Evolving the World Bank Group's Mission, Operations, and Resources: A Roadmap

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List of Acronyms

ASA	Advisory Services and Analytics
BSO	Balance Sheet Optimization
CCDR	Country Climate and Development Report
CPGA	Crisis Preparedness Gap Analysis
CPSD	Country Private Sector Diagnostic
CSOs	Civil Society Organizations
CPF	Country Partnership Framework
DRM	Domestic Resource Mobilization
DSC	Deployable Strategic Capital
FCV	Fragility, Conflict and Violence
FSF	Financial Sustainability Framework
GPGs	Global Public Goods
GRID	Green Resilient and Inclusive Development
HICs	High-Income Countries
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
LICs	Low-Income Countries
LTS	Long-Term Strategies
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MICs	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
MPA	Multi-Phased Programmatic Approach
NDC	Nationally Determined Contribution
PCE	Private Capital Enabling
PCM	Private Capital Mobilization
PSW	Private Sector Window
RMS	Results Measurement System
SCALE	Scaling Climate Action by Lowering Emissions (Trust Fund)
SCD	Systematic Country Diagnostic
SDGs	Sustainable Development Goals
SLL	Statutory Lending Limit
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children’s Emergency Fund
WBG	World Bank Group

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Introduction

1. **The world is facing a crisis of development**. After decades of progress, growth and poverty reduction have stalled. Routes to shared prosperity for low- and middle-income countries have become more challenging, with growing debt burdens, inflation, rising costs of finance, and other macroeconomic imbalances. Climate change impacts, ranging from floods and droughts to locust invasions, are jeopardizing hundreds of millions of lives and livelihoods, creating hunger, conflict and forced displacement. Together, these trends threaten the prosperity, peace, and sustainability of the world.

2. **Urgent action is needed to address the growing crisis of poverty and economic distress, and global challenges, including climate change, pandemic risks, and rising fragility and conflict**. Doing so requires a massive step up in the global community's support to developing countries, and an evolved approach to international development – one that can support long-term development at greater scale in low-and middle-income countries in an increasingly crisis-prone and volatile world, while also recognizing the increasingly cross-border nature of the challenges.

3. **At the 2022 Annual Meetings, shareholders called on the World Bank Group (WBG) to develop a roadmap of engagements with the Board of Executive Directors to respond to the challenges of poverty reduction, shared prosperity, and global challenges**. This message was echoed at COP27, with calls for loss-and-damage financing for developing countries and demands for the international community to enable Multilateral Development Banks (MDBs) to significantly increase their climate finance, both for adaptation and mitigation. Other calls, including from civil society organizations (CSOs) and think tanks have emphasized similar themes. These calls are welcome, as renewed progress to tackle poverty, shared prosperity and climate change will take a concerted global effort. Addressing the crisis facing development of broad growth challenges, climate change, heavy debt burdens, high inflation, growing fragilities, and reversals in poverty reduction, requires an evolution of the World Bank Group's mission, Operating Model, and Financial Capacity.

4. **This Roadmap paper outlines the approach that the World Bank Group will take** to (i) clarify and expand our Vision and Mission to broaden the "Twin Goals" (ending extreme poverty and boosting shared prosperity), to recognize the importance of tackling extreme poverty, broader poverty and achieving clearly defined prosperity objectives; and to emphasize the importance of sustainability and resilience to reflect more clearly that our mission includes global public goods (GPGs), such as climate change, pandemic preparedness, prevention and response; (ii) review our Operating Model and consider enhancements to our country engagement model, analytics, financing instruments, and incentives, within an enhanced One WBG approach; and (iii) explore options to expand our resources and enhance our Financial Model. This evolution will be a joint effort by Management and the Board, through a transparent, inclusive, iterative process, and will include engagement with other stakeholders.

5. **The Roadmap paper is structured as follows:** (i) Section A sets out the context for this evolution exercise; (ii) Section B outlines the rationale and guiding questions for an evolved WBG Mission; (ii) Section C presents initial ideas on how our Operating Model can further evolve with key questions to be explored; (iii) Section D focuses on the Financial Model and key elements to

look at in order to improve the financial capabilities of the WB; (iv) Section E provides a roadmap with plans to engage with Executive Directors on the WBG's evolution; and (v) Section F highlights key questions for Executive Directors' guidance.

A. Context

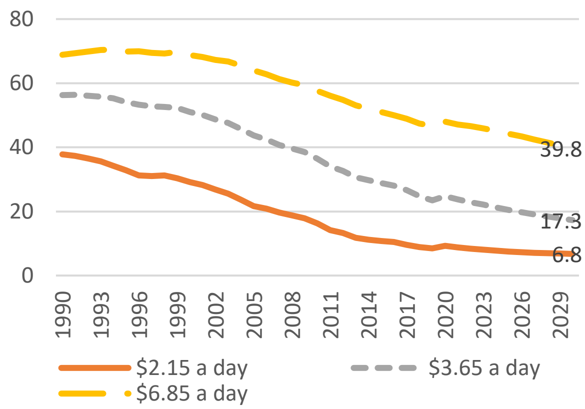
6. **The global goals of boosting shared prosperity and ending extreme poverty by 2030 are increasingly out of reach.** After decades of progress, poverty reduction has stalled. Extreme poverty (measured at the poverty line of $2.15 per day) declined from 38 percent of the global population in 1990 to 8.4 percent by 2019, with a reversal during the COVID-19 pandemic. In 2020 alone, the number of people living in extreme poverty rose by over 70 million – the largest one-year increase for over three decades – and those who were already extremely poor have become even poorer. At the current rate, nearly 600 million people—7 percent of the world's population—will still be living on less than $2.15 a day in 2030; looking at poverty more broadly, over 3 billion people live on less than $6.85 per day, the typical national poverty line of middle-income countries (Figure 1.A). These people typically lack access to quality education, healthcare, and jobs. The pandemic has significantly slowed progress on human development across all income levels and hard-won gains on gender equality are also at risk. Learning interruptions owing to school closures risk the current generation of students losing the equivalent of 14 percent of today's global GDP in lifetime earnings (UNESCO, UNICEF, and World Bank 2021).

