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BRIEFING

World Bank reform: For whose benefit?

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Contents

Introduction

The World Bank is considered to be the most important multilateral development bank (MDB). Since it was founded in 1944 at the United Nations Monetary and Financial Conference to finance the reconstruction of war-torn Europe, the World Bank has reinvented itself several times. The most significant change was the transformation from a reconstruction bank to a development bank. Today, the World Bank finances exclusively in countries of the global South, while continuing to be controlled by the economic powers of the global North.

A new process for World Bank reform has been underway since 2021. This began with the G20 mandate in 2021 to review the capitalization of the main MDBs. The reform aims to increase lending capacity, preferably without shareholders having to inject fresh capital. The Independent Review of the Multilateral Development Banks' Capital Adequacy Frameworks (CAF review), which is now available, makes comprehensive recommendations in this area.

Equally important is the discussion on the expansion of the World Bank mandate. The German government, and in particular the Federal Ministry for Economic Cooperation and Development (BMZ) under Minister Svenja Schulze, is one of the driving forces behind the process together with the USA, the dominant World Bank member, and its Treasury Secretary Janet Yellen. The World Bank Annual Meetings in Marrakesh, Morocco in October 2023 are expected to be an important milestone in the reform process.

The two countries are pursuing the idea of adding a third goal to the World Bank's current Twin Goals of poverty reduction and inequality reduction, namely 'global challenges', i.e. global public goods (GPGs) financing. In early

2022, this idea was presented to the broader public in a G7 non-paper. The World Bank's lending should be reformed in such a way that, on the one hand, more financing is made available for GPGs. On the other hand, incentives are to be created to take GPGs into account in projects and country programmes by granting loans at lower interest rates.

Other stakeholders have mixed feelings about this vision. In countries where the World Bank actually operates – the so-called 'borrower countries' in the global South – fears are being expressed that an expansion of the mandate could overstretch the World Bank, diverting scarce resources from its traditional core development finance tasks. This comes at a time when multiple crises have increased funding needs for their national development priorities even beyond expectations. For many of these countries, the World Bank is the most significant source of external financing – in other words, their financial lifeline. Experimentation is perceived as riskier here. In general, the borrower countries see greater need for reform in lending capacity and terms, and in World Bank governance. The latter is aimed at giving them more voice and decision-making power in the governance bodies.

Many civil society organizations (CSOs) have also expressed their views on the subject. They are positive in principle about a more ecological orientation of the World Bank. However, in their view, the proposals of the major shareholders presented in the G7 non-paper, and those of the World Bank itself in its Evolution Roadmap presented at the end of 2022, would miss the point. The main need for reform is an accelerated governance reform, a shift away from the focus on leveraging private financing, the mainstreaming of a human rights approach, more transparency and accountability, and a rapid phase-out of fossil energy financing.

For Germany in particular, the issue of World Bank reform currently occupies a central position in global forums on development finance. This briefing paper presents the main reform strands and ideas.

1. Extension of the mandate?

From the perspective of the German government, the extension of the mandate is certainly the central issue of the ongoing reform process. Formally, the World Bank had been pursuing two goals since 2014, namely 'ending extreme poverty' and 'boosting shared prosperity'. The first of these Twin Goals is about ensuring that, by 2030, no person should have to live on less than US$ 2.15 per day. The second aims to address the issue of relative poverty and inequality. The goal here is to raise the income of the bottom 40% in each country.

The addition of an inequality target to the list of goals in 2014 was generally welcomed. However, its design is controversial, especially the focus on increasing the income of the poorer income groups, while ignoring the concentration of wealth among the upper income groups. In practice, taking into account planetary boundaries and absolutely limited resources, sustainable development is less and less conceivable without also addressing the regulation of extreme wealth. Thus, even within the narrower scope of the existing Twin Goals, there would be potential for reform or adjustment of the target perspectives.

The G7-led informal coalition of states is primarily concerned with including the promotion of global public goods (GPGs) as a third goal in the World Bank catalogue. This includes measures in the three sub-areas of climate change, pandemics and state fragility.

