POLITICS & SOCIETY

POLICY BRIEF

Reform of the international financial architecture

A primer

Maria Kotzias, Romie Niedermayer, Mariana Micozzi, David Ryfisch

GERMANWATCH

Brief Summary

The emerging polycrisis is challenging governments and institutions around the world. Especially countries in the Global South lack the financial capacity to address the current challenges and simultaneously prepare their nations for the impacts of climate change. The existing international financial architecture has so far been unable to provide the necessary financial resources. At the same time, recent reports from the IPCC and expert groups confirm the need for a substantial increase in financial resources for developing countries by 2030.

There are three major reform proposals that address different institutions within the international financial architecture: the Bridgetown Initiative (BI), the reform of the multilateral development banks (MDBs), most prominently of the World Bank Group (WBG), and the implementation of the recommendations of the G20 Capital Adequacy Framework (CAF) Review. The proposals aim to restructure the institutions involved, to mobilise financial resources to address the immediate challenges (such as the cost of living crisis), and to enable the transition of economies to a low-carbon, climate-resilient pathway in the medium and long term.

This primer introduces the proposals presented and provides an overview of the main institutions and actors involved in the process in Germany.

Imprint

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List of abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
BI	Bridgetown Initiative
BMF	German Federal Ministry of Finance (by its initials in German)
BMZ	German Federal Ministry for Economic Cooperation and Development (by its initials in German)
BoG	Board of Governors
CAF	Capital Adequacy Framework
COP	Conference of the Parties
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EMDE	Emerging markets and developing economies
ESCB	European System of Central Banks
GEF	Global Environmental Facility
GPG Fund	Fund for Innovative Global Public Goods Solutions
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFA	International financial architecture
IFC	International Finance Corporation
IMF	International Monetary Fund
IMFC	International Monetary and Finance Committee
IPCC	International Panel on Climate Change
LICs	Low-income countries
LTSs	Long-Term, Low-Emission Development Strategies
MDB	Multilateral development banks
MDRI	Multilateral Debt Relief Initiative
MICs	Middle-income countries
MIGA	Multilateral Investment Guarantee Agency
NDCs	Nationally Determined Contributions
OPEC	Organization of the Petroleum Exporting Countries
PRGT	Poverty Reduction and Growth Trust
RST	Resilience and Sustainability Trust
SAF	Structural Adjustment Facility
SDGs	Sustainable Development Goals
SDRs	Special drawing rights
WBG	World Bank Group

1 Introduction

The emerging polycrisis—meaning the cost of living crisis, climate-related natural disasters and extreme weather events, the debt crisis,[1] the Russian war against Ukraine, and the aftermath of the COVID -19 pandemic—is challenging governments and institutions around the world. Especially countries in the Global South **lack financial capacity to address these interlocking crises**. The appreciation of the US dollar as a result of interest rate hikes further aggravates the situation and in turn pushes up inflation, particularly in emerging economies, and makes it more difficult to service debt denominated in US dollar.[2]

The third part of the IPCC's Sixth Assessment Report warns that it is likely that global investment in climate change mitigation will need to increase by a factor of 3 to 6, and in the least developed countries even by a factor of 4 to 8. For adaptation to climate change, the financing gap is significantly higher.[3] The Sharm el-Sheikh Implementation Plan, which contains the conclusions of COP27, puts the financing gap at six trillion US dollars by 2030.[4] Expanding domestic and international, public and private, concessional and non-concessional finance requires a debt and financing strategy that addresses the debt burden and mobilises finance for economies to transition to a low-carbon, climate-resilient pathway while promoting development.[5] Therefore, a **reform of the international financial architecture that includes innovative finance mechanisms is needed** to *'(...) make financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development (...)'* (Article 2.1c, Paris Agreement).[6] In this primer, we will present three major reform proposals that aim to mobilise and shift the trillions to tackle the poly-crisis: the Bridgetown Initiative (BI),[7] the reform of the multilateral development banks (MDBs), most prominently of the World Bank Group (WBG),[8] and the implementation of the recommendations of the Capital Adequacy Framework (CAF) Review.[9]

2 The international financial architecture

The international financial architecture (IFA) describes a **framework of institutions, policies, rules, and practices that govern the global financial system**. It comprises a complex structure of international organisations, such as the International Monetary Fund (IMF) and the WBG, collectively known as the Bretton Woods institutions[10], regional development banks, national financial institutions, and international, multinational, and national regulatory bodies.

