

WORKING PAPER #181

THE TRILLION-DOLLAR BANK: MAKING IBRD FIT FOR PURPOSE IN THE 21ST CENTURY

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Executive Summary

The World Bank Evolution Roadmap is being developed at a critical moment in time. Developing countries have been hit by the unprecedented impact of the COVID-19 pandemic and the Ukraine war, with loss of fiscal buffers, increased indebtedness, and erosion of creditworthiness, leading to a decline in growth prospects and leaving them exposed to further crises. Progress on poverty reduction has been arrested and most developing countries are off track on most of the sustainable development goals (SDGs). There is also growing recognition of the need to respond more effectively to pressing global challenges including climate, fragility, and pandemics. Developing countries will be the most adversely hit and have much more limited capacity to respond to the impacts of climate change. Excluding China, they could account for more than 50 percent of global greenhouse gas emissions (GHGs) by 2030. They are home to the greatest biodiversity and forest coverage in the world. The lives of all 8.5 billion people living on the planet in 2030 will depend significantly on what happens in developing countries. Sustainable development is today an imperative for all.

Against this backdrop there has been an ongoing and vigorous reflection on an appropriate global response and implications for the multilateral development bank system with a focus on the World Bank. The paper prepared by World Bank Management for the Development Committee sets out this context and makes proposals on a way forward for the World Bank based on discussions in the Board.

The World Bank Board has proposed an enhanced formulation of the World Bank mission: “To end extreme poverty and boost shared prosperity by fostering sustainable, inclusive and resilient development.” The roadmap proposes that the World Bank Group will “continue its support to countries’ efforts to achieve the 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.” It proposes a major push in three directions: (a) scaling up impact for good development outcomes and countries; (b) tackling cross-border challenges; and (c) preventing, preparing and responding to crises.

This is a fundamental and timely shift but the scale and urgency of the response that is now needed must be clearly recognized and acted upon. As the latest IPCC assessment makes clear, the pace of climate change is faster than we had anticipated and delay on climate action will be deeply dangerous. We not only risk irreversible damage to climate and nature but setting back progress hugely on development and poverty reduction. On the other hand, strong climate action can unlock the growth story of the 21st century, one that is more sustainable, inclusive, and resilient than the harmful and wasteful growth model of the last century. Developing countries are well poised to exploit these new opportunities given that so much of their infrastructure has yet to be built.

We have made the case through a body of analytical work, together with colleagues, that what is now needed is a big and sustained investment push on sustainable development in developing countries—to drive a strong recovery from the present crisis, to restore momentum to the SDGs, and to ensure that we can keep climate and nature goals within reach. These investments should rise to \$5.9 trillion by 2030, compared to \$2.4 trillion in 2019. About one-half the incremental investments will be needed for climate action, and the remainder for the rest of the SDGs. Most incremental finance will need to come from domestic sources, but at least \$1 trillion in annual incremental external financing will be needed.

The World Bank Group, together with the rest of the MDB system, has a central role to play in supporting countries both in the realization of the necessary investments and in mobilizing the required scale and right kinds of finance. Within the World Bank Group, the role of IDA remains vital given the extremely difficult circumstances and the pressing needs of low-income and fragile countries. The role of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) will also be crucial for harnessing the potential of private sector investment and finance. But it is IBRD that has to play the anchor role in the scaling up effort given the very large prospective needs across developing countries and its outsized ability to lead a major charge on sustainable development.

Given the major and urgent ramp-up that is needed on external financing, the International Bank for Reconstruction and Development (IBRD) should triple its sustainable annual lending to around \$100 billion per year, with a total loan exposure of \$1 trillion by 2030, as its contribution to the \$1 trillion in needed annual financing.

How can this be done?

First, the World Bank needs shareholder support to expand its mission and vision to embrace an ambitious agenda of a big investment push as a crisis response, and for SDG attainment and climate action. Shareholders must assess the scale and pace of any proposed response against the scale and urgency of what needs to be done.

Second, IBRD must be able to meet the needs of all clients—low income, lower middle income, and upper middle income. The relative scale of support for SDGs and climate action will be larger for low-income countries, much of which will continue to come from IDA. But the Bank must act to reverse the diminishing relevance of IBRD in upper middle-income countries, and anticipate future needs of low-income countries.

Third, the World Bank needs to put scaling up of investment for transformational change at the center of its country-based model. It must foster scalable approaches through advisory work on the enabling environment (domestic resource mobilization, subsidy reform, public investment management capabilities, debt management, regulatory frameworks) and through a shift from project-by-project activities to results-based programmatic support. In particular, it must seek to support countries with their key transformations including energy, transport, cities, water, digital,

agriculture, and nature within an overarching strategy of sustainable, inclusive, and resilient development.

Fourth, the scaling-up imperative warrants stronger partnerships with other stakeholders, in countries as well as regionally and globally. The Bank should encourage and proactively support country-led platforms on priority goals such as the just energy transition partnerships. It must foster and support enhanced partnership at the global and regional levels to both give impetus to country-level action and to strengthen the global development finance system.

Fifth, the Bank should play a leading role in working with the private sector and other stakeholders in constructing a new highway for private finance. This is much more than mobilization ratios. It will entail the co-creation of investment opportunities, tackling impediments in the investment climate, development of investment pipelines, supporting local market development, effective risk mitigation instruments deployed at scale, and blended finance to reduce cost of capital. This will also mean developing and utilizing the strengths of all parts of the World Bank Group including IFC and MIGA as well as of the Global Infrastructure Facility.

Sixth, IBRD will need to strengthen its finances to respond at the suggested scale. The ultimate litmus test of the seriousness of any evolution roadmap will be shareholders' willingness to provide fresh capital. Of course, more can and should be done to optimize balance sheets, following the recommendations in the G-20 Capital Adequacy Frameworks report. Hybrid capital options also offer potential, but shareholders must be willing to signal to markets and credit rating agencies that they stand fully behind the IBRD. Guarantees on various tail risks can be provided in specific ways but paid-in capital provides the overall umbrella to safeguard the institution. Concessional finance can provide a powerful catalyst for action in low income and middle-income countries alike. It should expand along with non-concessional lending in order to incentivize investments with global benefits and in solidarity with low-income and vulnerable countries.

Many of the ideas discussed in this working paper are included in the draft Evolution Roadmap issued by the World Bank for discussion during the Spring Meetings. This paper is sharper in identifying an investment push as the core strategy to reach the SDGs and climate goals. It also advocates for a stronger results-based framework, starting from identifying the advisory and financial inputs required to achieve quantifiable targets, at global and individual country levels, and then using financial instruments to support those results. This is how we develop a sense of the scale of the evolution required—an IBRD of \$1 trillion by 2030. We bring into sharper focus the need to make IBRD more relevant in upper middle-income countries if global challenges are to be addressed.

We are also clear that while some things can be done to improve the World Bank's financial situation in the short term, the decades-long program of investment that is anticipated will

require a far stronger source of sustainable financing. Without agreement on initiating a new round of capital increases, the evolution roadmap will have limited impact.

In this paper we focus on the practical steps that can help position the Bank to take a leadership role to sharply accelerate progress on sustainable development and climate with the scale and urgency that is needed. For this role to be effective and sustained, the Bank and its shareholders must follow through with governance reforms that are consistent with the economic and political realities of the 21st century. Our analysis and recommendations are summarized as a 10-point action plan for the incoming World Bank president.

I. The global context

The World Bank Development Committee has prepared a document—Evolution of the World Bank Group—for consideration by its Governors at the Spring Meetings in April 2023.¹ Because of the importance of the topic and the wide-ranging interest among nonofficial stakeholders, the World Bank (WB) management and directors have made a welcome commitment to transparency and accountability through public consultations.

This paper provides an input into the various stakeholder engagement forums at which multilateral development bank (MDB) reform will be debated in the coming months. It argues for an ambitious expansion of IBRD to become a \$1 trillion bank by 2030. Scaling up to this degree (roughly a threefold expansion) requires a change in the WB’s operational model, as well as in its finances.

Many of the ideas for how to reform are also contained in the WB’s own document. What distinguishes this paper is the sharp focus placed on: (i) a big investment push as the core lever for attainment of the SDGs and for meeting climate objectives; (ii) an early initiation of negotiations on a capital increase for IBRD, and for upgraded donor support for IDA, sized in relation to the ambitions expressed in the organization’s mission and vision; (iii) the need for IBRD to become impactful in upper middle-income countries; and (iv) the call for the WB to build a new highway for private capital mobilization.

The paper concludes with a 10-point plan that the new president could implement in his first 100 days that would send a strong signal that the evolution will indeed be transformational.

A critical moment in time

The discussion on the WB’s evolution comes at a critical moment in time. There have been seismic changes in the landscape in which international development agencies are operating, even in the five years since the last strategic discussion of IBRD in the spring of 2017.² Most developing countries today are off track on most of the sustainable development goals (SDGs). They have used their fiscal buffers, increased indebtedness, and lost creditworthiness during the pandemic, leaving them exposed to further crises. Excluding China, they could account for more than 50 percent of global greenhouse gas emissions (GHGs) in 2030. They are home to the greatest biodiversity and forest coverage in the world.

Consequently, the lives of all 8.5 billion people living on the planet in 2030 will depend significantly on what happens in developing countries. Sustainable development is today an imperative for all.

The way forward is to promote and finance a big investment push in developing countries. This would serve to strengthen their response to the COVID-19 crisis, to give fresh momentum to the

SDG agenda and to permit more ambitious climate action. Unfortunately, as shown in **Figure 1** below, the current trend in investment is for a slow recovery from the crisis, even slower than what was witnessed after the Great Recession. The widespread collapse of investment post-pandemic means that most countries remain in a phase of weak recovery, with legacy issues of high debt, out-of-school children, and deteriorated public infrastructure that need to be addressed.

