corporate Scorecard</li> <li>- Pilot results-based financing terms for Bank loans</li> <li>- Explore new sources of concessionality, such as SCALE, opening the IBRD GPG fund to donors, and optimizing trust funds and FIFs</li> <li>- Expand the crisis response toolkit</li> <li>- Enhance Bank and MIGA guarantees and joint IFC-MIGA products to mobilize private capital</li> </ul>	<ul style="list-style-type: none"> <li>- Propose revisions to the CPF to reflect country priorities and global challenges</li> <li>- Explore additional use of learning and evaluation mechanisms for WBG operations</li> <li>- Proposal to pilot WBG GPPs</li> <li>- Proposal for incentivizing regional projects through IBRD</li> <li>- Develop concessionality principles</li> <li>- Develop an IFC warehousing and securitization facility</li> <li>- Consider vulnerability in IDA/IBRD eligibility</li> <li>- Develop a co-financing platform for public sector operations, in partnership with MDBs</li> <li>- Develop a private capital mobilization co-financing facility for the WBG</li> <li>- Develop a multi-donor replenishable trust fund for private sector concessionality for GPGs</li> </ul>

## V. Meeting Financing Needs for an Enhanced WBG Mission

40. **To deliver on an expanded mission and a strengthened operating model, the WBG’s financial model will continue to adapt, and its financing capacity needs to be increased substantially, including to continue its countercyclical role in responding to future crises.** Increased financial capacity will be required across the WBG. Additional concessionality will likely be required to increase the focus on GPGs, including incentives for IBRD borrowers given the externalities of GPG investments. This represents a significant change to IBRD’s financial model and reflects the need for blended finance for the private sector. These concessional resources will have to be additional and cannot come at the expense of fighting poverty and inequality. Adequate firepower must also be available to respond to the next global crisis. Although some enhancements to the financing models of IFC and MIGA<sup>13</sup> will be needed, such as to increase concessionality for investments that contribute to global challenges, core financing capacity of IFC and MIGA is aligned with their current needs. While IFC’s capital adequacy position has improved in recent years, due primarily to the fall in private investment during the pandemic, capital encashments and rebalancing of the equity portfolio, as IFC steps up financing on climate and GPGs, a steeper increase in lending would mean reaching capital adequacy limits earlier.<sup>14</sup> The World Bank financial capacity faces significant constraints, however, mainly due to the large Bank role in the significant countercyclical response the WBG provided since 2020, and hence options in this section largely focus on IBRD and IDA.

41. **The Bank has a long track record of Balance Sheet Optimization (BSO) and financial innovations to build on in the current evolution, while safeguarding long-term financial sustainability.** A range of options can be pursued to further adapt the Bank’s financial model and increase financing capacity, including enhancing allocable net income, and drawing on the Capital Adequacy Framework (CAF) review panel’s recommendations (G20 Panel Report, 2022). Members have continued to express very strong support for the principles of increasing financing for development while ensuring the Bank’s triple-A ratings, Preferred Creditor Status/Treatment (PCS/PCT), and long-term financial sustainability. Initial measures discussed with WBG EDs to enhance IBRD’s financing capacity are summarized in Table 3.<sup>15</sup>

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<sup>13</sup> Recommendations of the G20 CAF Panel Report also include further utilization of MIGA’s financial model for achieving increased overall capital efficiency across MDBs. In addition, the WBG is exploring structures to free up IBRD capital by refinancing SOE debt through the use of MIGA guarantees and reinsurance.

<sup>14</sup> At the time of the capital increase discussions with the Board in 2018, it was anticipated that IFC would rapidly use its capital after the encashment period, currently projected to end in FY25, and to get close to its capital adequacy threshold by FY30. This baseline reflected growing commitment volumes and a shift to higher-risk products and markets; the baseline projection is subject to uncertainty, given the risk profile of IFC’s business model and its exposure to macroeconomic and financial volatility. A steeper increase in commitments reflecting new directions as part of the evolution would lead to faster use of capital, so that IFC would reach its limits earlier than FY30.

<sup>15</sup> In addition, a mapping of the G20 CAF Panel’s recommendations is presented in Annex 2.

**Table 3. Illustrative Impact of IBRD Options<sup>16</sup>**

(Figures under scenario 1 and 2 for the different options are mutually independent and do not represent two potential ‘packages’ of options)