7. **The fight against poverty is affected by a series of structural trends that will make good development outcomes much harder to achieve over the coming decades.** Many of these trends have worsened since the 2016 Forward Look, adding to the urgency to overcome them. The effects of climate change on growth are becoming more visible, particularly for poorer countries, including on labor productivity, agricultural yields, water availability, natural disaster risks, and migration. New modelling suggests that these impacts are likely to have significant economywide costs, as measured against GDP, particularly for poorer countries.[1] Demographic changes, migration patterns, and urbanization trends create different challenges. Countries with aging populations will need to invest in sustainable health and welfare systems, while younger populations will require accelerated job creation; changing immigration patterns and increasing urbanization rates will need to be met by appropriate provision of services and jobs creation to be successful.

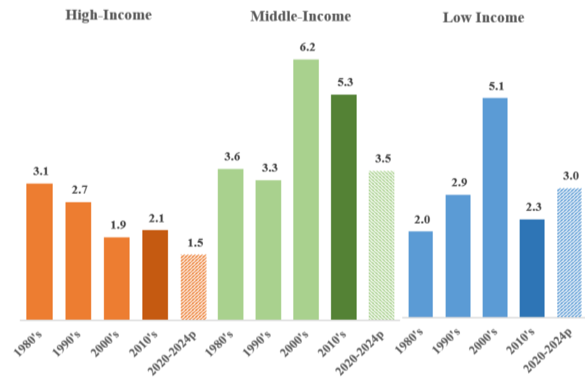
[1] World Bank Group. 2022. Climate and Development: An Agenda for Action - Emerging Insights from World Bank Group 2021-22 Country Climate and Development Reports. Washington, DC: World Bank. © World Bank Group. https://openknowledge.worldbank.org/handle/10986/38220 License: CC BY-NC-ND

Figure 1: Global and Institutional Context

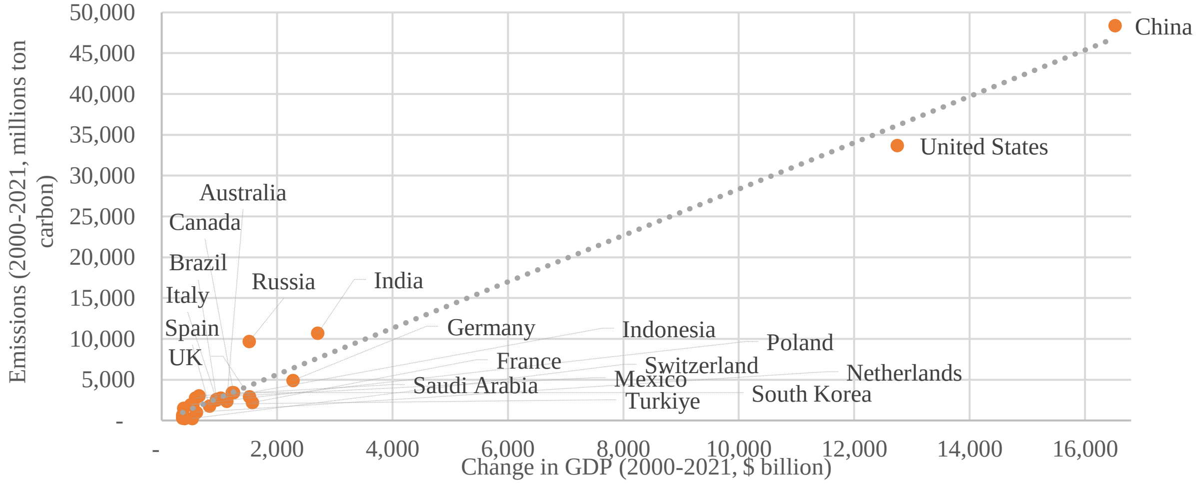
A. Share of the global population living in poverty (%, various measures)



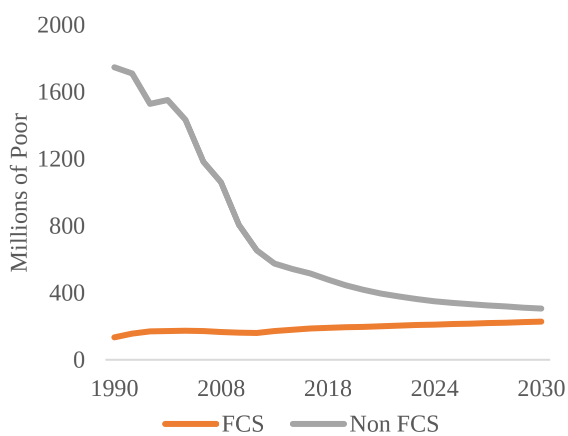
B. Average Growth Rates by Income Groups (%), 1980s to 2024



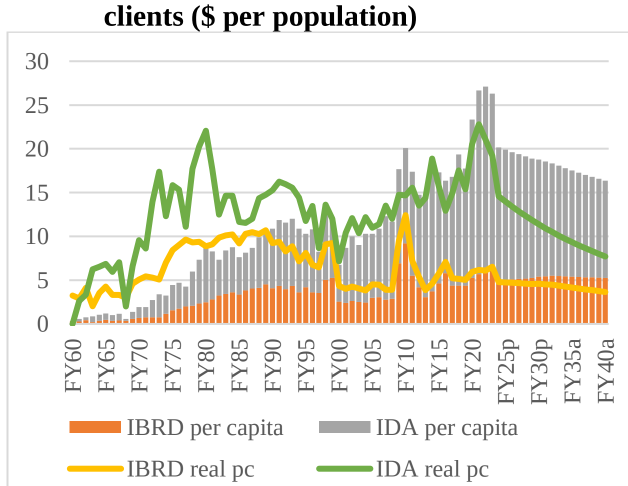
C. GDP level changes vs carbon emissions



D. Population estimates in extreme poverty



E. Per capita IBRD and IDA support to clients ($ per population)



Source: A: World Bank, Poverty and Shared Prosperity Report 2022; B/D: World Bank World Development Indicators (WDI); C: World Bank WDI; and Global Carbon Budget 2022; E: UN World Development Prospects 2022; IBRD FY23 Financial Sustainability Framework Paper; and IDA20 documents (various). Note: D. Based on 2019 estimates.