Figure 1: Investment rates in developing countries collapsed in 2020



Source: Global Economic Prospects January 2023, Figure 3.3.A, which cites Haver Analytics; World Bank; World Development Indicators database
Note: Investment refers to gross fixed capital formation. On the x-axis, year zero refers to the year of global recessions in 2009 and 2020. Dotted portions of lines are forecasts

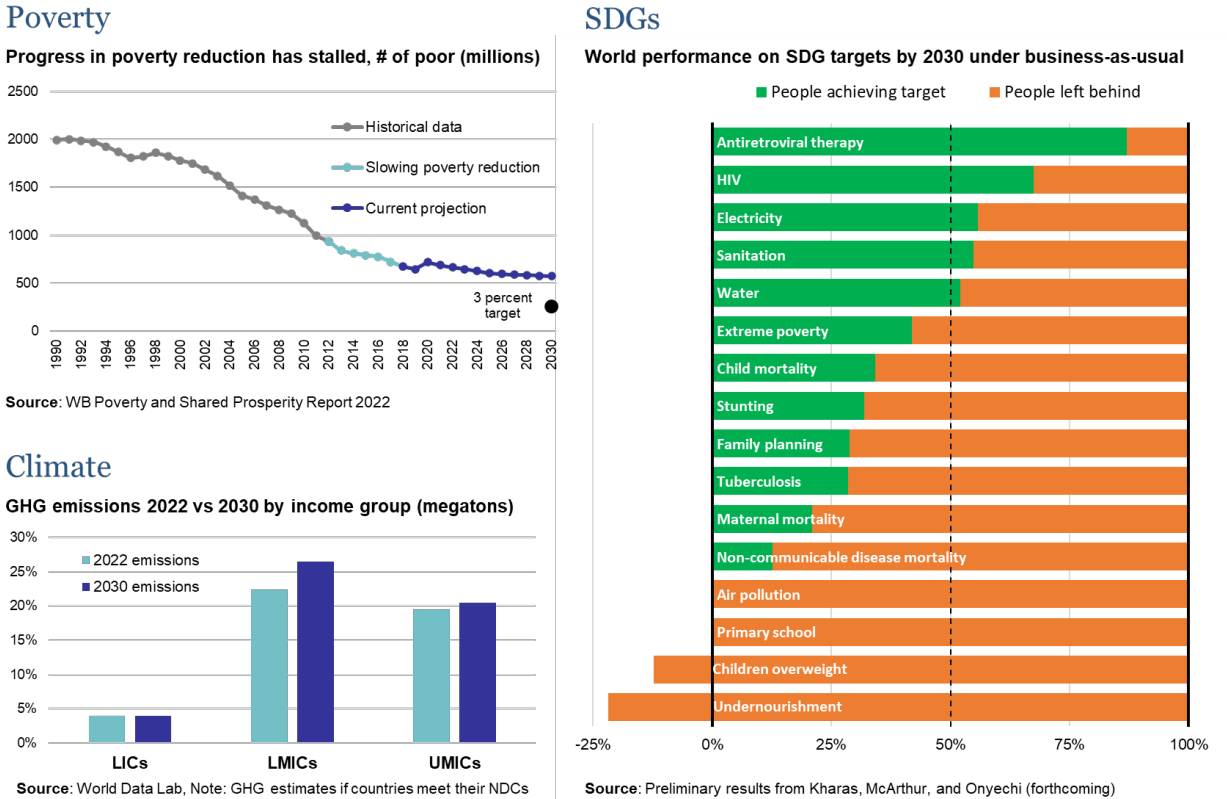
Partly because of the fall in investment, real per capita GDP levels in most developing countries remain below potential and, in many cases, below 2019 levels.

Slow recovery has occurred on top of disappointing trends on poverty, climate emissions and other SDG outcomes. In 2015, when global agreements were reached, there was an expectation of an uptick in the pace of development. Halfway through the SDGs, it is clear that most countries will not come close to meeting SDG targets under current trends. As shown in **Figure 2**, progress on poverty reduction has slowed to a crawl, most of the SDGs are off track, and the level of emissions from developing countries, excluding China, could keep rising even if they meet the targets set in their Nationally Determined Contributions (NDCs). None of these trends is acceptable.

Science tells us that climate action is needed at scale and with urgency, and this underlines the importance of supporting developing countries now. The logic is clear: Climate change is an existential threat for all countries and is impacting developing countries most seriously;

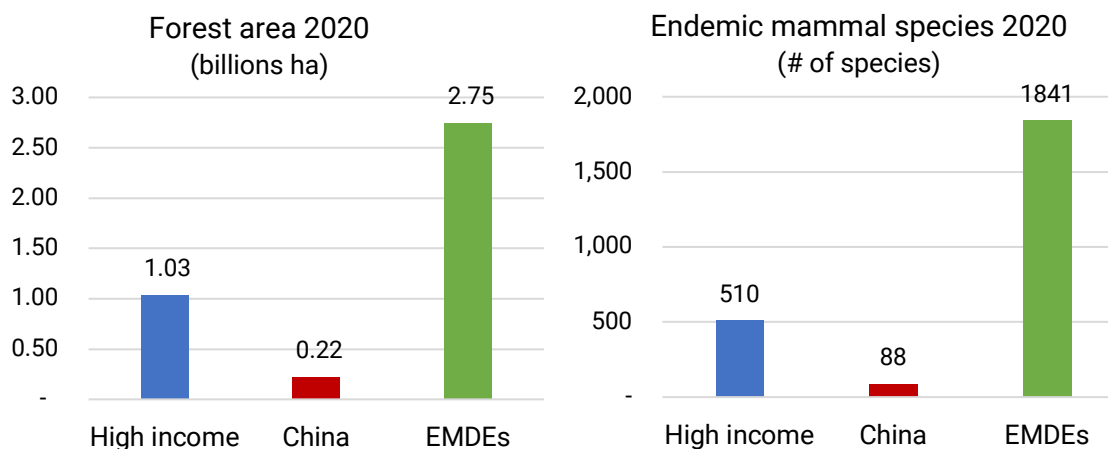
developing countries are key players in climate mitigation—even the smaller, non-G-20 emerging markets and developing countries (EMDEs) account for 20 percent of global GHG emissions now and will account for a far higher share by 2050; EMDEs will only adopt low carbon strategies if these support and accelerate broad-based economic development including climate adaptation. This means that economic development has now become a “must have” imperative instead of a “nice to have” issue.

Figure 2: Progress on poverty reduction, SDG achievement and GHG emission reductions is too slow



Climate is not the only global challenge. Most fragile and conflict-affected states are developing countries, and in 2023, the majority of people in extreme poverty live in fragile countries.³ The most need for global biodiversity protection is also within developing countries. **Figure 3** shows that three-quarters of the remaining forested areas in the world are in developing countries, and 80 percent of endemic mammal species, those which only exist naturally in one country.

Figure 3: Nature conservation and biodiversity preservation needs are concentrated in developing countries



Source: Our World in Data

The new growth and development opportunity: a big push on investment and growth

Action to accelerate progress on the reduction of poverty, fragility, conflict, emissions and to advance adaptation, resilience, nature conservation, and biodiversity preservation depends, in most cases, on new spending by governments and business alike. In developing countries, excluding China, these investments should rise to \$5.9 trillion by 2030, compared to \$2.4 trillion in 2019.⁴ About one-half the incremental investments will be needed for climate action, and the remainder for the rest of the SDGs.

However, the COVID-19 crisis has cut into fiscal space and has seriously affected public investment in developing countries. Growth headwinds for developing countries, including the globalization backlash, premature deindustrialization, catastrophic climate change, and nature destruction, are threatening the narrative of unconditional convergence that had started to gain traction since 1990 and point to the need for a fresh approach to development.

The global growth story of the 21st century is one driven by investment and innovation in green technology.⁵ The core idea is that within the next five years, green technologies for electricity production, light road transport, fugitive emissions, building heating, and food and agriculture will reach a tipping point where they will be competitive in a mass-market setting. The location of renewable energy sources will shift economic geography and value chains in a significant way. Developing countries can take advantage of these opportunities, but they will need to invest considerable resources to transform themselves into attractive green economies, while simultaneously adapting and building resilience to ongoing climate change and other external shocks, tackling all the other dimensions of sustainable development, conserving nature, and preserving biodiversity.

In the longer term, the adoption of green technologies for electricity can usher in an era of cheaper power, with easier access in remote areas, as compared to fossil-fuel generated electricity. Historically, access to power has been the lifeblood of development and economic growth.⁶ Just like mobile phone technology permitted a leapfrogging of people's access to telecommunications in developing countries, renewable technologies could make electricity available to the 775 million people in the developing world who currently have no such access and trigger economic growth in their communities.⁷

Achieving a green transformation will require investments at scale and in all countries. Estimates vary considerably by country, but the average incremental spending needs by 2030 could amount to 6.9 percent of developing country GDP.⁸ The estimates tend to be higher in low-income countries (LICs) compared to Lower middle-income countries (LMICs) or Upper middle-income countries (UMICs).⁹ Meeting climate action needs (mitigation, adaptation, and resilience) is complementary to the actions required to meet other SDGs, including the reduction of extreme poverty. Climate action is an opportunity for a new growth story that is faster, more sustainable, and more inclusive.

This is not simply rhetoric. It is based on the idea that a fossil-fuel powered development strategy has not delivered prosperity in most developing countries, partly because of the negative local effects of pollution on health and education outcomes, and partly because of the high cost and volatility of fossil fuels themselves. Furthermore, reliance on fossil fuels will become increasingly ineffective in a world where others are developing cheaper sources of power and where carbon border tax adjustment mechanisms are likely to be introduced, damaging international trade opportunities for those who do not have green energy.

The alternative big investment push strategy would generate higher economic growth and underpin domestic resource mobilization which, in turn, must become the main source of sustainable finance for all the SDGs. In fact, raising domestic budgetary resources through policy reforms and growth is the only way to sustain financing for programs with high social returns but no associated financial revenue streams, such as primary health and education, biodiversity conservation, and many adaptation and resilience programs.