	Options	Illustrative Timeline	Illustrative Impact on IBRD Cumulative Lending Capacity over 10-year Horizon (US\$ billion)	
			Potential Scenario 1	Potential Scenario 2
1	Risk Transfer: Increase Shareholder Guarantee Limit	FY23	5 <sup>1</sup>	10 <sup>1</sup>
2	Risk Transfer: Additional MDB Guarantee/EEA	FY23	0.5	1
3	Review Feasibility for a Prudent Reduction in Minimum E/L Ratio	FY23	40 (If 1 percentage point reduction)	
4	Hybrid Capital: Capital Market	FY23-24	6 (If \$1b issuance)	12 (If \$2b issuance)
5	Hybrid Capital: Shareholder	FY23-24	30 (If \$5b issuance)	60 (If \$10b issuance)
6	Alleviate SLL Constraint (Articles Amendment)	FY23-24	N/A	N/A
7	Callable Capital: Enhanced Form	FY23-24	Enhanced callable capital could provide additional leverage. To be discussed with shareholders and rating agencies	
8	Potential Further Revision of Minimum E/L Ratio	FY23-24		
9	Increase in Loan Pricing		5 (If 10 bp general price increase)	10 (If 20 bp general price increase)
10	Capital Increase <sup>2</sup>		50 (If \$5 billion paid-in component)	100 (If \$10 billion paid-in component)

Notes:

1. This assumes \$5 billion and \$10 billion guarantees from triple-A donors. Guarantees from donors rated lower than triple-A would have less impact on IBRD’s overall lending capacity.
2. Assumes a 5-year subscription period.

**a. Agreed steps to enhance IBRD’s financing capacity (up to US\$50 billion in additional capacity over 10 years; see Table 4)<sup>17</sup>**

42. **Revise the minimum equity-to-loan (E/L) ratio.** IBRD’s capital adequacy framework centers around a Board-approved minimum E/L ratio, which ensures that the financial and operational risks the IBRD assumes in pursuit of its development mandate do not exceed the Bank’s risk bearing capacity. Management has reviewed the feasibility of a prudent reduction in the minimum E/L ratio via a higher shareholder risk appetite for call on callable capital and greater reliance on the ‘uplift’ for callable capital provided by rating agencies, while continuing to protect IBRD’s triple-A rating and long-term financial sustainability. Based on feedback from WBG EDs, a proposal on lowering the minimum E/L ratio from 20

<sup>16</sup> An additional option that could enhance IBRD’s capacity, namely reducing external income transfers (mainly to IDA), would be inconsistent with WBG solidarity with the poorest given the adverse impact of reduced IDA transfers on IDA’s financial capacity.

<sup>17</sup> Three steps – discussed in paragraphs 42, 43, and 44 – have been extensively discussed with IBRD’s Executive Directors and have received broad support. These measures are proceeding through final discussion and approval processes as this paper is being finalized and circulated and are expected to be acted upon before or around the time of the Spring Meetings. The final specific measure in this section (paragraph 45) is under the purview of management, but was also discussed with the Executive Directors and received broad support.

to 19 percent is being presented to WBG EDs. The proposal balances enhanced financing capacity with increased risk of call on callable capital, while adhering to the principles of protecting IBRD's triple-A rating, PCT and long-term financial sustainability that have been strongly reaffirmed by WBG EDs. The proposal would enable the Sustainable Annual Lending Level (SALL) to increase by about US\$4 billion per year from FY24, or about US\$40 billion over the next 10 years.

43. **Proposal to alleviate the constraint due to Statutory Lending Limit (SLL).** IBRD's Articles of Agreement ("Articles") provides that "The total amount outstanding of guarantees, participation in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves, and surplus of the Bank." This is referred to as IBRD's Statutory Lending Limit ("SLL"). The SLL prescribes the maximum amount of Bank lending, stipulating that the total loan book (including guarantees) cannot exceed the Bank's total equity, i.e., the sum of paid-in capital, reserves, and callable capital. The SLL was put in place when the Articles were drawn up in 1944 and when the Bank was the first institution of its kind in the market, and has not been revised since then. The SLL is an overall leverage limit that is not sensitive to risk given the notional measures that feed into the limit. In contrast, IBRD's CAF is risk sensitive. IBRD's CAF is centered around a prudential minimum Equity-to-Loan (E/L) ratio that aligns maximum lending with IBRD's risk-bearing capacity as measured by on-balance-sheet capital (i.e., paid-in capital plus reserves, also referred to as Usable Equity). The SLL is currently projected to become more binding than the minimum E/L ratio in the medium-term financial planning horizon. At the request of the Executive Directors, management has prepared a draft Report from the Executive Directors to the Governors recommending that Article III, Section 3 be deleted from IBRD's Articles of Agreement and a draft Resolution for consideration by the Governors. Management will separately undertake a work program to assess treatment of maximum lending limit in IBRD's Capital Adequacy Framework.

44. **Hybrid Capital.** The term 'Hybrid capital' refers to subordinated debt instruments that include loss-absorption features similar to equity but without any voting rights. Management has explored the potential of issuing hybrid capital to enhance IBRD's financial capacity.<sup>18</sup> Two hybrid capital instrument options – one to shareholders and the other to the capital market investors – have been assessed, including how a potential hybrid capital instrument could be structured and implemented and its impact on IBRD financing capacity, loan pricing, and income. Notably, the capital market option is expected to incur a significantly higher cost (~ 250-300 bps) than IBRD's regular market borrowing cost and could hence result in a significant increase in the lending rates unless kept in relatively small size. Containing the adverse impact of higher borrowing cost associated with issuing hybrid capital would be of particular importance given shareholder concerns around increased IBRD lending rates. Management has prepared a proposal on the feasibility of the Hybrid Capital option, and is seeking the Board's authorization for a pilot capital market program for up to US\$1 billion over FY23/24. IFC is monitoring developments in the Bank's engagement with stakeholders, so that IFC could be well placed to issue hybrid capital in future, considering IFC's own situation and characteristics.

