

First progress towards a fundamental reform

Press Release, April 13, 2023 | There was broad support Wednesday night at the World Bank Spring Meetings for ambitious steps towards a fundamental reform of the World Bank. The goal is to enable the Bank to better support developing countries in addressing global challenges such as climate change. Already being implemented are initial measures that will increase the World Bank's financial strength by 15 percent, totaling \$50 billion over the next ten years.

Further substantial reform steps are to come before the annual meeting in October. The reform was initiated in the fall by Development Minister Svenja Schulze and U.S. Treasury Secretary Janet Yellen. Germany was represented in Washington by Niels Annen, Parliamentary State Secretary at the Development Ministry.

Annen: "In normal times, the measures now adopted would already be a great success. The World Bank will be able to do much more with its funds in the future. But times are unfortunately not normal, and the need for investment to combat the global crises is gigantic. That is why further substantial reform steps must follow by the fall. Because for the necessary socio-ecological transformation of the global economy, the world needs a genuine transformation bank at the cutting edge. In concrete terms, this means that the World Bank should provide tangible incentives for governments that not only promote their own development through investments and policies, but also contribute to solving global challenges such as climate change. The goal of poverty reduction remains the guiding principle for the World Bank - but if you want to successfully fight poverty, you have to think about climate change, pandemics and other global crises today."

Already being implemented are reforms that will increase the bank's financial strength in the short term while maintaining its all-important AAA rating. For example, the World Bank will reduce its equity-to-loan ratio from 20 to 19 percent. This will allow it to issue an additional four billion U.S. dollars in loans per year. Together with other measures, this will increase the World Bank's financial strength by a total of 50 billion U.S. dollars over the next ten years.

A new mission statement for the World Bank was also discussed. The consensus was that the bank's existing goals should be maintained and at the same time developed further: combating extreme poverty and creating prosperity for all. In order to achieve these goals, however, three focal points are to be specifically pursued in the future: First, sustainability, because an intact environment, a stable climate and biodiversity are basic prerequisites for successful development. Second, resilience, i.e. the ability of societies to cope with shocks such as pandemics, climate damage or conflicts. This also includes social security systems that help people get back on their feet more quickly after such disasters. And third, inclusiveness, because societies with social cohesion or gender equity develop better.

The World Bank management now has a mandate to propose concrete changes to the business model based on these guidelines by October. Germany, together with allies, is pushing for new incentives for investments that benefit the entire world - for example, for climate protection or health systems that can better contain future pandemics. There should be no cutbacks in subsidies for low-income countries.