There is a valid concern about whether the quality of spending in most developing countries is high enough to create high social returns. Meta-studies by IMF staff, summarizing the outcomes of 65 individual developing country simulations, suggests that the average efficiency of public spending remains sufficiently high that "a 10-year average scaling-up of 4.5 percentage points in public investment to GDP coupled with improved efficiency from 0.5 to 0.75 could deliver a gain of 1.4 percentage points in per capita GDP growth over a decade."¹⁰ At a microeconomic level, these numbers suggest that average economic returns to public spending in developing countries are substantial.

In short, an increase in the quantity of investments along with a focus on quality to re-orient to the highest return projects can deliver better outcomes for both climate and sustainable development.

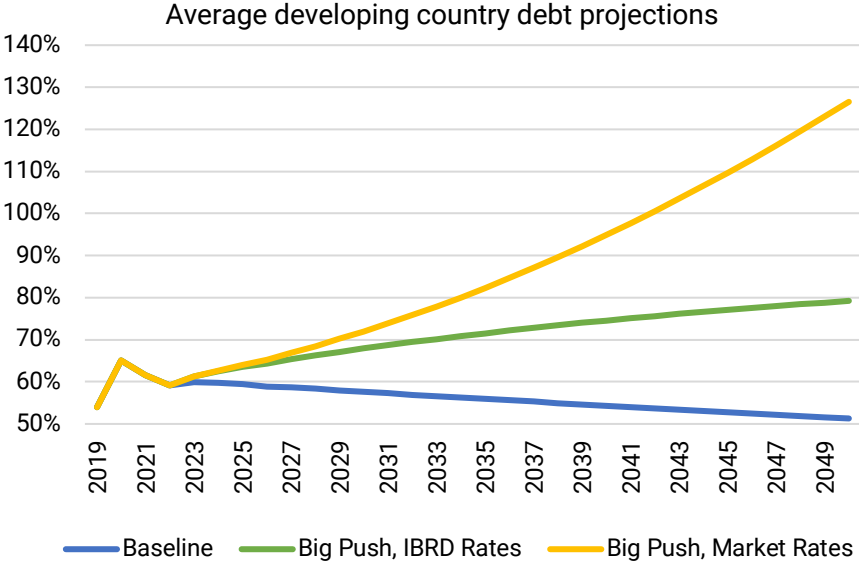
One implication of these results is that the concerns over whether to invest in poverty reduction versus sustainable infrastructure projects are likely misplaced. The optimal investment strategy is in all cases a balance of the two. For example, returns to human capital investments rise when there is adequate infrastructure and returns to infrastructure rise when the human capital base is larger.

Another implication is that the new approach is largely optimal from a national point of view. Developing countries are not being asked to ramp up climate action for the sake of saving the planet. They are being encouraged to move to low-carbon energy in their own narrow self-interest. The spillover benefits to others add to the global value and are of particular importance in dealing with legacy issues such as the decommissioning of coal-fired power plants, but spillovers and global benefits are not the driving motivation for the new approach.

There is, however, one caveat. The IMF models highlight the sensitivity of the debt/GDP trajectory to the cost of capital and to the level of domestic resource mobilization in a big push strategy. Without access to capital at IBRD-like rates, the big-investment-push strategy becomes far riskier. This is true for almost all developing countries, regardless of initial income levels. They all benefit substantially from access to the lower-than-market rates offered by official development finance.

Figure 4 illustrates. It tracks the debt/GDP ratio for a developing country with median current values of debt, GDP, GDP growth and fiscal deficits. The baseline shows the current projections made by IMF staff.¹¹ The middle line shows a simulation assuming that investment is raised by 4 percentage points of GDP, half of which is financed by external debt borrowed at rates similar to those offered by the World Bank. The top line shows the same simulation but with borrowing from global capital markets at the average interest rate faced by the median developing country with access to these markets.

Figure 1: The cost of borrowing drives the rise in debt ratios for developing countries



Source: Kharas and Rivard (2022)¹²

II. The World Bank context

The WBG has a strong comparative advantage in delivering on this scaled-up, universal climate-cum-sustainable development agenda thanks to its financial and analytical firepower (annual lending commitments of approximately \$100 billion in FY21 and FY22¹³) and its global reach—189 member countries, staff from 170 nations, and offices in 130 locations. It has gained the confidence of its shareholders and many clients by sharply increasing lending at affordable rates in response to COVID-19. It has provided more climate finance than any other international development organization. By cross-subsidizing IDA with IBRD profits, it has reduced the financial burden on IDA donors of supporting the poorest countries. In IFC and MIGA, it has institutions that are in close, regular contact with private business and financiers. It has extensive experience in the design, appraisal, and implementation of investment projects that are a core area for expansion.

To paraphrase an old saw: If the World Bank did not exist, it would be necessary to invent it today. This is a remarkable turn-around for an organization that not too long ago was facing cries of “50 years is enough.” It is why advanced economy shareholders are turning to the World Bank to solve their 21st century global development problems and why developing country shareholders see the World Bank as a key institution to help them seize the new opportunities for growth.

The World Bank is, however, currently too constrained to be effective on the scale required. Its historic mission of poverty eradication is still viewed in some quarters as being at odds with a new mission of climate action. It has reduced its engagement in upper middle-income countries to minimal levels. It has no instruments to incentivize countries to invest in programs with global spillovers from which everyone benefits when everyone participates. It does not have the financial power to scale up to meet requirements.

Figure 5 shows that disbursements from IDA and IBRD—the two largest institutions in the WBG—have steadily fallen since 2000 relative to the size of public spending in client countries. Even after considering the major upswing in crisis-related lending over the last two years, the ratio of gross disbursements to general government expenditures of client countries (excluding China which is treated as *sui generis* here) has fallen by about one-third.^a This decline is not evenly distributed—LICs are receiving amounts of grants and credits that are roughly the same as in 2000, recovering from a significant dip through 2015. LMICs saw the same dip followed by a partial recovery. IDA and IBRD combined now provide about 1 percent of total government expenditures.

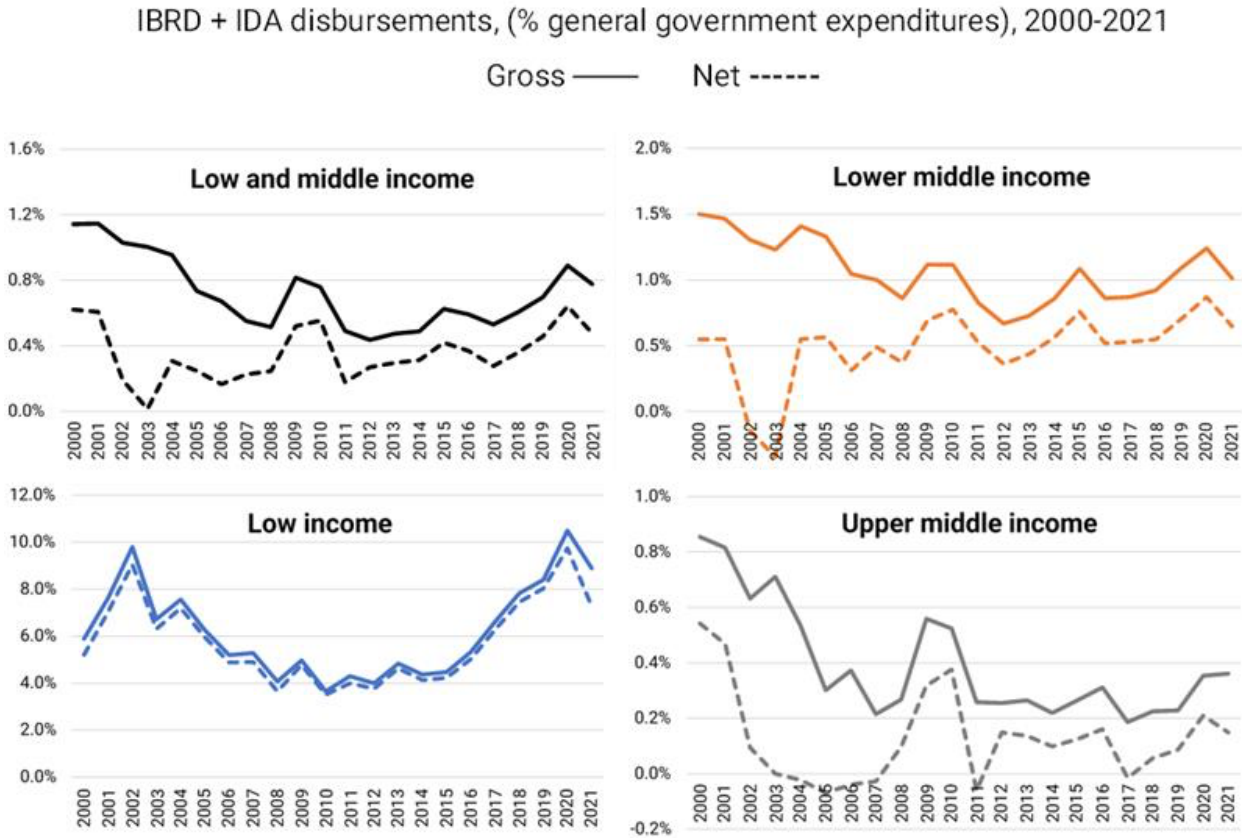
UMICs have seen their access most significantly reduced—from roughly 1 to 0.3 percentage points of government spending between 2000 and 2020. Indeed, at the time of the last capital

^a Including China would result in a more rapid decline in the share of IBRD lending in general government expenditure, because China has large public spending and comparatively modest financial support from IBRD.

increase for IBRD, shareholders asked that lending to countries whose per capita income levels exceeded a Graduation Discussion Income (currently \$6795) should be kept below 30 percent of total IBRD exposure. This acts as a limit on the degree to which IBRD can be an effective lender to these countries, especially the larger clients in this group.

Figure 5 also shows the pattern of the World Bank response to crises. The sharp countercyclical lending in 2009/10 and again in 2020 are clearly visible. The danger, however, is that crisis response comes from drawing down crisis buffer funds and front-loading other resources. The design permits a temporary expansion of loans, but not a steady state expansion. It is to be expected that IBRD and IDA disbursements will fall after the current surge is over, starting in July 2023, unless remedial action is taken. This fiscal cliff could accentuate the relative decline of the institution in most countries. It is important for both institutions to replenish their firepower to deal with crises, but the key is to ensure that there is enough for a sustained expansion of investment for the SDGs and for climate action over decades.