Historically, the main objective of the IFA has been to **promote economic growth, financial stability, and international cooperation** in the management of the global financial system.[10] It

[1] World Economic Forum, 2023, World Risks Report 2023
[2] Spiegel, S. & Schwank, O., 2022, Bridging the ´great finance divide' in developing countries
[3] IPCC, 2023, 6th Assessment Report Working Group 3
[4] UNFCCC, 2022, Sharm el-Sheikh Implementation Plan
[5] Songwe, V. et al et. al., 2022, Finance for climate action: scaling up investment for climate and development
[6] UNFCC, 2015, The Paris Agreement
[7] Ministry of Foreign Affairs and Foreign Trade Barbados, 2022, The 2022 Bridgetown Initiative
[8] World Bank Group, 2023, World Bank Group Statement on Evolution Roadmap
[9] G20, 2022, Boostings MDBs´ investing capability
[10] IMF, 1944, Articles of Agreement

plays a crucial role in enabling international trade and investment, supporting development, reducing poverty, and managing financial crises.[11] However, the IFA has also been subject to criticism and debate, for example over its contribution to global justice, its outdated power structures, its effectiveness in meeting its goals, its transparency, and, most recently, the global community's inability to mobilise and shift sufficient financial resources to address the climate crisis.[12]

3 IFA reforms in the past

Since their creation in 1944, the IMF and the WBG have undergone **several reforms in response to emerging challenges**, such as the debt crisis in the 1980s or the financial crisis in Asia in the 1990s. Over the years, they have established multiple facilities (for example, the Structural Adjustment Facility (SAF) and the Multilateral Investment Guarantee Agency (MIGA)) and launched various initiatives (for example, the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI)) to expand concessional lending at below-market interest rates, provide risk insurance for enhanced private sector lending and debt relief to poor countries. These instruments have also enabled eligible countries to reduce their debt by developing and implementing sound economic policies through a combination of debt relief and new loans.

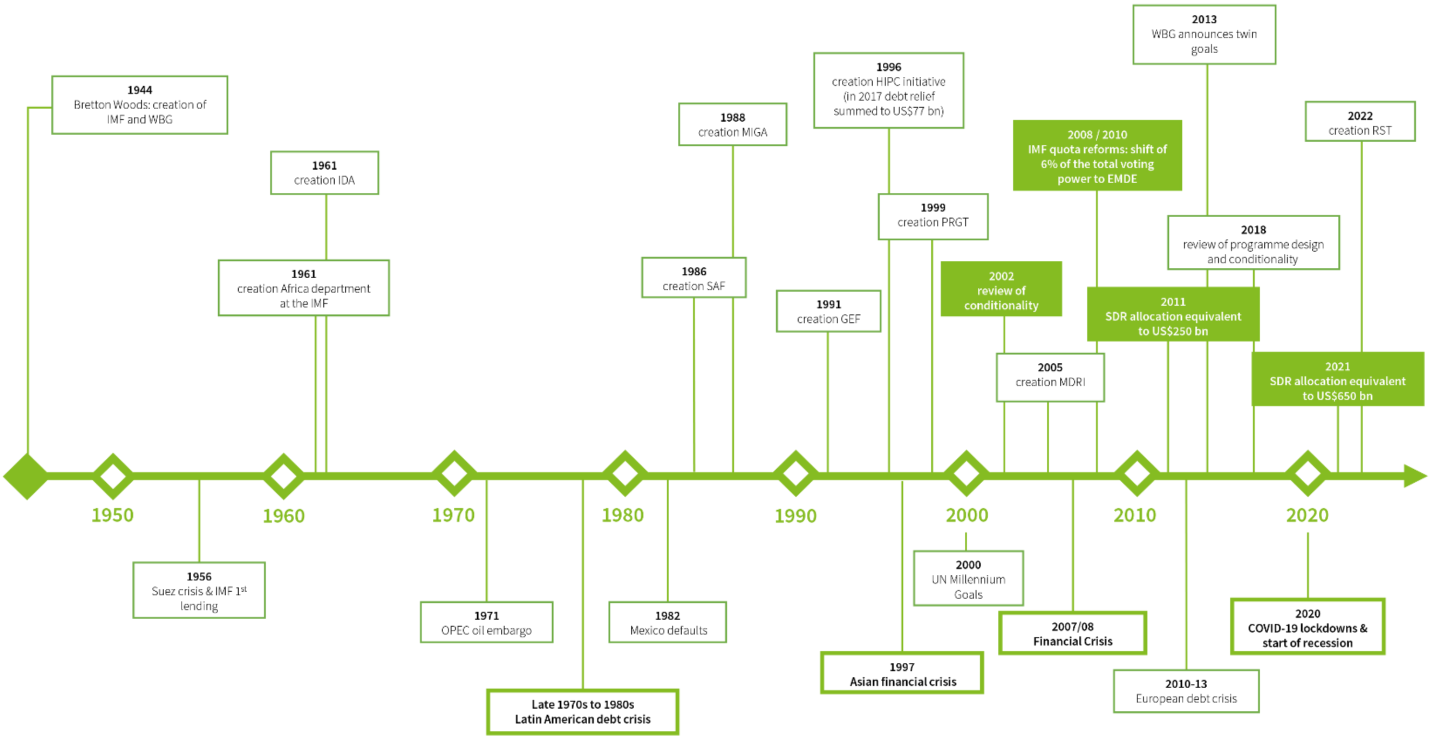

Fig. 1: Timeline of milestones in the history of the IMF and the WBG

[11] World Bank Group, 2022, Helping Coutries to Adapt to a Changing World
[12] Bretton Woods project, 2022, IMF quota review: Putting climate at the core of IMF governance reform

