Negotiating a Bigger, Better World Bank

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WASHINGTON, DC – We are two of the 25 members of the World Bank's Board of Executive Directors, which collectively represents 189 member countries with divergent interests. So, in addition to holding management accountable, we perform the difficult balancing act of building global consensus on a day-to-day basis. When members see eye to eye, the World Bank is a global public good (GPG) – one of the few places where all countries can strive to find common ground.

But ever since the Bank launched its recent reform process in late 2022, divisions between the Global North and Global South have threatened to weaken an organization accustomed to decision-making by consensus. The main point of contention is how, given scarce development finance, the World Bank can help countries eradicate poverty, boost shared prosperity, and protect their people and natural assets from transboundary crises such as climate change and pandemics. After all, there cannot be one (poverty eradication and shared prosperity) without the other (protection of the global commons) – it must be all or nothing.

Nevertheless, we made important progress: a new vision and mission, a redesigned corporate scorecard, $50 billion in new lending capacity, innovative new funding instruments for raising additional donor contributions, an expanded crisis toolkit (including climate-resilient debt clauses), and a new approach to creating and disseminating knowledge.

But a central question remained unanswered: Should the Bank use its core product – financing – to nudge countries toward investments and reforms that supply GPGs? On one hand, underinvestment in GPGs, which tend to be complex and costly to deliver, is widespread. For example, countries are generally not compensated for the carbon stored in their forests, and thus lack the will or ability to conserve them. And yet, encouraging such investment is divisive because it necessarily disincentivizes other types of spending.

Last week, we answered that question by approving a groundbreaking Framework for Financial Incentives. Recognizing the potential methodological pitfalls, members approached the question with care, especially because this would be the first time that the use of contributions to the Bank's balance sheet would be ring-fenced in this way.

The Framework will allow donors making new voluntary financial contributions to the World Bank to earmark them for projects that generate positive cross-border externalities. Crucially, funds will be ring-fenced for GPGs only for a defined period, after which the funds will be added to the World Bank's general lending pool.

Coalescing around four principles helped us reach consensus on this new instrument. First, financial incentives are crucial to increasing investment in GPGs. While the poorest countries have access to grants and interest-free loans through the World Bank's International Development Association, middle-income countries – the majority of the Bank's membership – borrow on non-concessional terms (albeit at cheaper rates and with longer maturities than capital markets tend to offer, owing to the Bank's AAA credit rating and cost-pass-through model).

In recent years, member countries have used more than a third of their financing from the World Bank to invest in projects that deliver GPGs. But initiatives that benefit the global community are often passed over in favor of those that meet domestic needs. This must change. If the aim is to promote investments and reforms that have positive cross-border effects, then the global community should bear at least some of the cost – out of solidarity, yes, but also because it is good economics.

Second, the Bank's funding model must be updated to encourage voluntary contributions. Whereas fresh contributions to multilateral development banks (MDBs) such as the World Bank have declined over the past decade, funding for specialized "vertical funds" has surged by 95%. This suggests that while there is donor money available for GPGs, it is not flowing through the MDB system, even though the MDBs have by far the most efficient financial model and the most inclusive governance. The Bank needs innovative funding instruments that offer donors a clearer line of sight between their contributions and the end results, which is one reason why vertical funds have been so successful at raising money.

At the same time, the Bank must retain its multilateral character and protect client countries' "ownership" of their investments. The trade-off between providing accountability to donors and allowing client countries to set their own strategies provoked the longest debate among the Board.

A consensus emerged that donors will contribute to a unified platform for GPGs jointly governed by all shareholders, as opposed to earmarking their contributions for specific projects, which has historically contributed to fragmentation and ineffectiveness. Allocations will then be made according to a transparent framework for defining and measuring cross-border externalities. With this approach, the Bank can help tackle urgent global challenges – including climate change, biodiversity loss, pandemic risks, water scarcity, food insecurity, and digital development – while retaining its credibility and effectiveness.

Lastly, delivering more GPGs must be integrated with the broader goals of sustainable development and poverty eradication, so that they reinforce each other. After lengthy negotiations, the board members have decided that uncommitted funds and reflows from donor contributions earmarked for the GPG platform will revert to the Bank's general lending pool after the agreed commitment period.

This design provides clients additional financing for domestic development needs and ensures clear accountability for GPG investments during the initial stage. Moreover, such an instrument will not undermine calls for a general capital increase, which is still urgently needed and remains the most financially efficient, inclusive, and sustainable way to recapitalize the World Bank.

In the long run, there is no conflict between financing GPGs and eradicating poverty – on the contrary, if we fail on one, we will fail on the other. As World Bank President Ajay Banga put it, "we cannot endure

another period of emission-heavy growth." That is why the Bank, having taken an important step toward making its financial model fit for "ending poverty on a livable planet," must continue along the path of reform.

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