Multilateral Development Banking for This Century's Development Challenges

Five Recommendations to Shareholders of the Old and New Multilateral Development Banks

Montek Singh Ahluwalia, Lawrence Summers, and Andrés Velasco, Chairs

Nancy Birdsall and Scott Morris, Project Directors

Center for Global Development

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High Level Panel on the Future of Multilateral Development Banking

Co-chairs

Montek Singh Ahluwalia
Lawrence H. Summers
Andrés Velasco

Panel members

Caroline Anstey
Afsaneh Beschloss
Christopher Elias
Arminio Fraga
Enrique Iglesias
Takatoshi Ito
Donald Kaberuka
Caio Koch-Weser
Justin Lin
Ray Offenheiser*
Ngozi Okonjo-Iweala
Guillermo Ortiz
Maria Ramos
Dani Rodrik
Andrew Sheng
Ngaire Woods

Co-directors

Nancy Birdsall
Scott Morris

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* Mr. Offenheiser has offered a dissenting opinion, which can be found at the end of this report.

Contents

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Abbreviations

AfDB	African Development Bank
AfDF	African Development Fund
AIIB	Asian Infrastructure Investment Bank
AsDB	Asian Development Bank
AsDF	Asian Development Fund
CAF	Andean Development Corporation–Development Bank of Latin America
CGIAR	Consultative Group on International Agricultural Research
CPI	Climate Policy Initiative
CTF	Clean Technology Fund
DfID	Department for International Development
DR-GPGs	Development-relevant global public goods
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FAO	Food & Agriculture Organization of the United Nations
FCAS	Fragile and Conflict-Affected States
EIB	European Investment Bank
GEF	Global Environment Facility
GMF	Grant-making facility
GNI	Gross national income
GPG	Global public good
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IBRSD	International Bank for Reconstruction and Sustainable Development
ICP	International Comparison Program
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IsDB	Islamic Development Bank
MDBs	Multilateral development banks
MIGA	Multilateral Investment Guarantee Agency
NDB	New Development Bank
NGO	Nongovernmental organization
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
RDBs	Regional development banks
SIDS	Small island developing states
WBG	World Bank Group
WHO	World Health Organization

Executive summary

The multilateral development banks (MDBs) emerged as one of the international community's great success stories of the post–World War II era. Set up to address a market failure in long-term capital flows to post-conflict Europe and developing countries, they combined financial heft and technical knowledge for more than five decades to support their borrowing members' investments in post-conflict reconstruction, growth stimulation, and poverty reduction.

However, the geo-economic landscape has changed dramatically in this century, and with it the demands and needs of the developing world. Developing countries now make up half of the global economy. The capital market failure that originally motivated the MDBs is less acute. Almost all developing countries now rely primarily on domestic resources to manage public investment, and some of the poorest countries can borrow abroad on their own. Similarly, growth and the globalization of professional expertise on development practice have eroded whatever near-monopoly of advisory services the MDBs once had.

At the same time, new challenges call for global collective action and financing of the sort the MDBs are well suited to provide but have been handicapped in doing so effectively. The list goes beyond major financial shocks, where the IMF's role is clear—ranging from climate change, pandemic risk, increasing resistance to antibiotics, and poor management of international migration flows and of displaced and refugee populations. Other areas include the cross-border security and spillovers associated with growing competition for water and other renewable natural resources, and, with climate change, an increase in the frequency and human costs of weather and other shocks in low-income countries that are poorly equipped to respond.

The World Bank has stepped in with emergency financing for some areas—the Ebola and Syrian refugee crises in the last year—and the MDBs have had special financing from some donors earmarked to deal with climate change. But the MDBs as a group, built around the country loan as their key product, have had neither the core mandate nor the type and volume of financing to go beyond modest ad hoc responses to these new challenges.

In addition, the global economy may be entering more than a brief period of demand-limited low growth and secular stagnation. In much of the developing world, high debt and fiscal constraints are reducing investment in power, roads, ports, and other public infrastructure—just when continuing growth of the working age population makes infrastructure critical to poverty-reducing growth, and just as the opportunity for innovation in climate-friendly infrastructure could help restart sustainable and sustained global growth. Though developing countries recovered reasonably well following the 2008–10 global financial crisis—especially relative to high-income countries—much of that growth relied on low global interest rates and a commodity boom driven largely by China's demands. The risk of stalled growth all over the world as we write this report is a reminder that the development successes of the last five decades—including dramatic reductions in material poverty, illiteracy, and infant mortality, and rapid growth of emerging market economies resulting in convergence toward rich-country incomes and a dramatic reduction in global inequality—relied heavily on economic growth in the developing world. But its continuation cannot be taken for granted.

These new and urgent challenges—including a restart of the healthy rates of economic growth that are at the heart of the MDBs' contribution to the globally agreed sustainable development goals—have in common disproportionate risks and benefits for the developing world, and a particular need to combine financing, technical and country expertise, and a coordinated international policy response. The MDBs may no longer hold a monopoly on financing, expertise, and coordination, but they remain uniquely suited to combine these assets to deal with new and diverse challenges. In short, if the MDBs no longer existed today, the international community would have to reinvent them.

By some measures, the MDBs today are not only existing but thriving, with demand for their financing and services growing. But this picture belies a critical need for reinvention if they are to rise to meet today's pressing challenges effectively. In particular, the legacy MDBs—the World Bank, the Inter-American Development Bank (IADB), Asian Development Bank (AsDB), African Development Bank (AfDB), and European Bank for Reconstruction and Development (EBRD)—have been slow to adjust to many of today's realities, starting with the increasing economic role and growing capability of their borrowers. For example, their major shareholders have agreed to only minimal adjustments in corporate governance systems and leadership selection, creating tensions with major borrowers who want more voice and influence over their policies and operations. With age, MDBs have become bogged down in bureaucracy, increasing delays and raising costs to borrowers, particularly for major infrastructure projects. Perhaps in frustration, China and other major borrowers have taken leadership in creating two new MDBs focused heavily on infrastructure: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB).

There was an urgency to the founding of the first MDB more than 70 years ago. As much as the global landscape has changed, a new urgency has arisen today that calls for more robust, flexible, and effective multilateral responses to an unprecedented set of development challenges. Yet, at the very moment when new and pressing challenges call for multilateral responses, there are troubling signs of a retreat from multilateralism, as evidenced in the Brexit vote and a broader political backlash in many Western democracies.

In the midst of this uncertainty, we call for a new embrace of the MDB system. In this report, we call on the shareholders of the large legacy banks and the two new multilateral banks to repurpose the MDB system in line with these changes. We hope our concerns and recommendations also have relevance for smaller regional and subregional MDBs not specifically mentioned in this report.

We recommend that the shareholders of the seven major MDBs treat these global challenges not in the incremental and piecemeal manner that has become the habit of the last several decades, but instead as a system for the whole to be more effective than the sum of its parts. The system should hold in common the key principles of transparency, accountability, and sustainability. But specific roles and mandates across the MDBs should vary to recognize their inherent differences in comparative advantage, particularly between the World Bank and the regional MDBs.

Recognizing the growing global premium on environmental sustainability in a climate-challenged world, we call on member governments of the World Bank to take the first step in that direction by renaming the International Bank for Reconstruction and Development (IBRD) as the International Bank for Reconstruction and Sustainable Development (IBRSD)—and to reshape its mission accordingly, toward leadership on issues of the global commons or global public goods that are squarely in the development domain and require a global shareholder base to respond collectively. Shareholders should in turn look to the regional MDBs to take leadership in supporting the new imperative of sustainable development through country and regional operations across all sectors, but particularly in increasing investment in infrastructure that takes into account the logic of low-carbon and climate-resilient economies in the developing world.

In line with this approach to differentiated roles within an MDB system, the panel makes five recommendations to better realize the MDB system's potential for meeting today's development challenges:

Recommendation 1. Global public goods. An explicit new mandate for the World Bank should promote global public goods critical to development as its major priority, through the creation of a new financing window or fund with a separate governance structure and a target of deploying $10 billion in grant resources annually within the next five years. Resources would be directed to selected programs with substantial spillovers at the global level, primarily in agriculture, energy/climate, health, and development policy data and research that cannot easily be structured or priced as traditional country operations. The funds would be channeled as grants, including to other institutions (say, for country price data to allow purchasing power parity estimations); and as subsidies to select lending operations, including those of other MDBs, for which borrowers cannot be expected to bear the full costs (as for renewable power where coal is cheap). To finance this new mandate, in addition to possible member capital and cash contributions, shareholders should call for a new business model at the World Bank, leveraging future International Development Association (IDA) reflows to free substantial resources for the new grant window.

Recommendation 2. Sustainable infrastructure. In response to today's compelling development and climate imperatives, shareholders should support a substantial increase in financing sustainable infrastructure by the MDBs over the next decade. A reasonable target is to reach $200 billion a year from current levels of about $50 billion, taking into account any increased financial capability at the two new banks. The joint response should be anchored by rebranding the IBRD as the IBRSD, with World Bank infrastructure lending devoted exclusively to developing and financing green investment. Any increases in capital to allow this scaling up of infrastructure, presumably primarily at the regional banks, should be calibrated by shareholders based on each bank's performance in financing productive, efficient, and green investments. All performance should be assessed for the effective use of the full range of financial instruments and policy conditions—and in the power sector, the maximum crowding in of private investment.

Recommendation 3. Beyond business-as-usual on concessional financing. Shareholders should commit to maintain current levels of concessional support across all MDBs, implying at least $25 billion in concessional lending annually over the next decade (and possibly more given the possible additional amounts the AIIB might provide on concessional terms). As a growing number of countries graduate from concessional assistance to non-concessional borrowing and other forms of engagement with MDBs, this baseline commitment should allow for increased support in the remaining poor countries, and for allocation of concessional funding to countries in crisis and to post-conflict reconstruction, especially at the World Bank (see Recommendation 4). In addition, given the expected concentration of poor countries in Sub-Saharan Africa, there should be a shift in concessional financing from the World Bank to the AfDB over the same period, so that the African-based institution eventually becomes the leading MDB in these countries.

Recommendation 4. Crisis management and post-conflict reconstruction. Shareholders should formalize and sustain a commitment to provide resources on concessional terms (whether directly or through insurance and other contingent arrangements), particularly at the World Bank and in middle-income countries. That would enable the MDBs, in coordination with relevant UN agencies and other critical service providers, to respond rapidly and flexibly to short-run humanitarian needs associated with unexpected shocks (such as pandemics, natural disasters, and increases in displaced and refugee populations) in a manner that takes into account long-run development implications. It would also allow MDBs to respond with concessional funding for a first round of post-conflict investments in reconstruction. Better responses to crises in middle-income countries also require ex ante agreement on flexibility in rules around country eligibility and the blending of concessional and non-concessional resources.

Recommendation 5. A shareholder-led MDB agenda. Shareholders of the major MDBs should agree to convene every five years at the level of governors to engage in a cross-MDB review of resources and policy. The first four recommendations require shareholders to make new demands on each of the MDBs for flexibility and effectiveness and to set new standards of accountability for their respective managements. The changes in respective roles of the different banks will be realized only if the shareholders together manage a strategic approach to a cross-MDB agenda at the ministerial level over the next decade—on such issues as the changing relative resource needs of the different banks, their performance relative to each other, and the evolution of their comparative advantages. The shareholders should also commit to fully implement the governance reforms proposed for the World Bank by the Zedillo Commission in 2009, and carry these reforms forward where relevant in the other MDBs.

The ambition in this report is considerable. We simultaneously call for sustaining such current MDB activities as concessional support for poor countries, embracing a new GPG mandate, and increasing support for sustainable infrastructure. We show that it is possible to meet this ambition in the years ahead without increasing the financial burden on shareholders, without resorting to boosting assistance for one group of countries at the expense of another group.

Indeed, we see a unique moment for the MDBs to embrace ambition as win-win-win. The successes of MDB borrowers mean less reliance on donor-supported grant financing and more access to leveraged finance. More reliance on leverage within the MDBs in turn means more scope to devote grant resources to compelling development-relevant global public good activities and to preparedness for major crises with long-term development implications.

Critically, however, getting to this win-win-win depends on the will and strategic vision of shareholders to shift course now. Our goal for the MDBs is that they become newly relevant and vital for all shareholders. For low-income countries, particularly in fragile environments, this will mean a stable and sustained flow of resources, with a continuing search for new modes of engagement where the evidence shows that conventional aid has not been effective. For middle-income and emerging market countries, it will mean more targeted and flexible financing, stronger emphasis on catalyzing private domestic and foreign investment, and greater use of and support for countries' domestic capital markets, and in the area of sustainable infrastructure, more demonstrated technical expertise—whether tied to lending or not. And for all shareholders, particularly the large ones (borrower and non-borrower alike), it will mean a clear embrace of an agenda centered on today's global challenges in areas such as climate change and pandemics.

A growing class of shareholders do not fall into conventional MDB categories. Some are no longer major borrowers from any of the banks (Chile, South Korea). Some are not members of the G-7 or the G20 (Norway, Kuwait). Some are both donors and recipients, borrowers and non-borrowers (Brazil, China). Their engagement stands as a test of the MDB system's ability to spur and sustain collective action in support of a new agenda over the next decade. If countries like Chile or Norway, for example, no longer see value in their MDB relationships, the system as a whole will ultimately suffer. So, while our agenda can be adopted by the major shareholders of each bank, it is an agenda for all of the shareholders.

In the end, we strongly believe that the MDB model—combining technical and financial capacity in a politically backed cooperative—remains the best available vehicle for tackling the critical new challenges facing the global community.

Introduction

A 20th century success story

The launch of the World Bank at Bretton Woods in 1944 responded to an immediate need to rebuild a war-torn Europe. The bank's first loan to France of $250 million ($3.2 billion in today's dollars) funded the equipment, fuel, and raw materials that would drive the country's reconstruction.[1] In fact, helping countries rebuild after war and conflict has always been an essential MDB function—whether in post-conflict Japan, South Korea, Bosnia after the breakup of Yugoslavia, post-conflict Liberia a decade ago, or Côte d'Ivoire and South Sudan today.

Over subsequent decades, the MDBs' role has extended well beyond rebuilding efforts. China's decision to seek World Bank assistance starting in 1980 and Asian Development Bank (AsDB) assistance in 1986 resulted in a remarkably productive 30-year MDB partnership. Chinese officials have characterized the MDB role as catalytic in promoting a reform agenda that lifted nearly 700 million people out of extreme poverty in just three decades.[2] The collapse of the Soviet Union saw the MDBs move aggressively to help drive the transition to market economies in Central and Eastern Europe, particularly through the creation of a new MDB, the European Bank for Reconstruction and Development (EBRD), in 1991.

The larger story is the role of the MDBs in fostering ideas, policies, and large-scale programs, often complementing and building on the macroeconomic reforms supported by the International Monetary Fund (IMF), that have been good for growth and resulted in large gains in living standards around the world. The World Bank put poverty reduction on the global agenda, supported the agricultural research that led to the Green Revolution, worked with the World Health Organization and others to eradicate river blindness in West Africa, encouraged targeted cash transfer programs, helped governments liberalize input and crop prices with minimal disruption to agriculture, sponsored analysis of the economic returns to educating girls, and helped build local capital markets and minimize countries' currency risks through their own financing.[3]

The regional development banks have been increasingly active partners in these initiatives, particularly in supporting regional trade agreements and fostering cross-border infrastructure and power to expand regional markets.

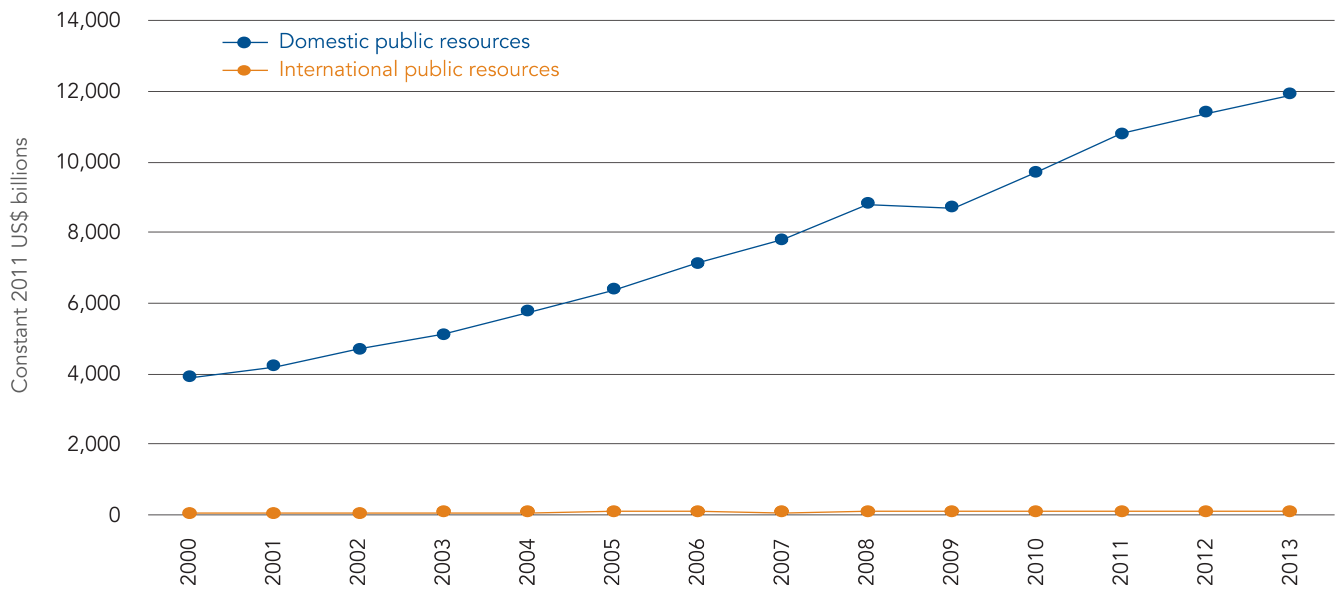
Finally, the legacy MDBs, and especially the World Bank, have become the trusted home (given their fiduciary and legal capacity as well as staff expertise on particular issues) of thousands of trust funds supported by donors for special purposes—from impact evaluation to climate finance, learning assessments, piloting new ideas in aid delivery (output-based aid), and the rollout of programs supported by a mix of philanthropic and western donors such as the Advance Market Commitment, which creates a "market" for pharmaceutical products that treat diseases primarily affecting the poor.[4]

Successes of the past reflect the particular combination of assets the MDBs bring together: not only financial resources, but technical depth across a wide range of economic and social issues, country knowledge, and fiduciary and legal capacity. All of these elements have been brought to bear in MDB policy engagements with developing country governments, which over many decades helped spur growth and policy reform in the developing world.

All of this is not to suggest the World Bank and other MDBs have always been right on policies and effective on

1. World Bank 2016.
2. See video comments of Jin Liqun, former Vice Minister, Ministry of Finance, PRC, in China and World Bank.
3. Clemens and Kremer 2016.
4. Levine, Kremer, and Albright 2005.

Figure 1: Public sources of finance to developing countries



Source: WDI, IMF World database.

Note: Domestic public resources only entail tax and nontax revenue as a fraction of GDP (IMF World Revenue Longitudinal Data); GDP figures from WDI database. International public resources entail net ODA and official aid received (WDI database). Figures were reported in current dollars; conversions to constant dollars are authors' calculations.

programs. Critics of the effects of World Bank adjustment programs on poverty and human development in the 1980s and 1990s have been largely vindicated by the independent reports of the bank's evaluation arm, and independent reports on its research programs view those programs as adhering too often to support for orthodoxy over evidence.[5,6,7] Over the last two decades, the World Bank and the other MDBs have learned hard lessons from periods of controversy over policies and have not always gotten it right—which puts a premium on the continuing demands of the institutions' supporters for transparency and accountability. In addition, reports from independent evaluators of the MDBs have highlighted problems in an array of operational, program, and policy areas, such as approaches to public sector reform that have shown few if any results, private sector investments that have crowded out rather than crowded in other private capital, and operational safeguards that have made dealing with the banks too onerous.

A changing landscape

As central players in the global development effort, the MDBs and their shareholders can take pride in the tremendous progress that has been made. But we now enter an era that looks very different from the one in which these legacy MDBs—the World Bank and the major regional MDBs, the Inter-American Development Bank, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development—were at the height of their influence.