Starting in the late 1990s, more structural reforms were discussed. The **WBG decentralised its business**, shifting the decision-making authority from the headquarters in Washington, D.C., to regional offices around the world. The **IMF initiated a review of the lending conditions** and implemented a new framework that was better tailored to the individual needs and capabilities of debtor countries in 2002. It reviewed this system again in 2018.[13, 14] In a series of quota reforms in 2008 and 2010, the IMF shifted 6% of the total voting power to emerging markets and developing economies (EMDE) to reflect the changing global economic landscape in its governance structure.[15]

4 Proposed IFA Reforms

To date, the evolution of the IMF and the WBG has been driven by the need to address the challenges to the financial system's stability brought up by crises in different regions of the world. Thereby, the reforms have focused solely on monetary and fiscal conditions and related policies. The reform proposals discussed today (see figure 2) foster a broader perspective.

Fig. 2: IFA reform proposals currently under discussion

They seek an IFA that facilitates an **inclusive transitional path for economies** to stay within planetary boundaries and protect global public goods while enabling socio-economic development.[16] In the following chapters, we outline the most important IFA reform processes at the current state of the debate. Due to their dynamic nature, the proposals are subject to ongoing review. In subsequent policy briefs in this series, we will therefore address their potential updates.

Beyond these core elements, other proposals have been brought forward that argue in favour of a wider reform process. For example, there is a growing discussion of other **innovative sources of finance** to further narrow the gap between the financial resources needed and those currently available. Innovative sources can **generate new financial flows** from a variety of economic sectors. Innovative mechanisms or instruments can **increase the efficiency, impact, and leverage of existing sources**.[17] First, innovative financing mechanisms and instruments focus on SDRs. The AfDB proposes to recycle SDRs as **hybrid capital** to increase lending to vulnerable African countries.[18] Another innovative mechanism for mobilising WBG SDRs is **SDR-dominated bonds**. SDR-dominated bonds could be an alternative to rechannelling facilities and cover the cost of the SDR interest rate.[19,] Second, proposals for innovative sources include a levy on fossil fuel production, a billionaire's tax, a

[13] IMF, 2002, Guidelines on Conditionality
[14] IMF, 2023, IMF Conditionality
[15] IMF, 2010, IMF Quota and governance Reform – Elements of an Agreement
[16] Federal Ministry for Economic Cooperation and Development, 2023, Schulze and Yellen call for fundamental reform of the World Bank
[17] OECD, 2014, Development Cooperation Report 2014
[18] Center for Global Development, 2023, Funding Hybrid Capital at the AfDB is the Best Deal for SDR Donors
[19] Financial Times, 2023, The magic of an SDR-denominated bond

currency transaction tax, a global tax on shipping and aviation, and a financial transaction tax. New sources of finance are crucial to scaling up the climate financing in the form of grants.

Another proposal focuses on the participation of developing countries in the decision-making processes in line with an adequate representation of the geopolitical reality of the 21st century. Statements by countries such as India[20] and Brazil[21] reinforce the idea that the governance of multilateralism needs to be reformed. According to them, it should reflect the relative weight of developing countries and emerging economies in the multilateral decision-making processes. This would mean, for example, increasing the voting power of developing countries in the Bank's Board of Governors and Board of Executive Directors, and thereby strengthening the voice and participation of LICs and MICs.[22, 23]

4.1 Bridgetown Initiative

In 2022, the government of Barbados launched the **Bridgetown Initiative (BI)**, which has been endorsed by a growing number of governments, most prominently France.[24, 25] Its overall aim is to address the current liquidity needs resulting from the polycrisis, while transforming the IFA into a system that 'drives financial resources towards climate action and the Sustainable Development Goals (SDGs)'.[7] Since its launch, the initiative has gained traction and was discussed at COP27.[26] It has also recently been included in the report of the Independent High-Level Expert Group on Climate Finance.[5] The initiators of the BI present three steps for its implementation, including the specific recommendation to implement it within 18 months[27]:

1. Provide emergency liquidity[28]

As a first step, the IMF should make existing liquidity available to countries in distress. To this end, it should provide access to its unconditional rapid credit and financing facilities as it did in the previous crisis. This mechanism should also suspend the IMF's interest surcharges and additional fees, which increase the debt payments.[29] To mitigate the negative consequences of shocks on economies, the IMF should include **natural disaster and pandemic clauses** as a standard in new debt instruments. These would allow countries hit by a disaster to suspend debt payments for a defined period in order to prioritise crisis management. Debt payments would resume at the end of the grace period and be extended by its length. These proposed natural disaster clauses might beneficially expand and interlock with the **Global Shield**, a financing facility proposed by the G7 under the leadership of Germany and the **V20** in 2022. The Global Shield aims to mitigate the *'impact of disasters, make vulnerable countries' economies more resilient, safeguard sustainable development, and protect poor and vulnerable people'.*[30] It is estimated that if developing countries had had such clauses during the COVID-19 pandemic, *'they would have released $1 trillion of liquidity'.*[5]

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[20] Business Today, 2021, G7 summit: PM Modi calls for the reform of multilateral institutions
[21] Van der Zee, B. Greenfield, P. and Gayle, G., 2022, Lula says 'Brazil is back' as he vows to reverse Amazon deforestation – as it happened
[22] Norton Rose Fulbright, 2022, Macron pushes for 'a new financial pact with the South'
[23] Prizzon, A., et al., 2022, Governance of multilateral development banks
[24] Mathiesen K. & Schonhardt S., 2022, Macron backs climate cash trillions
[25] Farand C., 2021, Mia Mottley: the 'fearless' leader pushing a global settlement for the climate frontlines
[26] Osborn, C., 2022, The Barbadian Proposal Turning Heads at COP27
[27] Persaud, A., 2022, Opinion: The Bridgetown Initiative
[28] Persaud, A., 2022, Breaking the Deadlock on Climate: The Bridgetown Initiative
[29] CEPR, 2022, IMF Surcharges Can Be Removed as Precautionary Balances Are Safely Within Target
[30] BMZ, 2022, Global Shield against Climate Risks

The proposal that received the most attention is the **increased use of Special Drawing Rights (SDRs)**. In the autumn of 2021, the G20 announced the ambition to **recycle US$100 bn of unused SDRs**,[31] which the BI demands to be achieved. There are two facilities at the IMF through which SDRs could be recycled: the Poverty Reduction and Growth Trust (PRGT) and the **Resilience and Sustainability Trust** (RST). The latter was operationalised in October 2022 (as requested by the BI). While the PRGT is set up to provide interest-free loans only to low-income countries (LICs), the RST also allows vulnerable middle-income countries (MICs) to access low-interest lending for long-term low carbon transformation. To date, the IMF has received SDR pledges[32] worth US$40.4 bn for the RST. Thereof, SDRs worth US$26 bn have been committed through agreements with the IMF.[33] This includes a stand-alone agreement with Germany of a US$6 bn loan for the RST, which Germany pays from its own budget, unlike other contributors, which have used their IMF accounts.[9]

Special Drawing Rights

The SDR is a **reserve asset** created by the IMF to supplement other reserve assets. As with gold, it **can be traded among IMF member countries**. SDRs can be exchanged for currency. Their exchange value is based on a basket of international currencies: the dollar, yen, euro, pound sterling, and renminbi. Their value is set daily by the IMF (for example, 29 March 2023: 1 SDR = US$1.34).

SDRs are allocated when the IMF's Board of Governors decides that there is a long-term global need to supplement existing reserve assets. The most recent allocation was for US$650 bn in 2021. The allocation follows a **quota system**, meaning that larger economies receive a larger allocation. For example, in 2021, African countries received roughly US$33 bn (5%) while EU member states received US$248.23 bn (27%). IMF members have the opportunity to 'voluntarily recycle' SDRs allocated to them to other members.

The BI's final proposal for providing more liquidity is the creation of an ambitious **Debt Service Suspension Initiative**. This would apply to all MDB loans to LICs as well as loans to MICs for COVID relief.[34]

2. Expand multilateral lending to governments by US$1 trillion

The second step is to unlock additional liquidity. It is estimated that EMDCs other than China will need US$1 tn of external financing by 2030 to be able to transition to a low-carbon pathway.[5, 35] To help realise this, the BI recommends **implementing the CAF Review** for MDBs (see chapter 3.2). It also suggests that MDBs increase their risk appetite, use new donor guarantees, and use SDRs to increase their lending capacity. Therefore, the possibility of **allowing MDBs to receive voluntarily recycled SDRs** is currently being discussed.[36, 5] To this end, the IMF offers technical assistance to MDBs to explore their options for increasing their lending capacity using recycled SDRs.[22] The African Development Bank (AfDB) is currently working on a proposal to this effect. In all the lending decisions, concessional lending should prioritise projects and countries that support the achievement of the SDGs and resilience, especially in vulnerable countries.[5]

[31] IMF, 2021, Statement at the Paris Peace Forum on Increasing Support for Vulnerable Countries via SDR Rechanneling
[32] IMF, 2023, Resilience And Sustainability Trust
[33] Center for Global Development, 2022, A February 2023 Update on SDR Recycling: Getting Closer But Still Not There!
[34] BMZ, 2022, Debt Service Suspension Initiative
[35] UNCTAD, 2018, Climate Change and Debt Sustainability in the Caribbean: Trouble in Paradise?
[36] N'Sele, H. & de Rosa, G., 2022, Opinion: Time to empower regional development banks for SDG financing