45. **Increased Risk Transfer.** Expanded shareholder guarantees and MDB guarantees and/or exposure exchange are the most feasible risk-transfer options that can be implemented in the near term to generate tangible results, while noting that (a) operations backed by guarantors rated lower than triple-A would still consume aggregate headroom, and (b) too large a guarantee program could dilute the Bank's un earmarked

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<sup>18</sup> Management has also examined the potential for incorporating grant contributions from non-members (e.g. private foundations). While legally feasible with potential for leverage similar to paid-in capital, the practical feasibility of the grant contributions from non-members depends critically on interest from non-member entities in providing grant contributions to IBRD (which would be recognized as income and add to reserves) without associated influence on governance.

business model. Specifically, IBRD will increase the limit for shareholder guarantees by US\$5 billion to US\$15 billion.

*b. Further BSO measures under consideration*

46. **Enhanced Callable Capital.** Lowering IBRD's minimum equity-to-loan (E/L) ratio from the current 20 to 19 percent leads to a greater reliance on IBRD's callable capital in supporting IBRD's triple-A rating, to the extent allowed by rating agencies. Analysis of the terms, conditions, and limitations of IBRD's callable capital highlights the lack of operational utility of callable capital given its objective and structure of protecting bondholders in the event of an insolvency. Management has also discussed the option of an enhanced form of callable capital, which allows capital to be called for supporting operations with clear triggers, timelines, and procedures for a call on capital. Two potential mechanisms for enhancing IBRD's callable capital were explored, namely (a) retrofitting the existing callable capital stock on a voluntary basis, and (b) approving a new callable capital increase with more flexible and well-specified terms.

47. **In the coming months, the Bank will continue to work on the potential mechanisms for enhancing IBRD's callable capital in consultation with shareholders and rating agencies.** This will include, under the mechanism of retrofitting existing callable capital, exploring the feasibility of recognizing any amounts paid in by a shareholder (as a result of a call on their enhanced existing callable capital) towards that shareholder's contribution at the time of a future capital increase.

48. **Hybrid Capital for Shareholders.** Management will continue to develop specific shareholder hybrid capital options with interested shareholders, including the potential for channeling excess Special Drawing Rights (SDR).

49. **Additional Risk transfer.** The Bank will also seek additional opportunities for MDB guarantees or exposure exchange. In addition, Management is exploring the potential for a portfolio guarantee platform.

50. **Further utilizing MIGA's financial model for overall capital efficiency.** The G20 CAF Panel has recommended that, to expand lending headroom at MDBs, MDBs collaborate with MIGA to transfer their sovereign credit exposures to MIGA's balance sheet. MIGA's preliminary technical review of the recommendation indicated that its capital charges were less for comparable exposures and maturities in light of MIGA's diversified portfolio and use of private reinsurance, and could result in overall lower MDB system-wide capital usage. The review also pointed to the large pricing differential at the portfolio level between MDBs' non-commercially priced sovereign loans and MIGA's risk-adjusted pricing, with the result that MDB sovereign loan pricing could limit MIGA's ability to reinsure these exposures in the private market.<sup>19</sup> Moreover, while MIGA has explored the design of a highly selective MDB sovereign portfolio that could overcome some of the structuring considerations, the result could leave MIGA highly constrained to fulfill its mandate to de-risk foreign direct investment. In addition, the WBG is also exploring structures to free up IBRD capital by refinancing SOE debt through the use of MIGA guarantees and reinsurance. MIGA will further examine the G20 CAF recommendation, alongside the broader WBG proposals, that could enhance the capital efficiency of the MDB system, while taking into consideration MIGA's ability to deliver on its core mandate.

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<sup>19</sup> Additional structural impediments to the viability of the risk transfer recommendation include: the potential volumes and risk levels of exposures transferred, MDB credit rating implications, availability and cost of private sector reinsurance, effect on risk management frameworks, statutorily constrained subrogation upon default and recovery processes and preferred creditor treatment effects.