Two things have changed. First, the rapid growth of China and other major emerging markets in the last 25 years has altered dramatically the geoeconomic landscape. Borrowing member countries as a group now account for two-thirds of the global economy, and almost all rely more on their own

5. Banerjee et al. 2006.
6. Easterly 2005.
7. World Bank 1992.

domestic resources to finance their development than on the multilateral banks and other outside sources of public finance (Figure 1). The banks were established to address the market failure in long-term capital flows to poor countries. But in a world where lower income countries like Ghana and Tanzania are able to place 10-year sovereign bonds in the market at 6–7 percent, that particular market failure is less acute. The change in relative influence and market access for many developing countries is reflected in the breakdown of the MDBs' traditional demarcation between borrowing and non-borrowing countries. China, Brazil, Russia, and even India provide foreign aid to smaller, poorer countries. And China, for political as well as economic reasons, created the new Asian Infrastructure Investment Bank (AIIB), and along with Brazil, Russia, India and South Africa, the New Development Bank (NDB).

Second, most developing countries now have access (whether domestically or internationally) to the kinds of advisory service, policy ideas, and practical examples of good practice that seemed to be a near monopoly of the MDBs for much of the late 20th century. On economic and social policy issues, developing countries today are less reliant on—and perhaps also, given the success of alternative models reflected in China, Singapore, and Rwanda, less confident in—the single-recipe approaches they see as having dominated the creditor-influenced legacy multilaterals.[8,9] The MDBs are now one among many sources of ideas and advice competing for attention in the developing world, rather than the dominant source.

The legacy MDBs have adapted too slowly and minimally to the increasing economic role and growing sophistication and capability of their borrowers and to today's development challenges. For example, they continue to rely predominantly on lending to sovereigns, except at the EBRD, where an emphasis on private sector development was established at the founding. Their portfolio of cross-border loans is tiny in relation to needs, particularly for regional infrastructure, where there is greater complexity in negotiating an allocation of debt service among borrowers. And they rarely exploit the full range of instruments they have—grants, equity, guarantees, and policy leverage—to crowd in sustainable private investment.

Why the slowness to adapt? One reason is that age and bureaucratic growth have taken their toll, particularly at the World Bank, where political pressures and the close scrutiny of NGOs have affected its operations by making traditional donors very—and perhaps excessively—risk averse to stories of corruption, waste, human rights abuses, and environmental injustices.[10,11] In response to these pressures, the legacy MDBs have gradually become burdened with a proliferation of rules and processes that are meant to eliminate corruption and safeguard legitimate aims such as environmental and social protection, but that often fail to do so effectively or to serve the institutions' broader development mission. The result is widespread borrower frustration with the hassle factor that increases the costs and delays of major infrastructure projects.

Another reason is that adjustments in the legacy MDBs' governance have been modest, with the largely western donor "creditors" dominating the official governance arrangements. Slow adjustments in governance, especially at the World Bank, have frustrated the political ambitions of emerging markets to assume greater leadership at the global level—through increased capital participation, voting power, and influence on these and other operational issues that affect them as borrowers.

The initiative of China and other emerging markets to set up their own institutions—the AIIB and the NDB—reflects these two factors. At the same time, the new banks suggest the benefits of the MDB model. Compared with bilateral interactions, the cooperative multilateral model leverages the public capital and voice of its major shareholders. It guards against the negative aspects of direct political influence that come with bilateral engagement. It allows for some consensus on shared social, environmental, and fiduciary standards. And it provides creditors and contributors with considerable policy influence for relatively limited financial backing.

Given these trends, does it matter if the legacy MDBs continue more or less on a path of gradually declining influence, with the new MDBs essentially taking the same form under

8. Birdsall et al. 2010.

9. Rodrik 2009.

10. Mallaby 2006.

11. World Bank 2009.

different leadership? CGD's High-Level Panel on Multilateral Development Banking concludes that it does matter. The MDBs—for all their shortcomings in the current environment—may well be the best, and in some respects the only, vehicle the world has to tackle critical new challenges facing the global community.

In the coming pages, we set out critical challenges to sustainable global development that other existing institutions cannot readily assume: delivering global public goods, increasing investment in sustainable infrastructure, supporting low-income countries, and preventing and managing crises. We then elaborate on our five recommendations to MDB shareholders for the necessary adjustments to enable the MDBs—old and new, individually and as part of a larger system—to better take on those challenges.

Chapter 1

Global public goods: A clear mandate with core financing

The challenge

We see a pressing need for greatly expanded support for a well-defined set of global public goods where the MDBs and particularly the World Bank should be contributing given their sectoral and financial capabilities: climate change, agriculture, health, and data relevant for development policy and programs.

With greater global integration, developing countries face increasing risks over which they have little or no control, and which no one country, rich or poor, has the incentive to tackle alone.[12] The most urgent such challenge is climate change—an existential threat to the global fight against poverty, disease, and instability. Other challenges where all MDBs can play a critical role include pandemic prevention and management, food price volatility, resistance to antibiotics, loss of biodiversity, the effects of underpriced water and other shared natural resources on poverty and sustainable growth, and even unmanaged refugee and migration flows. These risks affect everyone, but are potentially catastrophic for the poorest people living in the most fragile states. Nor is it solely a matter of risks. There is the opportunity cost of failing to exploit opportunities to develop and disseminate new products and new ideas. Consider the high returns to the scientific revolution realized in the form of a smallpox vaccine and the Green Revolution—with benefits that extend beyond any one country.[13]

12. We refer here not to everything the MDBs do and could do that is "global," but to a more specific and narrowly defined set of "goods" whose benefits cannot be fully captured by any single donor, country, or investor and which are as a result particularly likely to be underfunded. Appendix 1 covers what kinds of activities are and are not included in the limited set the Panel envisions where the MDBs should play a greater role.

13. Evenson, Waggoner, and Ruttan 1979.

Current funding of development-relevant global public goods

Our rough estimate of total GPG-related transfers to developing countries—excluding spending in the United States and other high-income countries on their own R&D infrastructure with many global spillovers—was about $14 billion a year, or just over 10 percent of spending on official development assistance to benefit developing countries directly.[14] The amount for 2015 could be greater by several billions, if recent pledges of donors to finance transfers to developing countries for climate mitigation have begun to disburse.[15] More than half of the $14 billion figure, however, is in the form of contributions to UN peacekeeping, with additional amounts for IMF surveillance and selected World Health Organization (WHO) activities, so as little as $7 billion a year has been disbursed for the development-relevant GPGs (DR-GPGs) where the MDBs could make a greater contribution.[16] Tripling that number would not be sufficient to cover the funding called for to support climate mitigation alone in developing countries (for which the high-income countries promised $50 billion

14. Birdsall and Diofasi 2015.

15. See Organisation for Economic Co-operation and Development and Climate Policy Initiative (2015). The report shows commitments (not disbursements) in 2014 of $62 billion; that figure includes pledges for climate adaptation, which we exclude above because of lack of global spillovers; see Appendix 1 for more detail on the large difference between the $62 billion and the $7 billion figures.

16. We developed an alternative estimate for official funding of DR-GPGs in 2014 by adding up disbursements by both bilateral and multilateral donors in DR-GPG relevant sectors that are listed in the OECD's Credit Reporting System, and cover areas including medical research, solar power generation and so forth; that number added up to $7 billion as well.

a year by 2020[17]). As a single example, the figure on the table to address the global risk of growing resistance to antibiotics is $20 billion.[18]

Spending on DR-GPGs by major foundations is far smaller, though their leadership, particularly that of the Bill and Melinda Gates Foundation, has been important in defining issues and developing programs. Our very rough estimate is that the major foundations and other philanthropies have spent about $1.5 billion a year in the last five years on DR-GPGs, including about $1 billion by the Gates Foundation on health, primarily for R&D on tropical diseases. Because the total resources of the major foundations are small relative to the needs they see, they are keen on working with and increasing the role of the MDBs.

In short, there is an enormous need for leadership in the funding of DR-GPGs including and beyond climate mitigation for the next decade and more.

Funding of DR-GPGs at and through the World Bank Group

The World Bank is particularly well suited for raising and deploying financing for DR-GPGs—at the political level in raising and acting as a reliable conduit for resources, and at the technical level in setting priorities for use of those resources and their allocation across needs. It does so in a spirit of cooperation with other international institutions (WHO, FAO, Green Climate Fund, and the regional MDBs, especially in supporting the provision of regional public goods), the philanthropic community, civil society, the private sector, and a growing number of mixed coalitions of official, nonprofit, and private parties concerned with these issues.[19]

In fact, the World Bank has for decades been tapped by bilateral donors and global philanthropies as a vehicle for providing and financing GPG programs relevant to development: supporting agricultural research (the Consultative Group on International Agricultural Research (CGIAR)); financing renewable energy programs (the Clean Technology Fund, one of the Climate Investment Funds); housing cross-country price surveys that allow comparisons of United States dollar purchasing power (the International Comparison Project); addressing coordination and pricing problems in the creation of new and missing global markets (the Bio-Carbon Fund); supporting, developing, and curating consistent, globally benchmarked data on such key development issues as changing demographic patterns, children's tests of learning, and gender disaggregated data on financial inclusion such as the Global Findex;[20] and providing the legal and fiduciary infrastructure for managing special funds to be deployed at the global level (for example, the Spanish Trust Fund for Evaluation and the Advanced Market Commitment Facility).

Through its focus and support for others, the World Bank has also contributed to designing, collecting, and collating basic development data on poverty, growth, inequality, financial inclusion, environmental resources, evaluation of development interventions, living standards, and so on.

But in the absence of a clear mandate from shareholders, these kinds of programs—with the partial exception of data and related research supported in-house through the administrative budget—have been funded only in minuscule amounts over the last decade by or at the World Bank—either through the core budget of the World Bank via various grant-making facilities or through donor-funded trust funds managed at the bank.

The grant-making facilities peaked at $161 million in fiscal year 2013 and are now being phased out completely.[21] Our

17. The better known $100 billion figure pledged by donors.

18. Organisation for Economic Co-operation and Development and Climate Policy Initiative 2015.

19. Savedoff (2012) provides examples of mixed coalitions that have actively been influencing international cooperation in health, finance, and the environment. Another notable example is the Indonesia Business Council for Sustainable Development, which offers a platform for businesses "to share and promote best practice in tackling risks and taking advantage of opportunities related to sustainable development."

20. See for example, World Bank and International Monetary Fund (2015) and the Task Force on Regulatory Standards for Financial Inclusion, "Financial Regulations for Improving Financial Inclusion."

21. The grant-making facilities funded the Consultative Group on International Agricultural Research and the Global Development Network,

rough estimate of DR-GPG provision through donor-funded trust funds is about $570 million a year over the last decade. Combining the two sources suggests a rough total of $700 million a year (compared with lending and other country operations over the last five years of about $45 billion a year).

The key constraint has been the lack of a mandate to raise and deploy grant resources in support of DR-GPGs, at the World Bank or for that matter at any of the legacy MDBs. At the World Bank, in the absence of a grant-making window as part of a core mandate from shareholders (akin to the mandate and financing when the International Development Association (IDA) window was created in 1960), bank management has limited its GPG agenda to lending programs that can be implemented in a "consensual" manner "with partner countries."[22] That obviously has made it difficult to mainstream GPG support into routine country operations. A 2008 report of the bank's Independent Evaluation Group (IEG) noted that for GPG work, the "limits of non-concessional finance…are clear," since country and global risks and opportunities generally do not dovetail. The report invoked the example of the bank sponsoring large-scale analytic work on deforestation in Indonesia in 1999–2006 that resulted in little lending, concluding that "the traction achieved by the bank was very limited, and deforestation continued at a rapid clip."[23]

The situation is similar at the regional MDBs. The financing of GPGs at the regional level, and of key regional public goods such as the longstanding commitment to fostering trade integration at the IADB and the AfDB, has generally relied on small ad hoc allocations, often through the administrative budgets of the banks. That leaves management to make fundamental decisions on use of scarce funds without any explicit mandate on priorities from shareholders.

At the World Bank, at least in principle, existing trust funds could subsidize country operations such as support for reducing deforestation with substantial global benefits. But this approach has not worked well, presumably because silo arrangements in the bank reduce incentives for the necessary coordination. The 2008 IEG report noted that "heavy reliance on trust funds for financing global public goods work may itself increase the difficulties of mainstreaming such activity alongside long-standing work financed by the bank's own budget."[24]

Heavy reliance on trust funds has other limitations. An obvious one is ad hoc and uncertain revenue streams, with a lack of continuity. For example, the original donors to the Clean Technology Fund (CTF), among the largest trust funds at the World Bank (and the largest of the Climate Investment Funds), envisioned a transfer of those funds from the World Bank to the Green Climate Fund once the latter was up and running. But with the politically sensitive decision of whether to make the transfer in limbo, and most original CTF funds now committed, the impetus to develop new CTF projects is presumably small.[25] Other problems with trust funds are fragmentation of effort, a lack of clear lines of accountability in allocations of management and staff time, and limits on accountability of top management across and among these and other non-GPG trust fund programs to the shareholders as a group, on substantive priorities given the broader mission of the bank.

Perhaps most important, there has been no mechanism for the global development community to generate the moral suasion and the financial resources in support of collective goods critical to development.

Our recommendations

1A. A new mandate and financing commitment for the World Bank, aimed at promoting development-relevant global public goods. As the premier global MDB (in operations and shareholdings), the World Bank has a comparative advantage in addressing challenges to shared and sustainable growth that transcend country borders. The world needs the

among other programs. The phase-out was agreed in 2015; $115 million from net income will instead now go to IBRD capital reserves. See Appendix 1, Table A1.1.

22. World Bank 2007.

23. World Bank 2008.

24. World Bank 2008.

25. The reluctance to shift any new funding to the Green Climate Fund is related to concerns about its governance; see Birdsall (2012).

premier global development institution to take leadership in building and financing products and programs that matter immensely for development, but on which no single country or set of countries has sufficient incentive to act (Appendix 1). To exploit that comparative advantage requires that the shareholders agree on the financing and provision of selected DR-GPGs as the bank's major priority. Shareholders should commit to working toward a flow of grant resources in support of this new mandate on the order of $10 billion a year by 2020—a figure that would double our rough estimate of recent annual spending across all bilaterals and multilaterals, including the UN agencies, in the key areas set out below where the MDBs should be active.

Raising and deploying these funds would be managed from a new financing window or fund with a separate governance structure. A considerable portion of the funds could be allocated to other existing international agencies and organizations, and some portion could be allocated to other MDBs for subsidies to specific country operations with substantial global benefits

This new mandate would go beyond ensuring that standard country operations entail global benefits. There is a sense that any and all country operations—by reducing poverty and fostering shared growth—are meant to make the world safer and more stable. The panel recommends for the foreseeable future a laser-like focus in four substantive areas where global spillovers—risks and opportunities—are substantial and can affect countries' development prospects: energy/climate mitigation, health, agriculture, and data for development.

Most MDB support to developing countries' energy, health, and agricultural sectors has largely if not entirely domestic or national benefits, so the traditional country loan is the right instrument; the same is true for education, public sector reform, and other sectors not named above. Examples with spillovers (good and bad) beyond country borders include support for a robust infrastructure of agricultural research and development at the international level and within developing countries (given that research results are not excludable); for financing the incremental costs of cleaner power production associated with the current underpricing of carbon; for countries succeeding in reducing deforestation; for country programs of upgraded disease surveillance and pandemic prevention and management; and for collecting and curating basic data relevant to development, including within developing countries.[26]

Nor should the scope for DR-GPG work be defined too strictly by the four categories here. There is room for innovative financing of products and programs with spillovers that cannot be addressed through country lending and other operations, such as underwriting markets for catastrophe bonds and, as in a recent example proposed by the World Bank, insurance to cover the costs of pandemics.

Defining the boundaries of this mandate would come on the financing side and would ultimately be set by the shareholders. However, we envision two financing streams from a new DR-GPG window. One is direct support to third parties, including the regional development banks and other international institutions as well as public–private coalitions. The other is subsidies to World Bank and other MDB loans to offset the additional costs countries otherwise assume of generating both domestic and global benefits as a result of their investments and programs. The most urgent case is clean power that is not least-cost for countries, given the current global underpricing of carbon.[27]

Mainstream country operations of all kinds at the World Bank would continue, but regional banks would take an increasing lead in operations in support of public goods at the country and regional level (strengthening delivery of domestic health and education systems, financing roads, ports, and regional power grids). An increase in relative terms of more traditional project lending by the regional MDBs, compared

26. One can imagine developing new products to tackle mass migration and refugee problems as well, as noted above. Over time, there may be other exceptions for consideration by the shareholders in the context of the governance of the GPG window. Those defined are meant not to be a straitjacket but to impose sufficient discipline to avoid the tendency to conflate what is "global" with what is a global public good.

27. The MENA Concentrated Solar Power Program of the Clean Technology Trust Fund deployed $750 million of highly concessional funds to leverage $4.8 billion of private financing and donor contributions. Together, these funds installed 1 GW of pure solar energy in the MENA region, reducing emissions and creating new jobs and opportunities in local industries.

with the World Bank, would further an ongoing trend.[28] Any recapitalizations in the MDB system to support standard country operations would be confined to the regional institutions.

A new DR-GPG mandate would require a governance model different from those associated with the IBRD and IDA. Unlike the operations of the IBRD and the hard windows of the regional development banks, DR-GPG operations are more philanthropic than bank-like. As a result, the creditor-dominant IBRD model is less relevant and counter to ensuring active participation from the bank's traditional borrower countries. Historically, many borrowing countries have resisted allocating resources to GPG activities, particularly those related to climate change. They have feared that such activities would divert funds from projects and activities that they have prioritized in their development strategies in favor of activities that favor Western country priorities. The IDA model (and similarly, the soft windows at the legacy RDBs) giving IDA donors a predominant decision making role is also problematic from this perspective. IDA-eligible countries have long feared that donor contributions to support GPG activities would not be fully additional to ongoing contributions to the IDA window.

A separate governance arrangement for the GPG window also avoids the conflict of interest for the main World Bank Group boards that come with decisions on how to allocate funds to programs that could be more effectively deployed by other institutions, and that ought to reflect decisions of shareholders regarding priorities among sectors (such as climate and health) and the performance and capabilities of other institutions.

Financing for the DR-GPG agenda would be less dependent on traditional donors than IDA has been. Because it would draw on World Bank income (including IBRD income and some capitalization of IDA reflows), the bank's borrowers would have some claim on decisions about the use of those funds for DR-GPG purposes. In this way, a more collective governance structure could better ensure political support for the agenda across the diverse array of World Bank member countries. In particular, traditional borrowing countries would be ensured a decisive role in identifying priority GPG activities.[29]

Some form of representation that takes into account country economic and population sizes could ensure the kind of balanced representation (with 50 percent creditors and 50 percent borrowers). This is in some respects reflected in the governance of the Climate Investment Funds at the World Bank—the GPG-oriented trust funds that have successfully overcome the divisions associated with donor-directed public goods activities—and the IADB since the mid-1990s.

In short, leading emerging market countries like Brazil, China, and India have a strong interest in meeting global challenges, but they will want a strong say in how the World Bank deploys grant resources toward these objectives. The same can be said of Ethiopia, Nicaragua, and other IDA countries. From this perspective, there would be considerable strategic value in locating the new DR-GPG structure in a major emerging market city, such as Shanghai.

The new GPG mandate will require dedicated financing—much of it grant based—additional to current limited and fragile administrative budget allocations and highly dispersed and unpredictable trust fund support (which we estimate has amounted to less than $400 million a year in the last five years). We believe $10 billion annually is an ambitious but achievable target.

This financing agenda has so far failed to take hold at the World Bank in part due to the lack of a clear mandate from its shareholders, but also due to legitimate concerns about where the money would come from. The bank's borrower members have feared a painful reallocation of concessional resources away from traditional country lending while those funds were still very much needed to support low-income countries. Among others, the British, Germans, and Norwegians have made commitments to trust funds addressing

28. A round of global crisis-related recapitalizations in 2009–2010 caused a shift away from the World Bank in favor of the regional MDBs: prior to 2010, the World Bank accounted for half of all MDB capital, and after the recapitalizations, it fell to 39 percent.

29. This "global public goods" mandate could also be made more politically viable with a separate geography. Housing a new GPG arm of the bank in a developing country would promote wider buy-in, and guard against capture by the traditional project-lending orientation of the bank in Washington.

global issues managed by the bank, especially in the climate area. But for the most part, the bank's non-borrowing members have resisted expanding their role as donors to support a larger and more strategic DR-GPG mandate on top of existing funding commitments.