3. Mobilise private sector savings for climate mitigation and finance post-disaster reconstruction through new multilateral mechanisms

As a third step, innovative global mechanisms should be introduced to generate additional financial capacity, or capacity to accelerate private investment. Such a fund could finance grants for the reconstruction of disaster-stricken communities, for example. One of the suggestions for such a global mechanism is a **fossil fuel levy**. Another suggestion is to establish a **Climate Mitigation Trust** within the IMF, which is 'capitalized by US$500 bn of SDR or callable guarantees'.[37] To provide more flexibility, the trust could also be established in the private sector arms of the regional development banks. The new trust would be able to borrow and invest in mitigation projects. This could mobilise up to US$5 tn in private finance. Funded projects would be subject to thorough environmental, social, and governance (ESG) screening.[5]

Important institutions and actors in Germany[38, 39, 40]

The IMF is the main institution addressed by the reform proposal. It creates the reserve asset, and manages and provides for the system in which SDRs can be traded. Its Board of Governors (BoG) takes important decisions, such as the allocation of new SDRs, as it has done in 2021. The International Monetary and Financial Committee (IMFC) advises the BoG on issues regarding the international monetary and financial system. The **Bundesbank** and the **German Federal Ministry of Finance (BMF)** are the leading institutions with regard to the IMF in Germany (see Figure 2).

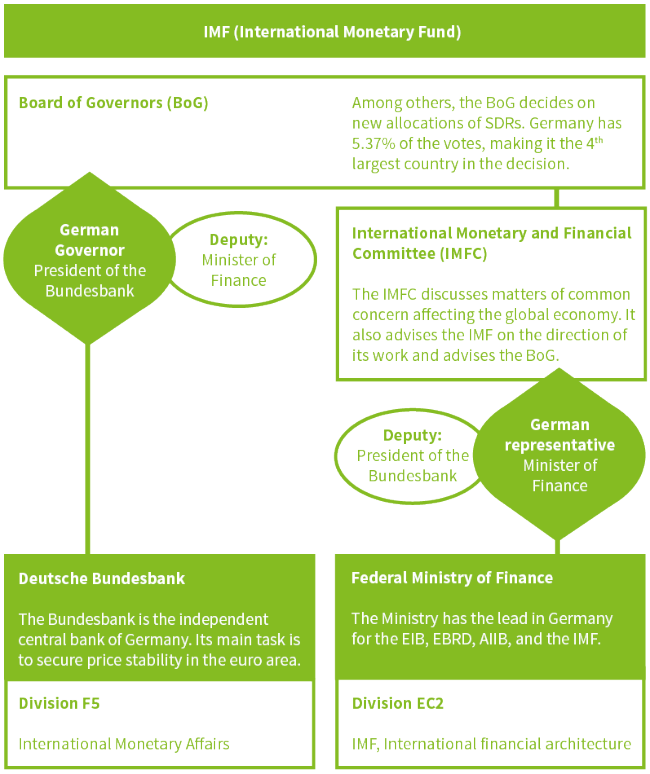


Fig. 2: German representatives on the IMF Board of Governors and the IMFC and German institutions involved

The Bundesbank manages Germany's reserve assets, including SDR holdings. It is independent of the federal government. It cooperates closely with the national central banks of the euro area in the European System of Central Banks (ESCB) and with the European Central bank (ECB), with which it shares the responsibility for the euro.

[37] Persaud, A., 2022, A comprehensive, integrated, climate finance framework for the Earth
[38] IMF, 2023, How does the IMF make decisions?
[39] Deutsche Bundesbank, 2020, Central bank of the Federal Republic of Germany
[40] IMF, 2023, IMF Executive Directors and Voting Power

4.2 Independent Review of Multilateral Development Banks’ Capital Adequacy Frameworks

At the request of the G20, the **Independent Review of MDBs’ Capital Adequacy Frameworks (CAFs)** was published in 2021.[9] It was written by a panel of experts who assessed the adequacy and effectiveness of the CAFs of six MDBs: the AfDB, the Asian Development Bank (ADB), the European Bank for Reconstruction and Development, the European Investment Bank (EIB), the Inter-American Development Bank (IDB), and the WBG. The document addresses the increasing investment needs of developing countries to achieve their development goals. This is particularly important for LICs and least developed countries given their challenges, which were only exacerbated by the COVID-19 pandemic.