8. **Increasingly, these structural trends reflect global challenges, with considerable spillovers across borders**. Cross-border risks including impacts of climate change such as extreme weather and global health crisis such as the COVID-19 pandemic are increasing in frequency and intensity while violent conflicts are escalating – with wide and devastating spillovers across countries. In this changing development landscape, large-scale reversals in development progress across low-income countries (LICs) and middle-income countries (MICs) precipitated by overlapping crises since 2020 have put the WBG's Twin Goals increasingly off-track. Following the COVID-19 pandemic and the fallout of Russia's war in Ukraine, growth scenarios are projected to be much lower than historical averages. MICs have driven global growth since the 2000s (Figure 1.B), but they are projected to slow down over the next few years. While growth in LICs is expected to gain momentum again, it is likely to be insufficient to reduce poverty significantly. Richer countries that were able to significantly expand their economies over the last decades were the largest contributors of global CO_2 emissions (Figure 1.C).[2] MICs and even more LICs – particularly small states – are among the most affected by climate change impacts and natural degradation and face the most significant costs of adapting to it.

9. **Most developing countries, and particularly Fragile, Conflict and Violence (FCV) affected countries, are not prepared to face the development challenges presented in today's world.** On the one hand, poverty is increasingly concentrated in FCV affected countries which have low capacity to act. About half of the world's extreme poor are expected to live in FCV affected countries by 2030; a share that could be even higher when accounting for the impact of the pandemic and Russia's war in Ukraine (Figure 1.D). Fragility, conflict, and violence has led to a surge in forced displacement and poor people affected live in both MICs and LICs. Climate change multiplies many of the threats in FCV affected countries[3]. On the other hand, fiscal space across developing countries has contracted significantly since 2020, in part due to fiscal stimulus for pandemic response (World Bank 2022a). But even before the pandemic, public debt burdens were rapidly rising. Total gross debt in developing countries reached 256 percent of GDP in 2020, a fifty-year high. Many countries now face unsustainable debt levels jeopardizing countries' ability to pursue needed investments into the future.

10. **The overlapping crises of the COVID-19 pandemic, the war in Ukraine, and worsening climate impacts led to record WBG support since 2020, but current trajectories are not adequate to confront future challenges.** Given the urgency of needed support in 2020, per capita funding from the WBG was stepped up significantly to help countries respond to the COVID-19 pandemic (Figure 1.E) and address climate change. FY22 saw a record WBG support of nearly $115 billion to respond to overlapping crises, including a record $31.7 billion in financing to help countries address climate change. But <u>the 2018 Capital Package was designed to be prepared for one mid-sized crisis a decade, and not multiple, overlapping crises</u> including an accelerating climate crisis. The approved three-year IDA20 envelope has been frontloaded in FY23, and IBRD is set to deplete its approved crisis buffers by FY24, if not earlier. Consequently, <u>within the constraints of the approved IBRD Financial Sustainability Framework (FSF) and available IDA20 resources, World Bank support is set to decline starting in FY24</u>. Further, in real per capita terms, IBRD support today is below the levels seen in the 1980s. At the same time, IDA

[2] IBRD countries accounted for more than 60 percent of global emissions in 2019, while IDA countries only accounted for about 2 percent.
[3] ND-GAIN Country Vulnerability Index, 2022.

countries' populations are set to rise by 25 percent by 2050, which will make it challenging to maintain constant real per capita IDA allocations over the long-term in most client countries.

11. **The WBG has adapted to change in its scale and mandate and is well positioned to do so again.** Over its history, several turning points positioned the WBG for global leadership on long-term development and crisis response, including the shift to focus on poverty and sustainable development in the late 1970s. The 1997 Strategic Compact introduced organizational adjustments and vital directions (including expanding the global footprint) that aided the response to the East Asia financial crisis and the Global Financial Crisis. The advent of the Twin Goals in 2014, the Forward Look in 2016, and the IBRD/IFC capital package of 2018 laid the groundwork for expanding WBG synergies, responding to clients across the income spectrum, integrating GPGs, and adding some financial capacity for crisis response. The past three years have also demonstrated the WBG's ability to respond with speed, scale, and impact to individual crises and also global challenges, including the COVID-19 pandemic. The evolution described in this Roadmap will build on these past experiences to adapt.

B. Evolving our Mission

12. **To address the crisis facing development and support climate action and other GPGs, the WBG must evolve its Mission.** The Twin Goals – eradicating extreme poverty and boosting shared prosperity in a sustainable manner – were set in 2012 and designed as a synthesis of the different dimensions of the Millennium Development Goals (MDGs – later the Sustainable Development Goals, or SDGs), reflecting the WBG's major role to support the achievement of these broader goals. Given the impact of growing global challenges on the achievement of poverty reduction, shared prosperity, and the SDGs, it is important to evolve the WBG's Mission to strengthen development impact. This involves better addressing global challenges even as the WBG remains focused on poverty reduction and shared prosperity.

13. **As part of the roadmap, this engagement will involve reviewing how to strengthen the focus of our Mission by addressing the following questions.**

14. **First, is the definition of poverty appropriate for the challenges facing developing countries today?** Our sharp focus on extreme poverty has been impactful, despite recent setbacks. The imperative of ending extreme poverty continues. In 1990, 9 out of 10 of the world's extreme poor lived in LICs. In contrast, when the Twin Goals were set (mostly driven by the income classification of populous countries like China and India), 7 out of 10 extreme poor were living in MICs. It is expected that, by the end of the 2020s, the majority of the world's extreme poor will once again reside in LICs even though they make up less than 10 percent of the global population. The likely number of people living in extreme poverty will be close to 700 million, making a compelling case for continuing to have global (extreme) poverty reduction as the first goal. Looking at poverty more broadly, nearly half the world – over 3 billion people – lives on less than US$6.85 per day, the average of the national poverty lines of upper-middle income countries; the prevalence and persistence of poverty darken the outlook for billions of people living around the world including in MICs. The WBG could consider adding a higher poverty line to be targeted

alongside extreme poverty. This might align with the WBG's principle to "serve all clients", including urgently supporting poor people in MICs.