### *c. Beyond BSO measures*

51. **In IBRD's financial model, increasing loan pricing and a capital increase remain the traditional levers for increasing financing capacity.**<sup>20</sup> With regard to increasing IBRD's loan pricing, clients are concerned about increasing borrowing costs. Management discussions with WBG EDs considering this have noted: (i) the importance of IBRD pricing being lower than countries' ability to raise market borrowings for supporting the Bank's preferred creditor treatment (a crucial component of its financial model) and for borrower debt sustainability; (ii) IBRD's loan pricing relative to other MDBs is also on the higher end compared to other MDBs, following several loan pricing increases since 2009; (iii) further pricing increases would be inconsistent with an increased focus on GPGs; and (iv) the significant increase in IBRD's all-in lending rates in recent years, driven by the rising interest rate environment, is already pushing up borrowing costs for IBRD borrowers. In light of these concerns, there is no appetite from our shareholders at this stage for a price increase as a way to enhance IBRD's financing capacity.

52. **A capital increase – with due consideration for sequencing – remains the most powerful mechanism for increasing IBRD's financing capacity, with each US\$1 of paid-in capital enabling US\$10 of additional lending over a 10-year period.**<sup>21</sup> Any consideration of a capital increase – given the associated fiscal cost to shareholders – would be subject to careful sequencing relative to BSO measures that can further stretch existing resources, as well as progress on measures to enhance the WBG's operational model. However, given the importance of the Bank stepping up its support to clients on poverty and inequality, doing more on global challenges, and keeping adequate firepower for responding to the next crisis, the enhanced capacity based on BSO measures alone will not be enough relative to the vast needs of client countries, even after factoring in significant gains from PCF and DRM over the medium term. Furthermore, the strong signal of shareholder support associated with a capital increase could enable the Bank to go further in stretching its balance sheet and mitigating negative signaling effects of relying solely on BSO measures.

### *d. IBRD's financial model and concessionality*

53. **To the extent that IBRD is required to support projects that address GPGs in significantly increased volumes, the amount of grant resources required to buy down the IBRD price of the incremental GPG volumes to the targeted concessional levels could be substantial.** IBRD's cost-pass-through loan pricing approach, with no direct provision of concessionality, is central to its financial model's self-sustaining nature.<sup>22</sup> Indicatively, for each US\$1 billion IBRD loan, a 200-basis point buydown of the lending rate would require about US\$240 million in nominal terms, or US\$170 million in present value terms.<sup>23</sup> And such resource need for concessionality would likely be recurrent. To the extent the enhanced mission requires funding more projects with a significant asymmetry in incidence of costs and benefits associated with GPGs, concessionality will be required to incentivize borrowers to utilize a sizable portion

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<sup>20</sup> An additional option that could enhance IBRD's capacity, namely reducing external income transfers (mainly to IDA), would be inconsistent with WBG solidarity with the poorest given the adverse impact of reduced IDA transfers on IDA's financial capacity.

<sup>21</sup> The volume of commitments over a 10-year period enabled by additional paid-in capital is higher than the roughly 5:1 incremental exposure enabled based on the minimum E/L ratio, due to gradual disbursements associated with the IBRD commitments, income generated by this lending, as well as the partial loan repayments over the 10-year period.

<sup>22</sup> As a result of IBRD's self-sustaining model, capital increases are required mainly to address any shortfalls in IBRD's sustainable lending levels (on a given capital base) vis-à-vis the lending levels consistent with shareholder objectives and priorities. In contrast, IDA's core concessional nature requires ongoing replenishments to sustain its longer-term lending capacity.

<sup>23</sup> Indicative estimates, based on Investment Loan with average maturity of 15 years.

of their headroom for GPG projects, and mechanisms are needed to efficiently mobilize and manage additional grant resources.

54. **Mobilizing and managing additional grant resources could build on existing WBG mechanisms, such as expanding SCALE, opening a donor-replenished IBRD GPG Fund, and/or new contributions to selected Umbrella Funds.** The choice of which mechanism (or combination) would be appropriate for the objective of mobilizing grant resources for GPGs in IBRD would depend on the strategic and operational fit with the enhanced mission and operating model, as well as donor preferences. It would also be critical that augmented concessionality for IBRD-only countries and MICs more generally do not become available at the expense of the poorest countries. It is noted that, while the Bank manages a large volume of grant resources via Trust Funds (TFs) and Financial Intermediary Funds (FIFs), some of which are housed in the Bank, centralized and unfragmented contributions remain the best pathway for leveraging IBRD and IDA bond issuance programs. Further, the potential for Trust Funds and FIF resources to be redirected towards supporting concessionality for GPG projects in IBRD is constrained by donor priorities (in the case of TFs) and independent governance (in the case of FIFs). Enhancing the impact of contributions by TF and FIF donors will entail revisiting the current use of grants. Management stands ready to assist that dialogue within donor capitals.

*e. IDA financing capacity*

55. **The US\$93 billion financing package in IDA20, while strong, is now faced with the challenge to address multiple crises, mostly unanticipated and unplanned for when the IDA20 discussions were ongoing.** While the IDA20 replenishment included a focus on the core global challenges of climate change, pandemic preparedness, and fragility, the scale of their adverse impact has continued to intensify and compound, causing clients' crisis financing needs for addressing these challenges making it harder to get back on track to the SDGs. IDA's near-term capital position allowed IDA to support countries' frontloading of their IDA20 resources from FY24/25 to FY23. However, this implies significantly lower financing in the outer years of IDA20. IDA's financing capacity in the outer years of IDA20, i.e., FY24 and FY25, is projected to decline by US\$10 billion compared to FY23, to about US\$26 billion per year at a time of continuing crisis and elevated financing needs.