However, we see an opportunity for the bank's shareholders to work together to define a clear mandate on underfunded global challenges and to take practical steps to provide the bulk of funding to operationalize that mandate through more flexible uses of existing resources. By rethinking its business model, the bank could continue to meet pressing concessional financing needs in low-income countries while also making major new commitments to the GPG agenda—all at current levels of donor support.[30]

1B. A new business model for the World Bank, leveraging future reflows. Finding additional resources for DR-GPGs in an era of tight donor budgets will require a new approach to key aspects of the World Bank's business model.[31] The starting point is to recognize that IDA's outstanding loans, totaling about $146 billion, will generate highly predictable reflows for the World Bank in the coming years, and combined with liquidity and other assets, can be recognized as IDA's total equity of $175 billion.[32] This equity—alongside the bank's core capital of around $40 billion—could be borrowed against, leveraging significantly more funds to support operations in current IDA and IBRD countries, while freeing up considerable traditional donor grant money to support the bank's new GPG mandate. Some donor funds, as well as some of the loan repayments, would continue to be needed to provide the subsidy element that achieves the concessionality in IDA lending.

The merger of the concessional and market-based lending windows at the AsDB in 2015 illustrates the possibilities generated by some leveraging of the substantial equity represented in the stock of outstanding concessional loans. This financial engineering enabled a 50 percent increase in lending capacity while maintaining concessional lending capacity, cutting donor grant contributions by nearly half, and requesting no new capital contributions from shareholders.[33]

Discussions already under way at the World Bank this year (see Appendix 2) indicate that even modest steps toward borrowing against IDA equity introduce several new possibilities while maintaining current levels of concessional lending. New possibilities include increases in overall lending to all borrowers (potentially yielding increases in net income from operations in middle-income countries),[34] significant cuts in the level of grant money requested of IDA donors, or redeployment of that grant money in support of a new GPG mandate. The critical policy challenge is to choose the best option or combination of options made possible by the financial reforms.

We see a risk of too much incrementalism reflected in the current discussion of IDA equity at the World Bank—with too much emphasis on generating higher lending volumes without clear purposes—and a continuing harmful reliance on ad hoc arrangements and initiatives to deal with unpredictable calls on concessional finance. For example, the new MENA Financing Initiative relies on one-off donor grant contributions to buy down the terms on IBRD loans, primarily to Jordan and Lebanon for support to refugee programs in

30. Similarly, shareholders of the RDBs could explore a clear mandate around regional public goods supported by appropriate financing mechanisms.

31. In addition to the measures we recommend here, we also see scope for further exploration of measures that could better leverage the bank's balance sheet. S&P suggests that, in aggregate, MDBs could increase their lending exposures by 72 percent within their current ratings. One approach would be to increase the leverage ratio from 1 to 1.5, but increasing by only 0.1 every five years, to calibrate the increase with market responses. Beyond greater leveraging, greater borrowing by large emerging market countries could enable a decrease in currency risk for borrowers and help develop local bond markets, with IBRD bonds helping to develop yield curves.

32. Under business as usual, current credit reflows provide about $4.5 billion to IDA each year and are expected to rise to $5.5 billion a year over the next five years. This represents half the level of current IDA donor contributions.

33. Birdsall, Morris, and Rueda-Sabater 2014; Bhushan and Borghijs 2015.

34. We expect it will also be possible, as institutions in most middle-income countries continue to mature, to make larger loans with reduced World Bank staff inputs to those countries. The new safeguard policy issued in August of this year relies implicitly on countries' increasing capability in honoring safeguard principles.

those countries.[35] The case for concessional lending in these settings may be strong, and buying down the terms on IBRD loans through a grant element may be a reasonable approach. But reliance on trust funds for specific countries and regions contributes to the risk that the bank's core financial model will not be adjusted in ways that meet GPG and other financing needs in the years ahead.

But perhaps the greatest risk of leveraging IDA by combining the IDA and IBRD balance sheets[36] would be reductions in grant support from donors when there is a compelling case for the use of those grant funds under a new GPG mandate. As more countries graduate from IDA assistance,[37] donors will quickly come to see diminished need for their grant contributions to support IDA lending, particularly if the World Bank adopts a model that maximizes the potential leverage of IDA reflows by combining the IBRD and IDA balance sheets. Unless the opportunity is taken now to direct this donor savings toward the $10 billion global public goods target, donors will reallocate these funds for other purposes—whether as new trust funds at the bank, as contributions to other institutions, or as savings to their taxpayers. These all are reasonable outcomes but have less potential impact than a robust GPG agenda for the bank.

Alternatively, recognizing the leveraging of current IDA resources that we recommend, we see ample scope over the next decade to redirect donor contributions from IDA (from concessional aid directed to low-income countries) to the DR-GPG window (from which low-income countries are likely to benefit disproportionately in any case). Traditional donors could account for $5 billion in annual contributions toward GPGs without a net increase in their assistance budgets by reallocating some of their traditional IDA contributions, which would no longer be needed to maintain current levels of concessional support for IDA countries (Figure 2). With country graduations from IDA, as well as the small subsidy needed to support concessional lending terms in the current interest rate environment, this reallocation would not diminish concessional financing for remaining IDA-eligible countries. (Indeed, our Recommendation 3 is based on the likelihood that resources for remaining countries could increase.) In addition, we recommend that transfers of IBRD and International Finance Corporation (IFC) income that have been used to support IDA, now about $700 million a year, be redirected to the DR-GPG window.

Over time, shareholders of the World Bank might want to agree to provide the DR-GPG window with capital, creating an endowment-like source of income. And the board of the DR-GPG window might itself agree on crediting contributions to such an endowment in a manner that recognizes differences in ability to contribute while retaining the balanced governance structure.

The DR-GPG window, with a new governance model that gives greater voice to developing countries, would also ask more of them. In addition to participating in a future capitalization of the window, we see scope for major emerging market countries to become major contributors to the window, potentially reaching $4 billion annually by 2025. As with China's participation in certain MDB trust funds, some portion of contributions (we suggest $500 million) might be considered as equity or loans to the window, earning a return for the contributors.

Ambition toward a full IDA-IBRD merger at the World Bank is limited less by the financial and policy case than by the political hurdles of combining distinct legal and governance models. At the AsDB, this issue was sidestepped by preserving the separate governance structures even as financing was merged. At the World Bank, we believe the adjustments to current shareholding and other governance arrangements with a complete merger would be politically manageable. For example, under a scenario where IDA and IBRD equity were treated equally on a dollar-for-dollar basis, overall adjustments in the size of relative shareholding would be modest, with the United States and China together making small concessions in shareholding with gains distributed broadly across the other member countries (see Appendix 2 for details).

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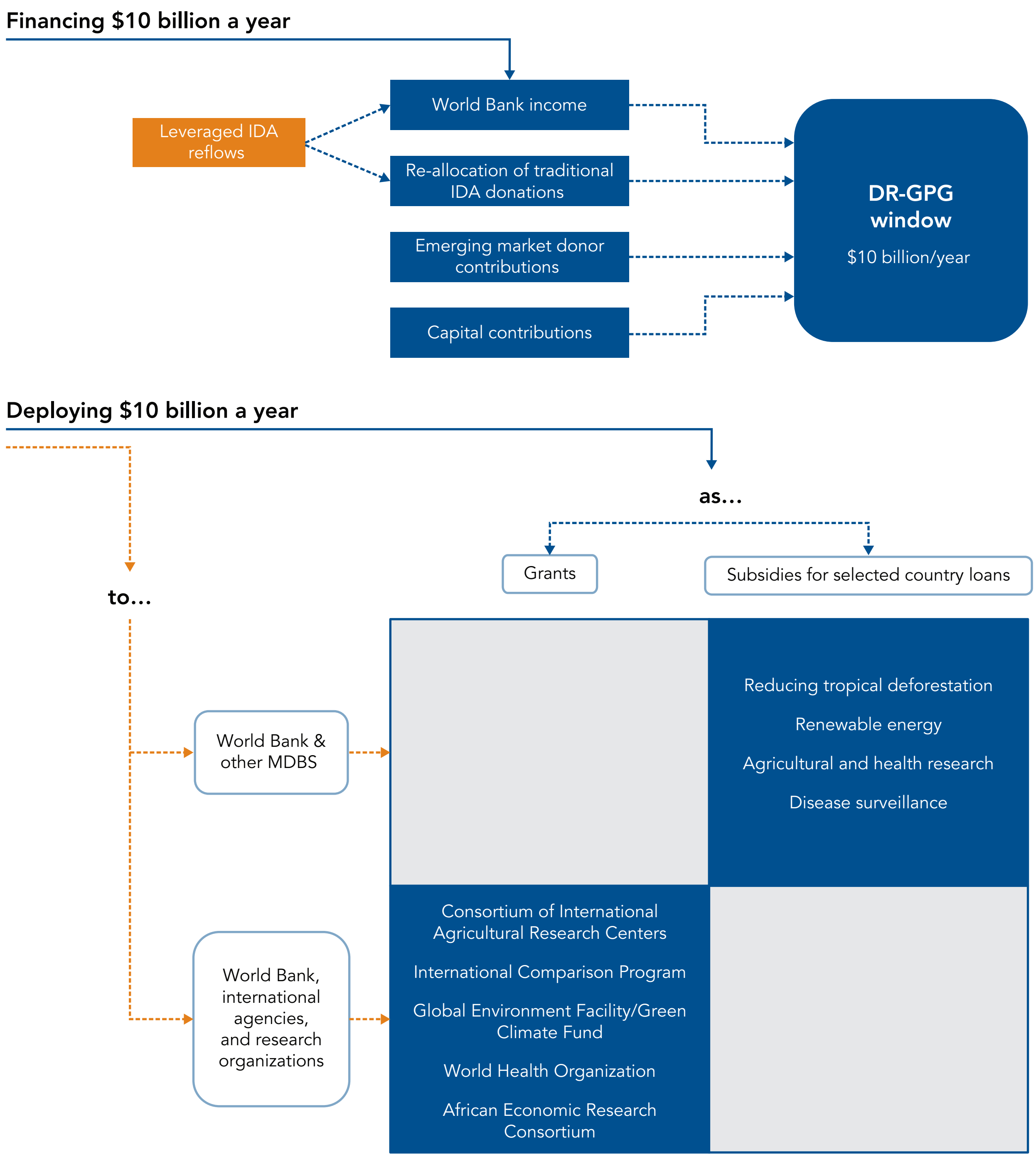
35. See MENA Financing Initiative at www.menafinancing.org.

36. As of the time of writing, we understand that a full merger is not under discussion, because IDA and IBRD currently are separate legal entities. We do not think that should be a permanent barrier to doing what makes most sense given the changing challenges that the MDB system faces.

37. See Appendix 2. As many as one-third to one-half of the current IDA-eligible countries could graduate from IDA assistance over the next decade.

Figure 2: A new DR-GPG window: Financing and deploying $10 billion a year



Although we see a strong case for a separate governance structure to support DR-GPG financing, we believe that the silo governance structures between IDA and IBRD are reaching the end of their utility. The strength of the case for a single balance sheet to support country financing activities also points to the weakness of maintaining separate systems to govern essentially the same sets of activities.

A new GPG mandate supported by a new business model will also require some transition in staffing and expertise at the World Bank. As with other aspects of corporate governance, we choose not to offer detailed guidance here, but note that the bank's shareholders should give priority to the question of staff composition in their strategic oversight. In the near term, for example, as the World Bank increases its role in support of global data, research, and evaluation programs and creates new financial products to bring private investment to climate-friendly infrastructure, there will be greater need for staff expertise in these areas. In turn, with less emphasis on project lending, there can be less need for staffing compliance functions.

At the same time, there will need to be stronger disciplines on budgetary costs associated with such a large bureaucracy, and we are cognizant of the risks that a new GPG mandate could lead to further bureaucratic expansion without compensating reductions elsewhere in the organization. This would not be a good outcome and would further diminish the bank's ability to generate net income to support the GPG agenda.

We also believe that World Bank shareholders should embrace an approach to loan pricing that continues to demonstrate sensitivity to borrowers' ability to pay while placing greater priority on income generation in support of global public goods. As we call for later in this report, a differentiated approach to loan pricing—with highly creditworthy borrowers asked to pay more than current IBRD lending terms—could contribute significantly to the GPG agenda, particularly when bank income is constrained by the low interest rate environment. A political bargain could be struck that also allows for more price flexibility (more concessional terms) on a limited basis for these same borrowers in support of GPGs or highly targeted programs to reduce poverty and inequality in middle-income countries.

Finally, the financial reforms we call for here are particularly compelling in today's interest rate environment, with low rates enabling the AAA-rated MDBs to borrow very cheaply and in turn lend to their clients on highly favorable terms. In particular, this environment has significantly reduced the spread between the World Bank's concessional lending terms and IBRD terms. Our proposals seek to make better use of bank resources in light of these circumstances. But we acknowledge the potential risks and need for adjustments over time as the external environment changes.

If the World Bank's cost of borrowing increased significantly in the years ahead, this would put new stresses on its combined IBRD-IDA balance sheet and could once again put the onus on the bank's donors to support concessional financing. But in recognizing that risk, we nonetheless see a greater immediate risk that the bank does not do enough to use its resources efficiently and maximize its financing potential in the face of compelling needs.

Chapter 2
Increased investment in sustainable infrastructure

The challenge

The growth agenda has been critical for legacy MDBs historically, but it has come in and out of fashion over the years. In the first decade of this century, a growing focus on reducing absolute poverty and improving people's well-being brought reasonable new emphasis on education, health, social insurance, and environment programs led by the World Bank. Meanwhile, growing concerns about waste, corruption, and compliance in large infrastructure—particularly but not only in hydroelectric power and urban transport—reduced the share of infrastructure lending.

More recently, with the increases in overall growth fueled by China's (now declining) demand across the developing world today, infrastructure bottlenecks have become a more visible and critical constraint on sustaining that growth. And with the growing risk of a global growth slowdown, investing in infrastructure in the developing world has become a critical spur to global demand, to the healthy continuation of the benefits of cooperation on global challenges associated with the convergence of income among rich and poor countries, and to the potential to quickly ramp up long-run investment in climate-friendly sustained growth.

When Morocco switched on the world's largest concentrated solar power plant at Ourzazate earlier this year, it showed what is possible when public investment in sustainable power works in partnership with the MDBs. A mix of market-based and concessional financing from the World Bank, AfDB, and EIB enabled Morocco to move forward with a massive investment in solar, which will ultimately provide power to more than 1 million consumers in Morocco and reduce carbon emissions by 760,000 tons a year.

MDB partnerships can also catalyze private investment in climate-friendly infrastructure. For example, concessional financing through the AsDB has unlocked commercial lending for geothermal projects in Indonesia, including the 320 megawatt Sarulla geothermal power project.

The panel believes that through landmark partnerships like Ourzazate and Sarulla, the MDBs are demonstrating that they are best equipped to address a triple challenge in infrastructure:

- *More*, especially in Africa where energy poverty is deep and where transport infrastructure is vital to bind economies together.
- *Cleaner*, including in coal-rich East and South Asia, to protect health and the environment locally and globally.
- *More privately financed*, with limited public finance crowding in private investors—because in sectors like power, public finance often in the past has filled a vacuum due not to a lack of private capital but to a lack of the regulatory and pricing environment that private capital demands.

Success in these three areas relies heavily on the strengths of the MDBs as multilateral and collective institutions in a world where international cooperation is critical not only to development but to peace and security. The ability of the MDBs, new as well as legacy, to play these roles requires that their shareholders, especially their major shareholders, take the lead in pushing them in new directions.

Critically, MDB success in this area is just as relevant to middle-income and emerging market countries as it is for low-income countries. Cleaner infrastructure will have the largest climate impact in these larger markets. And because these creditworthy countries have access to much greater volumes of financing outside of the MDBs, the market failures associated with public infrastructure and clean technologies are as binding on these countries as they are on any other.

Our recommendations

2A. Greater overall support for sustainable infrastructure finance. In response to today's compelling development and climate imperatives, shareholders should support a substantial increase in financing sustainable infrastructure by the MDBs over the next decade. A reasonable target is to reach $200 billion a year from today's roughly $50 billion, taking into account any increased financial capability at the two new banks.

Estimates of infrastructure financing needs can serve as useful targets for MDB support. One recent estimate of the need for sustainable infrastructure indicates an additional $3 trillion a year for developing countries, of which an additional $200 billion a year could come through the MDBs.[38] Current support for infrastructure among the legacy MDBs amounts to about $50 billion a year,[39] forming the largest share of their total annual commitments of $127 billion.[40]

The argument that underinvestment in infrastructure in developing countries is a major constraint on growth is not new.[41] But it is equally the case that estimates of need do not necessarily point to productive investment, that publicly financed infrastructure in the developing world has too often failed to meet minimum standards of efficiency, and that governments have too often been tempted to finance investments in infrastructure that private sector investors would not make without public credit and guarantees, due to a lack of confidence in appropriate public policies ensuring an adequate return on their investments.

Still, four factors persuade us to be ambitious. First, ongoing research suggests that the lack of adequate infrastructure, for which public financing is critical, severely limits growth and job creation, especially in low-income countries. The most compelling evidence is the high cost and unreliability of electricity in most of Africa, making it impossible for domestic industries to compete in the global market.[42] Infrastructure bottlenecks are seen as limiting job creation and exacerbating inequalities associated with rural residence and long peri-urban commutes that hit low-income populations. These help explain the recent upsurge in demand from borrowers for infrastructure support (seen in part in the creation of the two new banks, including statements of officials from India and China).[43]

Second, there is strong evidence of the growth and development impact of public investment in infrastructure, despite the poor record overall in high measured returns because of low efficiency.[44,45]

Third, the MDBs are in a position to improve the efficiency and overall quality of investments. Various surveys consistently rank these institutions highly on measures of quality and efficiency and more generally as preferred partners by developing country actors.[46,47,48] In our view, this preference reflects the ability of the MDBs to be catalytic, both in leveraging other sources of financing (particularly private financing) and in the unique policy engagement that the banks bring to support the overall quality and impact of their project lending.

Fourth, and critically, we are compelled by assessments that see major climate gains to be realized through a major infrastructure push, particularly now as the incremental costs of renewable technologies are falling and climate-friendly infrastructure increasingly becomes the norm. Beyond green technologies, simply achieving greater energy efficiency through adopting newer infrastructure can achieve large reductions in emissions. In India, an estimated 80 percent reduction in emissions could be realized through the switch to more efficient

38. Bhattacharya, Oppenheim, and Stern 2015.

39. Humphrey 2015.

40. Wilson 2015.

41. See World Bank (1994). For a recent survey, see Sawada (2015).

42. Ramachandran, Gelb, and Shah 2009.

43. The G24 group of major MDB borrowing countries have consistently called for higher levels of MDB lending in response to country demand in recent years, most recently in their October 2015 communique. This has been echoed in recent statements by finance ministers from India and China.

44. Berg et al. 2015.

45. International Monetary Fund 2015.

46. Custer et al. 2015.

47. Department for International Development 2011.

48. Brookings Global Economy and Development and Center for Global Development 2016.

machinery and systems, with the latter including greater rail and public transport investment.[49]

For all of these reasons, we see a strong case for a significant scaling up in MDB infrastructure financing. Doing so—whether to $200 billion annually as we recommend, or even to $250 billion annually—would not close a gap estimated in the trillions. But we believe the target is meaningful when we consider the possible demonstration effect of innovation on the sustainability dimension, and the possible multiplier effect of MDB financing, which can enable other sources of public financing and attract private investment to projects that would otherwise be unattractive to investors.[50] Similarly, the policy leverage that the MDBs can achieve through their infrastructure engagements also argues for a larger role, even though it would fall well short of closing the gap. By demonstrating successes in developing countries, including working with country governments to address policy barriers to greater investment, the MDBs can have an impact on infrastructure investment that extends well beyond their direct financing.

An alternative approach, one that would show a great deal more ambition on direct MDB financing, would introduce unacceptably high risks that the additional funding would be poorly spent or would sit idly as the MDBs struggled to find bankable projects.