15. **Second, building on lessons learned, is there a case to be made for revisiting the shared prosperity goal?** In an increasingly globally integrated world, inequality between countries is amplifying development challenges. The current metric of shared prosperity measures the extent to which economic growth is inclusive, by focusing on household consumption or income growth among the bottom 40 percent of the population, but not whether growth is sufficient to raise overall prosperity. The evolution exercise will review the current approach and explore the possibility of using new indicators for measuring prosperity. Approaches to be explored include adding a focus on raising national median income and paying enhanced attention to the gaps in prosperity between countries, among other options. Raising overall prosperity to narrow the prosperity gap between countries would be an ambitious undertaking that challenges countries at all income levels to improve the well-being of the world's less fortunate. A technical note on this issue will be prepared for discussion.

16. **Third, how can the World Bank Group ensure appropriate focus on global challenges in its Mission statement?** The roadmap process will need to prioritize new global challenges that the WBG will work on, building on principles such as: (i) selectivity; (ii) relevance to reduction of global poverty and prosperity gaps; and (iii) ability for the WBG to add value. This could include topics such as climate change (mitigation and adaptation), pandemic preparedness, fragility, migration, and regional development, recognizing that these priorities may change over time. Some of these challenges might require changes to the Operations Model and Financial Model. The private sector will play an essential role in addressing climate mitigation and the energy transition, including as project implementers, financers, and innovators. The One WBG approach will need to be reaffirmed and strengthened. Moreover, new regional approaches may be needed for GPGs that reflect issues where the costs and benefits might not align in the same country or spill across borders, including changes to allocations and financial incentives, program prioritization, and impact measurement.

17. **Fourth, how can we ensure that the Mission serves *all* clients, including MICs?** While the WBG will continue working with all developing countries, especially LICs, small states, and fragile states, the evolution of the WBG Mission will require increasing financial and analytical support to MICs for both poverty reduction and addressing global challenges. Economic growth and convergence to the living standards in advanced economies is a priority in MICs, alongside poverty reduction, and the WBG has an opportunity to play an even greater role to support countries' efforts to build human capital, create a robust business enabling environment, and unleash private sector growth. The private sector is a larger economic actor in MICs than in LICs. WBG involvement with MICs offers the opportunity to learn from these countries' experiences and apply these lessons to LICs. Furthermore, MICs will be instrumental in achieving progress on global challenges such as climate mitigation and pandemic prevention and preparedness. While the 2018 capital increase for IBRD and IFC interpreted "serving all clients" as reorienting lending towards lower income countries, the need to make progress on global challenges would require a rebalancing of this strategy to identify opportunities to better respond to MIC clients. Selected engagements, e.g., on the knowledge front, with High Income Countries (HICs), might also be relevant to such Mission.

18. **The WBG will need substantial additional financial capacity to respond to a more ambitious, updated Mission.** The challenges the world is facing call for a massive step up in the international community's support. For the WBG to continue to play a central role in development and climate finance, it will need a concerted effort by both shareholders and Management to step up WBG Financing Capacity. This may include further optimizing the balance sheet, increasing the IBRD equity through various options, and increasing mechanisms for concessional funds for WBG activities to address GPGs.

19. **Given the scale of the financing needs, official multilateral financing must catalyze other financial flows**. The WBG's role can be amplified through efforts in areas such as private capital facilitation, (both private capital mobilization (PCM), through co-financing and de-risking, and private capital enabling (PCE), through reforms and public investments), domestic resource mobilization (DRM) and improving the efficiency of public spending. This requires continuous support to build country institutions and capacity, which would enable country-level development outcomes and contribute to addressing global challenges. Finally, it requires bringing rigorous analysis, global knowledge and focus on development outcomes to ensure maximum effectiveness and impact of financial resources. Such "impactful delivery" will further stretch financial resources.

20. **In line with an adapted Vision and Mission, the roadmap of engagements will discuss scenarios for evolving the WBG's Operating Model and transforming its Financial Capacity.** These scenarios will need to build on a common understanding of the most pressing global challenges over the next few decades; how the Mission of the WBG needs to be refined; and how the operational and Financial Model need to evolve to match the Mission and Vision.

C. Strengthening the Operating Model

21. **The value of the WBG's country-based model is well established and could be broadened**. The country engagement model has proven its effectiveness and the WBG track record of delivery – on development impact, climate finance, and other objectives – is underpinned in part by our close engagement at the country level. The country-based model has also been instrumental in supporting progress in the areas agreed in the 2018 IBRD/IFC Capital Increase, such as the increased focus on Africa and fragile states (including for IFC) and more focus on global challenges, in particular on climate change. Nevertheless, the crisis in development and an expansion in our WBG vision call for bold options to strengthen our Operating Model.

22. **Evolving our Operating Model will involve addressing five fundamental questions.**

23. **First, how can the WBG adapt its country engagement model to better address global challenges while maintaining its focus on country-driven development?** Complemented by an increased decentralization of staff to client countries, the WBG's country-based development model has proven effective in supporting the Twin Goals**.** A key aspect of the WBG value proposition is the ability to program cross-sectoral country engagements, bringing together interlinked aspects of development to improve country development outcomes.

24. **In that context, the prioritization of WBG country engagements will need to evolve.** Systematic Country Diagnostics (SCDs), Country Partnership Frameworks (CPFs), and the Green Resilience and Inclusive Development (GRID) approach drive country engagement. SCDs and CPFs could expand their scope from extreme poverty to also include broader definitions of poverty, shared prosperity, and sustainability. They could also analyze the overlap and trade-offs between global challenges and country development outcomes and identify country level priorities that would help address selected global challenges. Also, in its country engagements, the WBG will explore ways to further support country-level partnerships. The WBG's convening power can for instance provide platforms for coordinated action on key global challenges (e.g., using Country Climate and Development Reports – CCDRs – to create Country Partnerships for Climate and Development).