The focus on these three sub-areas within the broad field of GPGs has provoked criticism from the global South. This is because it obviously emphasizes areas generating negative spillovers that also affect the global North, and that are most feared in the global North. A GPG priority list defined from the perspective of the global South, on the other hand, would focus more strongly on aspects such as digitalization.

In practice, an even greater narrowing has been taking place since the reform debate began. Since the COVID-19 pandemic and its consequences have already been almost forgotten, the de facto issue is the extent to which aspects of climate action are taken into account in the operational business of the World Bank. This debate is all the more noteworthy because, even without an explicit GPG objective in its mandate, the World Bank has long been the most important multilateral financier in the field of climate change (see Box 1).

Structure of the World Bank Group

Source: World Bank Group

Box 1: Current status of World Bank climate finance

According to their own data, the five institutions in the World Bank Group provided US$ 31.7 billion in climate finance in fiscal year 2022.

- US$ 26.2 billion came from the International Bank for Reconstruction and Development (IBRD), which provides financing in middle-income countries, and the International Development Association (IDA), which provides low-interest funding to low-income countries.

- In addition, there is US$ 4.4 billion from the International Finance Corporation (IFC), the private sector arm of the World Bank Group, and US$ 1.1 billion from the Multilateral Investment Guarantee Agency (MIGA), which claims to have leveraged another US$ 3.3 billion with its guarantees to private investors.

The World Bank thus provided nearly two-thirds of the multilateral development banks' total climate finance, which totalled US$ 51 billion in 2022, according to a joint report by the banks. By contrast, the Green Climate Fund (GCF), an institution under the UN Framework Convention on Climate Change (UNFCCC) and by its own account the world's largest climate fund, was able to spend only US$ 602 million on climate projects in 2022. Even the GCF's funds are de facto held by the World Bank, although they are managed through a separate secretariat. Although marginalized in terms of volume, the major advantage of GCF financing over the World Bank is that it is almost exclusively in the form of grants, whereas the World Bank primarily provides loan financing.

The mandate debate also occupies a central position in the Evolution Roadmap. The Roadmap was drafted by World Bank staff themselves as a result of the G20 CAF review and the G7 non-paper. Reflecting the institutional view of reform needs and options, it was formally presented in December 2022 and first discussed by the Executive Board in January 2023.

Critics of the approach taken in the roadmap complain that it views the World Bank Group largely in isolation. In fact, the GPG areas prioritized in the roadmap – climate and health – are policy fields in which numerous other vertical funds are active. In practice, these are already difficult to coordinate, have overlapping mandates and thus cause high bureaucracy and transaction costs, which is a problem for low-income countries in particular.

A mapping by the Heinrich Böll Foundation found 24 multilateral climate funds alone, some of which are implemented through the same MDBs. The number is constantly rising. This is because additional funds, such as the International Monetary Fund (IMF)'s Resilience and Sustainability Facility (RSF) have recently been added. Others are planned, such as the new Loss & Damage Fund agreed at the Sharm-el-Sheikh climate summit in 2022.

Experts therefore argue that the reform debate, and especially the Evolution Roadmap, neglects the role that the World Bank should play in the future in the global institutional structure as a whole. Charles Kenny of the Center for Global Development (CGD), based near World Bank headquarters, says:

"There is the subject of cooperation: The roadmap might leave you thinking the World Bank is the only potential source of financing for global public goods. It isn't. There are existing global institutions already providing climate and pandemic-related financing including the Global Climate Fund, Gavi, and all of the other multilateral development banks. Perhaps they have a comparative advantage in some elements of the agenda. Discussing relative roles and responsibilities should be an urgent priority, even if it is one that clearly needs to involve shareholders, too."

Even more fundamental criticism of the Roadmap comes from the global South. For many critical observers, the World Bank is not part of the solution but part of the problem. In the tradition of criticism of the neoliberal structural adjustment programs imposed on developing and transition countries by the Bretton Woods institutions since the 1980s, World Bank policies and measures are seen as partly responsible for the development problems of the global South. For example, a civil society position paper cites the fundamental critique of Indian university professor C.P. Chandrasekhar and Juan Pablo Bohoslavsky, an Argentinian human rights lawyer and former UN Independent Expert on Debt and Human Rights. They argue that the lack of success in poverty reduction and inequality is a consequence of World Bank operations themselves.