Figure 2: World Bank lending levels are falling and too small given the challenges of MICs



Source: International Debt Statistics for World Bank disbursements and grants. October 2022 World Economic Outlook for general government expenditure.

III. Vision and mission

When John F. Kennedy committed the United States to land a man on the moon and return him safely to earth before the decade was out, he asked for a commitment of money, organization, discipline, and dedication for a risky course of action lasting decades: “If we were to go only halfway, or reduce our sights in the face of difficulty, it would be better not to go at all.”¹⁴

This is where the WBG is today. The Bank’s current mission, expressed in its twin goals “to end extreme poverty within a generation and boost shared prosperity,” is well aligned with the sustainable development goals, but it has been unable to act on a scale to deliver on these goals. Furthermore, the WB only takes on selected components of the SDG agenda—it cannot and does not do everything.

Climate action, however, is unique among the SDGs in underlining the scale and urgency of action. Without substantially faster climate action everywhere, the costs of meeting the twin goals will be far higher.

This is why the WB should be encouraged to adopt a new mission statement that reflects the enormous challenges of reshaping global development over the next two decades. The twin goals should be enhanced by incorporating the objective of scaling up investment for sustainable development, which captures both the SDG and Paris Agreement objectives that relate to poverty reduction and shared prosperity.

This is not simply a wordsmithing exercise. The addition of a phrase such as “by scaling up investment for sustainable development” into the WBG mission accomplishes several purposes.

- It aligns the World Bank clearly with the Sustainable Development Goals, an agenda that all World Bank clients and shareholders have signed onto and that has become the *lingua franca* of development since the adoption of Agenda 2030 in 2015. It integrates the concepts of climate, inclusion, equity, and development finance for the purpose of achieving “sustainable development.” The WBG has already sensibly moved in this direction through its Country Climate and Development Reports,¹⁵ but more work is needed to create a consensus that poverty reduction, climate action, and inclusion go hand-in-hand rather than being viewed as trade-offs. The common thread is often to be found in sustainable infrastructure investments.
- It recognizes incremental investment as the key to success. Investment will create growth and domestic revenues and thereby relaxes the resource constraint that would otherwise force governments to make trade-offs between poverty, climate action, and other sustainable development goals.
- It underlines the need for scale and the universality of the agenda. Even though many developing countries are small emitters, they cannot be left out of the global movement toward decarbonization and indeed would find themselves likely disadvantaged in trade, tourism, and access to capital flows if they do not also transform to low-carbon

economies. Furthermore, LMICs and LICs stand to gain the most in terms of shared prosperity if UMICs are able to accelerate climate mitigation and make progress on the whole SDG agenda. This assessment, that progress in one country on a universally agreed agenda generates spillover benefits for all others, is a foundational principle of a cooperative, multilateral institution.

In the paragraphs above, we have deliberately avoided use of the term “global public goods (GPGs).” The WBG does not have the governance (decisionmaking over which GPGs to provide), financing model (GPGs are best financed through grants) or business model (the WB has no dialogue with developed countries on GPGs) to deliver on true global public goods with their free-riding complexities of non-excludability and non-rivalry. It can, however, use its multilateral cooperative structure to encourage collective action in useful ways that can help deliver selected global public goods.

There are many examples of how collective action can serve the core national interests of individual countries or groups of countries. The WBG has significant experience in encouraging collective action in anti-money laundering and financial regulations, tax cooperation, anti-corruption measures, regional integration, trade, food and energy security, conflict reduction and sustainable exploitation of natural resources, as well as knowledge activities and sharing of experiences.

But these spillover benefits must be coupled with more rapid economic development and shared prosperity as well, or the agenda becomes politically unsustainable. This is why Agenda 2030 presents a balanced package of complementary goals that satisfy individuals’ desires for a better life, countries’ ambitions for progress on technology and jobs, as well as a healthy preservation of planetary resources, all in a spirit of global solidarity.

In addition to encouraging the positive spillovers from individual country investments, the WBG also has an important collective action role on financial resource mobilization and transfer. This type of collective action is exactly what Keynes originally envisaged when the WBG was established. He understood that markets would be reluctant to provide funds for infrastructure investment in war-ravaged economies and therefore that official capital would be required. Equally, he realized that only a few countries would be in a position to provide capital and that, in words that resonate loudly today,

“...there is no reason why these lending countries should also run the whole risk of the transaction. In the dangerous and precarious days which lie ahead, the risk of the lender will be inevitably large and most difficult to calculate. The risk premium reckoned on strict commercial principles may be beyond the capacity of an impoverished borrower to meet, and may itself contribute to risks of ultimate default... The proposal is, therefore, that all the member countries should share the risk in proportions which correspond to their capacity.”¹⁶

Keynes' great contribution was to propose a collective action mechanism for pooling risk among shareholders so that the cost of capital would be affordable. The pooling of risk in the WBG is achieved in modern parlance via paid-in capital and callable capital (largely provided by advanced economies), and preferred creditor treatment coupled with a sovereign guarantee on all its loans (provided by developing country borrowers).

What is needed today for climate action is scaled up, affordable capital, largely for sustainable infrastructure. The IBRD was founded to provide such capital through the collective action mechanisms of a multilateral institution where risk is shared according to client capacity. Adapting its mission statement to emphasize investment in sustainable development would not take it far from its origins.

In 1944, IBRD was founded because private capital flows would not flow for infrastructure reconstruction and trade finance, without official encouragement. Today, in a similar fashion, private capital will not flow to developing countries for sustainable infrastructure without official support. Thus, the most efficient financing mechanism to accelerate decarbonization trajectories in developing countries is through organizations such as the WBG where risk is minimized, managed, and pooled across all member states, all of whom stand to benefit from the global externality of reduced global warming.^b

One other element of Kennedy's speech deserves mention and reflection in the WBG roadmap: the explicit reference to scale and ambition, linked to the quantifiable goals set out for the space mission. Kennedy knew there were uncertainties in such an undertaking but was prepared to articulate an initial quantitative costing of what it would take to help lawmakers in Congress understand the scope of the commitment they were being asked to make. Today, there is also huge uncertainty as to what would be required to fulfill the WBG's mission.

If the WBG is to add the scaling-up of investment for sustainable development to its mission, it must come forward with a plan to meet all its goals, on both the development and climate fronts.

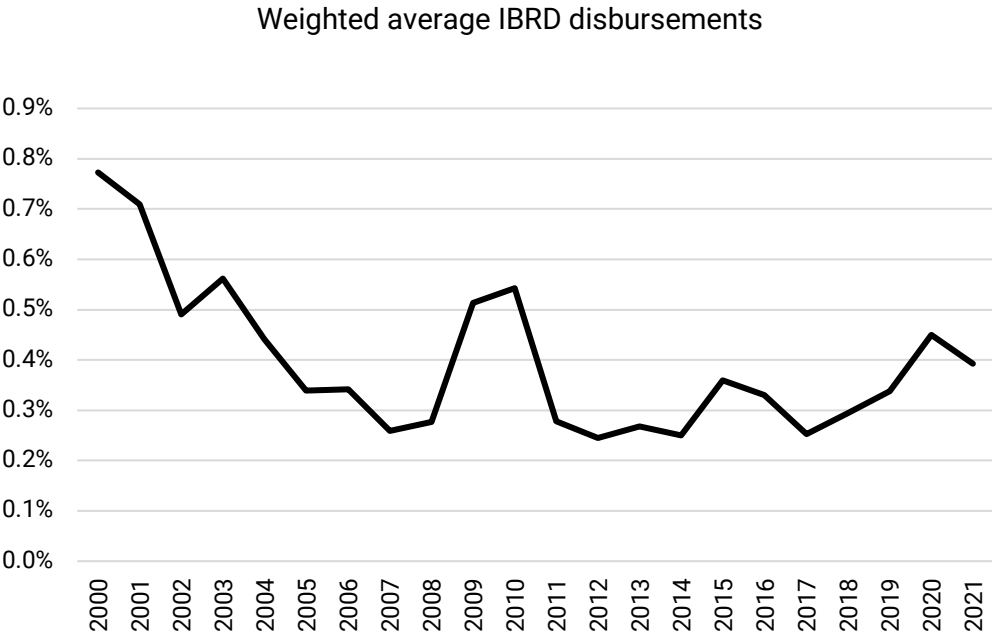
There are many uncertainties that preclude precision on long-term cost estimates, but the best available judgment suggests that the WB needs to triple in size (Bhattacharya et al., 2022). Spending on the SDGs needs to double, and spending on four priorities for climate action—the energy transition, adaptation and loss and damage, nature and land use, and the just transition—needs to be quadrupled.

For IBRD, this implies a vision of a sustainable lending level of \$80-100 billion per year (a tripling compared to FY21 or FY22 levels) and an overall exposure of over \$1 trillion by 2030. The roadmap discussions should build shareholder consensus around this level of ambition.

^b As a rough rule-of-thumb: Each percentage point difference in the cost of capital will affect the levelized cost of electricity by 0.5 cents/KwH. See for example, the DOE Office of Indian Energy, Levelized Cost of Energy, <https://www.energy.gov/sites/prod/files/2015/08/f25/LCOE.pdf>

Tripling IBRD lending volumes is less radical than it sounds. For upper middle-income countries, it would imply IBRD financing of about 1 percent of government expenditures, the same share as in 2000. For lower middle-income countries, it would mean financing 3 percent of expenditures. In both cases, it would help reverse the steady relative decline in IBRD lending that has happened in the 21st century (Figure 6).