25. **To underpin prioritization as well as policy dialogue, Country Advisory Services and Analytics (ASA) will need to evolve to enhance focus on countries' exposure to, as well as contribution to, global challenges.** Country level analytics are a critical step to (i) identify country priorities and key global challenges affecting their development and (ii) prioritize the most sustainable, effective, and affordable path to address them. CCDRs have started this process, but more is needed. Country Private Sector Diagnostics (CPSDs) could evolve to identify opportunities more sharply for private sector growth and cover more MICs. The Crisis Preparedness Gap Analysis (CPGA) introduced in IDA20 to inform IDA's support for crisis preparedness could be expanded to clients across the WBG to strengthen preparedness and build resilience to future global shocks.

26. **The WBG will also review its current toolbox of financing instruments.** This will help to move toward (i) more systematically connecting country programs to global challenges (e.g., through country, regional, or global programs using Multiphase Programmatic Approaches – MPAs); (ii) increasing the size of programs and their impact, including through WBG platforms and greater PCE and PCM; and (iii) stronger focus on crisis preparedness, disaster risk reduction, and crisis response. A strong focus on outcomes will be essential to raise the development impact of these instruments. The WBG will also explore increasing financing at the sub-national level. Broadening the scope and amount of concessional blended finance will be another critical part of this exercise. This includes options for IFC and MIGA projects.

27. **Second, what is the right approach to allocations, incentives, and concessionality for IBRD and IDA?** The allocation systems for IBRD and IDA, which currently rely on criteria of needs (focused on poverty or income per capita), performance (reflecting expected impact and ability to implement), and capacity to pay (in terms of creditworthiness for access to IBRD, or in terms of debt sustainability for access to the more concessional terms of IDA) may need to evolve. An expanded attention to questions of resilience (e.g., to climate shocks) would open the possibility of exploring how vulnerability could be addressed as part of the eligibility framework. A focus on global challenges might also require revisiting the emphasis on income per capita, and the emphasis of the 2018 Capital Package on providing 70 percent of non-crisis IBRD financing to below the GDI countries by 2030, as countries with higher income per capita (including above the GDI) are essential partners to achieve progress on GPGs (e.g., on carbon emissions). Finally, on the needs side, while the IDA FCV envelope has provided a vehicle to enhance the engagement in FCV countries, more needs to be done to support IBRD FCV countries. Likewise, while the

IDA Regional Window has supported regional solutions among IDA countries, a parallel approach might be needed for IBRD countries.

28. **Work on this front will also include exploring ways to further use concessionality to incentivize countries to invest in projects and support policies to address GPGs, including in MICs.** It is important to recognize, for example, that developing country governments with limited resources and increasing pressure to grow have little incentive to invest in long-term climate adaptation measures or pandemic preparedness as benefits are not realized for decades. Companies in these markets have little incentive to decommission or retrofit existing power and industrial plants to reduce GHG emissions, since the climate change impacts are globally shared. Concessional finance can help internalize externalities, however a rules-based, and targeted approach to assessing costs and benefits will need to be developed. Providing price incentives for GPG financing at scale could build upon the approach used for the pilot phase of the GPG Fund. The WBG can explore standardized approaches to providing concessionality through mechanisms like interest buy-downs and performance-based incentives for the private and public sectors. For instance, the Scaling Climate Action by Lowering Emissions (SCALE) trust fund will provide concessional financing for verified emissions reductions. The Bank will also explore options to scale up IBRD's GPG Fund, including from donor contributions, and other selected Umbrella trust funds which incentivize country engagement on cross-border issues, while avoiding fragmentation. Scarce concessionality should not only incentivize individual transactions, but also provide broader support to policies that address GPGs. Building on the lessons learned about the catalytic effect of IDA's Private Sector Window (PSW) in LICs, IFC/MIGA will explore developing an IFC managed multi-donor Trust Fund with appropriate governance setup, that provides a stable pool of concessional financing to support private sector actors in non-IDA countries, with a particular focus on delivery under the expanded Vision and Mission, including GPGs.

29. **Third, what is the right balance of engagement at country, regional, and global levels?** The WBG will explore deeper engagement at the regional and global levels through its global convening, coordination, and advocacy role. This can involve a number of roles, such as (i) technical assistance to develop ambitious Nationally determined Contributions (NDCs) and Long-Term Strategies (LTSs), CCDRs that provide the basis for deepening this engagement, and verified emission reduction as a pathway to larger carbon credit markets; (ii) standard-setting and promotion of transparency (e.g., the recently launched Food Security Dashboard; or IFC's work with peer DFIs and standard setting bodies to develop global taxonomies and standards for investment products to operationalize the Sustainable Blue Economy Finance Principles and the Biodiversity Finance Reference Guide); (iii) leadership and collaboration among MDBs; (iv) joining or leading platforms for coordinated action on regional and global initiatives (e.g., on forced migration); and (iv) global advocacy through flagship reports and guidance notes. In all these roles, the WBG plays an important role in amplifying the voices of its clients and could explore more engagement with current non-client countries as needed, including HICs.

30. **Fourth, how can the WBG do more to mobilize and enable private sector solutions and financing in our operational approach to support long-term country development and to make progress on global challenges?** While the public sector has an important role to play in global challenges like climate change, the private sector brings both the finance and technological

innovations that could be game changers to tilt the balance towards a sustainable planet. The WBG will explore additional financial innovations to boost PCM and PCE efforts. The WBG has pioneered green bonds, blue bonds and other thematic and sustainability linked bonds and loans for client countries and firms while innovating structured finance solutions that can crowd in institutional investors. This may require further innovations on wholesale facilities, platforms, and programs to mobilize private co-financing for portfolios of public and private sector operations. Securitization platforms may be an opportunity. The WBG could strengthen voluntary carbon markets by de-risking solutions or being a "trusted intermediary", unlocking revenue for developing countries and impactful projects for investors. The WBG could also expand the use of standardized and replicable approaches (such as the Scaling Solar and Mini and Off Grid Programs). Developing local capital markets to increase private capital flows and unlock private capital will be important. Deploying guarantee instruments and blended finance will be needed to catalyze more private investment, including equity investment, to address both country priorities and global challenges. The WBG will explore options to broaden the scope and amount of concessional blended finance.