"After noting that even the twin goals 'are increasingly out of reach', the World Bank partly absolves itself of any responsibility for that failure. In its view, it has in the past 'adapted to change', responding 'with speed, scale and impact to individual crises' and to global challenges. The assessment seems to be that the problem is external … In the process [the Bank] chooses to ignore much cited evidence of not just its own failure but of its complicity in driving failure."

If this criticism is justified, it would mean that reform aimed primarily at expanding the mandate would do more harm than good. It would be better if the reform process first changed and improved the World Bank's mode of operation, which in turn is a consequence of its governance structure, i. e. the balance of power in the decision-making bodies.

In fact, criticisms of the World Bank's existing mode of operation under the current mandate are significant without being addressed by the Roadmap. These include:

1. International Finance Corporation (IFC) financing for companies registered in tax havens. This is an aspect that non-governmental organizations (NGOs) such as Eurodad and Oxfam have been criticizing for some time. This is because it significantly reduces the social benefits of the private investments supported in the project countries and undermines the countries' efforts to mobilize domestic resources.

2. Promoting public-private partnership (PPP) approaches, including in sensitive areas such as the education and health sectors. PPPs often involve user-funded services and infrastructure that de facto exclude poor populations from access. Through government guarantees, PPPs also have fiscal risks that are considered to trigger debt crises. The World Bank not only finances PPPs itself, it also promotes them in its policy advice, which CSO coalitions have criticized.

3. A selection of projects in practice that, even when interpreted broadly, does not reveal a clear link to the twin goals of poverty reduction and inequality reduction. This includes curiosities such as the financing of five-star hotels. In general, a high proportion of financing goes to companies from the global North, and for projects in middle-income countries. Financing projects by smaller and medium-sized companies from and in lower income countries, on the other hand, would be expected to have a greater development impact.

4. Lack of transparency and accountability: IFC financing to the private sector through financial intermediaries, in which World Bank funds are channelled through other investment funds, has come under particular criticism. NGO investigations see a risk here that World Bank-owned standards (safeguards) are being circumvented. In addition, many statistics published by the World Bank itself are difficult to verify. For example, data on climate finance is disputed by NGOs such as Oxfam. There are also deficits in the transparency of political decision-making. Even the Evolution Roadmap was only made available to the public by the World Bank after it had already been leaked.

5. Incoherence on environmental issues: The NGO Urgewald is critical of the fact that, despite the new focus on GPGs and climate issues, the Roadmap would not explicitly commit to an end of fossil fuel financing: "the World Bank's 'Evolution Roadmap' does nothing to end the Bank's mobilization of fossil fuel investments". Urgewald therefore calls for fossil fuels to be placed on the exclusion list of activities ex-

cluded from financing, where nuclear energy, tobacco or weapons are already located.

6. Ideologically driven diagnostic tools and research approaches: A prominent example was the World Bank's "Doing Business Report" with its controversial methodology, in which, among other things, lax protection of workers' rights was assessed as good for the business climate and influenced the country ratings. Following massive protests by trade unions and CSOs, the report has since been discontinued.

A brief comparison of the actual World Bank projects and operations with the existing World Bank mandate, with its focus on poverty reduction and inequality, shows that there is still considerable need for reform if these are to become mandate-compatible. In the event that this imbalance is not changed as a matter of priority, an expansion of the mandate would only lead to existing problems at the World Bank being extrapolated to other sectors and thematic areas.

Moreover, the World Bank finances measures exclusively in the global South. However, the most significant risks to global public goods come from the countries of the global North – for example, through their high carbon dioxide emissions that drive climate change.

Low-Income Countries (LICs) in particular perform well in the Spillover Index commissioned by the Sustainable Solutions Development Network, while the Bank's major shareholders are at the bottom of the list. Germany ranks only 144th out of 166 countries for which data are available. The international legal principle of common but differentiated responsibilities stipulates that countries with stronger capacities must also make greater efforts to protect GPGs.