Figure 3: The declining importance of IBRD disbursements



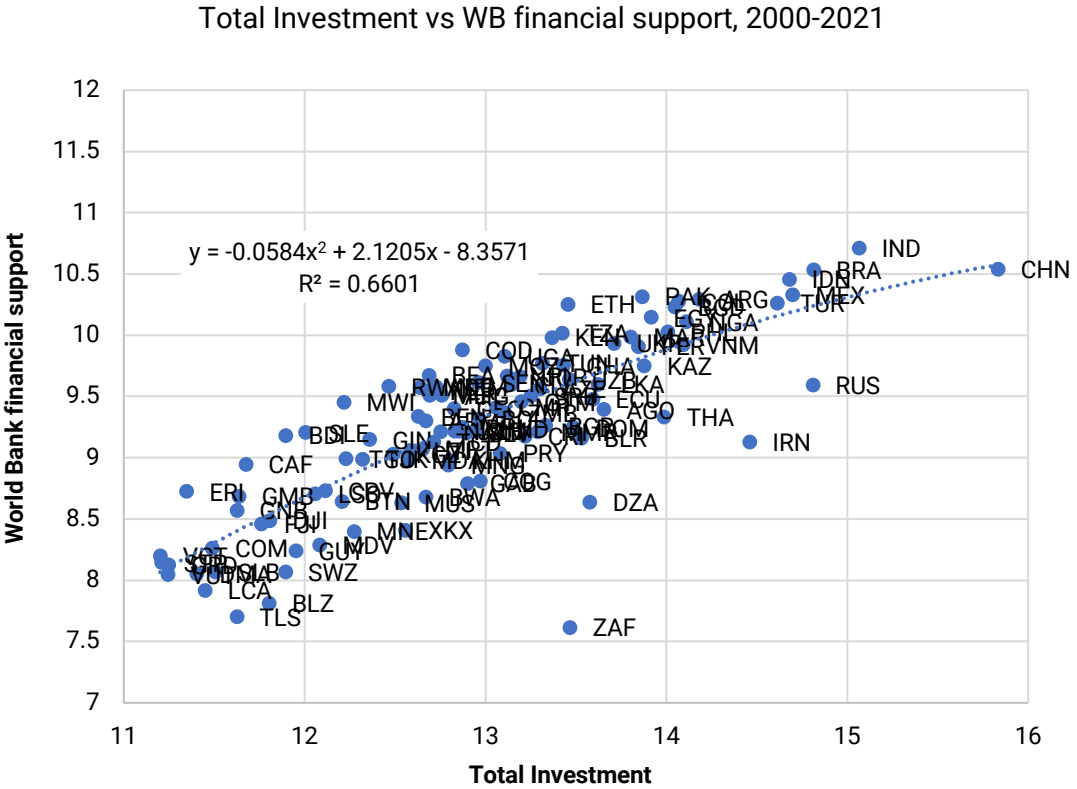
Source: World Bank International Debt Statistics and October 2022 World Economic Outlook

IV. Operational model: Clients, partners, and instruments

Tripling in size would require significant changes to the WBG operational model. Its views on client segmentation and focus, on modes of engagement with key partners, and its ability to develop and deploy new instruments must all evolve.

At the outset, however, it is worth emphasizing that both IBRD and IDA disbursements are tightly linked to the level of investment, and hence size, of a client country. There may be differences over short time periods (IBRD responded quickly and strongly in 2010/11, IDA more quickly and strongly in the 2020/21 crisis), but over time, these differences even out. **Figure 7** shows cumulative total investment in each country, between 2000-2021 (x-axis) and cumulative gross disbursements from IBRD and IDA over the same period (y-axis). The figure shows that WB financial support rises as total client country investment levels rise, but at a diminishing rate. Large countries get proportionately less support. Some of this is due to single borrower limits that are used for risk management purposes (India, Brazil, Indonesia), and some is due to client-specific issues (China, Russia, Iran, South Africa).

Figure 4: IBRD and IDA disbursements are tightly linked to country investment levels



Source: International Debt Statistics for IBRD disbursements and IDA disbursements and grants; World Economic Outlook, October 2022 for total investment converted to constant 2012 U.S. dollar. **Note:** Both series are logged.

a. Serving all clients

The WBG currently segments clients by average per capita income levels. There are additional categories/exceptions governing small states, fragile situations, recent IDA graduates and blend situations. As part of its 2018 capital increase, the WBG agreed to restrict lending to countries above a Graduation Discussion Income threshold (GDI), currently set at \$6795 per capita income, to 30 percent of the total.¹⁷

Limiting IBRD lending in this way complicates the ability to deliver on a new mission of scaling up investment for climate and development. Middle income countries above the GDI account for 56 percent of developing country GHG emissions, even when China is excluded from the calculation. Meeting goals on climate action will inevitably imply having a large presence in these countries.

The country-based operational model of the World Bank already permits differentiation across countries to encourage institutional priorities. Annex 1 presents a simple model to explain the

correlates of IBRD and IDA net flows to individual countries. The results suggest that countries get higher net flows (as a percent of GDP) when they have:

- Lower income levels.
- Higher investment rates.
- Lower savings rates.
- Higher greenhouse gas emission intensity per unit of GDP.
- Higher poverty rates.
- Stronger rule of law.
- Membership in the group of vulnerable countries (V20).
- Global crisis years.

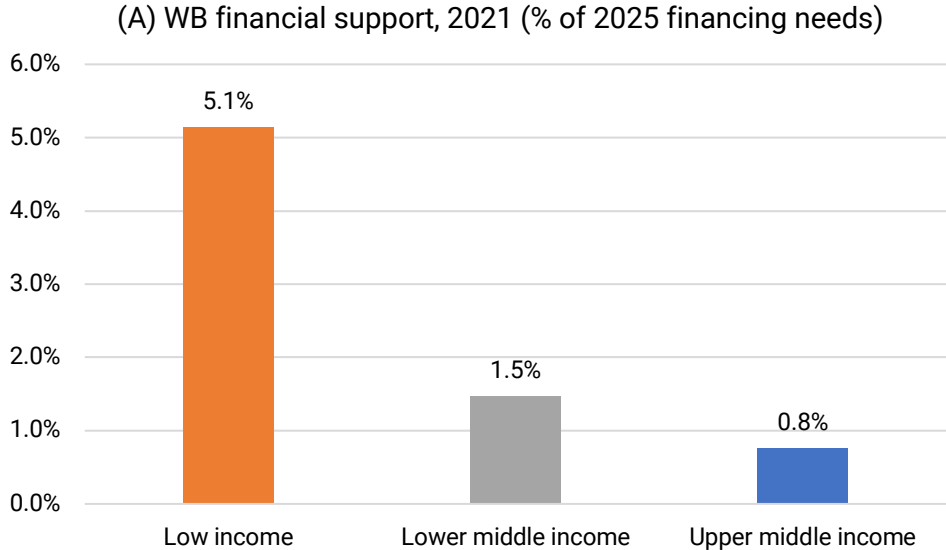
The implication is that country allocation models already consider several of the global challenges that today have high profiles, such as the need to reduce greenhouse gas emissions and to assist those countries that are most vulnerable to climate damage, but that these factors are insufficient to raise the level of engagement with upper middle-income countries. The model may therefore need to be tweaked to give these global challenges more prominence, but this is of second-order importance compared to the key issue which is the tiny level of overall financial support from IBRD and IDA for any of the goals.

In recent work,^{Error! Bookmark not defined.} we have computed the investment needs in 2025 in four priority areas that are critical to their climate and development goals: (i) human capital (health and education); (ii) sustainable infrastructure and the acceleration of energy transitions; (iii) adaptation and resilience; (iv) the restoration of nature through sustainable agriculture, forestry and land use, and biodiversity. We compared these investment needs with World Bank disbursements in 2021 (the latest available year and one where disbursements were already cyclically high to respond to the pandemic). Figure 8 shows the results, by income group, in Panel A, and by region in Panel B.

The data in Figure 8 highlights the fact that WB financial support is very small compared to need; only some 5 percent in low-income countries and around 1 percent in middle income countries. The pattern across geographies is similar—very low levels of around 1 percent, with only sub-Saharan Africa receiving a somewhat higher share at around 3 percent of investment needs.

Of course, the World Bank is only one development finance institution. But to put these numbers in perspective, the World Bank accounts for roughly one-half of all multilateral development finance. Multilaterals, in turn, account for about one-fifth of all external development finance (including the private sector).¹⁸

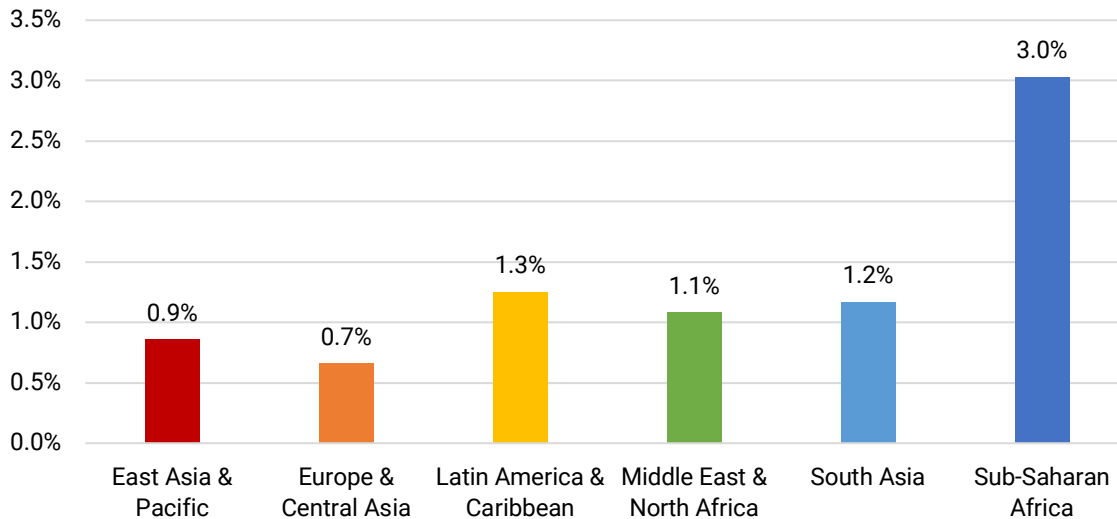
Figure 8: World Bank gross disbursements in 2021 compared to investment needs in 2025 in core areas to accelerate progress in climate and development



Source: International Debt Statistics for WB financial support and Bhattacharya et al (2022) for the 2025 financing needs.