In fact, a more prominent infrastructure role for the MDBs should come with enhanced ability and incentives to bring the appropriate set of financial and risk management instruments to the table (not only loans and guarantees, but also grant-based concessionality in various forms). With these capabilities, MDBs could take leadership in catalyzing and supporting the scale of investment necessary to deliver least-cost next generation low-carbon infrastructure investment in the developing world.

In support of these aims, we believe MDB shareholders should consider the value proposition of additional capital as well as better leveraging of existing MDB capital through further balance sheet optimization as outlined by the G20.[51] Such measures, including those endorsed elsewhere in this report (leveraging concessional funds and using guarantee instruments more) could also include exposure exchanges[52] and greater differentiation in loan pricing.[53]

Differentiation in loan pricing, as first proposed in the Volcker-Gurria commission on the MDBs, could be income-based rather than risk-based, such that the MDBs' wealthier borrowers would pay harder terms than less wealthy borrowers.[54] In this way, they would be giving back more to the institutions as they progress economically. Differential pricing in this form would also discourage borrowing from the MDBs simply to exploit softer terms than countries could obtain from other sources, and ultimately could encourage an informal self-graduation when countries no longer see any non-price benefits from their MDB borrowing.

Calls for additional capital contributions from shareholders should also receive serious consideration. We recognize that the question of additional capital from shareholders is ultimately political. If some countries are unwilling to provide more capital in the face of a broader consensus among the institution's shareholders, they should be willing to see their shareholding diluted. In the next section, we address the question of new capital among the various MDBs and the case for a new emphasis on the regional banks' overall financing capacity.

2B. Greater differentiation between the World Bank and the regional MDBs. The joint MDB response on infrastructure should be anchored by the rebranding of the IBRD as the International Bank for Reconstruction and Sustainable Development (IBRSD). A core part of the World Bank's new DR-GPG mandate should emphasize leveraging investment

49. Ahluwalia, Gupta, and Stern 2016.

50. A recent report prepared by the major MDBs for the SDG Summit, "From Billions to Trillions: MDB Contributions to Financing for Development," points to the leveraging effect of MDB finance, particularly for infrastructure.

51. G20 2015.

52. The MDBs have undertaken "synthetic swaps" to better allocate the country risks in their portfolios. Under these arrangements, the concentration risks facing each MDB can be better diversified through exchanges with each other.

53. Other innovative public financing proposals extend beyond the scope of this MDB report but merit consideration. For example, see Sheng and Geng (2016).

54. Volcker and Gurría 2001.

in sustainable infrastructure, with World Bank infrastructure lending devoted exclusively to developing and financing green infrastructure. The renaming points to the need to prioritize sustainability in the bank's activities, as well as the need for greater ambition around sustainable infrastructure investment overall.

As the IBRSD, the World Bank should take the lead in supporting countries' resilience to climate change (seawalls, new agricultural applications, natural disaster insurance) and investing in areas of infrastructure (cleaner energy, public transport) that clearly demonstrate both national benefits *and* global benefits consistent with the bank's new global public goods mandate called for in our first recommendation. A premium should be placed on leveraging private and other sources of financing outside the bank through guarantees, currency hedges, and other financing products that do not rely on direct World Bank lending. In general, the emphasis should be less on lending volume and more on new products and new uses of bank capital.

We believe the IBRSD should anchor a scaled-up approach focusing on infrastructure that is climate-resilient and emission-reducing across the entire MDB system. And regional banks should assume the leading role in overall financing of infrastructure, particularly of basic public infrastructure across the board, including critical cross-border and regional infrastructure.

With a clearer delineation of responsibilities, the World Bank should shift management and staff resources away from bigger, more conventional lending operations toward developing initiatives that respond to growing demand in the developing world for climate resilience and growing support for climate mitigation and other environmental protections.

Although we do not envision a cessation of non-concessional project lending at the World Bank, we do expect that, as the bank takes on a robust global public goods mandate, traditional infrastructure lending activities would be more prominent in relative terms at the regional banks. This would take advantage of the increasing sense of ownership of their borrowing countries, reflected in borrower support for their recent recapitalizations and the initiatives of China and other emerging market economies in founding the two new MDBs.

As a general matter, any increases in capital to allow a scaling up of infrastructure should be calibrated by shareholders based on each MDB's performance in financing productive, efficient, and green investments.

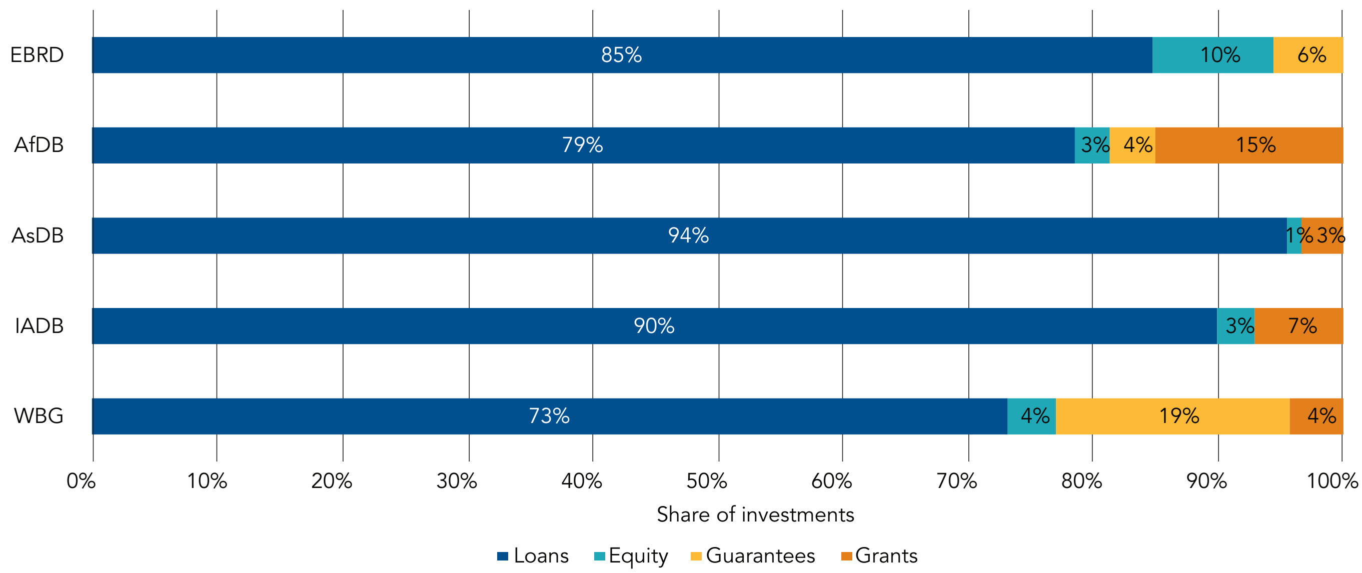
The total capacity of the regional MDBs already surpasses the World Bank's, due in part to larger recapitalizations following the 2009–10 global financial crisis—and this is before considering the prospective financing capacity of the AIIB and NDB. We believe this ongoing shift in capacity points the way toward an appropriate realignment going forward. A newly-branded IBRSD can provide leadership on sustainability issues for the system as a whole, while the regional institutions are the more sensible outlets to take on more of the financing of infrastructure overall.

Regional MDBs have in principle a greater political presence associated with their regional ownership and, in most cases, their leadership at various levels. As a result, they have a stronger claim and record of success in support of cross-border infrastructure. The IADB has long promoted and supported other regional institutions, including the two major subregional development banks—the Andean Development Corporation and the Central American Bank—and the African Development Bank has successfully emphasized regional infrastructure in the last decade. Shareholders should recognize that the regional MDBs are much better placed today to meet infrastructure financing needs than they were 20 years ago.

2C. Crowding in private finance. Private sector development has rightly become a central pillar of the global development agenda and aspirations for a major sustainable infrastructure push at the MDBs will depend on the ability of these institutions to better crowd in the private sector. But the MDB approach to private sector engagement has not done enough to demonstrate that they are truly catalytic, rather than substitutes, when it comes to private investment (see Appendix 3). That is, that they are effectively crowding in and not crowding out private finance. Direct lending to governments and firms continues to dominate MDB portfolios (Figure 3), even with a growing recognition that the MDB insurance function is better matched to supporting the development of private markets and the flow of private funds to developing countries.[55]

55. Humphrey and Prizzon 2014.

Figure 3: MDB investments by instrument



Source: Annual reports 2014.

We call on MDB shareholders to set clear targets for the use of guarantee instruments, as a concrete way to shift the MDBs toward a catalytic role for private sector investment. We believe a target of 20 percent of portfolios for nontrade finance guarantees is appropriate. Only at the World Bank do guarantees account for a nontrivial share of operations, and even here, much of this activity is trade finance. With broad targets, MDB management will be better motivated to address the barriers and disincentives to broader use of guarantee instruments, such as pricing and accounting treatment (Appendix 3).

The MDBs should also increase their private sector activities in riskier markets and sectors, where lack of private financing is an obvious development problem. Because of the tradeoffs with risk and profitability, shareholders should consider targets or even temporary binding earmarks for riskier countries and sectors, accepting that this probably will reduce expected returns and increase unit costs.

The MDBs should pursue a more integrated approach to private sector activities, starting with the World Bank. As with an IBRD-IDA merger, we believe a merger of IFC and MIGA balance sheets could achieve greater efficiencies in pursuit of a broader suite of instruments (loans, equity, and guarantees). Given the case for more catalytic financing instruments, it is particularly striking how little financing capacity is represented in MIGA as a standalone entity, given the potential for guarantee instruments to crowd in private flows for development purposes.

Finally, we believe that some of the greatest gains in private sector development will come through more robust MDB engagement with governments to improve regulatory regimes and other aspects of the broader investment climate. MDB lending and guarantees can play an important role in addressing market failures associated with inadequate information about developing markets (which leads to an overpricing of risk). But it is too often the case that the underlying risk is in fact too high for private investors, due to problems that developing country governments can address through policy reform and capacity building. These problems are particularly acute in infrastructure investment, such as in the energy sector, where private investors could play a much larger role but for weak legal and regulatory regimes. MDBs should prioritize their engagement with sovereign clients in these areas.

Chapter 3
Beyond business as usual on concessional financing

The challenge

We see the continuing need for traditional concessional finance for low-income, often fragile, states—some conflict-ridden, some post-conflict—for the next 15 years at least. The focus should be on building institutions of the state and encouraging reforms that support business investment. Though the number of countries eligible for concessional finance under traditional MDB rules will likely decline significantly over the next decade,[56] many of those that remain can be defined as fragile and conflict-affected, and far less likely to be able to borrow on anything other than highly concessional terms (see Appendix 2, Table A2.2 projections).

Most but not all remaining low-income countries eligible for concessional finance are in Sub-Saharan Africa. Currently the World Bank's concessional fund, IDA, devotes 50 percent of its annual financing to Africa (or roughly $8 billion), making it the largest source of concessional resources to the region.[57] The African Development Bank's concessional funding is about $2.25 billion a year.[58]

As a group, low-income countries that still need access to concessional finance can be presumed to face particularly tough constraints to growth inherent in their endowments, their politics, their history, or their neighborhoods. Sustaining the kind of patient, long-run support for these countries is not easy politically, given the likelihood of repeated setbacks over several decades.

It can be argued that the role of the MDBs (along with the IMF) in supporting macroeconomic management and reforms in those countries has been constructive. Many low-income countries in Africa have enjoyed healthy growth rates, particularly since the early 2000s, following programs that substantially reduced their public debts. It is also the case that concessional finance and other aid have played a critical role in saving and improving lives by financing access to vaccines and other critical medicines and supporting the build-up of health and education systems. However, it is also difficult, beyond debt relief, to associate MDB (and bilateral) financing with recent growth of some low-income countries—as opposed to a benign external environment and good domestic leadership in those countries. The bottom line: it is too soon to consider a diminution in the MDBs' financing role (and in other forms of external financial support) for many of these countries, but it also is unacceptable to view the MDB role in terms of business as usual.

The MDBs have too often struggled to demonstrate successes in the poorest countries, often defined by conflict situations and other sources of fragility. In part, they are bound by overly-rigid financing rules and silos that favor performance at the country level over responsiveness to immediate needs and opportunities—whether the risk posed by a fast-moving pandemic or the opportunity represented in a newly-elected democratic government in a country that has struggled with civil conflict. MDB successes in the poorest countries have also been limited due to the staff incentives that favor work in large borrower countries—such as the emerging markets—over work in small and poor countries.

Our recommendations

Our recommendations come in three parts. First is a clear commitment to effective and sustained engagement in low-income countries. Second is a gradual shift of concessional resources from the World Bank to the African Development Bank.

56. For example, various estimates suggest that the number of IDA-eligible countries could be halved by 2025 under the existing rules (see Appendix 2).

57. See World Bank, http://www.worldbank.org/ida/africa/.

58. See AfDB Annual Report, 2014.

And third is the imperative to end the hard line in the legacy MDBs that confines most concessional financing to a rigid income-based definition of the need for concessional terms.

3A. Clear commitment to a baseline of concessional MDB support for low-income countries with a clearer focus on effective outcomes. Although the current low interest rate environment has blurred the distinction between concessional and market-based MDB lending, concessional financing (including grant-only assistance) across the MDBs continues to be critical for non-creditworthy low-income countries. The sustained progress by many in recent years—measured in stable growth, fiscal improvements, and access to private capital—can quickly reverse, as evidenced in the current environment of uncertainty, with IMF vulnerability measures ticking upward for all low-income countries.[59]

Shareholders should commit to supporting a baseline of concessional financing over the next decade, based on current levels of concessional lending of approximately $25 billion across the legacy MDBs,[60] even as a number of countries graduate from this assistance under the existing rules. A firm baseline commitment will better position MDBs to respond to different country circumstances—whether scaling up in turnaround situations in countries emerging from conflict, managing increased demand from countries buffeted by a more difficult interest rate environment globally, responding to humanitarian crises, or exploring targeted support at the subnational level in countries that are not low income.

A commitment to concessionality can be delivered through various means and does not require rigid adherence to longstanding fundraising and business models. As with our call for a new World Bank business model, all MDBs should explore more innovative ways to raise concessional funds, moving beyond the longstanding donor replenishments of ring-fenced concessional windows. For example, use of concessional funds to buy down the terms of lending to low-income countries from the market-lending windows can deliver greater volumes of concessional lending.[61] Balance sheet consolidation is one way for more efficient use of MDB resources (with terms more effectively matched to need) to free up more of the existing concessional funds. At the World Bank, these approaches should more than substitute for the practice of transferring net income from the IBRD and IFC to the IDA window. In addition to adding to tensions between traditional IDA contributors and the major borrowers (who view the transfers as a decapitalization of the bank), that has also reduced the overall leverage of the bank's operations.

Recognizing the possible need for significantly larger flows to fragile countries in the years ahead and the limits on the capacity of low-income countries to absorb new financing, it will be important that each MDB develops and demonstrates greater effectiveness operating in environments where country operational capacity is low. The shareholders should hold MDBs accountable for exploring new approaches to support—such as rewarding countries on the basis of measured and verified progress on outcomes or results, rather than financing solely inputs, and generally doing better at allocating resources in line with country effectiveness in using those resources.

3B. A shift of concessional funds to the African Development Bank. As with infrastructure, we see the need for greater specialization in concessional finance for development among the MDBs, with the regional banks taking on more responsibility—including in the social sectors and agriculture, where their greater engagement at the political and technical level within countries is an advantage. For Sub-Saharan Africa, where the concentration of low-income countries is greatest, shareholders should over the next 10–15 years support a gradual shift of concessional finance from the World Bank to the AfDB. Currently, IDA financing in the region is four times greater than that of the AfDB's concessional financing arm. Yet, consistent with adequate growth in capacity, we believe the regionally based institution will be better positioned to achieve sustained development progress in the most challenging environments—and will better enable the World Bank to shift its core focus to a global agenda.

59. International Monetary Fund 2014.

60. This figure approximates aggregate annual concessional financing levels across legacy MDBs that have concessional financing arms (World Bank, AfDB, AsDB, and IADB).

61. This has been the practice at the IADB since 2007 with the establishment of the Debt Sustainability and Enhanced Performance-Based Allocation framework (DSF/EPBA).

Greater emphasis on regional institutions will also be a means to address longstanding World Bank staffing disincentives for working in the poorest countries.

3C. Ending the silos and promoting flexibility. The MDBs should explore more flexible approaches to identifying concessional needs among countries. Near-exclusive reliance on gross national income (GNI) per capita as a measure of a country's capacity to build the institutions to manage and sustain growth and poverty reduction is not sensible (see Appendix 4). A broader array of measures could include median income, poverty headcounts, or measures of institutional limits in the short run on fiscal capacity, as in post-conflict settings where new democratic governments are assuming power. Using a broader array of measures would also better enable the MDBs to match concessional resources to needs on the ground and would enable MDBs to better target resources to lower-middle-income countries, which currently are poorly served by the existing rigid approach.

At the World Bank, this effort will be facilitated by our recommendation to merge IDA and the IBRSD. At all of the MDBs, such a change would liberate concessional finance from the strictures associated with it since the founding of the World Bank. The panel believes that given the changing nature of the development challenges in this century—the climate problem, pandemic risks, rising numbers of people affected by natural disasters, continuing likelihood of major movements of people across borders, growing awareness of the millions of people living in refugee camps—ex ante commitments of concessional funds for contingencies that are not predictable, and greater flexibility in their use, make sense. That brings us to our next recommendation.

Chapter 4
Crisis management and post-conflict reconstruction

The challenge

All developing countries—low income or not—are vulnerable to the sudden and difficult-to-manage fiscal burdens that crises of various sorts can impose, diverting spending and attention from fundamental development investments and programs. The legacy MDBs have a history of bringing financing and expertise to bear in countries hit by financial shocks—not duplicating the role of the IMF dealing with balance of payments needs, but working with fiscal and program authorities to address budget issues, as in Mexico in 1994–95. Legacy MDBs have built or reformed social insurance programs with countercyclical effects that have endured, as in Southeast Asia after the 1997–98 financial crisis. And they have created temporary trade finance support to stabilize trade flows, as in Latin America in 2009–10. The MDBs have also proven critical in the reconstruction efforts that follow conflict and crisis, as in Haiti following the 2010 earthquake and in Côte d'Ivoire with the cessation of civil conflict in 2011.

In cases involving balance of payments issues, the IMF has a clear leading role, but the MDBs also appropriately provide additional fiscal support in many of these situations. During the global financial crisis, MDB financing disbursements exceeded those of the IMF (Table 1). As the number of MDBs grows, it is critical that responses to macroeconomic crises are well coordinated.

In recent years, the role of MDBs has been as or more critical in the face of nonfinancial crises rooted in fragile or conflict-ridden settings, or following natural disasters: the West African Ebola outbreak, the ongoing refugee crisis associated with conflict in Syria, the 2010 earthquake in Haiti, the 2013 typhoon in the Philippines, and the 2004 tsunami in Indonesia.

Some of today's crises can be prevented in the future, but will require new regional and global mechanisms of risk management and insurance, with MDBs and especially the World Bank playing a role in developing new products.[62] Still, we know shocks will continue to hit in some form, somewhere, soon. The MDBs in principle provide an infrastructure allowing the global community to respond quickly, with their own finance and staff, and by coordinating and convening other international and national responders.

Our recommendations

4. Embracing crisis response as a core mandate, requiring more boldness and flexibility. The proposed shift to regional MDBs for routine traditional lending will free up the World Bank to arm itself better for unpredictable contingencies and emergencies, particularly those that represent global bads by virtue of being cross-border and at a potential scale to have regional or global consequences. All MDBs should assess existing policies and operations to better address crisis situations, including the ability to respond in a timely and effective way to help meet reconstruction needs in post-conflict situations.

If we view the world through a crisis lens, it should come as no surprise that country demand for MDB financing has been growing. The global shock that caused MDB lending to spike in 2008–10 has been followed by a series of crises in the developing world of various sorts: regional and global pandemics like Ebola and Zika;[63] major refugee and humani-

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62. Under the leadership of Caroline Anstey, the World Bank in 2007 launched a Caribbean disaster insurance fund to help countries finance critical services in the aftermath of a natural disaster. Countries pay annual premiums into the fund for access.

63. The World Bank response to the Ebola crisis in just three countries consumed more than 60 percent of IDA's crisis response resources, which were intended to cover three years of contingency for all IDA countries.