If World Bank funds were now diverted from poverty reduction to GPGs financing as a result of the reform, this would mean "opening the door to making poor people pay twice for climate change and pandemics", as a commentary by the Center for Global Development argues. Thus, a stronger focus on GPG in World Bank operations would only be legitimate if the measures were designed to work as a cost-effective tool to achieve the twin goals of poverty reduction and inequality reduction.

2. Adequate capitalization?

A mandate extension to GPG has significant financial implications, at least if it not only leads to a shift in incentive structures in existing project financing but entails additional financing by the World Bank. In international climate change mitigation alone, the need for additional financing is enormous. The report of the Independent High-Level Group on Climate Finance, also known as the Songwe-Stern-Report after its co-chairs, estimates that developing countries need US$ 1 trillion annually for climate tasks alone, and especially for mitigation and adaptation. According to the authors, MDBs should play an important role in this regard. They argue that MDBs should increase their total climate finance to US$ 180 billion, effectively tripling from current levels. For the World Bank, this means reaching an annual volume of US$ 100 billion.

This is not without problems: Since climate finance already accounted for 36% of the World Bank's total financing volume in 2022, a tripling would mean that more than the entire financing volume would have to be made available exclusively for climate-related tasks, while all other funding by the World Bank Group would have to be discontinued. This fact makes demands from the global South understandable that a mandate expansion must be accompanied by increases in lending capacity or financing capacity in general.

As things stand at present, however, the World Bank will not be able to increase its financial commitments in the next few years and will even have to reduce them. With financing worth US$ 115 billion, the fiscal year 2022 was a record year for the World Bank Group. In response to pressure from both borrower countries and major shareholders, the World Bank had decided to take a countercyclical approach to the COVID-19 crisis. However, this has also led to lending capacity being exhausted ahead of schedule. This is particularly noticeable in the International Development Association (IDA) facility, which is more dependent on replenishments than the International Bank of Reconstruction and Development (IBRD), which can finance itself through capital markets and repayments of old loans, because of its significantly reduced-interest loans.

The World Bank indicates in the Evolution Roadmap (Chapter D) that lending would have to decline in fiscal year 2024 unless countervailing measures were taken. Financial planning had made provisions for a single shock but had not been prepared for the need to respond to multiple cascading crises. In any case, IBRD lending per capita is lower today than in the 1980s, and because of the expected high population growth over the coming decades, holding per capita lending constant alone would mean a substantial increase in lending capacity.

Therefore, the Roadmap proposes a three-pronged approach:

- additional resources from the shareholders
- optimization of the capital account
- financial innovations.

Additional concessional resources should be primarily devoted to the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD). But a mandate expansion would create significant additional needs even at the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Since many global public goods activities could not be financed at market rates, loans would need interest subsidies from cash resources.

In the case of IBRD, a capital increase would be necessary if the lending capacity was to be substantially increased. Alternatively, IBRD could receive regular replenishments from Member States, similar to IDA today, so that the capital base was not depleted. The lower the interest rates on the loans, the more donor support would be needed.

A third option would be for the IBRD to lend to client countries at even higher interest rates. However, World Bank experts themselves see this as counterproductive. This is because many customers are already heavily indebted, or the activities to be financed, especially in the GPG sector, do not yield returns that would make financing at high interest rates profitable.

In addition, a number of capital account optimization measures could be considered to increase lending capacity while maintaining the same capital stock. Most of these have been borrowed from the **CAF Review** commissioned by the G20 (see Box 2).

Box 2: **Recommendations of the G20 Expert Group on Capital Adequacy**

The G20-mandated expert panel looked at the capitalization of a total of 15 MDBs, the World Bank being the largest. The key recommendations are:

1. Adopt a new approach to defining risk tolerance that would allow for higher lending at the same level of capitalization.

2. Allow the consideration of callable capital when measuring capital adequacy.

3. Use financial innovations, including risk transfer to partner MDBs, but also leverage private financing.

4. Improve credit ratings by having shareholders better communicate their guarantees and encouraging MDBs to better communicate their specific business model to the rating agencies.

5. Improve access to MDB data and analysis, including through a shared public portal.

The panel also made clear that coordinated reform across multiple MDBs makes more sense than a single bank going it alone.