The CAF Review confirms that the current CAFs of the MDBs are generally adequate to support their risk profiles and objectives. In a two-year **Action Plan on MDB Capital Adequacy,** it identifies five areas for improvement and makes recommendations for MDBs to **increase their lending capital without risking their high credit ratings** (AAA ratings) and their preferred creditor status. As MDBs raise most of their lending capital from the financial markets, their credit ratings are important to ensure the banks’ financial stability, according to many stakeholder countries.[41] The recommendations include:

1. Redefine the approach to risk appetite for MDB Capital Adequacy Frameworks

If shareholders agree on the conditions, there is an opportunity for MDBs to reconsider the level of risk they can take to increase their lending capital. The high credit rating and preferred creditor status could be maintained if MDBs improved their internal risk management, for example by diversifying their portfolios.

2. Incorporate uplift of callable capital (based on an approach validated by credit rating agencies)

Callable capital is a type of guarantee provided by shareholder countries, which is only paid ‘if an MDB were to face a crisis so severe as to prevent it from meeting financial obligations to creditors’.[33] To date, development banks have never used this instrument. The CAF Review suggests that part of this callable capital should be included in the calculation of an MDB’s capital adequacy, in agreement with the credit rating agencies. This would allow the MDBs to ultimately leverage more loans.

3. Innovate and strengthen MDBs’ capital adequacy and lending headroom

The CAF Review advises MDBs to modernise their business model, for example by using innovative risk sharing mechanisms inspired by those used in the capital markets. These could include hybrid or blended instruments as well as MIGA insurance products. When setting up these instruments, MDBs could take advantage of their existing knowledge of EMDEs and their track record of being a preferred partner for private investors, which would increase overall financial resources.

[41] ODI, 2022, Reforming capital adequacy at MDBs: How to prudently unlock more financial resources to face the world’s development challenges

4. Cooperate with credit rating agencies to better assess MDBs' financial strength

Furthermore, the CAF Review recommends credit rating agencies (Moody's, Standard and Poor's, and Fitch) to agree on building a common methodology for assessing MDBs' credit ratings and to clarify the differences in the assessment and rating of private financial institutions. It is beneficial for MDBs to have clear criteria and a solid understanding of the methodologies used in their credit ratings (what is being evaluated and how).

5. Improve the enabling environment for capital adequacy governance

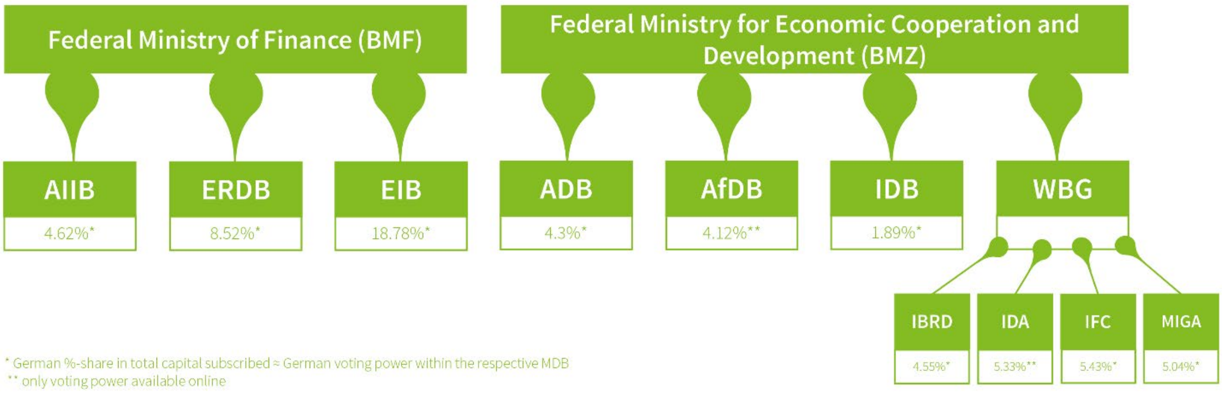
The CAF Review highlights the need to increase transparency and to develop common tools (methodologies, indicators, and modelling approaches) across MDBs to improve the environment for capital adequacy governance. Common methodologies are essential to measure, compare, and understand the capital constraints. Improved understanding among shareholders, boards, and management structures is therefore crucial.

The Review also recommends that MDBs increase their focus on climate change and environmental risks in their CAFs. This is in recognition of the growing importance of these risks to their operations and the global economy.

Important institutions and actors in Germany

Germany has historically taken a rather conservative stance on increasing the MDBs' risk appetite as an instrument to raise the availability of lending capital, fearing that this could negatively affect the AAA credit ratings of MDBs. However, this position has softened during the current MDBs' CAF reform process, as the recommendations of the CAF Review are made against the backdrop of a maintained AAA rating. In this sense, Germany has started **to support individual elements of the implementation of the CAF Review recommendations**.

The **German Federal Ministry of Finance (BMF)** and the **German Federal Ministry for Economic Cooperation and Development (BMZ)** are responsible for the MDBs in which Germany is a shareholder. Accordingly, either a representative of the BMF or the BMZ is a member of the Board of Governors of these institutions (see figure 3).