56. **The Bank is actively seeking to soften the decline in lending, with the aim of at least sustaining IDA's financing capacity for FY24 and FY25 at IDA20's originally planned annual level of US\$30 billion,** based on a number of building blocks that will require further consultations with IDA Deputies during the Spring Meetings, IDA20 MTR, and the IDA21 replenishment. These include:

- **Targeted fundraising, in particular the on-going proposal for a special Crisis Facility (previously known as SPURR).** The proposal for the Crisis Facility aims to address the impact of Russia's invasion of Ukraine on IDA countries, which have been severely affected through spikes in food, fuel, and fertilizer prices, as well as to provide additional support to Ukraine and Moldova. The Crisis Facility aims to leverage new donor resources using IDA's balance sheet through two dedicated channels – (i) for the support to Ukraine and Moldova (Special Program for Ukraine and Moldova Recovery or SPUR); and (ii) for the additional support to IDA countries' crisis response (CRW+), including strengthening the Early Response Financing (ERF) to support IDA countries to address food insecurity. Additional financing through CRW+ would also help soften the short-term cliff. For instance, an illustrative US\$4 billion of donor contributions would generate US\$6 billion of additional capacity for CRW+ (including boosting ERF by US\$1 billion), enabling increased financing to IDA countries by US\$3 billion p.a. if spread evenly across FY24 and FY25, or up to US\$6 billion in FY24.
- **Further measures for repurposing of resources in FY24-FY25,** with the aim of enabling additional volumes amounting to US\$1-2 billion per year for countries through recommitments of cancelled balances from projects that are low-performing or no longer a priority.

- **BSO measures to strengthen capital adequacy.** Besides traditional support via grants and CPLs from donors, Management will also explore the feasibility of adapting some of the measures being considered for IBRD, such as Donor Guarantees and Hybrid Capital, in a manner appropriate for IDA’s concessional model.

57. **Beyond IDA20, the deterioration in the debt situation of IDA borrowers is expected to result in IDA providing more grants and loans on more concessional terms than assumed during IDA20 negotiations.** This would have adverse implications for IDA’s longer-term financing capacity at a time when IDA needs to remain financially viable and strongly positioned to address client needs with the appropriate scale and concessionalism of financing given the substantial reversals in development gains as a result of the dire impact of the overlapping crises on the poorest.

58. **As part of the evolution discussions, Management will explore additional measures to enhance IDA’s long-term financial capacity** and seek preliminary feedback from IDA Deputies at the IDA Day during the Spring Meetings, with plans to discuss these options at the IDA20 MTR.<sup>24</sup>

*f. Other measures*

59. **Co-financing.** As a complement to private capital co-financing, public sector co-financing has the potential to be an efficient source of streamlined and increased funding including for emerging global challenges for IBRD and IDA. The Bank’s expertise, financing, country presence and engagement, and convening powers remain in high demand from existing and potentially new co-financing partners. There is also an opportunity to better align concessional financing with country needs, such as for climate or refugee related support. Co-financing also strengthens partnerships and entails working together with MDBs and bilateral development partners systematically. Given the vast scale of needs, as part of the evolution work program, Management will make a concerted effort towards maximizing co-financing via a well-coordinated, multifaceted response across multiple sources of finance and development actors including by adjusting internal and external incentives, increasing awareness, improving partner coordination, and adopting a more targeted approach that considers concessionalism and country context.

60. **GEMs Consortium.** The MDB Global Emerging Markets risk database consortium (GEMs), established in 2009, was set up to pool risk data from members and use this data to produce statistics that enable members to calibrate and enhance their risk management activities. The GEMs consortium has grown to include 25 members, mainly MDBs and development finance institutions, covering emerging markets and developing economies. It also enhances collaboration in the areas of regulatory compliance, discussions with auditors and ratings agencies, and in transparently assessing portfolio risks when third parties engage in risk transfer or co-financing operations with MDBs. IBRD, IFC and MIGA are active members of the GEMs consortium and have contributed or plan to contribute their risk data to enhance the value of the collaborative pooled risk database. The larger database relates to investments in private sector projects and projects with subnationals without public sector guarantees while the sovereign guaranteed lending database is more limited. As a founding member of the GEMs consortium, WBG is actively working with the GEMs consortium to move towards GEMs 2.0. To that end, the GEMs Steering Committee has endorsed a proactive agenda comprising engagement with investors, key data providers, and G20 members. The GEMs Consortium is working on the modalities of making data available externally with appropriate safeguards and quality standards with priority to private sector data.