Shareholders would also need to be aware that technical reforms can improve existing procedures but cannot solve a mismatch of overly ambitious development goals and the existing capital resources of the implementing organizations.The panel criticizes a “disjunction between the development goals shareholders set for the MDBs, the capital and budgetary resources they provide and the degree of risk they are willing to accept”. In other words, the development goals and the means of implementation should be much better aligned.

Another reform option is to reduce the transfer of surpluses from the IBRD to the IDA facility. The funds freed up could be used to refinance interest rate subsidies on loans that IBRD grants to middle-income countries for the new mandate areas. However, as these transfers are an important source of funding for IDA, this would only be feasible if shareholders and donors were willing to contribute more to IDA.

Another option would be to use trust funds, such as SCALE, which stands for Scaling Climate Action by Lowering Emissions. This is a fund based at the

World Bank that has been in existence since 2022 and gives countries financial grants in return for verified reductions in CO_2 emissions.

Last but not least, of course, leverage should also be achieved – i. e. private capital financed with the public resources of the World Bank should be mobilized. The World Bank could offer more co-financing facilities and securitization platforms for this purpose. It said it is well positioned to promote the approach in member countries as well. The roadmap states bluntly that the World Bank Group "has direct access to government policy- and decision-makers in advanced and developing economies, who can affect the policy and market reforms as well as project framing and preparation work essential to mobilizing the massive pools of private capital that are key to the success of this mission".

The World Bank also warns that any increase in financing to middle-income countries (MICs) should not be at the expense of poorer Member States: "Financing for MICs should be additional, to tackle essential global challenges, and not at the expense of poorer countries."

A major shortcoming of the Evolution Roadmap is certainly that it in no way addresses the World Bank's participation in debt relief. From the World Bank's point of view, this omission is understandable, as it would rapidly shrink the World Bank's capital base. From the perspective of the countries of the global South, on the other hand, it might be better to create the necessary fiscal space for development and global challenges not through new World Bank loans but by not repaying the old loans. The World Bank did engage in debt relief on a wide scale in 2005 through the Multilateral Debt Relief Initiative (MDRI). Since then, however, it has been a holdout creditor that consistently refuses to participate. This is true even of the multilaterally coordinated debt relief initiatives of the G20, the Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments Beyond the DSSI.

In general, it is clear from the Evolution Roadmap that the assumption of additional tasks also requires additional financial resources. Above a certain level, this would also mean additional contributions from the shareholders. Some countries, such as the USA, appear to be prepared to do this to a certain extent. Germany, too, has already declared its willingness to make **an additional contribution**. In Germany, the problem arises that the federal budget for 2024 already provides for **funding cuts in the volume of €640 million** in the development cooperation budget, which is decisive for the financing of German contributions to the World Bank. For the following years, the financial planning provides for further cuts.

Increasing German contributions to the World Bank through additional funds from the development budget is not possible in this context. A shift from other titles, on the other hand, could further dry up other institutions that are better suited than the World Bank to addressing global challenges – for example, the specialized UN institutions for health or environmental affairs. This seems counterproductive in view of Germany's concern that the World Bank reform should focus in particular on addressing global challenges.

Alternatively, greater consideration of global challenges at the World Bank could also serve to justify increasingly making German contributions to the World Bank from pots other than the development budget and relieving the latter accordingly. Already, other budget lines of the federal budget also contribute to the financing of international cooperation where this goes beyond the actual area of development cooperation.

3. Public or private funding?

A clear trend over the past decade has been the private sector focus on development finance. This has taken place in two dimensions: On the one hand, more public financing is being given to private companies and investors; in the World Bank Group, this is manifested in the growing importance of the private sector arm of IFC and MIGA over the public sector facilities, IBRD and IDA. On the other hand, the dogma is that more private capital must be brought in to finance development in order to close the huge financing gaps in Agenda 2030 and climate action. The World Bank has not only helped to implement this dogma through its financial instruments, it has also played a leading role in developing it. As the undisputedly most influential institution in development discourses among the MDBs, it has also enforced it worldwide.

These objectives can be found, among others, in the World Bank strategy "**Maximizing Financing** for Development" (also known to the public as 'from billions to trillions' approach after the title of a joint paper by the MDBs) and the cascade approach. The former aims primarily to focus the use of public funds on mobilizing (i.e. leveraging) private capital by means of subsidies or guarantees. According to the cascade approach, any task that can be financed with private capital should also be financed in this way.