Table 1: IFI financial flows, fiscal years 2009–10 (US$ billions)

IFI	Gross commitments	Gross disbursements
World Bank Group without MIGA	128.7	80.6
IMF	219	67
Other IFIs	81.7	56.4

Source: Independent Evaluation Group 2010b.

tarian crises associated with conflict in Syria and Iraq; and the increasing fragility in growth prospects throughout the developing world associated with China's slowdown. Each of these situations calls for an MDB response in financing and expertise in coordination with UN humanitarian agencies and other critical service providers.

However, the current structure of the legacy MDBs is not well suited to respond. Flexibility in the use of both core and contingent resources is limited by longstanding institutional silos that govern concessional, non-concessional, and private sector lending by rigid resource allocation mechanisms[64] and by excessive reliance on ad hoc donor conferences.

The Syrian refugee crisis has highlighted the fact that seemingly short-term humanitarian crises are in fact long term and, as such, could benefit from the sustained development-oriented engagement of MDBs. Today, more than 50 million people globally are displaced by conflict, and most are hosted by developing countries.[65] Although less publicized in Western headlines than the refugee crisis facing Europe, Kenya's Dadaab refugee camp is the world's largest, hosting more than 300,000 displaced persons today, many now second and third generation since the camp's founding in 1992. While the humanitarian needs in places like Dadaab are acute, it is clear that the challenge of developing countries hosting highly vulnerable refugee populations also requires the financing and programming of MDBs, aimed at promoting things like job creation and education in ways that serve the refugee populations in and out of the camps.

Embracing crisis response as a core mandate will require tackling these problems and constraints within the MDBs, as well as a clearer division of responsibilities among institutions and further development of expertise within the MDBs. The coordinating platform the World Bank or another MDB can provide in response to natural disasters or pandemics should be recognized as a global/regional public good and prioritized, particularly as the number of institutional actors increases worldwide. At the same time, there will be situations where the MDB role should be secondary and limited to quickly mobilizing financing.

Appropriate provisioning for crisis risk, including exploring innovative insurance mechanisms tailored to particular types of crises, should be a priority across the MDBs. This starts with a clear commitment to establishing and maintaining contingency resources. The World Bank's IDA Crisis Response Window has proven the utility in setting aside a small amount of IDA's grant resources (about $300 million a year) as a contingency for crisis response. In its short existence, the window has been deployed in response to the Ebola crisis as well as natural disasters in Nepal and Haiti.

Contingency resources also apply to the MDBs' non-concessional financing. When shareholders press for balance sheets to be stretched to expand non-concessional lending, often in ways that we support elsewhere in this report, they need to be mindful of the effect on the institutions' ability to scale up support in moments of large-scale regional or global crises. The World Bank's ability to increase lending significantly during 2008–09 depended on a prior period of lending well below capacity. It is also the case that each of

64. Both the "performance" allocation mechanisms of the concessional loan windows and the prudential rules associated with the hard loan windows can be overly limiting in cases that call for a rapid, but temporary, scaling up in resources for individual countries.

65. Miliband and Gurumurthy 2015.

the World Bank's four capital increases has followed periods of crisis response.

These patterns generally argue for restraint in procyclical lending that does not otherwise meet a compelling development need, particularly at the World Bank, where we are not calling for consideration of new capital. At the regional MDBs, considerations of new capital can better take into account the role that countercyclical responses might play in the years ahead.

MDB lending can be appropriate in crisis circumstances even for higher income countries, but—consistent with our call for differentiated loan pricing at the World Bank—with harder lending terms for those countries to reflect their longer term capacity to pay. For example, the World Bank's crisis package for South Korea in 1997 was on significantly harder terms than normal IBRD lending.

Finally, as indicated in Recommendation 3, there needs to be an ex ante reconsideration of the rules that determine concessionality in MDB lending, which have become overly rigid and too narrowly cast as a general matter, particularly from the standpoint of crisis response. Nothing highlights the need for such a reconsideration better than the problems associated with displaced and refugee populations, whether they are hosted by low-income or middle-income countries. Recognizing that these humanitarian crises also pose longer term development challenges, MDB shareholders should seek to deploy concessional resources in support of these populations wherever they are hosted in the developing world.

Chapter 5
A shareholder-led MDB agenda

The challenge: Governance and beyond

The first four recommendations by our panel represent an ambitious agenda for the MDBs. Meeting that ambition requires that the banks' shareholders embrace the MDBs, including the new ones, as a system with greater differentiation in mandates and roles, particularly between the World Bank and the regional banks. But there are very few instances where system thinking has taken hold. The G20's coordination of MDB responses to the global financial crisis, reflected at the time of the London and Pittsburgh G20 Leaders' summits, are rare exceptions and would suggest that the G20 itself has a role to play.

Representing most of the MDBs' largest shareholders, the G20 exemplifies a tradeoff between expedient decision making and broader legitimacy. Unfortunately, outside a moment of global crisis, the G20 has not proved expedient on the kind of MDB system agenda we identify here. In fact, the G20's development agenda, which points to a central role for the MDBs, tends to reinforce the fragmented and ad hoc approaches that have undermined a strategic approach for the MDBs as a whole. That agenda has tasked MDBs with countless reports and white papers across hundreds of topics and subtopics with little high-level decision making.

An example of an area that deserves particular shareholder attention on a cross-MDB basis pertains to shareholder governance of the different banks, if governance tensions are not to become a barrier to progress on the agenda laid out in this report. In the recent past, for example, donors to concessional windows like IDA have been reluctant to cede control over the uses of concessional resources. And developing country shareholders have been suspicious of a GPG agenda that indirectly might raise their own cost of borrowing for traditional project lending or, in the case of low-income borrowers, might compete with contributions to the concessional windows. Safeguard issues have sometimes led to borrower resentment because they are seen as imposed by US and European shareholders concerned with reducing reputational risk without attention to associated costs and delays (see Appendix 5).[66]

The members of this panel believe that addressing problems of governance is fundamental to the success of all MDBs, and especially to the success of the World Bank in taking up its new, more explicit role in ramping up provisions and financing of global public goods for development. But the members choose to endorse rather than add to the recommendations in the 2009 report of the Zedillo Commission on World Bank governance, which apply in one measure or another to the regional banks and the two new banks as well.[67] In sum, the five Zedillo Commission recommendations are:

- Voting and Board chair realignment (in favor of borrowers).
- Elevation of the Board role to strategy and oversight.
- Rules-based leadership process open to all nationalities.
- Strengthening Board tools to hold management accountable.
- A bigger resource base, including to allow greater voice of borrowers.[68]

Among those recommendations, there has been good progress on voting realignment (in favor of borrowers), including the commitment to five-year reviews of shareholding, and to an increase in capital (in 2010) that aided in that realignment.

66. This contentious dynamic has been a major factor in delayed consideration of safeguard reforms at the World Bank, as well as in introducing new instruments like the Program for Results, which aims to reduce the bank's ex ante safeguard compliance procedures.

67. Zedillo 2009. Ahluwalia and Fraga, both members of this panel, also were members of the Zedillo Commission.

68. See Appendix 6 for a full summary of the Zedillo Commission recommendations.

There also has been progress in supporting a more open process in the selection of the president, but the current process still falls short of the transparent and merit-based process first called for by the Development Committee and the G20 in 2008 and reiterated in subsequent years.

But the primary concern of the Zedillo Commission related to the weakness of the corporate governance function, with poor strategic oversight by shareholders and lack of adequate tools to hold management accountable. This concern has not been addressed,[69] and today the same could be said of the other legacy MDBs.

Applying the conclusions of the earlier commission across the MDBs, we see a clear need for an approach by shareholders that takes more decisive stances on strategic issues (GPGs versus more generic project lending, for example), but allows for more flexibility when it comes to day-to-day corporate management issues. The legacy MDBs have become overly bureaucratic, rigid, and rule-driven in large part because of shareholder governance that has failed to distinguish between appropriate strategic oversight (combined with accountability measures) and issues more appropriately within the purview of management.

Further, in line with our panel's emphasis on ensuring strategic attention at the highest political levels to the MDBs in and beyond the G20, the panel believes it would make sense that the election of the World Bank president be taken at the level of the governors (so that each country's weighted vote is counted directly) as is the case at the regional MDBs, not as currently delegated to the 24-member board of directors.[70] (See Appendix 6 for a description of governance arrangements at each of the MDBs.)

Ultimately conflicts around key strategic issues for the MDBs can be resolved only by a shared conviction among all shareholders that overall governance of each MDB continues to be legitimate. The alternative is a system in which factions of countries move to control rival MDBs, resulting in a balkanized system that will simply not be up to the tasks we have laid out in this report.

Looking beyond questions of governance within each MDB, we see the need for a different approach to system-wide governance from the MDB shareholders. Specifically, we see value in convening MDB governors (the minister-level shareholder representatives) every five years to engage in a cross-MDB review of resources and policy, the MDB Quinquennial Review. The review would rely on the constituency model of the World Bank's Development Committee, and would enable a strategic approach to the cross-MDB agenda by promoting direct consideration of relative resource needs and operational comparative advantages among the institutions.

Although the Development Committee itself has largely become a pro forma body, its constituency-based model could form the basis for a cross-MDB strategic planning process in which 25 governors representing the MDBs' 188 shareholders convene to address questions of resources and programmatic differentiation, coordination, and harmonization among the MDBs every five years. This process would require a cross-MDB secretariat, funded and staffed by all the participating MDBs.

69. Including board seat consolidation (to reduce seats) and elevation of the seniority of board members.

70. Among other problems with this approach: there are mixed combinations of creditors and borrowers on many of the 24 board chairs, diluting further the impetus for political agreements among all members, as occurs at the regional banks.

Note of dissent from Ray Offenheiser

It has been a pleasure and privilege to be part of this prestigious working group assembled to envision an MDB system fit-for-purpose for the 20th century. I fully endorse the ambition of the CDG to launch such a public discussion and would hope that this effort might prompt others to do the same. While the report raises many new ideas and questions, I am unable to endorse the content of the paper in its entirety but rather suggest that a number of these proposed ideas are worthy of further research and debate. My principal areas of concern are as follows.

In considering the state of international development today, it is critical to speak not just about poverty or growth, but also about the growing inequalities between and within countries. The Bank, Fund, and World Economic Forum all acknowledge the widening gap between rich and poor, its impact on growth, and its detriment to the achievement of sustainable development. We simply cannot ignore the programs, policies, and structures that are accelerating the widening of such gaps. I think this perspective needs to be underlined more forcefully in any further discussion on the future of the MDBs.

One of the reasons we are having this discussion today is the changing landscape of development: new national, regional, and international financial players, a bigger role for the private sector, and lively discussion on impact investing, etc. What separates the MDBs in this fast-changing context, however, is their specific mandate to reduce poverty. I therefore believe that it is imperative that the starting point for any such discussion on the future of the MDBs acknowledge up front the centrality of the poverty reduction mandates to the vision and purpose of the MDBs. While I would certainly recognize the role of global public goods (GPGs) in addressing different dimensions of poverty and inequality (and might go so far as to suggest including the area of international tax regulation, which is not mentioned in this paper, as a new GPGs area for focus), and perhaps even recommend making it an explicit and major pillar of work, I would continue to argue that the overarching mission and mandate of the World Bank (and other MDBs) must remain the fight to eliminate extreme poverty.

Among its recommendations, the paper proposes that the World Bank should increase its focus on the GPGs and that when it comes to standard country operations, donors should concentrate future resources on regional banks. When viewed from an aid effectiveness (OECD Busan agreements) and a proximity standpoint, this could make sense. However, each of the legacy MDBs has developed unique competencies and organizational cultures. If we consider the added value of each institution, where their strengths and technical expertise lie, the relationships they have, particularly with donors and governments, and ultimately the capacity and experience they each have built up over time, such a change in focus (which could arguably entail the World Bank doing increasingly fewer country operations) may not be easy or optimal. It may make more sense to build on existing added value and the investments built up over decades. We also have to recognize how challenging it is to change institutions, their cultures, their staffing, and the expectations that their development partners have of them.

Finally, I'd like to comment on an issue which came up throughout the paper both implicitly and explicitly—the subject of environmental and social safeguards. The paper presents safeguards as a burdensome, costly process which has frustrated borrowing countries. What is not highlighted is that these policies are considered by many constituencies, not just NGOs but companies and even the investment community, to be one of the MDBs' most significant added values. Increasingly, strong environmental and social outcomes are being seen as development outcomes in themselves—especially when you move from a system of "do no harm" to "do good." Investing in properly evaluating social and environmental risks and ensuring community consent may be time consuming, but due diligence in these areas will ensure a much higher likelihood of a sustainable development project in the long run. In other words, good development takes time. On the inefficiency question, there seems to be a tendency to blame the safeguards rather than evaluating the full array of potential causes for delay. I would suggest that this is the moment to review the reasons for inefficiencies in greater depth and consider innovative solutions. Such solutions may include harmonizing safeguards across MDBs, and capacity building around countries' environmental and social systems. Ultimately though, no solution should have the result of putting people or the environment at greater risk.

Appendix 1
MDBs and development-relevant global public goods

The multilateral development banks (MDBs) all make some contribution, directly and through the investments they finance, to the provision of certain global public goods—what might be called development-relevant global public goods (DR-GPGs).

In this appendix, we explain what we mean by DR-GPGs and set out examples of a subset of DR-GPGs in which the MDBs could play a greater role. The subset is in four development areas in which many potential programs and investments have substantial global spillovers—health, agriculture, climate/energy, and development policy research)—and on which the multilateral development banks and especially the World Bank have substantial competence. We offer rough estimates of annual spending by official funders on these DR-GPGs in the last decade and provide a brief history of support for DR-GPGs at the World Bank to those four areas. (See Appendix 2 for a discussion of how a broader and clearer mandate on DR-GPGs could be financed at the World Bank.)

Global public goods that are development-relevant

Public goods are defined as those that are non-excludable (no single provider can capture all the benefits of provision) and non-rivalrous (more for me does not imply less for you). Theory suggests that public goods (policing, pollution control, immunizations, management of public parks, some forms of social insurance) likely are inadequately provided and financed, especially where collective agreement is hard to reach because governments are weak and unable to tax citizens adequately to provide such goods, or are otherwise dysfunctional in reaching and maintaining an adequate consensus on the provision of such goods.[71]

Whatever the challenge of providing public goods at the local and national levels, that challenge is greater (and thus even less likely to be met) in achieving optimal provision and financing of such goods at the global level—the provision of global public goods. Few would argue, for example, that financing climate mitigation programs is adequate, let alone optimal for the world at the moment, relative to provision and financing of national security in most countries.

Some global public goods (and bads) are particularly important for developing countries and their people. We estimate elsewhere, on the basis of Birdsall and Leo (2011),[72] that in 2012 about $14 billion was spent by high-income donor countries on these DR-GPGs, compared with total spending on all official development assistance to developing countries of more than $130 billion.

DR-GPGs for which the MDBs have special competence

The MDBs have obvious competence on some DR-GPGs, but not all. For example, the protection of sea trade lanes that undergirds the global trading system and United Nations peacekeeping operations are outside of their remit, and thus their competence. However, in sectors such as health, energy, and agriculture, MDB staff are familiar with the full range of technical and economic issues that matter for the provision of DR-GPG products and programs because of their mainstream activity: developing and financing country operations.

71. Ostrom 1990.

72. For a full description of the areas and organizations included in this estimate, see Birdsall and Diofasi (2015), and Birdsall and Leo (2011).

In the area of data and related development policy research, all MDBs have contributed directly through staff work and indirectly through support for work within and by developing countries, with benefits for other countries.

In the health sector, some operations at the country level (though not all) provide not only national benefits to the country borrower but also global benefits. These include competence in surveillance and rapid reporting of communicable diseases such as Ebola, flu, cholera, and Zika; country-based programs to eliminate the malaria vector and universalize polio vaccination; and rapid response to an outbreak of cholera and other diseases easily spread across borders following natural disasters. MDB legal and financial competence combined with knowledge of country health systems has made it sensible for the World Bank to manage contributions to new financing mechanisms, such as the Advance Market Commitment[73] and the International Finance Facility for Immunizations.[74] The same could be said of any insurance or re-insurance program for countries to subscribe to that would disburse rapidly to help finance a rapid response to the spread of a pandemic.

In agriculture, the World Bank has a history of supporting basic research and development through science and technology loans in Brazil and other middle-income countries. Staff familiarity through country operations with technical and institutional constraints to increasing agricultural production and productivity was relevant to the World Bank's influence on the crop research programs at many of the centers of the Consultative Group on International Agricultural Research (CGIAR) and to the reform of CGIAR, including the decision to close some centers, and to the policy research programs of the International Food Policy Research Institute and of the Center for International Forestry Research.

For climate mitigation, the World Bank in the late 1980s helped create the Global Environment Facility (GEF) and its staff helped countries plan and manage GEF projects including forest conservation (more than $4.8 billion in GEF grants since 1991). Since its inception, the GEF program has supported more than 790 projects in 120 countries, and it now has a current portfolio of 200 active investments with increasing attention to climate change. The longstanding economic and technical work of the World Bank in tropical forestry and land use in the context of country lending is now relevant to GEF work on creating a global market in bio-carbon.

Several donors have financed Climate Investment Funds (as trust funds) at the World Bank, with resources deployed in the form of grants and loans to developing countries for climate mitigation programs and projects. The funds comprise the Clean Technology Fund ($3.3 billion worth of investments approved to date) and the Strategic Climate Fund. The Strategic Climate Fund in turn comprises the Forest Investment Program ($208 million approved and under implementation), the Pilot Program for Climate Resilience ($777 million approved and under implementation), and the Scaling UP Renewable Energy in Low-Income Countries program ($136 million approved and under implementation).

In energy, all the legacy MDBs have experience in the power sector now relevant to tackling the challenges of climate change—including technical and financial analysis of alternative programs given ongoing technological changes, and understanding of the respective roles of private investors compared with governments in producing, transmitting, distributing, and pricing power. All MDBs have experience in the local financing of power and how to reform it, including replacing fossil fuel subsidies with cash transfer programs.

A fourth category is data collection and curation, along with associated research and evaluation at MDBs or supported by them at outside organizations. The World Bank's work on defining and measuring absolute poverty is a classic example. Its staff coordinates the collection and processing of price data used for purchasing power parity adjustments through the International Comparison Program.[75]

Spending on DR-GPGs

Current annual spending by all donors on DR-GPGs where MDBs have special competence, at or through the MDBs themselves, is difficult to estimate. None of the MDBs report on the share of their administrative or program budgets spent

73. Advance Market Commitment Working Group 2005.

74. Barder 2005.

75. World Bank 2014.

on GPGs, nor do the UN agencies or bilateral donors in any systematic way. No standard definition of which administrative and program expenditures should count as GPG expenditures exists among official funders.

A rough estimate, built up from data for 2008–12, of total GPG-related transfers to developing countries (excluding spending in the United States and other high-income countries on their own R&D infrastructure with many global spillovers) is about $14 billion a year, or just over 10 percent of annual spending on official development assistance to benefit developing countries directly in that period.[76] More than half of the $14 billion figure, however, was for contributions to UN peacekeeping, with additional amounts for IMF surveillance and selected WHO activities. It follows that as little as $7 billion a year has been disbursed for the DR-GPGs where the development banks could be more active, with the proviso that the average annual amounts for 2013–15 could be somewhat greater if recent donor pledges to finance transfers to developing countries for climate mitigation had begun to disburse.[77]

We developed an alternative estimate for official funding of DR-GPGs in 2014 by adding up disbursements by both bilateral and multilateral donors in DR-GPG relevant sectors listed in the OECD's Credit Reporting System and that cover areas like medical research, solar power generation, and so and so on.[78] That number added up to $7 billion as well. A tripling of that number would not be sufficient to cover the funding called for to support climate mitigation alone in developing countries, for which the high-income countries promised $50 billion a year by 2020.[79]

As a single example of the potential overall funding gap for DR-GPGs, the figure on the table to address the global risk of growing resistance to antibiotics is $20 billion.[80] Spending on DR-GPGs by major foundations is far smaller, though their leadership, particularly that of the Bill and Melinda Gates Foundation, has been important in defining issues and developing programs. Our very rough estimate is that the major foundations and other philanthropies have spent about $1.5 billion a year in the last five years on DR-GPGs, including about $1 billion by the Gates Foundation on health, primarily for R&D in tropical diseases. Because the total resources of the major foundations are small relative to the needs they see, they are keen on working with and increasing the role of the MDBs.