AfDB	African Development Bank (12/2022)
ADB	Asian Development Bank (12/2020)
AIIB	Asian Infrastructure Investment Bank (03/2023)
EIB	European Investment Bank (03/2020)
ERDB	European Reconstruction and Development Bank (03/2023)
IDB	Inter-American Development Bank (12/2022)
WBG	World Bank Group
IBRD	International Bank for Reconstruction and Development (03/2023)
IDA	International Development Association (12/2022)
IFC	International Finance Corporation (03/2023)
MIGA	Multilateral Investment Guarantee Agency (12/2022)

Fig. 3: Lead ministries in Germany for MDBs.

Within the BMF itself, the division *EC2: IMF, International Financial Architecture* is working on issues related to the international financial architecture. Within the BMZ itself, the division *403* is working on issues related to the international financial architecture.

4.3 Reforming multilateral development banks

Together with the IMF, the **MDBs are key actors in helping countries achieve their development goals**[42] with both concessional and non-concessional financial instruments.[43] In this context, scaling up MDB resources is a fundamental tool for closing the finance gap and fully implementing the SDG agenda.[44] Compared with the private sector, the main advantages of MDBs' finance for developing countries are **their particularly long-term investments and their focus on achieving the development goals** rather than financial returns. This allows MDBs to invest in projects that support key sectors and drivers of development, such as infrastructure, education, capacity building, or social services.

Established in 1944 as part of the Bretton Woods system, the World Bank is the oldest and largest of the MDBs in terms of member countries.[45] By now, it is widely accepted that these multilateral institutions are not 'fit-for-purpose' to respond to the polycrisis. In response, **the so-called 'G7+3 Group' (G7 + Australia, Switzerland, and the Netherlands)** requested the WBG to prepare a roadmap as a document to be discussed by the Executives Directors and to initiate a reform process. The G7+3 decided to focus on the World Bank on purpose, assuming that the smaller regional development banks will follow suit after the WBG's reform process.

In this context, the WBG has embarked on its reform process. Since then, it has published recommendations for reforming its governance structure and decision-making process in the so-called **Evolution Roadmap for the World Bank Group** (the 'Roadmap'). The document was presented to the Bank's Board of Executive Directors in December 2022. It sets the stage for the WBG Management and the Executive Board to engage in a multi-step process between January and October 2023. The entire process happened to coincide with the WBG being in the process of appointing its next President. This constitutes a unique opportunity to introduce relevant changes in the WBG's operations and processes, such as mainstreaming environment and climate change in the activities of the Bank.[46] The Evolution Roadmap outlines three building blocks for this process:

1. **Review the WBG's vision and mission**[47]

The WBG's vision and mission must be clarified to expand the so-called 'twin goals' (ending extreme poverty and promoting shared prosperity) while ensuring environmental sustainability. This includes providing more resources to MICs, reconsidering the indicators used to measure prosperity, and increasing the availability of funding resources.

[42] UN, 2016, Inter-agency task force of financing for development: Multilateral Development Banks
[43] IISD, 2022, Multilateral Development Banks and Climate Finance: More Words Than Action
[44] Op. Cit.
[45] Congressional Research Service, 2020, Multilateral Development Banks: Overview and Issues for Congress
[46] Financial Times, n.d., The World Bank prepares for a new, greener mission
[47] World Bank Group, 2023, World Bank Group Statement on Evolution Roadmap

2. Review the WBG's operating model

Following the document, the WBG's country engagement model must be improved by prioritising national policy dialogue, taking into account country priorities, and strengthening its role in technical capacity building, for example of NDCs and LTSs. This also includes improving analytics, financing instruments (for example, concessionality levels and allocation strategies linked to environmental sustainability indicators), and incentives (private sector, carbon markets, and innovation).

3. Explore options to strengthen the WBG's financial capacity and financial model, taking into account the recommendations of the G20 CAF Review[48]

The WBG's resources must be expanded and its financial model improved. This will be the responsibility of the management and the Executive Board, through a process involving other stakeholders. Given the implications of increasing the concessionality levels for MICs, the WBG will explore alternatives to mobilise private capital and resources.

Civil society organisations' positions on the WBG Evolution Roadmap

Civil society organisations raised concerns about the first draft of the World Bank's Evolution Roadmap and made recommendations to improve it. Some of the main issues were the following:[49, 50]

- **Timeline:** the timeframe proposed in the Roadmap is too long. There is a need for faster action;
- **Global public goods and national focus:** the Roadmap should address global public goods and the WBG should slightly modify the nationally focused scope of its operations;
- **Paris Agreement:** the Roadmap does not mention alignment with the Paris Agreement;
- **G20 CAF recommendations:** the Roadmap should aim to implement G20 CAF recommendations immediately to improve the WBG's lending capacity;
- **Developing countries:** the Roadmap should include additional funding for developing countries without compromising existing poverty reduction efforts.