Mobilizing private funding is also a key aspect of the Evolution Roadmap. This is logical to the extent that an expansion of the mandate without an increase or a significantly more efficient use of public financing inevitably requires the leveraging of additional resources. Particularly within civil society, the World Bank's approach of prioritizing the private sector has been criticized for some time, including in the current reform process.

The cascade approach has also engaged the UN Office of the High Commissioner for Human Rights (OHCHR). In a well-founded critique of the Evolution Roadmap, OHCHR argues that private financing is in many cases inadequate to finance the goods and services needed to realize human rights. World Bank reform should therefore result in a 'reverse cascade', giving priority to public financing. In addition, all World Bank operations should be more human rights oriented. The Universal Periodic Reviews conducted by OHCHR could provide important recommendations and guidance in this regard and should be taken into account by the World Bank. Private actors benefitting from World Bank funds should also be held accountable against the human rights framework. People affected by human rights violations should be given better remedies as part of World Bank reform.

Bohoslavsky and Chandrashkahr also view the reform process from a human rights perspective and give it a poor report card:

"The 'limited ambition' triggers a 'review' not of past performance, to learn from the World Bank's mistakes, but of 'how to strengthen the focus' of its mission. This ignores decades of massive increases in inequality, persistent social deprivation, failure to deliver on basic human rights, and the erosion of state capacity due to players from the North insisting upon providing essential services for profit. The result has been a breakdown of

Box 3: The World Bank and pandemic financing

Pandemic financing is also not a new field for the World Bank. Even before the COVID-19 pandemic, the World Bank had the Pandemic Emergency Facility (PEF), a public-private partnership. The controversial facility was not continued after the pandemic. To minimize the risk of loss to private investors, the PEF was designed in such a way that funds could not be disbursed until the pandemic had claimed a minimum number of lives in more than one country. Disbursements therefore came too late to stop or at least inhibit the spread of the pandemic to countries in the global South.

In 2022, the Financial Intermediary Fund (FIF) was launched on behalf of the G20. It is now called the Pandemic Fund because of its mandate to provide funds for Pandemic Preparedness, Prevention and Response (PPR). According to critics, the Pandemic Fund repeats numerous mistakes made by other vertical funds in the health sector. Even the design was largely carried out behind closed doors, with little participation from governments in the global South or civil society representatives. Complex bureaucratic processes have delayed the disbursement of initial project funding. The governance structure, separate from the World Bank Board itself, is dominated by donors. In the process, the fund is controlled by those governments that opposed a repeal of patents on vaccines (the so-called TRIPS waiver) during the COVID-19 pandemic. A significant portion of the fund's resources could be absorbed by monopoly profits of the pharmaceutical industry.

Pandemic funding also faces the problem of additionality of the public funding used. The funding gap is estimated at over US$ 10 billion annually worldwide. An initial analysis by the Pandemic Action Network of 12 donor pledges to the fund concluded that only two came from additional resources. Again, without additional resources, there is a risk that funds could be diverted from other uses, not least broader health system funding. Finally, there is also criticism of the independence of the panel, as the World Bank not only manages the fund but is also responsible for implementation. Since experience shows that World Bank financing through the IFC has often created a type of health service that is primarily aimed at wealthy private patients, critics see in this conflation of interests the danger that measures will be taken at the expense of improving universal access, including for the poorest and most vulnerable.

social cohesion under the watch of the Bretton Woods institutions. This has in many contexts led to the strengthening of ultra-conservative far right, fundamental and religious forces, all of which are inimical to the realization of a safe and stable social order."

The two human rights experts emphasize that the World Bank, as a UN specialized agency, is bound by international human rights conventions. The reform process should be used to integrate the human rights approach in all World Bank operations. In practice, this would also mean moving away from project financing in favour of the broader programme approaches known as development policy lending. Indicators reflecting the right to food, education, health or work should guide programme design. Gender indicators, for example, the distribution of care work, are a good example of human rights-based indicators and could be set to determine budget allocations for the care sector. Such human rights-based indicators could also be set in relation to debt services, and ultimately determine when and how much debt cancellation is needed, thus increasing fiscal space for the realization of human rights.