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<sup>24</sup> In addition, as noted in the January 10 Technical Briefing “Discussion of Oliver Wyman Review of IDA’s Capital Adequacy Framework”, Management’s follow up on the review would be concluded by MTR and covered in the MTR discussions.

**Table 4: Proposals to evolve the WBG financing model**

Agreed steps (With estimated capacity impact over 10 years)	To be further explored <sup>25</sup>
<ul style="list-style-type: none"> <li>- Lower IBRD’s minimum E/L ratio from 20% to 19% (~\$40 billion)</li> <li>- Draft report from EDs to Governors to remove SLL from Articles and draft resolution for consideration by the Governors</li> <li>- Pilot program up to US\$1 billion for Hybrid capital issuance in capital markets (~\$6 billion)</li> <li>- Increase limit for shareholder guarantees from current US\$10 billion to US\$15 billion (~up to \$5 billion)</li> <li>- Present IDA Crisis Facility to Deputies at IDA Day in SMs</li> </ul>	<ul style="list-style-type: none"> <li>- Enhanced/Contingent callable capital</li> <li>- Hybrid capital to shareholders, including via channeling excess SDRs</li> <li>- Portfolio Guarantees and Guarantee Platform</li> <li>- Strengthen co-financing in Bank operations</li> <li>- GEMs: Modalities of making data available externally with appropriate safeguards</li> <li>- Sources of concessionality for GPG projects in IBRD and for private sector blended finance</li> <li>- Allocation framework for WBG concessionality for GPG projects</li> <li>- IDA options for strengthening longer term financing capacity (in consultation with Deputies at MTR)</li> <li>- Further utilizing MIGA’s financial model for overall capital efficiency</li> </ul>

## VI. Consultations

61. **In line with their existing commitment to transparency and accountability, the WBG EDs and Management have made a public commitment to an inclusive and open consultative process** (WBG 2022a). A range of development actors, including think tanks, policymakers, academics, IFIs, youth, civil society, faith-based organizations, influential individuals, as well as former leaders representing both client and non-client countries, have expressed keen interest in engaging with the WBG on its evolution.

62. **Over the coming months, Management and the WBG EDs will undertake consultations on this paper with a wide range of stakeholders.** To balance the need for stakeholder engagement and transparency with the deliberative nature of the process and to protect its integrity, there will be two modes of engagement:

- 1) **A First Evolution Forum**, which will take place during the Spring Meetings to engage a range of development actors across client and beneficiary countries. The Forum will be complemented with informal bilateral and other face-to-face meetings. We expect to subsequently hold a second Forum.
- 2) **Online Consultations** that will launch once the Development Committee paper is disclosed ahead of the Spring Meetings. The consultations will run for eight weeks. The online option will provide an opportunity for stakeholders to share questions ahead of in-person consultations and give international stakeholders, including from beneficiary countries in the global south, the opportunity to participate in the process.

## VII. Conclusion

63. **Urgent action to dramatically increase financing and impact is needed to respond to today’s development challenges, and the WBG must be at the center of the world’s scaled-up response.** Progress in reducing poverty and inequality has stalled, while the accelerating global challenges of climate change, pandemic risk, and FCV are hitting the world’s poorest the hardest. Current levels of global development finance are inadequate to respond to these needs, and urgent action is needed from all development partners to scale up the response. The WBG has a unique capacity to contribute to this scaled-

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<sup>25</sup> Several of these measures are subject to shareholder support.

up response, with its country-focused model, ability to mobilize and effectively deploy large-scale financing, and reach to public and private sector clients and partners around the world. It must evolve and scale up to help meet the world's development challenges.

64. **The proposed steps to be taken will substantially enhance the contribution of the WBG to addressing global challenges – but further transformative impact will require further action by the membership.** The WBG proposes an enhanced mission, enhancements to its operating model, and steps to expand its financial capacity. This builds on several months of intensive engagement between Management and the Board. The measures to strengthen IBRD's financing model have the potential to add up to a significant enhancement in the Bank's capacity, and these steps will enable the Bank to maintain its level of activities with IBRD countries. Still, given the huge gaps that exist between global needs and current amounts of development finance, the enhanced capacity would not be enough relative to the vast needs of client countries. Also, none of the proposed measures would be an additional source of concessionality, which is particularly needed to incentivize response to the many GPG elements of the current global challenges and to scale up blended finance for the private sector. Therefore, beyond these measures, an IBRD capital increase, increased IDA contributions including shareholder support for the IDA20 Crisis Facility, and donor contributions of concessional resources for WBG public and private sector operations will be the most efficient way to achieve the objectives of the enhanced mission.

65. **The WBG seeks Governors' endorsement of the proposed steps in its evolution, based on which it will continue consultations and development of the proposals.** Building on this and further consultations, Management and the WBG EDs will advance implementation and continue to develop further proposals to position the WBG to step up its contributions to addressing country and global challenges. The agenda will further evolve post-Spring Meetings.