Note: 2025 financing needs is across 4 sectors: human capital, adaptation and

(B) WB financial support, 2021 (% of 2025 financing needs)



Source: International Debt Statistics for WB financial support and Bhattacharya et al (2022) for 2025 financing needs.

Note: 2025 financing needs is across 4 sectors: human capital, adaptation and resilience, AFOLU, and sustainable infrastructure. Excludes China.

Overall, even though volumes are modest, the country-based allocation framework is sufficiently flexible to give global challenges of mitigation and adaptation greater priority and is well suited to ensuring that these priorities are integrated with other core development objectives, but its implementation is making the IBRD less relevant in upper middle-income countries. The main operational issue is to ensure that the formulae that are applied support a sustained investment push that generates accelerated development in all client countries.

b. Scaling up

In order to scale up its operations, the World Bank needs to double-down on building capacity to improve the enabling environment to maximize the impact of new investments. It can then shift from project-by-project lending to programmatic lending at scale.

i. The enabling environment

Improving the quality of public investment to the extent possible would enhance the returns from any big push investment strategy. The WB has a long history of advisory services on public investment but has not quantified the results in the same systematic way as it did for private investment through the “Doing Business” indicators. The IMF has a Public Investment Management Assessment tool that quantifies capabilities in planning, allocation, and implementation of infrastructure investments in developing countries. The World Bank has

complementary indices in its Country Policy and Institutional Assessments. Building stakeholder confidence in public investment management capacity would be a core ingredient of a big push.

Similarly, improvements in domestic resource mobilization and debt management will be required. DRM is the foundation of enhanced debt-carrying capacity, as well as the basis for financing projects with low financial returns. In this regard, the finding that World Bank financial support is higher in countries with low savings rates is awkward. Scaling for a big investment push will only be effective over time if domestic resources rise in tandem with higher levels of World Bank and other external financial assistance. With DRM, and improvements in the public and private investment regime, creditworthiness can also improve sufficiently to make the strategy feasible.

ii. A shift to programmatic lending

About two-thirds of World Bank (IDA and IBRD) lending is in the form of specific investment loans (more in low-income countries). The remaining one-third takes the form of programmatic support through policy-based operations and results-based financing. Programmatic support is of particular value for counter-cyclical lending when private capital flows may suddenly exit. It is used most heavily in upper-middle-income countries.

Results-based financing has been specifically designed to fill investment gaps in designated areas. It provides development financing when pre-agreed results are achieved and verified. The approach—focusing on results that matter, sustaining effort over time, strengthening government implementation systems, and aligning multiple actors behind government-owned programs—fits well with the needs of SDG and climate goals, and initial results are promising, although by no means a magic bullet. There is by now experience with results-based programs in a number of sectors and country contexts, and, along with development policy operations, it is the most scalable of the World Bank’s operational instruments.

c. Partnerships in support of the country model

Traditionally, the WB has financed individual projects prepared and implemented in close partnership with its clients. A scaled-up WB could usefully review how it can modify its operational engagement to shift from a project-by-project approach to a programmatic approach that supports investment at scale, how it can partner with other development finance institutions, and how it can do better to mobilize and catalyze the private sector.

i. Other development partners

There is growing experimentation with country platforms as a means of coordinating a range of development partners. The G-20 Eminent Persons Group report¹⁹ recommended building country platforms around core standards. The G-20 further endorsed a reference framework for

effective country platforms in 2020. The practice is evolving, with a mix of skepticism based on limited value of past donor coordination mechanisms and excitement based on momentum generated by modern pilot programs, including Just Energy Transition partnerships in South Africa, Indonesia, Egypt and Vietnam.²⁰ Mark Carney argues for country platforms to deliver (i) institutional and policy stability through political consensus building; (ii) multiyear programming with viable domestic partners that can implement at scale, pooled financing including local currency, and a secretariat with technical skills and risk management expertise; and (iii) accurate performance data and benchmarks.²¹

Country platforms have been touted as useful in fragile situations and for different sectors beyond climate action. As part of its scaling-up plan, the WBG should commit to learning from and strengthening country platforms, and ultimately to providing most of its financial support through such channels using its results-based financing instrument.

ii. Mobilizing private capital

Even if lending volumes tripled, the WBG would not be in a position to meet its mission goals without crowding in significant amounts of private capital. The WBG catalyzes private capital flows by supporting policy and institutional reforms and sound macroeconomic management. Alongside this, it mobilizes private capital (PCM) directly into its operations. At present, however, the IBRD only mobilizes small amounts of private capital (\$2.6 billion in 2019).²² It has made a corporate commitment to the G20 to increase its mobilization ratio to 25 percent by 2030, but this reflects a very low level of ambition (and is in danger of not being met). The principal instrument used for mobilization by IBRD is a partial credit risk guarantee.²³ It is unclear how useful this instrument is—there has been only one recorded instance of the guarantee actually being called.

The WBG should set far more ambitious targets for PCM for all its agencies. Such a commitment could be met at the WB group level, as well as for individual WB agencies. The International Finance Corporation (IFC) has an especially important role to play here and has encouraging innovations for PCM such as the Managed Co-financing Portfolio Program, but overall, it continues to do far more on its account compared to amounts mobilized from others.

The Multilateral Investment Guarantee Authority (MIGA) is an underutilized arm of the WBG that could be significantly expanded to boost PCM. MIGA offers political risk insurance (which it then reinsures, permitting a rapid scaling up) and financial guarantees, including on equity. MIGA is hampered, however, by management policy to only extend guarantees to countries with strong credit ratings and its fees far exceed the pay-outs it has made, suggesting that the fees may be excessive. It also operates almost exclusively as an agency that supports the WBG. It could extend its operations to support PCM in the whole MDB system.

c. Instruments

i. MIC access to concessional funds

The experience to date with country platforms suggests that lack of access to concessional finance for middle income countries is a core missing ingredient. There are a range of activities needing concessional support, from coal plant decommissioning to adaptation by building seawalls. The projects do not generate cash flows that could service the additional debt that would be taken on to finance the required investments but do have high social benefits. They provide considerable low-hanging fruit for climate action. From the client's perspective, concessional external support would help compensate for the global co-benefits created (or express solidarity against loss and damage incurred as a result of negative global spillovers). There is already considerable experience from IDA Regional Funds that incentives in the form of top-up funds or other mechanisms are needed for these projects to receive adequate attention.

Present arrangements are too *ad hoc*. The WB has historically relied on donor-funded Trust Funds to provide concessional finance to MICs (for example the Climate Investment Funds, or the Global Concessional Financial Facility for supporting Syrian refugees in Jordan) but these remain small. The IBRD has piloted an Innovative Global Public Goods Solutions fund ("GPG Fund") to which it transfers net income, but again the volume is not adequate for a scaled-up organization with an ambitious mission. IBRD should vigorously advocate for more funding of this type.

There are various technical options that could be devised to fill this gap, but the basic principle—that MICs should have access to concessional finance for specific purposes with global benefits or to redress negative global spillovers—must be preserved. A further principle is that any new concessional funds should be additional; they cannot result in the decline of concessional funding for low-income countries.

ii. State-contingent contracts

In times of crisis, speed and predictability of access to finance is of the essence. The WB retains an important crisis-mitigation function. This role will only grow in a world where natural disasters, health shocks, and financial and debt crises abound. A new instrument that builds in an automatic crisis response would add considerable value to WB clients.

State-contingent clauses in debt contracts have long been discussed as a useful development instrument. The success of the G-20 debt service suspension initiative in providing liquidity relief in 2020 and 2021 shows the power of such an instrument. A few countries, notably Barbados, have included state contingent clauses for natural disasters and pandemics in bond contracts with no apparent net cost. The WB has a track record of pioneering new instruments (swaps and sustainable bonds, for example) and should review whether it can mainstream state-contingent clauses into its bond contracts with parallel clauses in its loan agreements with client countries.

iii. Step up interest rate instruments

The main value addition of IBRD comes at the stage of project selection, design, and implementation. Once a project has been successfully completed, and revenues start to flow, the contribution of IBRD is reduced. At this stage, it would be desirable for IBRD to sell its loan asset, thereby raising PCM and freeing up equity for additional lending.

While asset sales are permissible, they are seldom used. The very first IBRD loan was a 30-year fixed interest credit to France for \$250 million made in 1947. The outstanding balance was sold to French financial institutions in 1962 and 1963. Since then, however, asset sales have been far less common partly because, with the dominance of floating rate loans, there is less incentive for borrowers to refinance existing obligations.

The basic problem is that the core lending instrument today, a floating rate credit with a fixed spread of approximately 1 percentage point, has far better terms than standard commercial loans. Asset sales at commercial prices would leave IBRD with a loss on its balance sheet, even if the project turned out to be successful.

The solution is to design a new instrument with a step-up interest rate clause or a time-bound put option. In such a design, the interest rate would rise to commercial levels upon successful completion of the project, permitting IBRD to sell remaining maturities without taking a loss. These commercial levels would, however, be far lower because construction and other project implementation risks would no longer be applicable. Such an instrument could be particularly attractive for UMICs where domestic financial institutions and institutional investors might find a sovereign loan an attractive addition to their portfolio.

IV. Financing framework

A scaled-up IBRD with an expanded mandate to provide finance to middle-income countries will require more financial support from its shareholders. Exactly how much, in what form, and from whom are critically important questions. They are central to the current debate on the potential opportunities that could be realized from the recommendations made in the G-20 Working Group report on multilateral bank capital adequacy frameworks.²⁴

Ultimately, shareholders' willingness to provide new capital and support the WB in other ways is the litmus test of the seriousness of any evolution roadmap. There are many ways to devise technical solutions but strengthening the capital base along with providing a strong signal to capital markets that maintenance of a AAA-credit rating is a priority can most sensibly be done by including a new capital increase in a broader package of financial reforms.