The ever-increasing focus on the private sector has also drawn criticism from think tanks. For example, former World Bank staffer Charles Kenny of the Center for Global Development argues that the simultaneous strategy shifts from development cooperation to GPG focus, from LICs to MICs, and from public to private financing could paralyse the World Bank. This is because neither the World Bank's climate finance to date nor private sector instruments have produced convincing results, he said:

"Past climate funds inside and outside the Bank appear to be terrible at maximizing greenhouse gas reductions per dollar spent (...). And it is concerning that the International Finance Corporation (IFC) thinks it can build 'on the lessons learned about the catalytic effect of IDA's Private Sector Window (PSW) in LICs' to develop a multi-donor trust fund for climate, given the lesson learned about the PSW's catalytic effect is that there really isn't much of one at all."

Kenny concludes, "The nightmare scenario of financing being diverted from effective development projects in the world's poorest countries to subsidize ineffective 'climate' projects in richer middle-income countries is pretty much what you would expect on this record."

In fact, it can already be seen in practice that the World Bank is stepping up its 'private-finance-first' approach. While most reform proposals are still concepts, the new World Bank Director Ajay Banga is already taking concrete steps to intensify the focus on the private sector. For example, he has set up a new 'Private Sector Investment Lab' to advise the World Bank, consisting entirely of investment bankers. In the press release, Shriti Vadera, chairwoman of the British financial firm Prudential, welcomed the prioritization:

"I am delighted that Ajay Banga is prioritizing how the World Bank can leverage and crowd in private finance that will not otherwise be available for global public goods like climate transition, growth and poverty reduction, and that he is focused on delivery and implementation, moving beyond promises and pledges to credible execution."

A civil society assessment is therefore unequivocal: "the Evolution Roadmap's dominant focus is evidently on financial innovations via further expansion of the Cascade approach, rather than addressing the chronic need for governance reform".

4. More influence for the global South?

The current reform process of the World Bank has the opportunity to address one of its greatest shortcomings: Its governance structure, which many consider undemocratic and is undoubtedly anachronistic. In its broad outlines, the World Bank continues to conform to the world order of the 1940s, with the USA as the unrestrained hegemonic power at the centre and a hierarchy of satellites with diminishing say around it. The USA's position is so dominant that advocates of mandate reform are urging haste primarily because the proposal seems more feasible under a Democrat-led American administration. In terms of time, the reform process is thus determined by the election calendar of a single Member State.

Mainly as a result of decolonization, the number of World Bank Member States has grown since its founding by 44 states to 189 states in the meantime. However, because of the small voting shares of the LICs in particular, the distribution of power has changed little in practice. While the UN applies the principle of equality of states (one country, one vote), the World Bank follows the 'one dollar, one vote' governance principle, in which economic criteria determine the distribution of voting rights. This structurally favours the economically stronger countries. One consequence is that the World Bank is primarily controlled by those countries in which it does not operate. The majority of voting rights are held by the so-called major shareholders, who in the case of the six largest also each appoint their own Executive Director.

With a voting share of 4.28% (at the IBRD), Germany is the fourth most influential power in the decision-making bodies of the World Bank, behind the USA (15.73%), Japan (7.19%) and China (5.58%). The USA´s voting share is also relevant insofar as important decisions at the World Bank must be adopted with an 85% majority, and a voting share of more than 15% thus means a de facto veto right over these decisions.

The USA traditionally also provides the Managing Director of the World Bank. This is a privilege granted to them by the other major shareholders, in accordance with the 'gentlemen's agreement' in force since the founding of the Bretton Woods institutions, which conversely reserves the post of head of the International Monetary Fund (IMF) for Europeans. This informal arrangement is seen by critics as evidence that the Bretton Woods institutions remain deeply rooted in their (post-)colonial traditions.

After ex-World Bank chief David Malpass announced his resignation, Germany – mediated by Federal Minister Schulze – had initially spoken out in favour of appointing a woman in the chief post, entirely in the spirit of feminist development policy. However, when the USA nominated the CEO of MasterCard, Ajay Banga, the German government accepted a new American man without further objection, and thus implicitly condoned this outdated practice, together with other European Member States.