66. **To advance this progress with the WBG evolution, Management and the WBG EDs have the following questions for the Governors to seek their guidance:**

- a) What are Governors' views on the direction and ambition of the new mission statement?
- b) Do Governors agree with the enhancements to the operating model, and are there specific improvements they consider as priorities?
- c) Do Governors 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?
- d) What do Governors expect by the 2023 Annual Meetings with regard to the WBG evolution, and do they support the proposed next steps for WBG Management and EDs to advance the agenda?

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## Annex 1: IEG Perspectives Related to the Evolution Roadmap<sup>26</sup>

**Country-based model<sup>27</sup>:** The WBG country-based model promotes a country-owned development agenda, based on strategic selectivity and learning, contributing to development effectiveness (as confirmed by high IEG ratings for World Bank financing operations). The country-based model has enabled strong WBG crisis responses building on existing relationships and financing instruments and the ability to reallocate funds from within the country portfolio and to allow faster approval of country projects (IEG 2022b). IFC also has programs and instruments with a precedent of success and rapid mobilization during crisis (IEG 2012). While national priorities do not always align with global and regional challenges and GPGs, the WBG has been able to successfully support issues where coalitions were broad and deep, and local co-benefits clearly identified (such as on polio, HIV/AIDS, river blindness, and COVID-19 responses) and also when concessional finance is available (such as on climate action and refugees and their host populations). The WBG country-based model has constrained its regional integration initiatives, as well as engagements on global issues, in part due to internal systems and incentives. The WBG could scale up global work, but this would require additional tools, processes and financing, including concessional to provide subsidies for GPGs and crisis situations. IEG concludes that the WBG's country-based model has worked well and any efforts to scale up the WBG's work on global and regional issues should preserve the strengths of the model.

**WBG roles in Convening, GPGs and Knowledge:** The WBG's comparative advantage gives it strong convening power on global and regional issues with evaluations confirming that WBG knowledge, global reach, and ability to link global issues with action in country programs make it a sought-after convenor on many topics (IEG 2020a). Scaling up WBG convening will require additional global engagement budgets (from either trust funds or the Bank's administrative budget); this work should ensure strong links between global efforts and country programs. The WBG would benefit from clear agreement on which GPGs the WBG is expected to lead on, what roles that leadership should entail, and on which GPGs other partner organizations should take the lead. There is little data on the extent of WBG financing to support GPGs, although many WBG operations likely make substantial contributions to global and regional public goods. Increasing this support will require concessional financing. Issues of governance and division of labor with existing funds should be taken into consideration. Advisory and analytics can be an important entry point to engage client countries on global issues serving to promote issues and agendas, help countries adopt best practices, and develop innovative solutions for delivering public goods (IEG 2022a). But this work requires substantial resources, both in terms of funding and people, and is heavily dependent on trust funds.

**WBG Outcome Orientation:** WBG CPFs frame their objectives in terms of outcomes (IEG 2020b), including those for global public goods. But WBG monitoring and evaluation (M&E) systems are often not able to capture targeted outcomes, especially for outcomes that are beyond project interventions or come from indirect development pathways including institutional development, capacity building, knowledge transfer, demonstration effects, and market creation. Changes in the development context that require an evolution of the WBG operating model will require changes in WBG M&E systems to better assess and achieve development goals through indirect pathways. Any changes to corporate reporting mechanisms relating to new priorities or GPGs should be "light-touch", and any additional indicators should be used to drive action within the WBG, rather than to provide data to contribute to external reporting systems. IEG recommends investing in M&E systems that support decentralized decision making, embedded learning, and adaptive management, as well as paying closer attention to evaluating sustainability and (climate) resilience through dedicated approaches. Potential solutions should use a mixture of evaluative methods and be linked to decision-making needs (rather than investing more in impact evaluations).

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<sup>26</sup> IEG prepared notes in 2023 on three topics related to the WBG evolution: the country-based model; WBG roles in convening, global public goods (GPGs), and knowledge; and the outcome orientation of the WBG.

<sup>27</sup> IEG suggests that 83 percent of World Bank operational budget over FY16-18 were conducted through country engagement (IEG 2020a).

## Annex 2: Additional Information on Estimates of Spending Needs

Any estimate of spending needs to achieve global challenges will inevitably be a rough approximation, and potentially represent an underestimate. The estimates presented here focus on the subset of climate and resilience, pandemic, and conflict. As we continuously improve our estimates, they may change over time. Figures quoted in this report are derived from the following considerations:

The *climate and resilience* component captures the infrastructure-related spending requirements for achieving the Sustainable Development Goals by 2030 and stay on track to limit climate change to 2°C. Specifically, this component measures the overall cost of achieving universal access to water, sanitation, and electricity; greater mobility; improved food security; better flood protection; and eventual full decarbonization. The cost estimates are taken from Rozenberg and Fay (2019).

The *pandemic* component provides an estimate of the spending requirements to reverse the physical and human capital losses experienced due to the COVID-19 pandemic. It includes an estimate of the spending needs to implement a preparedness plan to ensure effective and efficient response in future pandemics.