31. **Mobilizing private capital through our operations will require strengthening our focus on the Cascade and the One WBG Approach.** Addressing the present compounding development challenges necessitates action by both the public and private sectors and requires coordinated engagement across WBG institutions. The 2016 Forward Look and the 2018 IBRD and IFC Capital Packages emphasized the critical importance of a One WBG anchored in the "Cascade". This approach asks the WBG to help countries maximize their development resources by drawing on private financing and sustainable private sector solutions, while reserving scarce public financing for those areas where private sector engagement is not optimal or available. More work is needed to better align diagnostics, instruments, and incentives across the WBG institutions. A WBG-wide approach could include further support to resolution of grievances by ICSID.

32. **Fifth, the engagement will review how the WBG can further strengthen its focus on outcomes by strengthening investment in data, impact evaluation and results architecture.** Impact evaluations currently cover approximately 5 percent of the WB portfolio and have uneven sectoral coverage. Investment in data generation and capacity in developing countries is inadequate. The WBG could strategically increase investments in impact evaluation for both public sector and private sector interventions. This could include strengthening country capacity to undertake impact evaluation, given its potential to guide domestic spending, and increasing the evaluation of operations supporting GPGs like climate. Experience shows that timely impact evaluations can enhance the quality of project design and implementation by informing evidence-based mid-course corrections, and filling knowledge gaps that then benefit subsequent projects. The corporate WBG results architecture will also need to evolve to reflect an updated Mission and Operating Model, including through a new Corporate Scorecard with revised results indicators to measure progress towards the expanded Mission, updated definitions of poverty reduction and shared prosperity, and an increased focus on climate adaptation and mitigation. A new IBRD Results Measurement System (RMS) could be set up to track contributions to the desired outcomes of an IBRD concessional window on selected GPGs (see Box 1).

Box 1: Regular Reviews of Strategy and Financing of IBRD Concessional Fund

While IDA has an established process to review its strategy and financing – from its priorities and key targeted results to its financial architecture and funding levels – IBRD does not have an equivalent mechanism. This might be one factor driving the stagnation of IBRD's resources as well as its challenge in raising concessional resources targeted at IBRD clients.

A regular review of the strategy and financing of an IBRD Concessional Fund could involve periodic stock-takes of the key development priorities that IBRD countries face and the key global challenges that affect them and to which they contribute. It could translate into a selective set of priorities captured in an "IBRD RMS", as well as a strategically targeted concessional resource envelope with key allocation priorities.

33. **The evolution of the WBG Operating Model will be underpinned by enhanced institutional capacity.** Cutting across the questions related to the operational model are the roles of knowledge (in analytical work, financing operations, and partnerships; at the country, regional and global level; and in focusing on impact) and incentives (through prioritization of country engagements, building on sound analytical basis, and through allocations and concessionality). Additionally, and importantly, a WBG with an evolved Mission will require increased staffing and budget resources to deliver high quality operations with concrete country, regional, and global development outcomes – even after accounting for possible economies of scale savings (see Box 2). Many of these features are closely linked to the Financial Model, which is discussed below.

Box 2: Administrative and Budgetary Implications of a broadened WBG Mission

As the broadened vision entails delivering a larger and more complex work program, it will have critical staffing and budgetary implications. The WBG's exceptional response to the COVID-19 pandemic and other compounding crises has stretched the limits of staff capacity. Further increasing the Bank's scale will require additional staff and a more diversified mix of skill sets, particularly on frontier issues related to GPG. A combination of creating new positions and adapting HR policies to attract, retain, and deploy talent will be needed. A strengthening of the country model would also be achieved by further decentralization of staff. In terms of budgetary implications, despite the recent expansion in programs and related cost pressures, the Bank's administrative budget has seen a decline of 3 percent in real terms between FY07 and FY21. Over the past decade or so, the budget has maximized available financial resources through tight budget discipline and an ambitious program of efficiency and economy of scale savings, and additional modernization efforts are underway, such as increasing the average size of lending operations, reducing bunching, simplifying procedures, and making greater use of technology. While these initiatives will continue to yield efficiency gains and cost savings, they will not be sufficient to sustain the WBG expanded mission contemplated in this roadmap. Additional budgetary resources will be needed to address such areas as increased volume and more complex financing operations; enhanced knowledge, technical assistance, and partnership work; investment in data, impact evaluation and results architecture; and the funding needed for strengthening the global footprint together with institutional support for these deliverables through for instance new instruments and facilities.

D. Strengthening our Financial Model and Financing Capacity

34. **To deliver on an evolved Mission and a strengthened Operating Model, the WBG's Financial Model and Financing Capacity needs to be strengthened substantially.** Sustained high-level financing will be required to regain lost ground on the Twin Goals and the 2030 agenda and meet new challenges such as addressing the climate emergency. Significantly increased concessional resources will be required from the global community, alongside balance sheet optimization (BSO) and financial innovation options. The IBRD's Financial Sustainability Framework (FSF), agreed in the 2018 Capital Package, which – due to the heavy drawdown of the crisis buffer during the pandemic and subsequent shocks[4] – is facing acute financing constraints as early as FY24, which, as well as the continued elevated demands on IDA, will both require rapid action. The World Bank's Financial Model therefore needs to address the near-term lending decline as well as the requirement for additional capacity to respond to WBG's updated Mission and address the reversals in the progress towards SDGs. While IFC and MIGA have adequate capital, they will need significantly increased concessional resources to meet the demands for addressing GPGs in all WBG client countries. Any augmented role for MIGA in the international financial architecture may also require a reassessment of MIGA's financial capacity in relation to new anticipated outcomes.