Current World Bank programs in support of development-relevant GPGs

There is no well-established list of World Bank finances going toward DR-GPGs. The budget for global engagement and global practice management in the World Bank's administrative budget for FY15 totaled $280 million,[81] compared with the budget of $940 million for country engagement and regional program management. Even from this small

76. Birdsall and Diofasi 2015.

77. A much larger and better known figure for 2014 of $62 billion for climate alone is reported in Organisation for Economic Co-operation and Development and Climate Policy Initiative, "Climate Finance in 2013–14 and the USD 100 Billion Goal." That figure includes commitments (not disbursements) for public projects and programs funded in partnership with private investors. However, we exclude commitments for climate adaptation programs because they lack global spillovers. There is much debate about which funds should be counted and how; in the joint report with CPI, the OECD estimated that public entities (including MDBs) mobilized about $43 billion in climate finance in 2014 alone. A subsequent review of these figures by the Indian Government's Climate Change Finance Unit ("Climate Change Finance, Analysis of a Recent OECD Report: Some Credible Facts Needed") found that if only disbursements of grant-equivalent climate finance were counted, total climate financing in 2014 would come to below $5 billion.

78. Includes total disbursements by bilateral and multilateral donors in the categories of medical research, infectious disease control, renewable power generation, solar energy, wind power, geothermal energy, energy research, agricultural research, environmental research, and support for research/scientific institutions.

79. The better known $100 billion figure pledged by donors.

80. Organisation for Economic Cooperation and Development and Climate Policy Initiative 2015.

81. This includes spending on administrative offices in the World Bank that probably would not be defined as GPG provision.

Table A1.1: Actual and planned budget allocation for the World Bank's grant-making facilities

Facility (in US$ millions)	FY13	FY14	FY15	FY16	FY17	FY18
State and Peace-Building Fund						
Institutional Development Fund	17	9	0			
Development Grant Facility	56	51	33			
Global Partnership for Social Accountability	5	5	5			
Consultative Group for International Agricultural Research	50	50	47			
GMF Total (new baseline)	161	115	110	69	24	0
GMF Total (old baseline)	161	115	115	115	115	115
Put in IBRD reserves	0	0	5	47	91	115

Source: World Bank 2014.

global budget, only a fraction goes toward financing global public goods.

For decades, a small amount has been set aside from the bank's core budget (its own annual net income) for grants to programs that it manages. The Grant-Making Facility (GMF) includes the Development Grant Facility as well as Bank contributions to CGIAR. However, the GMF will be phased out over the next three years, with funding already on the decline. The Development Grant Facility's budget shrank more than 40 percent in the last two years, from $56 million in 2013 to $33 million in 2015 (Table A1.1). Contributions to the CGIAR, a group of international research centers that have been at the forefront of agriculture R&D to improve crops and agricultural technologies in developing countries, will also decline, dropping from $50 million to zero by 2018.

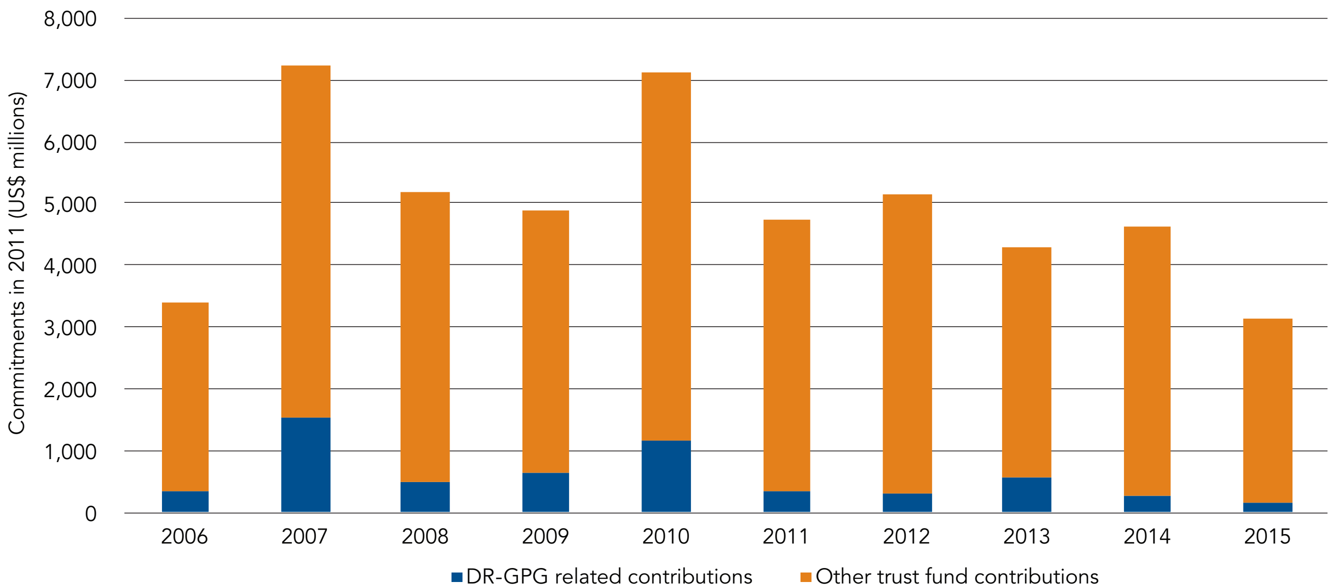
In value terms, most of the World Bank's engagement in the category of DR-GPGs has been financed via donor-funded trust funds. Of the more than 3,800 trust funds housed at the World Bank between 2005 and 2015, some were in the category of DR-GPGs, in particular supporting climate-relevant projects and initiatives. Our initial analysis—based on the names of the trust funds, given the limited additional information available[82]—suggests that of the $43.5 billion paid in to the numerous trust funds at the World Bank over the past decade, about $5.7 billion supported DR-GPG related activities (Figure A1.1).[83] Of these, about $4.3 billion (or 77 percent of the total) was dedicated to climate, with smaller amounts going toward disease prevention, research, and projects to finance global trade and crisis prevention activities. The largest of these has been the Clean Technology Fund, one of the Climate Investment Funds referred to above.

The World Bank has also supported transformative research and development (R&D) programs in developing countries. The Independent Evaluation Group (IEG) of the World Bank identified a lending portfolio of 80 projects that included R&D funding (24 projects) or R&D capacity building (56 projects) between 2000 and 2012. The projects mostly focused on agricultural R&D, using competitive research grants as the mechanism to identify the most capable research providers. For instance, the Peru Agricultural Research and Extension Project, implemented in 1999, included an agricultural technology

82. It would take many person-days to do this adequately. A major review of spending in health that constitutes provision of global public goods is under way. See Schäferhoff et al. (2015).

83. We counted trust funds, where we could reasonably assume from their names that they were earmarked for climate change mitigation efforts; those that supported the research, development, and effective distribution of vaccines and the prevention of pandemics; those committed to agricultural research and development; those committed to building a more resilient global economy (via efforts to support global trade or the prevention and management of global financial crises); and those concerned with data collection and support for statistical offices. This is a first effort—led by Priscilla Agyapong—to identify DR-GPG related projects, so these figures should be considered as estimates.

Figure A1.1: Annual trust fund contributions 2006–15, including DR-GPG share



Source: World Bank Group Finances.

fund that provided competitive research grants to research and extension institutions and institutional strengthening activities to help build capacity in the national technology system.

The World Bank provides a global public good through its role in collecting, analyzing, and disseminating data. Its various databases, including the World Development Indicators database and PovcalNet, are a treasure trove of information for scholars, researchers, and policymakers worldwide. The Development Research Group provides extensive economic and social research meant to guide policy and investments. It was allocated $52 million for the current fiscal year, with a reduction in funds of more than 9 percent expected in the next two years, to $47 million by 2017. As noted, the World Bank also supports the compilation of global purchasing power parity data financed via the International Comparison Program (ICP) Global Trust Fund, the ICP Global Office (located at the bank's headquarters in Washington, DC), and the Multi-Donor Trust Fund, which provides grants and technical assistance to regional and national statistical bodies. (The total budget for the 2011 ICP compilation, including the regional program budget, was about $37 million.)

A DR-GPG window at the World Bank

How might the $10 billion of resources recommended in this report be spent annually on DR-GPGs?

1. Direct grant financing of R&D. This would be aimed at technological progress in agriculture (production of food); clean(er) low-carbon energy; and health (vaccines and medicines), whether in developing countries (science and technology loans financing agricultural or health R&D, as in Brazil and South Africa) or through such international programs as CGIAR for agriculture. Direct grants could be made to third parties such as CGIAR, or to specific programs of other organizations and institutions such as WHO, and to other MDBs. The ability to set priorities and make grants would build on the experience and expertise of staff at the World Bank—with grants above some level approved by the board of the GPG window.
2. Financial support on more concessional terms to investments and services in developing countries that generate benefits at the global level along with domestic benefits,

particularly in agriculture, energy, and health. This category provides key additional financing for the GPG element of mainstream operations, exploiting the MDBs' traditional expertise in working with borrowers to prepare and manage country projects and programs financed through loans to sovereigns. Obvious examples include subsidies to cover the incremental costs of a country investing in cleaner (clean coal, natural gas, solar, and wind) but more costly energy systems; a grant element in a loan to support reduction of deforestation in a particular country; a grant element or other greater level of concessionality to pay the extra costs of an evaluation of an agricultural extension program; or the total cost of a country program to strengthen disease surveillance and pandemic preparedness systems. In the case of climate-friendly investments, increases in the effective price of carbon and technological breakthroughs in producing clean energy could eventually reduce the need for this kind of financing, with the possible exception of support for first movers or making markets in country investments that represent innovations that provide benefits at the global level.

3. Provision of data and policy research relevant to economic development. This could include program evaluation and grant support for such work in developing countries; data collection, analysis, and dissemination; evaluation of development projects and programs; and financial support for these functions in other organizations (as in the ICP or the International Initiative for Independent Evaluation) and in developing countries (for example, support for the African Economic Research Consortium, the Global Development Network, and country statistical bureaus' census and other data collection and analysis functions). This third category makes explicit the global public good nature of data (design, collection, curatorship, user-friendly access) and policy research on all aspects of economic and social development, both inside the bank funded by the administrative budget and outside the bank in developing countries funded through direct grants. (The $10 billion window should be additional to the administrative budget of the World Bank that covers its own research staff.)

Appendix 2

MDB balance sheet optimization: The Asian Development Bank case and its implications for the World Bank

Table A2.1: Equity stock of the World Bank and AsDB

	AsDB	World Bank
Concessional window equity	$38 billion	$175 billion
Non-concessional equity	$17 billion	$40 billion
Combined equity	$55 billion	$215 billion

Source: AsDB, World Bank annual reports.

During the global financial crisis, MDB shareholders called on the institutions to further leverage their balance sheets in order to lend at higher volumes into the crisis.[84] Since then, the discussion on better use of MDB balance sheets has been sustained, most prominently in the G20.[85] The balance sheet optimization agenda at MDBs implicates a number of areas including loan pricing, credit ratings, and portfolio risk swaps. But perhaps the biggest boost to this agenda came from the Asian Development Bank's (AsDB) 2015 decision to merge its concessional and non-concessional balance sheets.

Under the AsDB merger, the assets of the concessional loan window, the Asian Development Fund (AsDF), are treated as equity and brought onto the bank's core balance sheet. The AsDF equity, comprised of $30.8 billion in loans outstanding and $7.2 billion in liquidity/receivables, effectively triples AsDB capital to $53 billion. The expanded capital base increases overall lending capacity by 50 percent. Countries eligible for concessional funding will continue to be served in two ways. The poorest grant-only countries will continue to be supported by AsDF donor contributions. The other AsDF countries will continue to receive concessional lending from the newly combined balance sheet, with the cost of concessionality absorbed by the balance sheet.

84. This note is drawn from Birdsall, Morris, and Rueda-Sabater (2014).

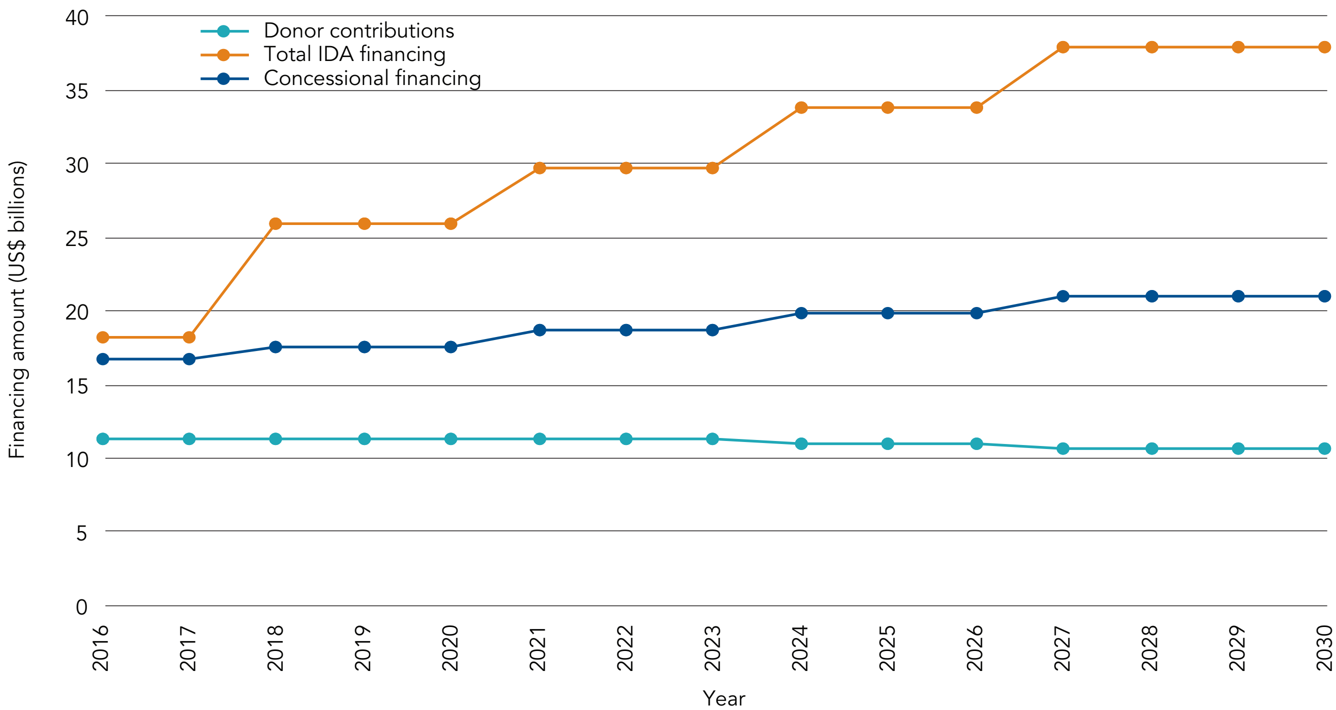
85. G20 2015.

The AsDB merger has been described as win-win-win. AsDF countries see expanded access to lending; AsDB countries also see expanded access (on non-concessional terms); and AsDF donors see a 50 percent reduction in their contributions to the grant fund as a result of a smaller pool of countries.

Discussions are now under way at the World Bank to consider some version of the AsDB model, and it is useful to consider how the numbers might differ. For example, the IDA "equity" equivalent to the AsDF equity at the AsDB is currently about $175 billion. This compares with current IBRD usable equity of about $40 billion. So, on the supply side, there is much more bang for the buck in employing IDA equity at the World Bank than there was in employing AsDF equity at the AsDB.

However, the demand side also differs, and here there is less certainty. The composition of borrowers—those requiring concessional lending terms and their size relative to non-concessional borrowers—clearly differs between the two institutions. Nonetheless, we can draw some firm conclusions even with this limited information. Some leveraging of IDA equity, whether through a full merger of IDA-IBRD balance sheets or something more limited, would generate additional financing capacity, including additional concessional financing capacity. This implies that at the same level of IDA donor contributions there would be more grant financing capacity available within

Figure A2.1: Effect of leveraging IDA resources



Source: As reported to IDA deputies.

the institution, even while maintaining the current baseline of concessional lending for IDA countries.

This appears to be confirmed by estimates provided to IDA donors by the World Bank. Under various leveraging scenarios, the bank estimates that total IDA lending (market-based and concessional) can more than double and concessional lending alone can increase by 26 percent, even as donor contributions to IDA decline (Figure A2.1).

Further, IDA graduation projections point to further grant financing capacity over the next decade as additional countries transition to IBRD lending. Country projections based on growth in per capita income suggest the current pool of 77 IDA countries will shrink considerably by 2025, with estimates of the remaining IDA countries ranging from 33 to 56 (Table A2.2).

It is also clear that the remaining pool of IDA countries will include a higher concentration of fragile and conflict-affected states (FCAS). For some donors, this implies greater financing needs, though it seems implausible that these remaining countries could absorb all of the additional financing capacity resulting from IDA graduations and at the current level of IDA donor support.

Implications for future World Bank financing for DR-GPGs

Grant financing for DR-GPGs at the World Bank has thus far been limited by reliance on the administrative budget, which affords little scope for large allocations, and on donor-funded trust funds. Trust funds have been robust, but given their ad hoc nature, they suffer from reliability and do not lend themselves to a strategic approach to DR-GPGs. How might a robust financing stream look under a revised business model?

Currently, the core grant financing stream in the World Bank resides in IDA. Since its founding in 1960, IDA has

Table A2.2: IDA graduation projections

IDA graduation models to 2025	Graduates	Remaining in IDA			Model	Lag?	Incl. SID
		Total	African	FCAS			
Morris and Gleave (2015)	44	33	82%	48%	Uses operational GNI threshold, WEO 2013 growth estimates.	2, 6 years	Yes
Reisen and Garroway (2014)	11 crossing operational; 12 crossing historical.	56	54%	45%	Examines only countries below operational ($1,205) and historical ($1,965) GNI thresholds as of 2012, uses WEO 2013 estimates.	—	Yes
Salvado and Walz (2013)	34	31 (+12 SIDS)	87% (–63%)	74% (–53%)	Uses operational GNI threshold, WEO 2013 growth estimates.	5 years	No
Moss and Leo (2011)	29	31 (+17 SIDS)	81% (–52%)	58% (–38%)	Uses operational GNI threshold, WEO 2009 growth estimates.	5 years	No

Note: SIDS are small island and developing states.
Source: Morris and Gleave 2015.

raised well over $300 billion in grant resources from its donors, most of that in recent years.

Under business as usual, annual reflows (principal and instrument payments on outstanding loans) will rise from about $4.5 billion to more than $5.5 billion during the next 8–10 years.[86] During the same period, very conservative World Bank estimates of IDA country graduations suggest 22 country graduations, currently accounting for $4 billion in annual IDA lending commitments.

This suggests a floor of $5 billion annually newly available for a GPG mandate at current levels of IDA donor support and with a firm baseline commitment for ongoing IDA lending. The additional flexibility created by employing IDA equity point to considerably more potential for additional grant resources becoming available. Through leveraging, not only will flat donor contributions yield higher overall lending, but even concessional lending will increase by $5 billion annually by 2030. Given the trajectory for graduations from traditional IDA borrowing, a $10 billion target for redeploying grant and concessional lending resources into a DR-GPG is highly plausible.