A note of caution at the outset: The issue of capital adequacy is complex and typically based on a range of simulations that model global risks and country specific risks. Headline numbers, which are often used as summaries, cannot readily capture this complexity. For example, there is a fierce debate as to the appropriate level of the equity/loan ratio to be used by IBRD, but the oft-quoted headline number is not even a risk-adjusted measure. It is simply an effort to convey management's views about the impact of a large number of scenarios. The real issue is to understand the level of financial risk and uncertainty borne by the institution and to respond accordingly.

From that perspective, as suggested by the CAF report, both callable capital and preferred creditor treatment are characteristics of MDBs that should be taken into account when assessing what may happen under different states of the world. The CAF reveals gaps in the understanding of these risks, in the benchmarking across MDBs, and in a systemic assessment of actions that need to be taken. These gaps will widen in a scaled-up institution. Hence, the importance of the central CAF recommendation to initiate a systematic process of discussion on these matters.

Such a discussion will surely raise a range of options for consideration. Foremost among these is how shareholders can most effectively convey to credit rating agencies and markets their full support for the WBG.

A package of options could therefore include: (i) implementation of the CAF recommendations; (ii) a new capital increase from shareholders; (iii) new instruments to free up equity and encourage PCM; (iv) guarantees from shareholders where necessary to limit single borrower concentration risk; and, perhaps, (v) higher operating margins for IBRD that would be returned to MICs as concessional finance in support of climate action and other global and regional priorities.

While any recommendations require a detailed financial analysis which is beyond the scope of this note, a few numbers from IBRD financial statements illustrate the orders of magnitude and suggest that a compromise financial package is well within reach.

The headline IBRD financial management tool is the equity/loan ratio. This stood at 22 percent at the end of FY22.²⁵ It is a crude guide to detailed risk assessments that consider the credit risk of individual countries, the overall credit risk from a global shock, liquidity risks of accessing global capital markets, concentration risks, preferred creditor treatment risk and the like.^c Nevertheless, it can be useful for understanding the broad financial parameters within which IBRD operates.^d

At the end of FY22, IBRD had \$227 billion in outstanding loans, \$50.5 billion in usable equity, \$1.9 billion in net interest revenue from loans, and \$1.5 billion in non-interest administrative costs.²⁶

If the ambition is to create a \$1 trillion sized IBRD by 2030, then, if it operated on the same basis as in 2022, it would need \$222 billion in equity and would be earning \$8.3 billion per year.

Without an increase in equity, getting to \$1 trillion in loans would imply a fall in the equity/loan ratio to 5 percent. This seems an unrealistically low figure and shows why a discussion of a new capital increase is needed.

Some balance of more equity plus an equity/loan ratio below 20 percent would be necessary to scale IBRD to \$1 trillion by 2030.

Consider a purely hypothetical scenario where the equity/loan ratio were to be reduced to 15 percent by implicitly taking into account callable capital and preferred creditor treatment as suggested by the G-20 Capital Adequacy Frameworks report.²⁷ Then total equity for a \$1 trillion bank would need to be \$150 billion, or an increase of \$100 billion over today's level.

Hybrid capital (nonvoting shares) is one option under consideration by several MDBs. This could come from existing shareholders, institutional investors, or other multilaterals. One option that could be considered is whether an IDA equity holding would be mutually beneficial. IDA still has considerable equity and could immediately place \$20 billion into nonvoting equity of IBRD. If it earned a 5 percent return, this would ensure IDA received \$1 billion each year from IBRD, a

^c IBRD also has buffers for crisis lending. The current assumption is that it should be able to respond to one mid-sized crisis each decade. This seems overly optimistic in the current environment.

^d IBRD has a Board approved minimum equity-loan ratio of 20 percent, as well as an overall loans to capital ratio of 1. There is broad agreement that the latter does not have operational importance in modern risk management practices and that it should be simply discarded. Credit rating agencies take into account risk-weighted capital and these metrics can be quite volatile. For example, Fitch reports a credit-weighted capital score for IBRD of 52.8 percent at end FY22, compared to 44.2 percent at end FY21 and a threshold for "excellence" of 35 percent. [https://www.fitchratings.com/research/sovereigns/fitch-affirms-ibrd-at-aaa-outlook-stable-20-01-2023#:~:text=As%20of%20end%2DFY22%2C%20IBRD's,%20threshold%20\(above%2035%25\).](https://www.fitchratings.com/research/sovereigns/fitch-affirms-ibrd-at-aaa-outlook-stable-20-01-2023#:~:text=As%20of%20end%2DFY22%2C%20IBRD's,%20threshold%20(above%2035%25).)

certain stream that could replace the *ad hoc* allocations from IBRD net income that is the current approach. There are many precedents for multilateral financial institutions holding shares in other multilateral institutions. As the vision for IDA is that all its clients would graduate to IBRD, this could be a start of a multidecade process that could ultimately see all IDA's equity invested in IBRD when all its clients have graduated. Other institutional investors, such as sovereign wealth funds, may also be attracted by a hybrid capital instrument.

A second option is to increase IBRD net profits, to permit larger allocations of net income to IBRD's general reserve fund. Net income should grow even more rapidly than loans outstanding as emphasis shifts to large, scalable results-based instruments.

After taking into account these possibilities, the actual new money requirement from existing shareholders could be modest, say \$50 billion of paid-in capital over a five-year period, 2025-2030. This is equivalent to \$10 billion per year. If all shareholders contribute in proportion to their current shareholding, this means an ask of less than \$2 billion per year from the United States, a small amount compared to actual U.S. ODA of \$48 billion in 2021. Some shareholders could use surplus SDRs to finance their portion of a capital increase, along the lines being considered by the African Development Bank and the Inter-American Development Bank, obviating the need for any additional budgetary allocations.

These back-of-the-envelope numbers should not be taken as anything other than an indication that there is a financial pathway for initiating a discussion with shareholders on a capital increase that would not unduly shareholders at a time when their own budgets are tight. The measures can be sensibly sequenced: For example a start can be made on immediately reducing the minimum equity/loan ratio to perhaps 18 percent and on infusing IDA equity back into IBRD. Other steps can follow, but there is some urgency to this conversation. Without any remedial measures, IBRD could be forced to radically cut back its lending in FY24 because it has surged above its sustainable lending level to counteract the effects of the COVID-19 recession.

One corollary: if IBRD is to generate equity by allocating net income to reserves, it may not be able to simultaneously maintain the level of support to IDA that it currently bears. Donors would need to return to historic levels of IDA support and IDA should be expected to put its equity into IBRD as its own clients graduate into IBRD.

V. Summary: A 10-point plan for the first 100 days of the incoming president

Our analysis can be summarized in 10 key actions for the incoming World Bank president. We recommend the following priority steps:

1. The WBG should adapt its mission statement to incorporate the idea that its purpose is to support a transformative investment push to accelerate progress on sustainable development in all countries by driving a strong recovery from the present crisis, restoring momentum on the SDGs, and ensuring that we can keep climate and nature goals within reach.
2. IBRD should declare an ambition to raise its outstanding loans to \$1 trillion by 2030.
3. IBRD and IDA should embrace country platforms (or country-led, country-owned equivalents) for scaling up, develop a learning and capacity building strategy to reinforce these, encourage diffusion to more sectors and countries and use results-based lending to support the goals.
4. IBRD should initiate a process to reduce administrative costs, consistent with the safeguards reforms already underway, and dramatically speed up loan processing timetables.
5. The WBG should take a leadership role in the engagement with the private sector and set ambitious targets for PCM, including through modernizing IFC, expanding MIGA and by using IBRD and IDA guarantees for risk mitigation at scale.
6. IBRD should revisit the ceiling of 30 percent lending to countries above the Graduation Discussion Limit, formally abandon its statutory lending limit, and reduce its minimum equity/loan ratio to 18 percent.
7. IBRD should aggressively seek funds for a concessional funding to meet urgent needs of LICs and vulnerable countries and for projects in MICs with global spillover benefits.
8. IBRD and IDA should introduce state-contingent clauses in loan and bond contracts.
9. IBRD should study new instruments for revenue-generating sustainable infrastructure that would permit asset sales after project completion.

10. IBRD should initiate a discussion with shareholders on a capital increase and financial model that would underpin its new mission and greater ambition, including ways of better handling single borrower limits and other risk management policies.

Appendix 1: Determinants of World Bank net flows 2000-2021

World Bank clients are eligible for financing from IBRD, IDA or both, depending on certain eligibility criteria. The amount of financing each receives reflects the priorities of the World Bank, or, in some cases, the preferences of the client.

To understand this better, we regressed World Bank net flows (gross disbursements minus repayments) as a share of client country GDP against country characteristics. Variables are derived from constant price series. The formula, code, and results are reproduced below:

Call:

```
lm(Formula = WB.NET.FLOW.to.GDP ~ log(GDPPC.2017.PPP) + Debt.Service.to.GDP +
  Reserves.to.GDP + Tot.Investment.to.GDP + Savings.to.GDP +
  Net.FDI.to.GDP + Real.Interest.Rate.US + GHG.Emissions.to.GDP +
  hcr_poverty + WGI.rle + V20 + globalcrisisyear, data = testdata)
```

Residuals:

	Min	1Q	Median	3Q	Max
	-0.023928	-0.004596	-0.001070	0.002466	0.113869

Coefficients:

	Estimate	Std. Error	t value	Pr(> t)	
(Intercept)	5.240e-02	4.565e-03	11.480	< 2e-16	***
log(GDPPC.2017.PPP)	-5.559e-03	4.760e-04	-11.678	< 2e-16	***
Debt.Service.to.GDP	2.786e-03	4.499e-03	0.619	0.535870	
Reserves.to.GDP	1.023e-03	1.227e-03	0.834	0.404452	
Tot.Investment.to.GDP	1.753e-04	3.014e-05	5.814	7.12e-09	***
Savings.to.GDP	-1.669e-04	2.421e-05	-6.896	7.22e-12	***
Net.FDI.to.GDP	7.441e-03	5.166e-03	1.440	0.149947	
Real.Interest.Rate.US	-3.326e-04	1.742e-04	-1.909	0.056440	.
GHG.Emissions.to.GDP	4.454e-01	9.737e-02	4.574	5.08e-06	***
hcr_poverty	6.154e-03	1.608e-03	3.828	0.000133	***
WGI.rle	2.851e-03	4.632e-04	6.156	9.06e-10	***
V20	1.216e-03	6.213e-04	1.957	0.050457	.
globalcrisisyear	1.599e-03	5.883e-04	2.718	0.006628	**

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.009192 on 1918 degrees of freedom

(1083 observations deleted due to missingness)

Multiple R-squared: 0.3312, Adjusted R-squared: 0.327

F-statistic: 79.16 on 12 and 1918 DF, p-value: < 2.2e-16

The t-statistic indicates which coefficients are likely to be statistically different from zero. They suggest that WB lending shares rise with:

- Declining client income levels.
- Higher investment rates.
- Lower savings rates.
- Higher greenhouse gas emission intensity per unit of GDP.
- Higher poverty rates.
- Stronger rule of law.
- Membership in the group of vulnerable countries (V20).