35. **The WBG has a long track record of BSO and financial innovations and will explore different options to strengthen the World Bank Financial Model and Financing Capacity in the context of the Roadmap.** The first set of papers, consisting of a Chapeau paper along with four deep-dive Technical Notes on options for IBRD such as <u>risk transfer</u>, <u>non-voting (hybrid) capital</u>, <u>callable capital,</u> and <u>Statutory Lending Limit (SLL) solutions</u>, were discussed with the Executive Directors at a Board Seminar on December 13. Management is following up on the questions and guidance received from Executive Directors and will prepare additional Technical Notes for discussion in Q3 of FY23. These notes will include inter alia a review of IBRD's <u>minimum equity-to-loan ratio</u> to assess feasibility for a moderate reduction to enhance the efficiency of capital utilization. These options will be integrated, under the Financial Model Workstream, with other capacity-enhancing options such as <u>IDA transfers</u>, <u>loan pricing</u> and <u>capital increase</u> for Executive Director consideration. IBRD transfers to IDA could be redirected to other purposes (such as supporting concessionality in MICs) if IDA contributors were to substantially step up their cash contributions to IDA, which have declined over the past decade.[5] The potential for loan price increases to boost IBRD's financing capacity may be limited, given questions of

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[4] Since 2020, both IBRD and IDA have leaned forward, providing significant upsurge in financing to rapidly respond to borrowing countries' crisis response needs. IBRD has provided surge financing via the use of the crisis buffer under its FSF. IDA has leant forward via a sequence of (a) frontloading within IDA19, (b) accelerating IDA20 and (c) now frontloading within IDA20. While this surge financing demonstrates the Bank stretching its resources for maximum deployment, and its unique capacity for scale and delivery, the sustained surge financing is projected to result in the FY24 lending capacity for both IBRD and IDA declining from the FY23 level of $36 billion each to $28 billion, even as the urgency to maintain exceptional financing into FY24 remains a pressing need.

[5] Since 1964, IBRD has annually transferred a portion of its allocable income to support other development purposes, with transfers to IDA representing the bulk of IBRD's income transfers. Cumulative IDA transfers, including for HIPC and facilities that target African countries, sum up to $19 billion. Other recurring transfers have included support for West Bank and Gaza, and more recently, the GPG Fund.

affordability and debt burden of borrowers.[6] A capital increase can also be considered as an effective and scalable mechanism to boost IBRD's financial capacity and send a strong signal of continued shareholder support, should BSO measures alone not be sufficient to provide the needed financial capacity to scale up delivery.

36. **Increasing IDA's financing envelope will be needed to support an evolved WBG Mission.** IDA's frontloading in 2020-2022 worked to meet urgent needs but leaves less financing available for future years. In the short-term, during IDA20, as a result of Russia's war in Ukraine, rising food insecurity, and the global downturn, the frontloading in FY23 necessary to respond to these unforeseen conditions translates into a sharp reduction in available resources in FY24-25. In the medium-term, the decline in IDA's Deployable Strategic Capital (DSC) after 2030 will significantly undercut IDA's financial capacity while demographic pressures further squeeze IDA's allocations on a per capita basis. Improving IDA's financial capacity will be a critical element to ensure that the WBG continues the same level of support to IDA countries even as it steps up efforts to address global challenges.

37. **Increasing concessional financing for MICs is needed and would have significant implications for WBG's Financial Model.** Today, developing countries face enormous challenges to meet their climate targets and transition to low carbon economies. Climate action requires financing at significant scale, and constrained public resources alone will not be enough to provide the funding required to meet this challenge. High levels of debt and low levels of grant-based climate resources compound this problem. To this end, the evolution process will include exploring financing vehicles such as SCALE (Scaling Climate Action by Lowering Emissions), a new trust fund launched at the 2022 Annual Meetings to help bridge the climate finance gap, by pooling funding from the global community and providing grant payments on a results basis to client countries against verified greenhouse gas emissions reductions. Key to this effort will be identifying options for creating partnerships that are integrated fully within the World Bank Group's operations, helping amplify concessional finance which, combined with providing capacity building support, will help countries achieve their development objectives.

38. **The Evolution process will explore a range of new financing options.** For example, borrowing from the IDA approach, a periodic replenishment of the grant resources for IBRD required to achieve the desired concessionality and de-risking for GPGs could be explored to ensure adequate public and private financing for global challenges through a standalone SCALE structure (as discussed above) or an 'IBRD Concessional Fund' (see Box 1). Funding of blended finance will also need to be expanded to support private sector financing, including in MICs. Such a fund may attract donor bilateral resources separate from shareholder budget lines supporting the WBG, and potentially include donors beyond shareholders (e.g., supranational or private entities). Trade-offs of prioritization (under the guiding principles of 'minimizing concessionality to what is needed'), efficiency, and governance will need to be addressed: in particular, concessional

[6] A key component of IBRD's financial model is a 'cost-pass-through' approach to loan pricing, whereby the lending rate on IBRD's loans is based on a markup ('lending spread') over the average cost of IBRD's borrowings. The lending spread, also referred to as IBRD's loan pricing, is composed of (i) a uniform contractual lending spread and (ii) a maturity premium based on the average maturity of the loan, with the maturity premia varying by the income level of the borrower (introduced as part of the 2018 capital package). IBRD's loan pricing is determined by the Board based on balancing financial sustainability considerations with the Bank's development mandate.

financing for MICs should be additional, to tackle essential global challenges, and not at the expense of poorer countries.