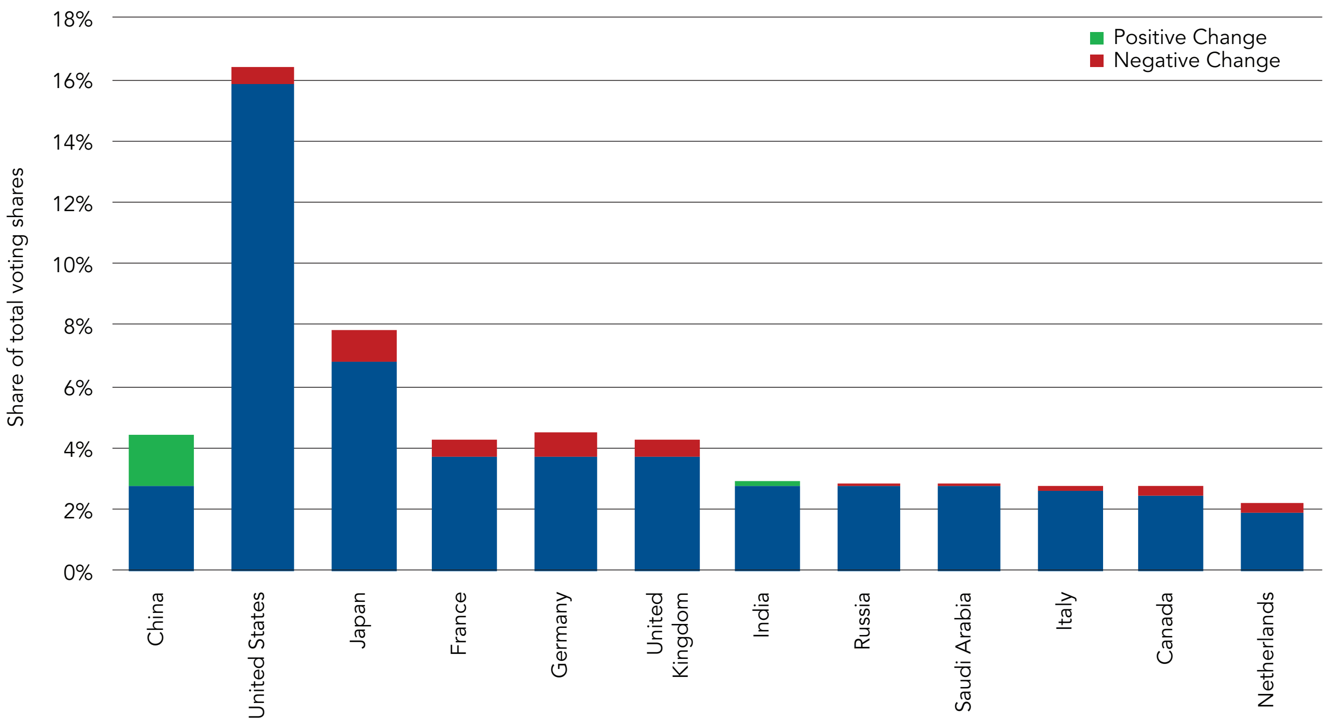
In fact, it appears likely in this context that donors will begin to scale back their contributions to the World Bank over the next decade in the absence of a compelling need outside traditional IDA, such as the GPG agenda proposed in this report.

Governance implications

A merger of balance sheets implies a concomitant merger of governance arrangements. As much as the financing and policy case for a merger might be compelling, unified governance poses significant legal and political barriers. At the AsDB, legal challenges were limited because the concessional window was not a separate legal entity within the AsDB, as IDA is within the World Bank. Yet, consideration of a new governance arrangement did pose a political challenge

86. World Bank 2013.

Figure A2.2: Changes in voting share under combined capital compared with IBRD shareholding, by constituency



Source: World Bank 2010a.

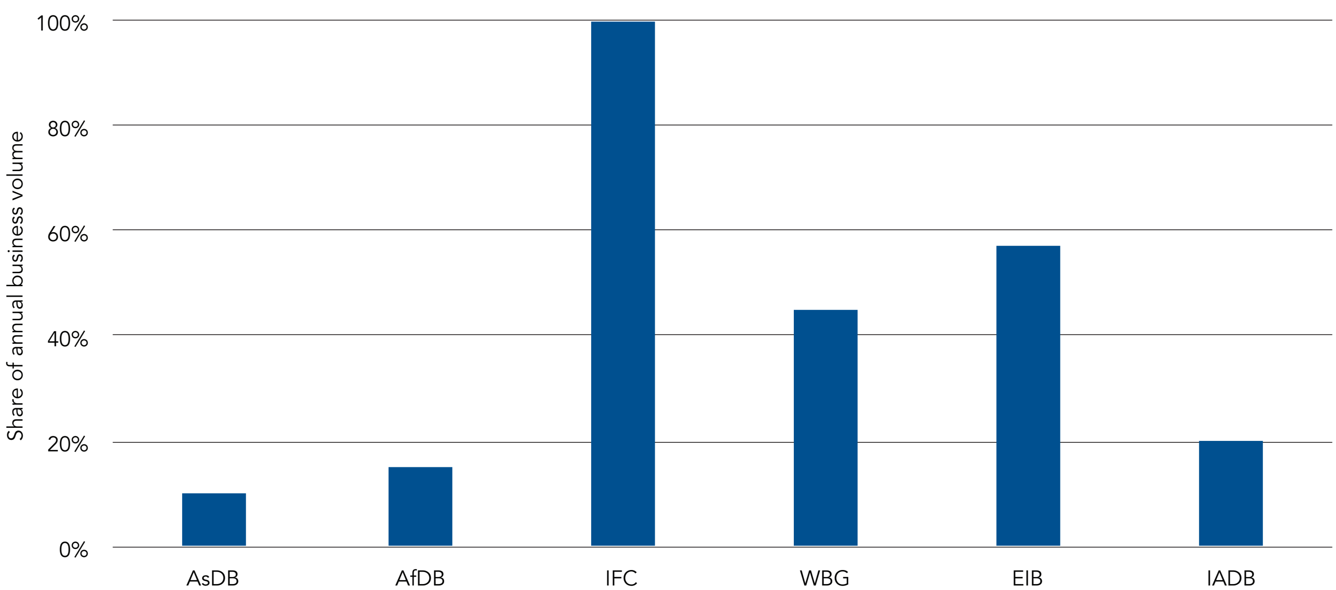
that ultimately proved too difficult to overcome. As a result, the AsDB has maintained separate governance arrangements for concessional and non-concessional lending, even as the finances have been merged.

At the World Bank, shareholders could better consider merged governance given the timing of this exercise. IDA donors are contemplating the future of IDA in parallel with broader shareholding reform discussions in the bank. From this perspective, it is worth considering what consolidated shareholding under a unified balance sheet (IDA + IBRD) would look like (Figure A2.2). Most striking perhaps is how much the list of winners and losers departs from the typical narrative that has defined previous shareholder reforms. For example, under a merger, the United States and China cede some shareholding power, while Japan, Germany, and the United Kingdom gain slightly.

In the end, pursuit of a balance sheet merger could proceed under a variety of arrangements, and while sensitivity about shareholding changes is a factor, it need not be decisive.

Appendix 3
MDB private sector activities

Figure A3.1: Private sector share of annual business volume[87]



Source: Annual reports 2014.

All MDBs engage in private sector development activities, and the new MDBs have included private sector development in their mandates. The dominant MDB model for private sector development is direct lending to private firms in developing countries. By this measure, the EBRD, World Bank, and European Investment Bank (EIB) lead among the MDBs (Figure A3.1).

The MDBs have generally followed the IFC's lead in adhering to commercial standards, which sets financing terms in a way that is meant to avoid market distortions. This ethos has served to limit private sector activities where subsidies would be required, whether in supporting the expansion of clean energy markets or targeting high-risk markets and populations. Nonetheless, these institutions, and the EBRD in particular, have had some success in promoting private sector investments in clean energy. Where subsidies are needed, they have relied on external donor trust funds, or in the case of the EIB, financing from EU sources.

As the private sector orientation of MDBs continues to grow, a fundamental consideration relates to additionality—that is, the degree to which these activities are promoting additional development impact beyond what private investors might be doing on their own. Again, the commitment to commercial standards is intended to guard against cheaper

87. Private sector is defined as non-sovereign guaranteed lending and investments.

Table A3.1: Private sector activity and profitability, average 2011–14 (US$ millions)

	IFC	EBRD	IBRD
Average annual business volume	15,184	11,705	25,074
Average annual profit	1,774	756	899

Source: Annual reports 2011–14.

MDB terms driving out private sources of investment.[88] But more generally, the question of additionality is difficult for MDBs to answer in the aggregate. They have tended to measure operational success primarily by rates of return on project investments. By this measure, we can see the "success" of these activities at a macro level in the profitability of the IFC and EBRD relative to the World Bank's sovereign lending (Table A3.1).

The MDBs also provide measures of private funds leveraged through MDB investments as an indication of additionality. Yet simply counting the level of co-investment falls short of answering key questions of whether the private funds would have invested anyway and whether the investment has contributed meaningfully to the development of private markets.

When it comes to leverage, it is striking how little MDBs use guarantee instruments that more clearly crowd in private funds relative to direct lending. The World Bank's private guarantee arm, MIGA, accounts for just under 5 percent of the bank's annual commitments (IBRD, IDA, IFC, MIGA, and trust funds). And while the IFC provides guarantees, almost all of this activity is in trade finance.

At the IBRD, using guarantees to better leverage private flows to sovereigns has been constrained by the negative incentives associated with capital provisioning rules.[89] These rules book guarantees at the face value of the loan and count the full value against a country's IBRD lending cap. As a result, there is no incentive for countries to choose guarantees over direct lending and as a result, there has been very little use of guarantee instruments.

An independent assessment of the IFC's efforts to track its development impact reported generally positive outcomes.[90] Through this evaluation and MDB reporting, it is clear that the institutions have had successes in employing a private investment model to achieve development aims, whether defined as promoting clean energy, supporting access to credit for women-owned businesses, or more generally promoting basic financial intermediation where it is absent.

But a key question remains about whether these development successes define the MDBs' model, or whether success in the aggregate is limited to project profitability. Underlying this question is the degree to which the culture embodied in the MDBs' private sector operations is exclusively focused on profitability, or if broader development and market objectives prevail.

88. This issue is less clear cut than a commitment to commercial terms would suggest. Deal terms are not transparent and are difficult to evaluate. For example, the degree to which the core MDBs enjoy preferred creditor status likely confers a benefit on the institutions that leads to better financing terms than for purely private actors.

89. Humphrey and Prizzon 2014.

90. Independent Evaluation Group 2008.

Appendix 4
Concessional MDB lending for the poor

Table A4.1: Number of countries eligible for World Bank lending by income classification, FY16

	IDA	Blend	IBRD	Not eligible	Total
Low income	29	1	0	1	**31**
Lower middle income	26	12	12	1	**51**
Upper middle income	4	5	42	2	**53**
High income	0	0	13	67	**80**
Total	**59**	**18**	**67**	**71**	**215**

Source: World Bank Country and Lending Groups database.

Eligibility for concessional financing at the MDBs is generally a function of country income level (measured by GNI per capita) and measures of country creditworthiness. While this approach is commonly understood to focus MDB concessional resources on the poorest countries, the reality is different. For example, while all low-income countries are eligible for IDA financing at the World Bank, IDA lending is not limited to those countries, nor are those countries the largest category of IDA recipients (Table A4.1).

Yet, even with the broader scope that country income plus country creditworthiness standards provide, critics suggest that the effect of the GNI per capita country income standard has limited the ability of MDBs to provide concessional financing terms to address poverty.[91]

In 1990, 94 percent of the world's extreme poor lived in low-income countries. By 2008, 74 percent of the extreme poor lived in middle-income countries.[92] Alternative measures aimed at distribution of income within countries suggest that MDB concessionality thresholds miss many of the world's poor. For example, most countries above the current IDA graduation threshold at the World Bank have more than half of their populations living on less than $4 a day. Similarly, a measure of countries' median incomes reveals that a large number of countries above the IDA GNI per capita threshold have median incomes at or below the IDA threshold (Figure A4.1).

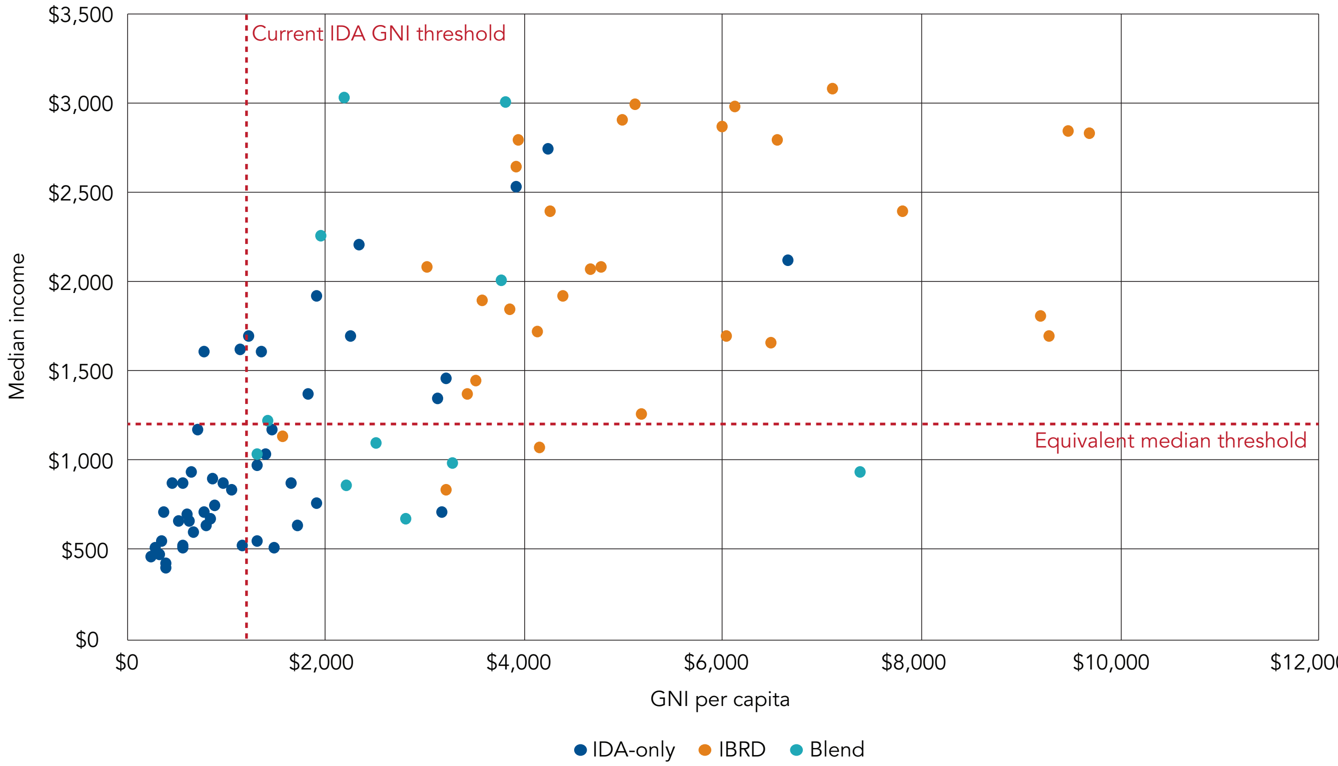
It is not clear how much MDB borrowing countries broadly favor concessionality, or at least the conditions that come with concessional terms. In particular, there is a tradeoff between MDB financing volumes and concessionality. Further, MDB non-concessional terms still represent a significant (even high) degree of concessionality when compared with the countries' cost of borrowing. For example, India was willing to graduate from IDA with assurances that its overall access to World Bank financing would not decline.

At the same time, middle-income countries have expressed strong interest in concessional financing terms for certain purposes. Recent discussions around management of the Syrian refugee crisis make clear that non-IDA countries like Jordan desire concessional financing terms from the World Bank to address the humanitarian aspects of the crisis. And many middle-income countries have long relied on MDB trust funds for grant support for particular purposes, such as the AfDB's Middle Income Country Technical Assistance Fund.

91. Birdsall 2012.

92. Kanbur and Sumner 2012.

Figure A4.1: Median income vs. GNI per capita



Source: World Bank WDI indicators, PovCalNet, and Birdsall and Diofasi 2015.

Appendix 5
MDB safeguards

The MDBs employ a wide range of rules and procedures aimed at safeguarding their projects from environmental, social, and corruption risks. These rules fall under the broad categories of environmental/social safeguards and procurement rules. The list of prohibited project categories alone gives a sense of the detailed procedures that the institutions employ in preparing a project (Table A5.1).

This approach to ex ante, rules-based due diligence, including the wide scope and depth of rules, is most closely associated with MDBs in which the United States is the largest shareholder. Historically, pressure from the United States, first on fiduciary safeguards and over time on environmental and social issues, resulted from the particular influence of the United States Congress and the active role of NGOs in the United States in shaping positions on these issues.

Over time, the accumulation of safeguards has led to a backlash among MDB borrowers, who complain about overly cumbersome processes and a seeming indifference to their

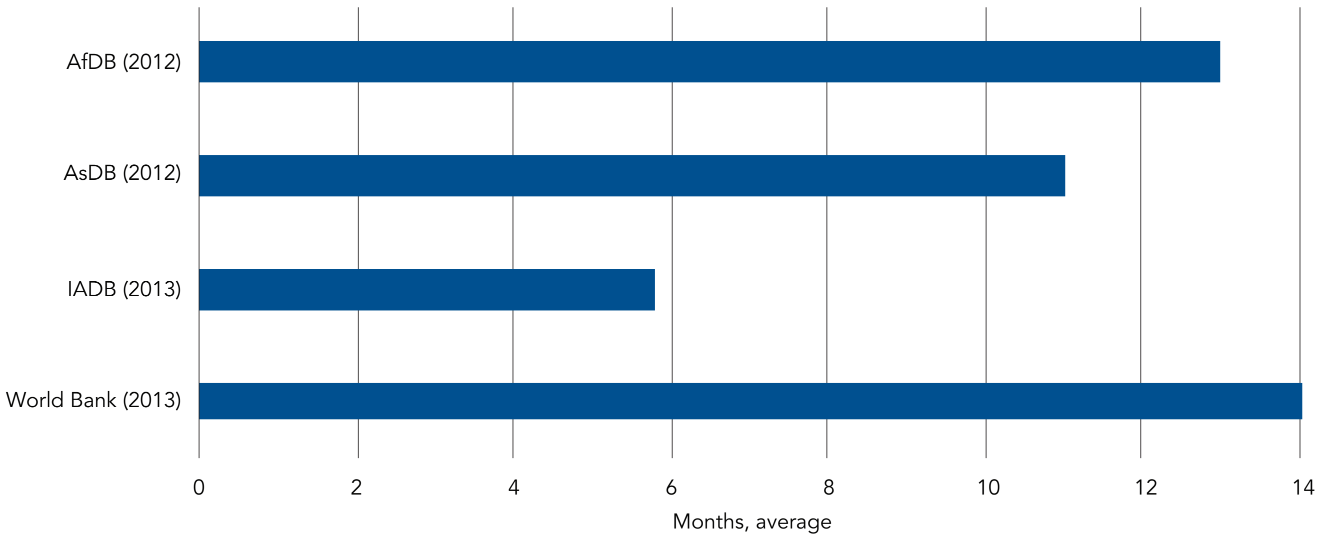
Table A5.1: Categorical prohibitions in MDBs safeguard operational policies

	AsDB	AfDB	EBRD	EIB	IADB	IFC
Environmental and social assessment						
Projects unacceptable in environmental or social terms					x	
Production or trade of any product or activity deemed illegal under host country laws or regulations	x	x	x	x	x	x
Production or trade of any product or activity deemed illegal under international conventions and agreements	x	x	x		x	x
Production or trade of any product or activity subject to international phase outs or bans including ozone-depleting substances	x	x	x		x	x
Production of or trade in weapons and munitions	x	x		x	x	x
Production of or trade in alcoholic beverages	x	x			x	x
Production of or trade in tobacco	x	x		x	x	x
Gambling, casinos, and equivalent enterprises	x			x	x	x
Speculative real estate investing or trading					x	
Production of or trade in radioactive materials including nuclear reactors and components	x	x		x	x	x
Production of, trade in, or use of unbonded asbestos fibers	x	x	x		x	x
Large-scale mining, oil and gas exploration development and supporting services					x	
Shipment of oil or other hazardous substances in tankers that do not comply with International Maritime Organization requirements			x			
Platinum, pearls, precious stones, gold, and related products		x				

	AsDB	AfDB	EBRD	EIB	IADB	IFC
Labor conditions						
Harmful or exploitative forms of child labor	x	x			x	x
Harmful or exploitative forms of forced labor	x	x			x	x
Discriminatory labor practices					x	
Labor practices that prevent employees from freely exercising their right to association and collective bargaining					x	
Noncompliance with workers' fundamental principles and rights at work					x	
Cultural heritage						
Projects with a political or religious content				x		
Ethically or morally controversial projects				x		
Pollution prevention						
International trade in waste products	x		x		x	
Production, trade, storage or transport of significant volume of hazardous chemicals or commercial-scale usage of hazardous chemicals	x				x	x
Persistent organic pollutants					x	
Production of and trade in products containing polychlorinated biphenyls	x				x	x
Biodiversity						
Trade in wildlife or wildlife products regulated under under the Convention on International Trade in Endangered Species of Wild Fauna and Flora	x	x	x		x	x
Genetically modified organisms				x	x	
Driftnet fishing in the marine environment using nets of 2.5 km or more in length	x		x		x	x
Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage			x			
Forestry projects or operations not consistent with lenders' environment and safeguard compliance policies					x	x
Plantation projects that would require the removal of existing nondegraded natural forest					x	
Significant degradation of critical natural habitats including protected areas, parks, and high conservation areas					x	
Indigenous peoples/community impacts/vulnerable peoples						
Abortion clinics				x		
Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples						x
Sex trade and related infrastructure services and media				x		
Projects that result in limiting people's individual rights and freedom in violation of human rights				x		

Source: Himberg 2015.