Recent advancements ahead of the Spring Meetings

Since then, the WBG has published a revised version, **'Evolution of the World Bank Group – A Report to Governors'**, which the WBG's Development Committee Meeting will discuss during the 2023 Spring Meetings. The WBG Governors are expected to endorse it later during the same meetings.[51] A public consultation process with relevant stakeholders will follow after the 2023 Spring Meetings.

Similar to the first version of the Roadmap, the paper focuses on the WBG's vision and mission, improving its operating model, and proposals to meet the financing needs to enhance the WBG's mission.

It emphasises that the **WBG's vision** is a world free of poverty, with a proposed provisional enhanced mission to end extreme poverty and boost prosperity by fostering sustainable, resilient, and inclusive development.

[48] World Bank Group, 2023, World Bank Group Statement on Evolution Roadmap
[49] E3G, 2022, A roadmap for World Bank Group evolution
[50] E3G, 2023, The World Bank reform roadmap is a plan for a plan
[51] World Bank Group, 2023, Evolution of the World Bank Group – A Report to Governors

In terms of the **operating model**, the proposal is based on four building blocks:

- **Country-based model:** responding to the needs and specific circumstances of client countries;
- **Partnerships for the SDGs:** enhancing the work of the WBG for client countries to achieve the SDGs;
- **Knowledge and One WBG:** continuously improving the work of the WBG based on analytical data and information production;
- **Cascade approach:** providing solutions to clients that optimise the comparative advantages of the public and private sectors and inform the WBG programming to use WBG instruments in a coordinated way to leverage private capital and business and maximise the WBG's impact.

The proposal identifies initial actions to reform the operating model. These include the revision of core WBG country diagnostics, revisions of the corporate scorecard, pilot results-based financing conditions for loans, opening the IBRD Global Public Good fund to donors, optimising existing trust funds, expanding the crisis response toolkit, and enhancing the use of guarantees.

In terms of the financial model, the WBG proposes to work on three objectives, as was the case of the first version of the Roadmap ('Increase financial capacity to support enhanced operating models, ensuring AAA rating, and mobilizing resources and concessionality to finance GPGs').

The proposal identifies already agreed steps for the financial model, laying out the impact of the lending capacity that is expected over the next ten years.

- Reduce IBRD's **minimum equity to loans ratio** from 20% to 19% (~ US$40 bn);
- **Remove the statutory lending limit from the Articles**;
- Install a pilot programme of up to US$1 bn for **hybrid capital issuance** in capital markets (~ US$6 bn);
- **Increase the limit for shareholder guarantees** from the current US$10 bn to US$15 bn (~ up to US$5 bn);

Further elements will be explored further down the road. These include enhanced callable capital, hybrid capital for shareholders, and externally disclosing the Global Economic Monitor (GEM) database under appropriate safeguards.

Important institutions and actors in Germany

The German government has taken a proactive role with respect to the proposed reform of the WBG. Ms Svenja Schulze, the Federal Minister for Economic Cooperation and Development, has stated that a *'(…) a fundamental reform of the World Bank is (…) one key lever to (…) successfully tackle global challenges such as the climate crisis, as trillions of dollars in investments are needed – including in particular in developing countries and emerging economies (…)'*.[52, 53] The BMZ is the lead ministry for the WBG and several other MDBs. Accordingly, a representative of the BMZ is a member of the Board of Governors of these institutions (see figure 3). At the BMZ itself, the division *403* is working on issues related to the international financial architecture.

[52] BMZ, 2022, Schule and Yellen call for fundamental reform of the World Bank
[53] BMZ, 2022, Press release World Bank Annual Meetings

5 Next steps and important meetings

Ultimately, the presented reform proposals aim at the expansion of domestic and international, public and private, concessional and non-concessional finance. The resulting additional financial resources are needed to address the debt burden and the emerging polycrisis, while at the same time enabling a 1.5° aligned development, especially for LDCs. This primer introduced the most prominent reforms.

This year will be instrumental for making significant progress on the reform agenda. The overall momentum has never been better. The election of a new World Bank President can add to this momentum. The choreography of this year's political events sets the stage for further results in 2023, and the kick-start of a deep transformation in the year ahead (see figure 4). The next important stepping stone in this debate will be the **Spring Meetings in Washington, D.C.**, USA.

Germany has shown leadership in some areas and it will be important to continue doing so. In other areas, there are obstacles, for example on SDR rechannelling, the use of sovereign guarantees to leverage capital for MDBs. These obstacles need further detailed analysis.

Germanwatch will participate in the Spring Meetings and will closely follow the development of the discussions. An in-depth analysis of the challenges for the implementation of the reforms will be published in a second policy brief. It will elaborate on the perspectives of selected actors and their leverage in the discussions.

Fig. 4: Key meetings in 2023, 2024, and 2025

Notes:

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