39. **Importantly, the Financial Model workstream will review ways in which the institution mobilizes private capital and resources more broadly.** The magnitude and complexity of the challenge requires a holistic and programmatic approach that the WBG is uniquely positioned to deliver. The approach must provide comprehensive solutions to deliver PCE and PCM. Increasing PCE and PCM across the WBG calls for deepening collaboration with new and existing partners, innovating new financial platforms, including wholesale private co-financing mobilization facilities or securitization platforms. The WBG has direct access to government policy- and decision-makers in advanced and developing economies, who can affect the policy and market reforms as well as project framing and preparation work essential to mobilizing the massive pools of private capital that are key to the success of this mission. In an expanded Mission, MIGA's insurance products and reinsurance capabilities could potentially transfer portfolio risk from MDB balance sheets and allow MIGA to mobilize private sector resources more broadly. Beyond private capital, a more strategic approach to co-financing arrangements would provide another avenue to stretch WBG resources in an efficient way, by: (i) adopting a more targeted approach to co-financing that considers country context and co-financier terms; (ii) increasing collaboration with new partners; and (iii) developing a MDB cooperative financing platform to facilitate information flow on project pipelines and identify opportunities for collaboration.

E. Roadmap of Engagements

40. The Evolution Process will require negotiations on key elements of the WBG's Mission, Operating Model and Financial Capacity. To move forward, the following principles will help guide the process in the months ahead:

- **Serving all clients**: Management will focus on ensuring that the WBG continues to serve all clients, including middle income countries, tackle their priority development issues faster and in a way that advances select global challenges, including GPGs. Importantly, concessionality for IBRD countries should not be at the expense of the poorest countries.

- **Good development outcomes**: Management will build on the WBG's role as a key global development institution.

- **AAA-rating**: Management will explore all options that increase the capacity of the WBG whilst maintaining the AAA rating of the WBG entities.

- **Transparency and inclusion**: Management will be building consensus in a transparent, inclusive, and consultative manner, noting that for some proposals, nothing is agreed until everything is agreed. The quality of the process will be essential to the effectiveness of its outcome.

Process

41. **Management will have iterative engagements with the Board as follows:**

January 2023

The first Board discussion, in mid-January 2023, will focus on this paper. In addition to covering the elements of the roadmap, it will aim to foster consensus on the guiding principles above, with the following consultation process:

a. **Objectives & principles**: Review and confirm the objectives and scope as outlined in this Roadmap paper. The meeting will also confirm the principles of engagement with key stakeholders leading up to the Development Committee in April 2023.

b. **Scope**: Discuss and agree on the appropriate scope of options that should be explored commensurate with the magnitude of the challenges identified. While trade-offs will need to be made over time, the meeting will agree on the appropriate boldness of options that management should explore.

c. **Decisions**: The meeting will also discuss and agree on any possible early results (in particular, to approach the financing envelope drop that the World Bank will face in FY24) while recognizing that many of the most impactful features will have to be a <u>package</u> ("nothing is agreed until everything is agreed"). Considering trade-offs and priorities will require a package approach for a number of shareholder decisions.

February – March 2023

42. **Workshops with the Board will be organized between February and March to discuss the three building blocks of the WBG evolution.** Ahead of each workshop, a set of Technical Note(s) will be circulated. Each Board workshop will be aimed at identifying areas of consensus and additional areas where further technical work will be required. A first seminar would cover 'Vision and Mission', with a second seminar covering operations model and Financial Model.

a. **Vision and Mission**: This engagement will first firm up the picture of the challenges facing the world and delve into the evolution of the WBG's Mission and Vision. This will also be an opportunity to collectively define the selection of the key global challenges for attention and discuss the level of effort required to effectively address global challenges in all client countries. *The proposed technical note will focus on (i) global challenges and mega-trends affecting developing countries; and (ii) options to broaden the WBG's vision and mission.*

b. **Operating Model**: This engagement will focus on how the WBG can address global challenges in its Operating Model by mapping out adjustments in the current Operating Model including, identifying (i) levers in the WBG toolkit and workstreams that can be enhanced to further integrate global challenges in the country-based model and (ii) incentives to increase client demand and enhance the value proposition of the WBG to middle income countries. *Proposed technical notes include: (i) adjustments to the country engagement model; (ii)* *instruments; (iii) allocations and concessionality; (iv) private capital facilitation; and (v) options for engaging beyond country borders.*

c. **Financial Model**: Strengthening the WBG's capacity to respond to global challenges requires a boost to its financial power. This engagement will explore options to optimize and augment the WBG's Financial Capacity. *This will build on the discussion with Executive Directors on December 13 on BSO and financial innovation options, and will include a forthcoming review of IBRD's minimum equity-to-loan ratio to assess feasibility for a moderate reduction to enhance the efficiency of capital utilization. It will also include options regarding the financial capacity of IDA, financing concessionality, and attracting private capital and co-financing.*

43. **Discussions on the WBG's Vision and Mission will also include a consultative process between the WBG and other relevant stakeholders such as CSOs, think tanks, and other thought leaders.** First, the Roadmap paper will be publicly disclosed based on the outcome of the engagement with the Board. Management will seek input from external stakeholders on the design, development and implementation of the Roadmap and consult with external stakeholders in February-March 2023. Similar consultations will be carried out prior to the 2023 Annual Meetings.

April 2023

44. **As requested at the Fall 2022 Development Committee, WBG Management will report on the status of this dialogue at the Spring 2023 Development Committee**.[7] This Development Committee paper, which will be discussed in late March by the Committee of the Whole of the Boards of the Bank, IFC and MIGA, will summarize the options discussed by the Board to strengthen the WBG vision, Operating Model, Financial Model and Capacity. The paper will also identify potential measures for early decisions based on consensus views by Executive Directors.

May – October 2023

45. **Building on Governors' guidance at the Spring Development Committee, Management will prepare a Development Committee paper for endorsement at the Annual Meetings.** Beyond the Spring Meetings, Management will further engage with the Board to reach consensus on a package of proposals through a series of technical briefings to further refine options and proposals, followed by a Board retreat to bring proposals toward a package.

[7] Statement by Ms. Azucena Arbeleche, Development Committee Chair, October 14, 2022.

F. Questions for Executive Directors

46. Are the workstreams and related questions of the roadmap engagement (Vision and Mission, Operating and Financial Model) appropriate?

47. Do the guiding principles and process for the roadmap in Section E provide a good framework for engagement?