Figure A5.1: Loan approval times at select MDBs



Source: Humphrey 2015.

own domestic standards and regulations. This dissatisfaction is typically expressed as the hassle factor in working with the MDBs. Loan approval times actually vary significantly across the US-dominant MDBs, from well over a year at the World Bank to just under six months at the IADB (Figure A5.1). The World Bank's most recent corporate scorecard estimates that the time from concept note to first project disbursement is 26 months.[93]

Perhaps more telling, the period of time between loan commitments and disbursement of funds show the MDBs as a group lag considerably behind bilateral creditors (Figure A5.2). There can be many reasons for this, not all of which are directly related to MDB rules and procedures, but the rules are undoubtedly a contributing factor.

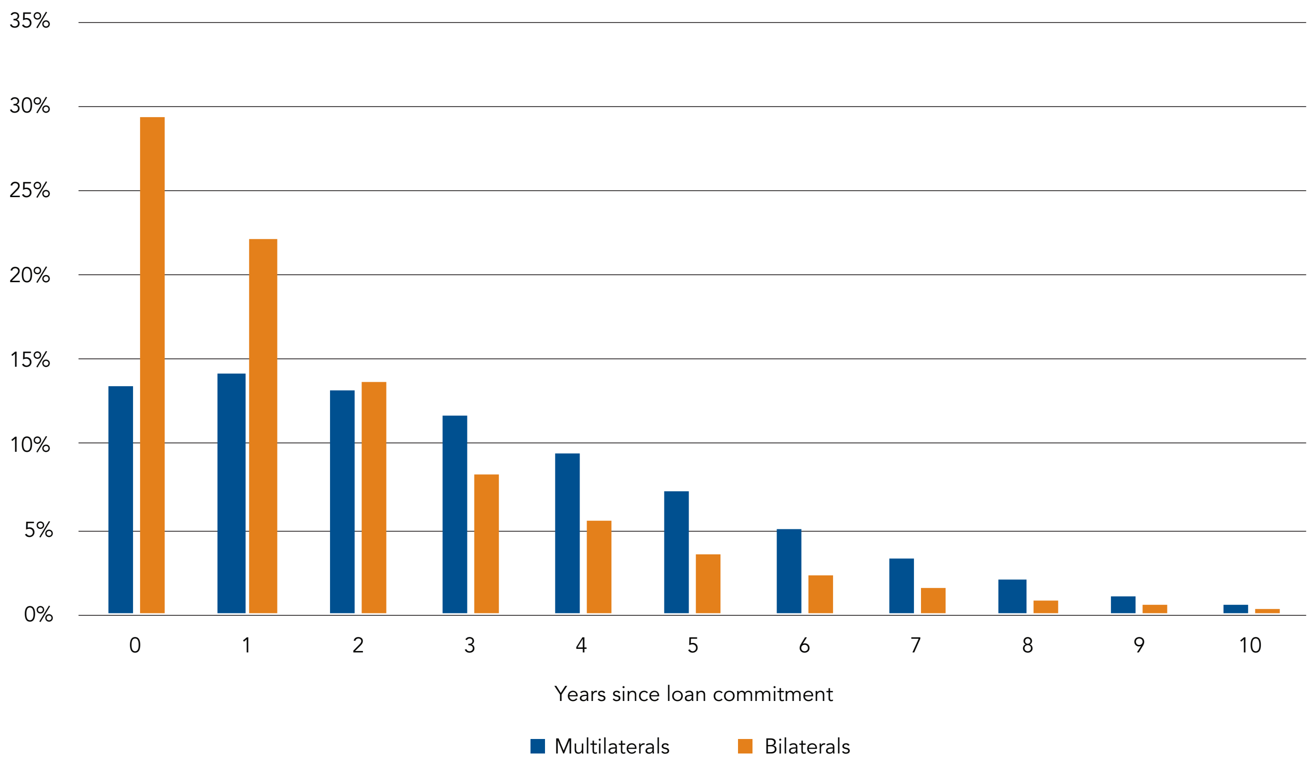
The rules themselves may be indications of the MDB culture that has grown up around these rules. An independent evaluation of World Bank safeguards cites a project managers' report that identifies a culture of fear and paralysis associated with the safeguards regime.[94] The assessment notes that inspections of safeguard violations have yielded violations in an average of 7 projects a year out of nearly 1,000 projects financed annually. This degree of compliance certainly points to a culture of extreme risk aversion.

In August 2016, the World Bank's board adopted a set of reforms to the institution's social and environmental safeguards, which simultaneously extend the scope of the safeguards to include issues like labor and nondiscrimination and introduce more flexibility into the regime through greater reliance on countries' domestic regulatory systems and a risk-based approach to the application of safeguards. There will be an 18-month period to develop implementing rules, and evaluation of the practice of these new rules will take a number of years.

93. Humphrey 2015. A better measure than loan approval time would include the additional time between approval and the first disbursement, as needed additional time, such as for completing compliance requirements, can be pushed to the post-approval period. The total project preparation time for the World Bank (concept note to first disbursement) reported on the President's Delivery Unit website is 27 months. The time from approval to first disbursement is 12.4 months. We could not find comparable data for the major MDBs.

94. Independent Evaluation Group 2010a.

Figure A5.2: Fraction of original commitment disbursed



Source: Kraay 2014.

Appendix 6
Governance picture at the MDBs

The MDBs share key core governance characteristics: predominantly (or exclusively) sovereign shareholders and voting power within the institutions based mostly on shareholding. Beyond this, governance varies in a number of ways.

First, the composition of the largest shareholders varies considerably across MDBs, although the United States, more frequently than any other country, is either the largest or second largest shareholder.

Table A6.1: Top five shareholders in major MDBs by voting power, 2014

WB-IBRD		IADB	
United States	15.9%	United States	30.0%
Japan	6.8%	Brazil	10.8%
China	4.4%	Argentina	10.8%
Germany	3.8%	Mexico	6.9%
France	3.8%	Japan	5.0%
AsDB		**AfDB**	
Japan	12.8%	Nigeria	9.3%
United States	12.8%	United States	6.6%
China	5.5%	Japan	5.5%
India	5.4%	Egypt	5.4%
Australia	5.0%	South Africa	4.9%
EBRD		**CAF**	
United States	10.0%	Peru	18.7%
France	8.5%	Venezuela	18.2%
Germany	8.5%	Colombia	18.1%
Italy	8.5%	Argentina	8.9%
Japan	8.5%	Brazil	7.8%
AIIB		**NDB**	
China	26.0%	Brazil	20.0%
India	7.5%	China	20.0%
Russia	5.9%	India	20.0%
Germany	4.2%	Russia	20.0%
South Korea	3.5%	South Africa	20.0%

Source: Annual reports 2014.

Table A6.2: Governance

	Headquarters	Est.	Board of Governors		Board of Directors			
			#	Composition	#	Composition	Representative	Residency
WB	Washington, DC	1944	188	144 borrowers total IBRD: 67 IDA: 59 Blend: 18	25	11 borrowers; 14 non-borrowers	5 from largest donors; 20 from constituencies	Yes
AsDB	Manila, Philippines	1966	67	39 borrowers 27 non-borrowers 48 regional 19 non-regional	10	5 borrowers; 5 non-borrowers 7 regional; 3 non-regional	Japan, USA, China have their own director; 7 from constituencies	Yes
IADB	Washington, DC	1959	48	26 borrowers 22 non-borrowers 28 regional 20 non-regional	14	8 borrowers	Canada and USA select their own director; others with constituencies	Yes
EBRD	London	1990	66	35 borrowers 31 non-borrowers 64 countries EU and EIB	23	4 borrowers	8 entities have their own directors; others with constituencies	Yes
AfDB	Abidjan, Côte d'Ivoire	1964	80	42 borrowers 38 non-borrowers 54 regional 26 non-regional	20	8 borrowers 13 regional; 7 non-regional	USA has its own director. All others in constituencies	Yes
EIB	Luxembourg	1958	28	26 borrowers All regional	29	25 countries financed and EC		No
IsDB	Jeddah, Saudi Arabia	1975	56	48 borrowers 8 non-borrowers All regional	18	16 borrowers; 2 non-borrowers	10 countries have their own directors and others have constituencies.	No
CAF	Caracas, Venezuela	1970	33	16 borrowers 17 non-borrowers 19 countries 14 private banks	18	All borrowers	10 from Series A, 5 from Series B 1 from Corp. and 2 from Series C	No
AIIB	Beijing, China	2014	57	20 regional 37 non-regional	12	9 regional 3 non-regional		No
NDB	Shanghai, China	2014	5	Brazil, Russia, India, China, South Africa	10	5 founders Board of Governors appoints		No

Source: Articles of Agreement.

Second, the balance between borrowing and non-borrowing countries vary. In a number of MDBs where the United States is absent, the model is closer to a credit cooperative (EIB, CAF, NDB) than a creditor-lender institution (World Bank, AsDB, IADB).

Third, the model varies according to the roles of boards of directors, with the key distinction between institutions that employ resident boards of directors and those that rely on nonresident boards. In both cases, the board comprises shareholder representatives (Table A6.2).

Under the resident board model, first established at the World Bank at its founding, board members are full-time employees of the institution but selected by the shareholders as delegates for purposes of day-to-day decision making and deliberations. Resident boards meet within the institutions routinely, typically 2–3 days each week. Nonresident boards meet infrequently (monthly or quarterly) and typically are designees of the country governors, with responsibilities that extend beyond their MDB board functions.

Leadership selection rules and outcomes also vary considerably across the MDBs (Table A6.3). The World Bank has always had an American president, nominated by the United States, despite rules that allow for nominations from all member countries. The outcome at the World Bank has long been understood to follow an informal understanding between the United States and leading European countries that the World Bank presidency would be "reserved" for the United States nominee, while the head of the IMF would be a European nominee. In 2010 and 2011, other shareholders in both institutions revealed growing dissatisfaction with this informal arrangement by nominating and supporting competing candidates.

Beyond this informal practice, the World Bank distinguishes itself from the other MDBs by empowering the resident board of directors to select the president through a simple majority vote. Most other MDBs require governors' votes, and typically special majorities of governors, to select the president.

The recommendations of the High-Level Commission on Modernization of World Bank Group Governance (the Zedillo Commission) were made in October 2009 and are reprinted here:

The five main measures recommended in the report have a unifying logic. They are mutually- reinforcing and interdependent—they will only have their intended effect if they are adopted and implemented as a single package.

Recommendation 1. Enhance voice and participation

- *Board consolidation. The Commission recommends adopting a Board of Directors that is relatively compact and therefore more efficient and effective. The World Bank Group's Board should be reduced in size to 20 chairs from the current 25. Board consolidation should be achieved in part by reducing the number of European chairs by no less than four.*
- *Elected chairs. The Board should eventually be composed entirely of elected chairs representing multicountry constituencies. To that end, the five currently appointed chairs should be transformed into elected chairs, and a ceiling should be placed on the number of countries in each constituency (for example, ten per constituency) to ensure a more even distribution of members across the groups.*
- *Allocation of voting power. The Commission recommends that the following principles govern the allocation of voting power at the IBRD, IFC, and IDA:*
    - *Automatic shareholding reviews (to take place every five years) should be introduced in the IBRD and IFC to ensure that the shareholding structures are dynamic and keep up with changes in the global economy and in the circumstances of member countries.*
    - *The historical link between IMF quotas and IBRD shareholding and voting power allocation should be abandoned. Bank- specific principles and formulas for shareholding should be developed, along with a transitional arrangement for their gradual implementation.*
    - *With or without the introduction of a Bank- specific shareholding formula, the share of basic votes in total voting power at the IBRD and IFC should be raised and fixed at a level much closer to what it was when the organizations were created—10.78 percent at the IBRD and 12.28 percent at the IFC.*
    - *The balance in voting power between developed and developing countries in the IBRD and IFC should be re- examined, with a view toward achieving an even split between the two groups of countries in the IBRD and IFC. Once*

Table A6.3: Presidency

	President	Eligibility	Selection
WB	Jim Yong Kim First term 2012–17	Member country nationals	Selected by simple majority of the Board of Directors. To date, always an American president.
AsDB	Takehiko Nakao First term 2012–17	Must be a national of a regional member country	The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members. To date, always a Japanese president.
IADB	Luis Alberto Moreno Second term 2005–15	No nationality requirements	The Board of Governors, by a majority of the total voting power of the member countries, including an absolute majority of the governors of regional members.
EBRD	Sir Suma Chakrabarti First term 2012–16	No nationality requirements	The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members.
AfDB	Akinwumi Adesina First term 2015–20	Must be a national of a regional member country	The Board of Governors shall elect by a majority of the total, including a majority of the total voting power of the regional members.
EIB	Werner Hoyer First term 2012–18	Must be a national of a regional member country	The nine Management Committee members are appointed by the Board of Governors, on a proposal from the Board of Directors.
IsDB	Admad Mohamed Ali 1975–present	National of member country	The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than two-thirds of the total voting power of the members. To date, always a Saudi president.
CAF	Enrique Garcia Fourth term 2011–16	No nationality requirements	Designated by the Board of Directors.
AIIB	Jin Liqun First term 2015–20	Must be a national of a regional member country	Super majority vote of Board of Governors (therefore subject to veto of largest shareholder).
NDB	K. V. Kamath First term 2015–20	Must be a national of a founding member country	Selected by the Board of Governors.

Source: Articles of Agreement.

reached, this principle for allocation should remain flexible enough to adapt to changes in the global economy and to the migration of countries from one category to another.

- *In IDA, voting power allocation should move away from the practice of weighting equally all contributions regardless of age. An appropriate discount factor should be introduced so that relatively recent contributions receive more weight than old ones when allocating voting power. This will make the system fairer and encourage contributions.*
- *The majority required for amending the IBRD's Articles of Agreement should be lowered from 85 to 80 percent.*

Recommendation 2. Restructure the WBG's governing bodies

- *Elevating the World Bank's Board. The present Board of Executive Directors should be reconstituted as the World Bank Board. Directors should be ministers and their Alternates officials at the deputy or vice-ministerial level. The responsibilities of the reconstituted World Bank Board would include selecting, appointing, and (if required) dismissing the President; setting the Group's overall strategy and direction, taking into account proposals from the President; making major policy decisions; and conducting general oversight of the institution, including periodically reviewing the President's performance. The Board would meet a few times a year, rather than twice a week, as it currently does.*
- *Delegation to Management. Approval of all financing operations should be transferred to Management. This will enhance the institution's flexibility and efficiency by reducing the number of steps necessary for loan approvals. It would also free up considerable Board and staff resources currently devoted to the Board review and approval process. Delegation would also increase accountability by eliminating the conflict of interest inherent in the Board's co-managerial role and by placing responsibility for financing operations unambiguously on the shoulders of Management.*
- *An advisory Council of Representatives. To support the Board, an advisory group of officials should be organized as a Council of Representatives. Each constituency would select a representative through a process to be determined internally by each constituency. Representatives should fulfill professional qualifications agreed by the Board. Decision-making authority would remain exclusively with the Board.*
  - *The Council's responsibilities would include reviewing briefing papers and related documentation necessary for meetings of the Board and its committees; advising the Board on issues of oversight and the performance of the risk-management units; and discussing and advising the Board on issues of development effectiveness and institutional performance.*
  - *The Commission recommends that the Council of Representatives be in residence at the Bank's headquarters for a transition period of up to five years. If the accountability framework and processes for rigorous oversight of the institution's activities are in place by then, there may be no overwhelming reason why the Council of Representatives should remain in residency indefinitely at the Bank's headquarters.*
- *Chairing the Board. The restructured World Bank Board would select a chairman from among its members on a rotating basis. To ensure that the Board remains appropriately connected to the institution, the President would remain a non-voting member of the Board.*

Recommendation 3. Reform the leadership selection process

The Commission calls for a presidential selection process that is rules-based, inclusive of the membership, and competitive. In addition:

- *Nominations from all qualified candidates should be welcomed, regardless of nationality. Candidates should be sponsored by the government of a member country, though not necessarily by the government of the candidate's own country of citizenship.*
- *The selection of the Executive Vice-Presidents of both IFC and MIGA should continue to be led by the President, but the process should be rules-based and competitive, without formal or informal restrictions on the nationality of the candidates. Descriptions and qualifications for both positions should be developed and approved by the Board.*

Given the dual nature of the unwritten agreement that reserves the Bank presidency to a U.S. citizen and the IMF Managing Director position to a European national, it is important that the leadership selection processes in both institutions be reformed in parallel, facilitating the political bargain that will surely be required.

Recommendation 4. Strengthen management accountability

The Commission recommends three measures for strengthening accountability:

- *Presidential performance review. The Board should introduce a framework for the annual performance review of the President. The framework should provide clear performance criteria, outline how the review process is to work, and propose how assessments should be translated into incentives. The performance review criteria should focus on the President's implementation of Board-approved strategies, on his or her conduct of the ordinary business of the Group, and on the quality of the Group's outputs.*

- *Stronger safety net units. Several concrete measures should be adopted to strengthen the Group's safety net units:*
  - *An institutional review of the safety net units to assess overlaps, gaps, and inconsistencies should be undertaken and concluded in 2010.*
  - *The Board should revise the terms of reference of the Independent Evaluation Group (IEG) to (1) require that a majority of IEG staff be recruited from outside the World Bank Group; (2) introduce cooling off periods of appropriate length to end the revolving door dynamic between regular IEG staff and World Bank staff; and (3) ensure that the IEG Director General no longer functions as a member of the Group's Senior Management.*
  - *A second external evaluation of the Institutional Integrity Vice-Presidency should be conducted within two years to ensure that the recommendations of the Independent Panel Review of the World Bank's Department of Institutional Integrity (the Volcker Panel) have been fully and properly implemented and are producing the results intended by the Panel.*
  - *As part of the institutional review of the safety net units, the Board should consider whether the IFC's Compliance Advisor/Ombudsman should continue reporting to Management only, rather than to the Board. In addition, the Board should consider how best to ensure that the CAO has appropriate means to ensure that its recommendations are adopted and implemented by Management.*
- *Access to external expertise. The Board should make more extensive use of external evaluations to assess critical aspects of the Group's activities, processes, strategies, and performance. Also, Board committees should have access to outside legal, accounting, and other expertise as appropriate to fulfill their fiduciary duties.*

Recommendation 5. Strengthen the WBG's resource base

- *The Commission recommends strengthening the financial capacity of the World Bank Group. While the WBG has responded commendably to the crisis by increasing its lending levels to $100 billion over a three-year period, its current capital base has not expanded substantially. This means that after the three-year period is over, the Bank will need to lower its lending to below the pre-crisis level for several years. Shareholders will have to decide how best to achieve a recapitalization of the institution, and which parts of the Group to prioritize in this endeavor.*

Finally, the question of shareholding reform looks very different between the World Bank and the regional development banks. The issue has received much less attention at the regional institutions beyond ad hoc consideration of new members. China, in particular, has triggered a number of these discussions in recent years, with successful membership outcomes at the IADB, the AfDB, and the EBRD.

The World Bank's position as a global institution has put added weight on the question of shareholding legitimacy from a global perspective. As a result, major shareholding review and reform exercises have occupied a great deal of attention within the institution, with one major round completed in 2010 and another round now under way.

The World Bank's 2010 shareholding reform reallocated 8 percent of voting power to developing countries, with China as the largest beneficiary. The group of 10 largest shareholders remained unchanged, although China jumped to the position of third largest shareholder, ahead of the large European countries.

As with the prior round, the current shareholding review is considering appropriate weights for measures that extend beyond economic size, such as weights associated with donor contributions to the bank, whether historical in the form of IDA contributions, or prospective.

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