Before the election, critics from civil society had called for the position to be given to a person with development policy experience, thus placing qualifications above citizenship as the central criterion. Banga's appointment was in any case an affront, since in recent years civil society had focused its criticism, formulated from the perspective of economic justice, primarily on the neoliberal 'private finance first' approach. This approach is also known as the 'Wall Street Consensus' after a neologism by Daniela Gabor.

The distribution of voting rights at the World Bank has long been one of the major contentious issues in global economic governance. Indeed, many innovations in recent years – such as the establishment of the Asian Infrastructure Investment Bank or the BRICS Bank – can be explained primarily by the fact that emerging economies do not feel adequately represented in the USA-dominated World Bank. An expansion of the World Bank's mandate, driven primarily by the major shareholders and not supported by the borrowing countries, could further weaken the World Bank's geopolitical position vis-à-vis competing institutions.

Substantive reform proposals that go beyond a marginal redistribution of quotas and voting rights have been around for a long time. The South Centre called the Managing Director appointment process anachronistic back in 2007, calling instead for an "open, transparent and merit-based selection process". The size of the individual constituencies – i. e. the number of countries represented by a single Executive Director – should be reduced, in order to improve the accountability of the Directors. African countries in particular are poorly represented, with one director representing up to 22 countries. In contrast, the six most powerful Member States each appoint a Director who exclusively represents their national interests at the World Bank.

The UN has also taken up the issue, as formally the World Bank remains a specialized agency of the UN, where it reports to the Economic and Social Council (ECOSOC). A briefing paper by the UN Secretary-General on reforming the international financial architecture, published in May 2023, identifies governance reform of the IMF and World Bank as a key area for enhancing the legitimacy and effectiveness of the international financial architecture.

According to the report, the World Bank should increasingly adopt resolutions with double majorities. The UN Secretary-General is thus taking up a demand that has already been made by CSOs and the South Centre. In addition to the majority of voting rights, the majority of Member States would then also have to be guaranteed. While this would not change the veto power of the most powerful member, it would at least prevent marginalization of the weakest members and provide an incentive for consensus decisions. For the IMF, the UN Secretary-General proposed a new voting formula that would take greater account of the 'population size' factor. This would result in a significant shift of voting rights, from Europe in particular to Asia, from the current major shareholders to the borrowing countries, and it would push the U.S. American vote below 85%, thus eliminating the de facto veto power of any single Member State. The approach would also be transferable to the World Bank at any time.

Objectively, such fundamental governance reform of the World Bank is a necessary precondition for the World Bank to operate in a manner that meets the needs and interests of the countries in which its activities take place.

5. Conclusions

The World Bank is the most important multilateral institution in development finance. The need for reform is enormous, based on decades of growing criticism. The countries of the global South have traditionally sought a greater say and decision-making power in an institution that, for many of them, is the most important source of external financing, yet is dominated by the countries of the North, and in particular by the USA.

Civil society groups from the South and North are also critical of the neoliberal orientation of the World Bank, which gives priority to private financing. This can be counterproductive for socially just development and thus for the fulfillment of the World Bank's own twin goals of poverty reduction and inequality reduction. Such deficiencies also account for the World Bank's legitimacy crisis, which has led to the creation of alternative banks by countries in the global South, and to a civil society preference for mandating UN institutions with more democratic governance structures.

The reform process currently underway provides an opportunity to decisively address the World Bank's fundamental shortcomings. This was spurred by the G20 initiative to review MDB capitalization and the subsequent G7 initiative to align the World Bank's mandate and operations more closely with global challenges. While these are to some extent legitimate concerns, the reform priorities of governments and civil society in the global South should also be integrated into the process. Without such broad support, it is doubtful whether the reforms will lead to a more legitimate and effective World Bank.

The great dilemma of the reform process is that the World Bank continues to be controlled by countries in which it does not operate, while the countries of the global South in which it does operate have hardly any opportunities to assert their interests in the World Bank's decision-making bodies. The reform process can therefore only be successful if the major shareholders are prepared to take greater account of the needs and interests of the partner countries and their citizens.

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