- Global crisis years.

There is no independent correlation between WB net flows and:

- Debt service.
- Holdings of international reserves.
- Foreign investment rates.
- Real US dollar interest rates.

Three findings stand out from these results.

First, WB lending declines strongly as client income levels rise. This is consistent with the earlier observation that middle income countries, especially upper middle-income countries, receive far less support than low-income countries. The statistical analysis does not inform whether this is a consequence of World Bank management decisions to prioritize lower-income countries, or if it is the consequence of lower demand for World Bank finance when richer countries gain better access to global capital markets which also have advantages of speed, predictability and country ownership compared to World Bank finance.

Second, the coefficients on country savings rates and investment rates are very close to each other with opposite signs. The inference is that there is equal impact on domestic consumption and on investment. It is understandable that countries with higher investment rates also choose to expand consumption when they can access foreign capital. However, if the WB is to foster a sharp improvement in investment and growth it will need to pay more attention to the indirect effects of its activities in raising consumption.

Third, it is reassuring that both poverty headcount rates and emission intensity are significant. It suggests that the World Bank is already taking seriously its mandate to make progress on reducing both these global problems. A larger World Bank would be able to do more on both counts, even if present cross-country allocation models are used. It suggests that the country-based approach of the WB can deliver on both poverty reduction and reductions in GHGs.

It might, however, be useful to tweak the lending allocation model. The Shapley values for the linear regression indicate that 45 percent of the variance in WB lending is due to the variance in poverty headcount-rates among its clients, while only 6 percent is linked to the variance in GHG emissions.

. shapley2, stat(r2)

Factor	Shapley value (estimate)	Per cent (estimate)
LOG_GDPPC	0.15293	45.14 %
DebtServ~P	0.00762	2.25 %
TotInves~P	0.01058	3.12 %
Savingst~P	0.02456	7.25 %
NetFDIto~P	0.00305	0.90 %
RealInte~S	0.00197	0.58 %
GHGEmiss~P	0.02136	6.30 %
hcrpoverty	0.09518	28.09 %
WGIrle	0.01192	3.52 %
V20	0.00661	1.95 %
globalcr~r	0.00304	0.90 %
TOTAL	0.33882	100.00 %

Appendix 2: Summary Statistics on World Bank Lending, 2016-2021

	2016-2021						2021							
	World Bank Commitments		World Bank Disbursements		World Bank Net Flows		GDP current \$US		Population		Poverty headcounts		GHG Emissions	
	\$US bn	%	\$US bn	%	\$US bn	%	\$US bn	%	mn	%	mn	%	Mt	%
LICs	\$53.8	20.6%	\$34.0	18.2%	\$31.3	27.8%	\$450.2	1.2%	630.9	9.7%	291.8	43.8%	1988.9	5.6%
LMICs	\$144.2	55.2%	\$101.0	54.0%	\$64.5	57.2%	\$9,966.7	26.6%	3,387.7	52.0%	333.0	50.0%	11,747.0	33.0%
of which India...	\$17.9	6.9%	\$18.2	9.1%	\$2.8	2.4%	\$3,176.3	8.5%	1,407.6	21.6%	88.3	13.2%	3,614.5	10.1%
UMICs	\$63.1	24.2%	\$51.9	27.8%	\$17.0	15.1%	\$27,011.5	72.2%	2,491.8	38.3%	41.3	6.2%	21,893.3	61.4%
of which China...	\$9.0	3.5%	\$9.2	4.7%	-\$0.4	-0.4%	\$17,744.6	47.4%	1,412.4	21.7%	2.2	0.3%	14,079.1	39.5%
All developing	\$261	100%	\$186.9	100%	\$112.9	100%	\$37,428.4	100%	6,510.4	100%	666.1	100%	35,629.3	100%
	IDA Commitments		IDA Disbursements		IDA Net Flows		GDP current \$US		Population		Poverty headcounts		GHG Emissions	
	\$US bn	%	\$US bn	%	\$US bn	%	\$US bn	%	mn	%	mn	%	Mt	%
	\$US bn	%	\$US bn	%	\$US bn	%	\$US bn	%	mn	%	mn	%	Mt	%
LICs	\$53.8	39.9%	\$34.5	37.0%	\$31.3	52.3%	\$448.0	1.7%	627.2	11.6%	289.4	46.1%	1,988.9	7.2%
LMICs	\$78.6	58.4%	\$56.8	61.0%	\$32.4	53.9%	\$8,014.4	29.7%	3,211.8	59.6%	332.7	53.0%	10,497.7	38.0%
of which India...	\$2.3	1.7%	\$6.4	6.9%	-\$2.8	-4.7%	\$3,176.3	11.8%	1,407.6	26.1%	88.3	14.1%	3,619.8	13.1%
UMICs	\$2.3	1.7%	\$1.8	1.9%	-\$3.7	-6.2%	\$18,534.1	68.7%	1,547.7	28.7%	5.9	0.9%	15,103.3	54.7%
of which China...	\$0.0	0.0%	\$0.0	0.0%	-\$3.2	-5.3%	\$17,744.6	65.7%	1,412.4	26.2%	2.2	0.3%	13739.8	49.8%
All IDA	\$134.8	100%	\$93.1	100%	\$60.0	100%	\$26,996.5	100%	5,386.7	100%	628.0	100%	27,590.0	100%
	IBRD Commitments		IBRD Disbursements		IBRD Net Flows		GDP current \$US		Population		Poverty headcounts		GHG Emissions	
	\$US bn	%	\$US bn	%	\$US bn	%	\$US bn	%	mn	%	mn	%	Mt	%
	\$US bn	%	\$US bn	%	\$US bn	%	\$US bn	%	mn	%	mn	%	Mt	%
LMICs	\$65.6	51.9%	\$47.9	48.8%	\$32.2	60.8%	\$8,942.3	26.6%	2,883.7	55.7%	269.5	87.6%	10,447.7	32.4%
of which India...	\$2.3	1.8%	\$6.4	6.1%	-\$2.8	-5.3%	\$3176.3	9.4%	1,407.6	27.2%	88.3	28.7%	3614.5	11.2%
UMICs	\$60.7	48.1%	\$50.2	51.2%	\$20.8	39.2%	\$24,698.7	73.4%	2,294.8	44.3%	38.1	12.4%	21,838.5	67.6%
of which China...	\$9.0	7.1%	\$9.2	8.8%	\$2.8	5.2%	\$17744.6	52.7%	1,412.4	27.3%	\$2.2	0.7%	14,079.1	42.7%
All IBRD	\$126.3	100.0%	\$98.1	100.0%	\$52.9	100.0%	\$33,641.0	100.0%	5,178.5	100.0%	307.6	100%	32,286.3	100%

Notes: Commitments, Disbursements, and Net Flows are aggregated over 2016-2021 in constant 2012 \$US. Poverty headcounts are estimated as those living under \$1.90 2011 PPP. **Sources:** OECD Creditor Reporting System for commitments, International Debt Statistics for disbursements and net flows, World Economic Outlook for GDP, and World Development Indicators for population, author's estimates for poverty headcounts, and World Data Lab for GHG Emissions.

Appendix 3: World Bank financial support for watch-list countries in 4 key issue areas

	SDGs	Climate action	Debt	Displaced people
Top 10 countries	India	India	Argentina	Somalia
	Nigeria	Nigeria	Türkiye	Ethiopia
	DRC	Brazil	Egypt	Afghanistan
	Pakistan	Indonesia	Pakistan	DRC
	Ethiopia	Türkiye	Angola	Yemen
	Tanzania	Mexico	Sri Lanka	Syria
	Bangladesh	South Africa	Ukraine	South Sudan
	Indonesia	Bangladesh	Belarus	Burkina Faso
	Uganda	Iran	Lebanon	Haiti
	Madagascar	Egypt	Ecuador	Ukraine

Top 10 total 2016-2021 (constant 2012 \$US, % of total financial support)								
IBRD	\$20.2 bn	20.6%	\$35.0 bn	35.7%	\$23.3 bn	23.7%	\$2.3 bn	2.3%
IDA	\$41.9 bn	47.2%	\$19.8 bn	22.3%	\$6.5 bn	7.4%	\$17.3 bn	19.5%
Total WB	\$62.2 bn	33.2%	\$54.9 bn	29.3%	\$29.8 bn	15.9%	\$19.6 bn	10.5%

Source: World Bank International Debt Statistics for IBRD and IDA financing. International Rescue Committee; OECD Statistics; and Internal Displacement Monitoring Centre for fragility, violence, and conflict; EDGAR; World Emissions Clock; and Bhattacharya et al (2021) for climate; International Debt Statistics for debt; and preliminary results from Kharas, McArthur, and Onyechi (forthcoming) for SDGs.

Note: China and Russia excluded from analysis. Top 10 countries selected by number of people being left behind on the SDGs, climate financing gaps, debt service levels for countries with poor credit ratings, and the International Rescue Committee’s Emergency Hot Spots list 2022. Identification of watch-list countries is undertaken in Kharas and Rivard (2023), “30 developing countries to watch in 2023”.²⁸

Endnotes

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