- **Physical public capital losses** are based on an estimate of foregone public investment during the pandemic. Because many governments are still in fiscal adjustment following the pandemic, the estimates are based on the proportional reductions in public investment observed during the Global Financial Crisis in the late 2000s, extrapolated by applying them to the latest available pre-pandemic data on public capital stocks.
- **Human capital losses** are based on estimates of the learning losses for school-aged population during the pandemic. Specifically, they measure the estimated budgetary cost required to remediate the years of schooling lost during the pandemic. This also includes a measure of the cost of restoring losses in early-childhood development during the pandemic.
- **Pandemic preparedness and response (PPR)** cost estimates are based on the joint report prepared by the World Bank and the World Health Organization for the G20 meeting in 2022. Modest investments in PPR capacities can prevent and contain disease outbreaks, thereby drastically reducing the cost of response and the broader economic and social impacts of a pandemic or large-scale outbreak. Such investments will also help address long-standing challenges that are key drivers of mortality today, including HIV/AIDS, tuberculosis, malaria and anti-microbial resistance.

The *conflict* component is based on the view that achieving satisfactory development outcomes is a key factor in reducing conflict and fragility. Defining “satisfactory development outcomes” as achievement of the SDGs, it uses spending needs estimates based on Kharas and McArthur (2019), as updated by them in 2022, for the 37 countries on the most recent World Bank list of Fragile and Conflict Situations. Based on their disaggregation across different SDGs, we remove items related to climate, infrastructure and resilience, to avoid double-counting the items in the climate and resilience category.

### Annex 3: G20 Panel Recommendations and Management Responses

Panel Recommendations	Management Response (IBRD) <sup>28</sup>
<b>1. Redefine the Approach to Risk Appetite in Capital Adequacy Framework</b>	
1A. Shift risk appetite definition toward shareholder-defined limits	Already reflected in existing framework; proposal to reflect increased risk appetite via lower minimum E/L ratio
1B. Ensure frameworks account for MDB-specific features	Already reflected in existing framework
1C. Relocate specific numeric leverage targets from MDB statutes	Draft report from WBG EDs to Governors to remove SLL from Articles and draft resolution for consideration by the Governors
<b>2. Incorporate Uplift from Callable Capital into MDB Capital Adequacy Frameworks</b>	
	Proposal of lowering minimum E/L ratio leads to greater reliance on callable capital “uplift” from rating agencies in supporting IBRD’s triple-A rating Enhanced form of Callable Capital discussed with EDs; Additional work will be undertaken on Enhanced Callable Capital with shareholders and rating agencies; see also item 3 D
<b>3. Implement Innovations to Strengthen MDB Capital Adequacy and Lending Headroom</b>	
3A. Endorse MDB consideration of non-voting capital classes (paid-in equity or hybrid) to contribute to available capital	Hybrid Capital Pilot for Capital Markets. Further work on Shareholder options
3B. Scale up the transfer of risks embedded in MDB loan portfolios to private sector counterparties by accelerating the development of funded and unfunded instruments	This applies primarily to private sector portfolios (such as IFC) For WB; Risk Transfer transactions such as EEA and guarantees already undertaken and new ones being structured.
3C. Encourage shareholder guarantees on loans related to cross-cutting priorities	Already being done by IBRD and potentially IDA. IBRD has increased its limit for bilateral shareholder guarantees from \$10 billion to \$15 billion; Portfolio Guarantee and Guarantee Platform to be discussed further with shareholders and rating agencies.
3D. Support collective shareholders commitments of pools of additional callable capital	Continue work with shareholders and rating agencies as under item 2.
3E. Support adaptation of MIGA’s products and reinsurance capability to partially transfer portfolio level risk from MDB portfolios	Currently being explored by MIGA, in partnership with other MDBs. IBRD has done transactions with MIGA and can do a few more as mutually beneficial opportunities arise but these will be limited in scale.
3F. Consider ways to provide MDBs access to central bank liquidity	Will support shareholders if there is interest
<b>4. Assess CRA Methodologies and Engagement</b>	
	Will continue to collaborate with other MDBs and CRAs; GEMs Consortium is working on how to make data available with appropriate safeguards.
<b>5. Improve the Enabling Environment for Capital Adequacy Governance</b>	
	Will continue to collaborate with other MDBs

<sup>28</sup> IFC is responding to the CAF Review recommendations to implement innovations to strengthen MDB capital adequacy and lending headroom. While some of the recommendations of the CAF Review (e.g., on callable capital or preferred creditor treatment for sovereign lending) are not intended for IFC, IFC’s capital adequacy framework has been externally reviewed and validated; the most recent capital adequacy framework was presented to the Audit Committee as part of the annual Finance and Risk Management paper in June 2021. IFC continues to look for opportunities to mobilize outside sources of capital to ensure efficient capital deployment.